# APPENDIX 4E

| | |
|---|---|
| **Entity Name :** | **Cirrus Networks Holdings Limited (CNW)** |
| **ABN :** | **98 103 348 947** |
| **Current Period :** | **1 July 2017 to 30 June 2018** |
| **Previous corresponding periods :** | **1 July 2016 to 30 June 2017** |

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## 1. Results for announcement to the market

| | | | | $ |
|---|---|---|---|---|
| Revenues from ordinary activities | up | 41% | to | 76,092,829 |
| Profit from ordinary activities after tax attributable to the owners of Cirrus Networks Holdings Ltd | up | 607% | to | 2,831,291 |
| Profit for the year attributable to the owners of Cirrus Networks Holdings Ltd | up | 607% | to | 2,831,291 |

On 23 November 2017, Cirrus Networks Holdings Limited completed the acquisition of 100% of the share capital of Correct Communications Pty Ltd for 3.92 times FY18 EBIT ("EBIT multiple") with a minimum purchase price of $2 million and a maximum of $5 million. The purchase price comprises two tranches. The first tranche being $1.5 million paid in cash on completion and $500,000 in CNW shares issued on 25th May 2018 at an issue price based on the 5-day VWAP at the time of issue and escrowed for 2 years. The second tranche will depend on the EBIT multiple result being greater than $2 million and will be calculated after the release of the audited FY18 full year financial results. Correct Communications Pty Ltd is a leading IT solutions provider specialising in Networking, Storage, Security and Unified Communications Infrastructure to Government and large enterprises in Canberra.

*Review of Operations*

The statutory result for the consolidated entity after providing for income tax amounted to a net profit of $2.83m (FY17: $401k profit). However, this result included a number of one-off and non-cash expenses including :

- costs associated with ongoing establishment and operation of the pre Correct Communications Canberra location of $272k;
- non cash expensing of share based options $226k;
- redundancy costs largely associated with Canberra restructure post acquisition of Correct Communications $165k;
- acquisition costs associated with the Correct Communications purchase $98k; and
- one-off voluntary escrow payment $50k.
- amortisation of intangible assets $227k

In addition, the Group received an R&D tax offset of $357k and brought to account a portion of the available deferred tax asset relating to prior year tax losses of $2,710k. After adjusting for these one-off transactions and non-cash expenses, the entity had an underlying net profit of $814k (FY17 : $751k).

At 30 June 2018 the Group had a cash balance of $5.26m. Cirrus has a positive $4.43m net of debt with the only borrowings being $833k of acquisition funding drawn for Tranche 1 payment of the Correct Communications acquisition.

## 2. Net tangible assets

| | Reporting period | Previous period |
|---|---|---|
| Net tangible assets per ordinary security | $0.001 | $0.003 |

### 3. Details of entities over which control has been gained during the period

| *Control gained over entities during the period:* | *Date control was gained:* |
|---|---|
| Correct Communications Pty Ltd | 23 November 2017 |

### 4. Details of entities over which control has been lost during the period

Loss of control of entities during the period – Nil.

### 5. Dividends

*Current period*
There were no dividends paid, recommended or declared during the current financial period.

### 6. Details of associates and joint venture entities

Equity accounted Associates and Joint Venture Entities – Nil.

### 7. Audit qualification or review

*Details of audit/review dispute or qualification (if any):*

The financial statements have been audited and an unqualified opinion has been issued.

### 8. Attachments

*Details of attachments (if any):*

The Annual Report of Cirrus Networks Holdings Ltd for the year ended 30 June 2018 is attached.

### 9. Signed

Signed ____________________________ Date: 27 August 2018

Matthew Sullivan
Managing Director
Subiaco

# Cirrus Networks Holdings Ltd

**ABN 98 103 348 947**

# Annual Report - 30 June 2018

# Corporate Directory

### Current Directors

Mr Andrew Milner (Chairman)
Mr Daniel Rohr
Mr Matthew Sullivan (Managing Director)
Mr Paul Everingham

### Company Secretary

Ms Catherine Anderson
Telephone: + 61 8 6180 4222

### Share Registry*

Computershare Registry Services Pty Ltd
Level 2, 45 St Georges Terrace
Perth WA 6000
Telephone: +61 8 9323 2000
Facsimile: +61 8 9323 2033

### Auditor and Independent Accountant

BDO Audit (WA) Pty Ltd
38 Station Street
Subiaco WA 6008
Telephone: +61 8 6382 4600

### ASX Code: CNW

### Registered Office

Arcadia Chambers
Level 3, 1 Roydhouse Street
Subiaco WA 6008
Telephone: +61 8 6180 4222

Email: info@cirrusnetworks.com.au
Website: www.cirrusnetworks.com.au

** This entity is included for information purposes only. This entity has not been involved in the preparation of this Annual Report.*

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## Letter from the Chairman

Dear Shareholder

Welcome to the Cirrus Networks 2018 Annual Report. I am pleased to be able to report significant progress across all key areas of the business against the Company's five-year strategic plan, as outlined in the April 2018 Trading Update. Notable milestones include:

- Consolidated revenue growth of 41% from $53.9m to $76m, with gross margin improving 72% from $6.8m to $11.7m as the Company's strategy of transforming from a product driven business to an annuity and services driven business starts to return dividends.

- Substantial revenue growth and margin contribution from the Professional Services and Managed Services business across all geographic locations. In Western Australia, combined Professional Services and Managed Services revenue grew organically from $6.9m in 2017 to $9.7m (up 41%), and Victoria grew 569% from $896k to $5.1m with a full year contribution from the NGage business. The ACT grew combined services revenue from $283k to $3.8m off the back of the very successful acquisition of Correct Communications in November 2017.

- Numerous high profile wins for the Managed Services business, adding customers such as Crown Entertainment, Peter Mac and the University of Western Australia to the Company's portfolio. Generating total revenue of $5.1m for the year (up 106% from $2.5m in 2017), Managed Services finished the year strongly with a monthly run rate of over $700k as at the end of June.

- The Professional Services business had an outstanding 2018, growing revenue from $5.6m to $13.4m (up 139%) while increasing gross margins from 17.3% in 2017 to 20.5%.

- Product enjoyed a modest gain of 22% from $37m in 2017 to $45.2m. Licensing and Maintenance grew 41% from $8.7m to $12.3m, with both categories improving overall gross margins.

- Corporate activity for the year was underscored by the successful acquisition of Canberra based Correct Communications in November 2017. The ACT branch delivered revenue across the entire Cirrus portfolio of products and services for the year to June 18 of $16.4m, up from $2.9m for the previous year.

Your Company starts the 2019 fiscal year with significant momentum. Heading into the 4th year of our 5 year plan to transform the business into a Professional Services and Managed Services powerhouse, these core activities now represent 24% of total revenue, up from just 15% in 2017. Gross margin contribution from these categories grew from 29% to 35%.

On behalf of the Board and Management I thank you for your continued support and look forward to a rewarding 2019.

Andrew Milner
Chairman

## Directors' Report
**30 June 2018**

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Consolidated Entity' or 'Group') consisting of Cirrus Networks Holdings Ltd (referred to hereafter as the 'Company' or 'Parent Entity') and the entities it controlled at the end of, or during, the year ended 30 June 2018.

***Directors – Terms of Office, Skills and Experience***
The following persons were Directors of Cirrus Networks Holdings Ltd during the entire the financial year and up to the date of this report, unless otherwise stated:

Andrew Milner
Daniel Rohr
Matthew Sullivan
Patrick Glovac (resigned 23 July 2018)
Paul Everingham (appointed 23 July 2018)

**Andrew Milner (Non-Executive Chairman)**
*Appointed 2 July 2015*

Andrew Milner is a veteran of the Australian Information Communications Technology industry and has more than 20 years' experience in managing successful high-growth technology businesses.

Founding Wantree Internet ("Wantree") in 1995 (which became one of Australia's first commercial Internet Service Providers), he was appointed to the iiNet board when Wantree was vended into the iiNet Ltd IPO in 1999. Mr Milner spent 9 years with that company in a variety of executive and non-executive Director roles. iiNet grew to a $1.4 billion market capitalization with over 2,000 staff and $1 billion in annual revenue, prior to being acquired by TPG Telecom Ltd (TPM) in 2015.

From 2004, Mr Milner was co-founder and non-executive Chairman of L7 Solutions, one of WA's fastest growing systems integrators, with a turnover of $55m at the time of its acquisition by Amcom Telecommunications in 2011.

During the previous 3 years, Mr Milner has not held any other directorships in listed entities.

**Daniel Rohr (Non-Executive Director)**
*Appointed 2 July 2015*

Daniel Rohr is a Chartered Accountant with a Bachelor of Commerce degree and has over 20 years' management, corporate advisory, finance and accounting experience across a range of listed and unlisted companies in Australia and overseas.

He is currently the CFO of HealthEngine Pty Ltd and has recently acted as a corporate advisor for a number of listed and non-listed businesses in the IT and mining sectors. Mr Rohr has extensive experience in managing the development of high growth and start-up companies in the digital, mining, real estate and financial services industries.

During the previous 3 years, Mr Rohr has held the role of non-executive director of Velpic Limited.

**Matthew Sullivan (Managing Director)**
*Appointed 2 July 2015*

Matthew Sullivan has more than 20 years' experience in the Information Technology ("IT") industry and has held various executive roles within strong performing and high growth IT organisations in Australia and was CEO and co-founder (with Mr Milner) of L7 Solutions in 2004 until its 2011 acquisition by Amcom.

During this time the company was awarded numerous industry accolades including:
- 5th fastest growing WA company in 2007 (WA Business News)
- 18th fastest growing Australian company in 2008 (BRW Fast 100)
- 2005 Cisco A/NZ Partner of the Year; and
- 2010 EMC WA partner of the Year.

Mr Sullivan was also a 2005 and 2008 winner of the WA Business News "40 under 40" and Western Region finalist in the 2010 Ernst & Young Entrepreneur of the Year.

Most recently Mr Sullivan has been Chief Solutions Officer of Amcom and Chief Operations Officer at Comscentre. During the previous 3 years, Mr Sullivan has not held any other directorships in listed entities.

**Paul Everingham (Non-Executive Director)**
*Appointed 23 July 2018*

Paul Everingham is Chief Executive Officer of the Chamber of Minerals & Energy of Western Australia.

Prior to joining the Chamber of Minerals & Energy, Mr Everingham held numerous senior executive roles in business and government including; Chief Executive of Marketforce Australia, a leading Australian advertising agency; Founder and Managing Director of GRA Everingham Advisory, Western Australia's premier government relations advisory business; Executive Director of the Liberal Party of Australia (WA); and as a Senior Adviser in the Commonwealth Treasury.

Mr Everingham has a Bachelor of Commerce from the University of Queensland;  a Post Graduate Diploma in Applied Finance & Investment from the University of NSW; and a Graduate Certificate in Financial Mathematics from Queensland University of Technology.

During the previous 3 years, Mr Everingham has not held any other directorships in listed entities

**Patrick Glovac (Non-Executive Director)**
*Appointed 2 July 2015*
*Resigned 23 July 2018*

Patrick Glovac holds a Bachelor of Commerce majoring in Finance, Banking, Management and also holds a Diploma of Management.

In 2013 Mr Glovac co-founded GTT Ventures Pty Ltd, a boutique corporate advisory firm, specializing in the resource and technology sector. GTT has funded numerous listed and private companies since its inception across multiple markets including Australia, USA and the United Kingdom. Previously he worked as an investment advisor for Bell Potter Securities Limited since 2013, focusing on high net-worth clients and corporate advisory services.

During the previous 3 years, Mr Glovac has held other directorship positions including the role of managing director of ASX listed Applabs Technologies Limited and non-executive director of ASX listed GB Energy Limited and Sovereign Gold Company Limited.

### *Directors' Interests in Shares and Options of the Company*

The following relevant interests in shares and options of the Company are held by the Directors who hold office as at the date of this report, with the holdings being as at the date of this report:

| Director | Shares | Options |
|---|---|---|
| Andrew Milner | 44,323,387 | 2,500,000 |
| Daniel Rohr | 7,678,863 | 2,500,000 |
| Matthew Sullivan | 47,023,387 | 20,000,000 |
| Paul Everingham | - | - |

### *Company Secretary*

**Catherine Anderson – B Juris (Hons) LLB (UWA)**
*Appointed 8 March 2011*

Catherine Anderson is a legal practitioner admitted in Western Australia and Victoria and has over 25 years' experience in both private practice and in-house legal roles from working in Melbourne and Perth, particularly in the area of capital raisings and corporate structures. During her career, Ms Anderson has advised on all aspects of corporate and commercial law and today brings this extensive commercial experience to the Company and oversaw the transition of the Company from Liberty to Cirrus, including its re-admission to ASX.

Ms Anderson also has experience in company secretarial roles for other ASX listed resource companies, as well as having been a director of an ASX listed junior explorer. She currently also provides consultancy services to entities wishing to proceed to IPO and listing on ASX, and has twice been nominated for the Telstra Business Woman of the Year Award for an online retail business she established in 2007.

### Meetings of Directors

The number of Directors' meetings and number of committee meetings attended by each of the Directors of the Company during the financial year or during the period of appointment were:

| Directors | Board of Directors | | Audit Committee | | Remuneration Committee | |
|---|---|---|---|---|---|---|
| | A | B | A | B | A | B |
| Andrew Milner | 13 | 13 | 2 | 2 | 2 | 2 |
| Daniel Rohr | 13 | 13 | 2 | 2 | 2 | 2 |
| Matthew Sullivan | 13 | 13 | - | - | - | - |
| Patrick Glovac | 13 | 13 | 2 | 2 | 2 | 2 |

**A –** Number of meetings attended
**B –** Number of meetings eligible to attend

### Principal Activities

The principal activities of the Group during the course of the financial year were the provision of information technology services and related third-party products.

There were no significant changes in the nature of the activities of the Group during the year.

### Dividends

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

### Significant Changes in the State of Affairs

There were no significant changes in the state of affairs of the Consolidated Entity other than those disclosed in other areas of this annual financial report.

### Review of Operations

**Non-IFRS Financial Information:*

Adjustments to reflect movement from underlying performance to statutory consolidated result of the Group:

| | FY18 |
|---|---|
| **Underlying Net Profit / (Loss) after tax for the period** | **$813,544** |
| **Adjustments:** | |
| R&D Tax Offset | $356,710 |
| Amortisation of Intangible | ($226,676) |
| Share based options expensed | ($226,046) |
| Investment in Canberra (Pre CC-Acquisition) | ($272,003) |
| Redundancy & Restructure Cost | ($165,345) |
| Voluntary Escrow Payment | ($50,000) |
| Acquisition Costs for due diligence | ($97,943) |
| FX Impact | ($10,872) |
| DTA brought to account | $2,709,922 |
| **Net Profit / (Loss) after tax for the consolidated entity for the period** | **$2,831,291** |

At 30 June 2018 the Group had a cash balance of $5.26m. Cirrus has a positive $4.43m net of debt with the only borrowings being $833k of acquisition funding drawn for Tranche 1 payment of the Correct Communications acquisition.

### Options on Issue

The Company has the following classes of options on issue as at the reporting date:

| Class | Number | | Exercise Price | Expiry Date | Vesting |
|---|---|---|---|---|---|
| | 2018 | 2017 | | | |
| 1 | - | 4,500,000 | $0.30 | 31-12-17 | 5 day VWAP 30 cents |
| 2 | 6,500,000 | 6,500,000 | $0.180 | 31-12-18 | Vested |
| 3 | 7,000,000 | 7,000,000 | $0.080 | 31-12-19 | Vested |
| 4 | 13,750,000 | 13,750,000 | $0.060 | 31-05-19 | Vested |
| 5 | 9,612,500 | 12,500,000 | $0.035 | 13-11-20 | Vested |
| 6 | 9,612,500 | 12,500,000 | $0.045 | 13-11-20 | Vests 13-11-18 |
| 7 | 5,837,500 | 9,087,500 | $0.035 | 30-06-21 | Vested |
| 8 | 5,837,500 | 9,087,500 | $0.045 | 30-06-21 | Vests 05-07-19 |
| 9 | 5,000,000 | 5,000,000 | $0.045 | 5 years from vesting date | When EBIT > $2M |
| 10 | 5,000,000 | 5,000,000 | $0.060 | 5 years from vesting date | When EBIT > $4M |
| 11 | 5,000,000 | 5,000,000 | $0.045 | 18-04-23 | Vested |
| 12 | 5,000,000 | 5,000,000 | $0.060 | 18-10-24 | Vests 18-09-19 |
| 13 | 3,000,000 | 3,000,000 | $0.035 | 30-06-22 | Vested |
| 14 | 3,000,000 | 3,000,000 | $0.045 | 30-06-22 | Vested |
| 15 | 2,062,500 | - | $0.035 | 30-06-22 | Vests 09-12-18 |
| 16 | 2,062,500 | - | $0.045 | 30-06-22 | Vests 09-07-20 |
| 17 | 7,500,000 | - | $0.045 | 11-10-21 | Vests 11-10-20 |
| 18 | 7,500,000 | - | $0.060 | 11-10-23 | Vests 11-10-22 |
| 19 | 4,250,000 | - | $0.035 | 22-11-21 | Vested |
| 20 | 4,250,000 | - | $0.045 | 22-11-21 | Vested |
| **Total** | **111,775,000** | **100,925,000** | | | |

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

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

The Key Management Personnel for the year 1 July 2017 – 30 June 2018 were the Directors of the Company:

Andrew Milner – Non-Executive Chairman
Daniel Rohr - Non-Executive Director
Matthew Sullivan – Managing Director
Patrick Glovac - Non-Executive Director

There are no other Key Management Personnel.

The remuneration report is set out under the following main headings:
- Principles used to determine the nature and amount of remuneration
- Key Management Personnel remuneration
- Share-based compensation
- Option holdings of Key Management Personnel
- Share holdings of Key Management Personnel

***Principles used to determine the nature and amount of remuneration***

The objective of the Consolidated Entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:
- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency

The Nomination and Remuneration Committee is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the consolidated entity depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high-quality personnel.

The Nomination and Remuneration Committee has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the consolidated entity.

The reward framework is designed to align executive reward to shareholders' interests. The Board have considered that it should seek to enhance shareholders' interests by:
- having economic profit as a core component of plan design
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value
- attracting and retaining high calibre executives

Additionally, the reward framework should seek to enhance executives' interests by:
- rewarding capability and experience
- reflecting competitive reward for contribution to growth in shareholder wealth
- providing a clear structure for earning rewards

In accordance with best practice corporate governance, the structure of Non-Executive Director and Executive Director remuneration is separate.

*Non-Executive Directors' Remuneration*
Fees and payments to Non-Executive Directors reflect the demands and responsibilities of their role. Non-Executive Directors' fees and payments are reviewed annually by the Nomination and Remuneration Committee. The Nomination and Remuneration Committee may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The Chairman's fees are determined independently to the fees of other Non-Executive Directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to the determination of his own remuneration.

ASX listing rules require the aggregate Non-Executive Directors' remuneration be determined periodically by a general meeting. The most recent determination was at the Annual General Meeting held on 10 November 2008, where the shareholders approved a maximum annual aggregate remuneration of $250,000 for Director fees.

*Executive Remuneration*
The Consolidated Entity aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits
- short-term performance incentives
- share-based payments
- other remuneration such as superannuation and long service leave

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

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

The short-term incentives ('STI') program is designed to align the targets of the business units with the performance hurdles of executives. STI payments are granted to executives based on specific annual targets and key performance indicators ('KPI's') being achieved. KPI's include profit contribution, customer satisfaction, leadership contribution and product management.

*Employment Contracts*
Remuneration and other terms of employment for the Managing Director, Matthew Sullivan, as at 30 June 2018, were formalised in an employment agreement, the terms of which are set out below:

Matthew Sullivan, Managing Director:

- Term of agreement: commenced 2 July 2015. Amended on 12 February 2016.
- Termination notice period: three months.
- Annual Executive Director salary of $265,000 (2017 - $240,000)
- STI At-Risk of $100,000 based on the following KPI's:

| FY17 | % | FY18 | % |
|---|---|---|---|
| NPAT | Indexed | Underlying Profit | Indexed |
| Annuity Growth | 30 | Margin | 25 |
| National Growth | 30 | Annuity Growth | 30 |
| Improvement | 20 | Delivery Efficiency | 15 |
| Customer Satisfaction | 10 | Customer Satisfaction | 15 |
| Employee Satisfaction | 10 | Employee Satisfaction | 15 |

In addition, in October 2016 the general meeting of shareholders approved Matthew Sullivan to be issued with the following options:

| **Matthew Sullivan's Options** | **Tier 1** | **Tier 2** | **Tier 3** | **Tier 4** |
|---|---|---|---|---|
| Grant date | 18 Oct 2016 | 18 Oct 2016 | 18 Oct 2016 | 18 Oct 2016 |
| Expiry date | 5 years from vesting | 5 years from vesting | 18 Apr 2023 | 18 Oct 2024 |
| Share price at grant date | $0.028 | $0.028 | $0.028 | $0.028 |
| Exercise price | $0.045 | $0.060 | $0.045 | $0.060 |
| Vesting Conditions | when Cirrus achieves $2 million in EBIT | when Cirrus achieves $4 million in EBIT | after 18 months' service | vesting after 36 months' service |
| Fair value at grant date | $0.0101 | $0.0098 | $0.0101 | $0.0098 |
| Number granted | 5,000,000 | 5,000,000 | 5,000,000 | 5,000,000 |
| Total fair value | $50,681 | $48,766 | $50,681 | $48,766 |
| **Remuneration expense for FY18** | **$12,670** | **$18,287** | **$25,340** | **$16,256** |
| **Remuneration expense for FY17** | **$25,430** | **$12,191** | **$25,340** | **$12,192** |

All other Key Management Personnel were appointed as Directors under the Corporations Act, on the following terms:

Andrew Milner, Non-Executive Chairman:

- Term of agreement: commenced 2 July 2015 and subject to re-election as required by the Company's Constitution.
- Termination as per constitution or breach the code of conduct.
- Annual Chairman's fee of $70,000 (2017 - $70,000) (plus statutory superannuation)

Daniel Rohr, Non-Executive Director:

- Term of agreement: commenced 2 July 2015 and subject to re-election as required by the Company's Constitution.
- Termination as per constitution or breach the code of conduct.
- Annual non-executive director's fee of $48,402 (2017 - $48,402) (plus statutory superannuation)

Patrick Glovac, Non-Executive Director:

- Term of agreement: commenced 2 July 2015 and subject to re-election as required by the Company's Constitution.
- Termination as per constitution or breach the code of conduct.
- Annual non-executive director's fee of $43,836 (2017 - $43,386) (plus statutory superannuation)

Paul Everingham, Non-Executive Director:

- Term of agreement: commenced 23 July 2018 and subject to re-election as required by the Company's Constitution.
- Termination as per constitution or breach the code of conduct.
- Annual non-executive director's fee of $43,836 (plus statutory superannuation)

No Director or Executive is entitled to any termination payments apart from payment in lieu of the notice periods outlined above, remuneration payable up to and including the date of termination and payments due by way of accrued leave entitlements.

*Consolidated Entity performance and link to remuneration*

Remuneration for certain individuals is directly linked to the performance of the consolidated entity. A portion of cash bonus and incentive payments are dependent on defined growth targets being met. The remaining portion of the cash bonus and incentive payments are at the discretion of the Nomination and Remuneration Committee.

The Nomination and Remuneration Committee is of the opinion that the continued improved results can be attributed in part to the adoption of performance based compensation and is satisfied that this improvement will continue to increase shareholder wealth if maintained over the coming years.

Specifically in relation to option, this effectively links directors' performance to the share price performance and therefore to the interests of the shareholders. For this reason, there are no performance conditions prior to grant, but instead an incentive to increase the value to all shareholders.

Performance KPI's for the current and prior period are set out below:

| **FY18** | **FY17** |
|---|---|
| Underlying Profit | NPAT |
| Margin | Annuity Growth |
| Annuity Growth | National Growth |
| Delivery Efficiency | Improvement |
| Customer Satisfaction | Customer Satisfaction |
| Employee Satisfaction | Employee Satisfaction |

*Voting and comments made at the Company's 22 November 2017 Annual General Meeting ('AGM')*

At the 2017 AGM, 93% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2017. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

***Key Management Personnel remuneration for the year ended 30 June 2018***

1

| Director | Year | Short-term employee benefits | | | Post-employment benefits | | Equity-Settled Share-Based | Total | Performance Related |
|---|---|---|---|---|---|---|---|---|---|
| | | Salary & Fees | Bonuses* | Other | Superannuation | Other | Shares & Share Options | | |
| | | $ | $ | $ | $ | $ | $ | $ | |
| Andrew Milner | 2018 | 70,000 | - | - | 6,650 | - | 23,625 | 100,275 | - |
| | 2017 | 70,000 | - | - | 6,650 | - | - | 76,650 | - |
| Daniel Rohr | 2018 | 48,402 | - | - | 4,598 | - | 23,625 | 76,625 | - |
| | 2017 | 48,402 | - | - | 4,598 | - | - | 53,000 | - |
| Matthew Sullivan | 2018 | 262,917 | 35,050[2] | - | 28,307 | - | 72,553 | 398,827 | 17% |
| | 2017 | 240,000 | - | - | 22,800 | - | 75,064 | 337,864 | 11% |
| Patrick Glovac | 2018 | 43,836 | - | - | 4,164 | - | 23,625 | 71,625 | - |
| | 2017 | 43,836 | - | - | 4,164 | - | - | 48,000 | - |
| Frank Richmond [1] | 2018 | - | - | - | - | - | - | - | - |
| | 2017 | 264,964 | 33,000 | - | 26,389 | - | - | 324,353 | 10% |
| **TOTAL** | **2018** | **425,155** | **35,050** | **-** | **43,719** | **-** | **143,428** | **647,352** | **-** |
| | **2017** | **667,202** | **33,000** | **-** | **64,601** | **-** | **75,064** | **839,867** | **-** |

[1] resigned 30 June 2017
**[2]** Matthew Sullivan achieved 35% of the STI based on the following KPI's:

| **FY17** | **% Target** | **% Achieved** |
|---|---|---|
| NPAT | 30% Indexed | 50% of target - Indexed |
| Growth | 30% | 30% |
| Improvement | 20% | 20% |
| Customer Satisfaction | 10% | 10% |
| Employee Satisfaction | 10% | 10% |
| Total | 100% | 35% |

**Share based compensation to Key Management Personnel during the year ended 30 June 2018**

| Director | Number Granted | Date Granted | Option FV at Grant Date | Number Vested | % of compensation of Year consisting of Options | Expiry Date |
|---|---|---|---|---|---|---|
| Andrew Milner | 2,500,000 | 23 Nov 2017 | 23,625 | 2,500,000 | 23.56% | 22 Nov 2021 |
| Daniel Rohr | 2,500,000 | 23 Nov 2017 | 23,625 | 2,500,000 | 30.83% | 22 Nov 2021 |
| Patrick Glovac | 2,500,000 | 23 Nov 2017 | 23,625 | 2,500,000 | 32.98% | 22 Nov 2021 |
| Matthew Sullivan | - | - | - | - | - | - |

There are no performance condition attached to the Director Options issued during the year. Each Director was issued 50% of tier 1 and tier 2 below. Options issued to Directors carry no dividends or voting rights and each option is convertible to one share of the company. Options have been valued using a Black & Scholes model which includes the following inputs;

| **Directors Options** | **Tier 1** | **Tier 2** |
|---|---|---|
| Grant date | 23 Nov 2017 | 23 Nov 2017 |
| Expiry date | 22 Nov 2021 | 22 Nov 2021 |
| Share price at grant date | $0.017 | $0.017 |
| Exercise price | $0.035 | $0.045 |
| Expected volatility | 100.00% | 100.00% |
| Dividend yield | 0.00% | 0.00% |
| Risk free interest rate | 2.20% | 2.20% |
| Fair value at grant date | $0.0098 | $0.0091 |
| Number granted | 3,750,000 | 3,750,000 |
| Total fair value | $36,750 | $34,125 |
| Remuneration expense for period | $36,750 | $34,125 |

| **Matthew Sullivan's Options** | **Tier 1** | **Tier 2** | **Tier 3** | **Tier 4** |
|---|---|---|---|---|
| Grant date | 18 Oct 2016 | 18 Oct 2016 | 18 Oct 2016 | 18 Oct 2016 |
| Expiry date | 5 years from vesting | 5 years from vesting | 18 Apr 2023 | 17 Oct 2024 |
| Share price at grant date | $0.028 | $0.028 | $0.028 | $0.028 |
| Exercise price | $0.045 | $0.060 | $0.045 | $0.060 |
| Expected volatility | 47.70% | 47.70% | 47.70% | 47.70% |
| Dividend yield | 0.00% | 0.00% | 0.00% | 0.00% |
| Risk free interest rate | 1.86% | 1.86% | 1.86% | 1.86% |
| Fair value at grant date | $0.0101 | $0.0098 | $0.0101 | $0.0098 |
| Number granted | 5,000,000 | 5,000,000 | 5,000,000 | 5,000,000 |
| Total fair value | $50,681 | $48,766 | $50,681 | $48,766 |
| Remuneration expense for FY 2018 | $12,670 | $18,287 | $25,340 | $16,256 |
| Remuneration expense for FY 2017 | $25,340 | $12,192 | $25,340 | $12,192 |

Matthew's share based payment expense for the 2018 year made up 18.19% of his total compensation.

***Option holdings of Key Management Personnel***

| **30 June 2018** | **Balance at the start of the year** | **Balance at Appointment / (Resignation) Date** | **Granted as remuneration** | **Net Change** | **Balance at the end of the year** | **Vested as at end of year** | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | **Total** | **Exercisable** | **Not Exercisable** |
| Andrew Milner | - | - | 2,500,000 | 2,500,000 | 2,500,000 | 2,500,000 | 2,500,000 | - |
| Daniel Rohr | - | - | 2,500,000 | 2,500,000 | 2,500,000 | 2,500,000 | 2,500,000 | - |
| Matthew Sullivan | 20,000,000 | - | - | - | 20,000,000 | 5,000,000 | 5,000,000 | - |
| Patrick Glovac | 5,166,667 | - | 2,500,000 | 2,500,000 | 7,666,667 | 7,666,667 | 7,666,667 | - |
| **Total** | **25,166,667** | **-** | **7,500,000** | **7,500,000** | **32,666,667** | **17,666,667** | **17,666,667** | **-** |

***Share holdings of Key Management Personnel***

| **30 June 2018** | **Balance at the start of the year** | **Balance at Appointment / (Resignation) Date** | **Granted as remuneration** | **Acquired / (Sold) on Market** | **Net Change** | **Balance at the end of the year** |
|---|---|---|---|---|---|---|
| Andrew Milner | 33,023,387 | - | - | 11,300,000 | 11,300,000 | 44,323,387 |
| Daniel Rohr | 4,928,863 | - | - | 2,750,000 | 2,750,000 | 7,678,863 |
| Matthew Sullivan | 34,523,387 | - | - | 12,500,000 | 12,500,000 | 47,023,387 |
| Patrick Glovac | 5,033,334 | - | - | 2,000,000 | 2,000,000 | 7,033,334 |
| **Total** | **77,508,971** | **-** | **-** | **28,550,000** | **28,550,000** | **106,058,971** |

***Other transactions with Key Management Personnel***

During the year, $108,370 of marketing fees and related costs were paid to Roobix Pty Ltd (of which Andrew Milner and Matthew Sullivan were Directors up until 30 April 2018).

**This concludes the remuneration report, which has been audited.**

## Matters Subsequent to the End of the Financial Year

Change in Non Executive Director
On 23 July 2018, Mr Patrick Glovac announced his resignation as Non Executive Director. Mr Paul Everingham was appointed Non Executive Director on 23 July 2018.

Options
Subsequent to year end, 975,000 options have been cancelled.

Other than the matters discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

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

## Non-Audit Services
During the year, BDO, the Group's auditor, has performed certain other services in addition to the audit and review of financial statements.

The Board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the audit committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Group and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Group, BDO, and its network firms for audit and non-audit services provided during the year are set out below:

| | $ |
|---|---|
| Services other than audit and review of financial statements: | 66,781 |
| Audit and review of financial statements: | 50,425 |
| **Total** | **117,206** |

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

**Auditor**
BDO Audit (WA) Pty Ltd continues in office in accordance with section 327 of the Corporations Act 2001.

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

On behalf of the Directors

Matthew Sullivan
Managing Director

27 August 2018
Subiaco

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Australia

DECLARATION OF INDEPENDENCE BY DEAN JUST TO THE DIRECTORS OF CIRRUS NETWORKS HOLDINGS LIMITED

As lead auditor of Cirrus Networks Holdings Limited for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Cirrus Networks Holdings Limited and the entities it controlled during the period.

Dean Just

Director

BDO Audit (WA) Pty Ltd

Perth, 27 August 2018

## Consolidated Statement of Profit or Loss and Other Comprehensive Income

**For the year ended 30 June 2018**

| | Note | Consolidated 2018 $ | 2017 $ |
|---|---|---|---|
| **Revenue** | | | |
| Revenue | | 76,092,829 | 53,905,392 |
| Other income | 4 | 614,977 | 1,456,660 |
| | | 76,707,806 | 55,362,052 |
| **Expenses** | | | |
| Purchase of goods | | (57,014,004) | (43,542,698) |
| Employee and Labour related costs | | (16,630,743) | (9,748,981) |
| Depreciation & Amortisation | 8,9 | (466,215) | (130,164) |
| Finance costs | | (23,198) | (383) |
| Other expenses | | (2,537,538) | (1,262,346) |
| Foreign exchange losses | | (10,872) | (45,977) |
| Share based compensation – options | | (226,046) | (230,927) |
| Redundancy & Business restructure | | (165,345) | - |
| | | (77,073,961) | (54,961,476) |
| (Loss) / profit before income tax | | (366,155) | 400,576 |
| Income tax benefit | 17 | 3,197,446 | - |
| **Profit after income tax benefit for the year attributable to the owners of Cirrus Networks Holdings Ltd** | 15 | 2,831,291 | 400,576 |
| **Other comprehensive income** | | | |
| Other comprehensive income for the year, net of tax | | - | - |
| **Total comprehensive income for the year attributable to the owners of Cirrus Networks Holdings Ltd** | | **2,831,291** | **400,576** |

| | Note | Cents | Cents |
|---|---|---|---|
| **Earnings per share from continuing operations** | | | |
| - basic earnings per share | 23 | 0.343 | 0.06 |
| - diluted earnings per share | 23 | 0.343 | 0.06 |

*The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes*

# Consolidated Statement of Financial Position
**As at 30 June 2018**

| | Note | Consolidated 2018 $ | Consolidated 2017 $ |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 21(a) | 5,263,581 | 3,947,553 |
| Trade and other receivables | 5 | 14,659,295 | 18,702,781 |
| Inventories | 6 | 210,069 | 751,725 |
| Other | 7 | 341,658 | 98,815 |
| **Total current assets** | | **20,474,603** | **23,500,874** |
| **Non-current assets** | | | |
| Property, plant and equipment | 8 | 653,143 | 348,274 |
| Intangibles | 9 | 8,792,795 | 3,532,247 |
| Deferred Tax Asset | 17 | 2,709,922 | - |
| **Total non-current assets** | | **12,155,860** | **3,880,521** |
| **Total assets** | | **32,630,463** | **27,381,395** |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 10 | 17,877,816 | 21,143,182 |
| Borrowings | 12 | 333,332 | - |
| Provisions | 10 | 656,490 | 341,305 |
| Financial Liability | 19 | 3,000,000 | |
| **Total current liabilities** | | **21,867,638** | **21,484,487** |
| **Non-current liabilities** | | | |
| Borrowings | 12 | 500,001 | - |
| Provisions | 11 | 257,490 | 172,108 |
| **Total non-current liabilities** | | **757,491** | **172,108** |
| **Total liabilities** | | **22,625,129** | **21,656,595** |
| **Net assets** | | **10,005,334** | **5,724,800** |
| **Equity** | | | |
| Issued capital | 13 | 13,775,608 | 12,552,411 |
| Reserves | 14 | 734,455 | 508,409 |
| Accumulated losses | 15 | (4,504,729) | (7,336,020) |
| **Total equity** | | **10,005,334** | **5,724,800** |

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

## Consolidated Statement of Changes in Equity
**For the year ended 30 June 2018**

| **Consolidated** | **Issued capital $** | **Reserves $** | **Accumulated Losses $** | **Total equity $** |
|---|---|---|---|---|
| Balance at 1 July 2016 | 10,145,690 | 277,482 | (7,736,596) | 2,686,576 |
| Profit after income tax expense for the year | - | - | 400,576 | 400,576 |
| Other comprehensive income for the year, net of tax | - | - | - | - |
| Total comprehensive income for the year | - | - | 400,576 | 400,576 |
| *Transactions with owners in their capacity as owners:* | | | | |
| Issue of share capital (note 13a) | 2,500,000 | - | - | 2,500,000 |
| Capital raising costs (note 13a) | (93,279) | - | - | (93,279) |
| Issue of Options (note 14c) | - | 230,927 | - | 230,927 |
| Balance at 30 June 2017 | 12,552,411 | 508,409 | (7,336,020) | 5,724,800 |

| **Consolidated** | **Issued capital $** | **Reserves $** | **Accumulated Losses $** | **Total equity $** |
|---|---|---|---|---|
| Balance at 1 July 2017 | 12,552,411 | 508,409 | (7,336,020) | 5,724,800 |
| Profit after income tax expense for the year | - | - | 2,831,291 | 2,831,291 |
| Other comprehensive income for the year, net of tax | - | - | - | - |
| Total comprehensive income for the year | - | - | 2,831,291 | 2,831,291 |
| *Transactions with owners in their capacity as owners:* | | | | |
| Issue of share capital (note 13a) | 1,287,705 | - | - | 1,287,705 |
| Capital raising costs (note 13a) | (64,508) | - | - | (64,508) |
| Issue of Options (note 14c) | - | 226,046 | - | 226,046 |
| Balance at 30 June 2018 | 13,775,608 | 734,455 | (4,504,729) | 10,005,334 |

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

# Consolidated Statement of Cash Flows
**For the year ended 30 June 2018**

| | Note | Consolidated 2018 $ | Consolidated 2017 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 85,695,903 | 46,805,065 |
| Payments to suppliers and employees | | (84,432,817) | (48,091,494) |
| Interest received | | 42,407 | 47,327 |
| Government grants and tax incentives | | - | 1,188,686 |
| **Net cash inflow/(outflow) from operating activities** | 21(b) | **1,305,493** | **(50,416)** |
| | | | |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | | (437,317) | (70,004) |
| Payment for intangible | | - | (95,000) |
| Cash held by NGage Technology Group Pty Ltd at acquisition date | | | 226,356 |
| Cash held by Correct Communications Pty Ltd at acquisition date | | 413,947 | |
| Payment for purchase of subsidiary | | (1,500,000) | (1,500,000) |
| **Net cash (used in) investing activities** | | **(1,523,370)** | **(1,438,648)** |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | | 787,705 | 1,500,000 |
| Proceeds from borrowings | | 1,000,000 | |
| Repayment of borrowings | | (166,667) | - |
| Other – Interest paid | | (22,625) | - |
| Other - Capital raising costs | | (64,508) | (93,000) |
| **Net cash provided by financing activities** | | **1,533,905** | **1,407,000** |
| | | | |
| Net increase/(decrease) in cash and cash equivalents | | 1,316,028 | (82,064) |
| Cash and cash equivalents at the beginning of the financial year | | 3,947,553 | 4,029,617 |
| Effects of exchange rate changes on cash and cash equivalents | | - | - |
| | | | |
| **Cash and cash equivalents at the end of the financial year** | | **5,263,581** | **3,947,553** |

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

## Note 1. Reporting entity

The financial statements cover Cirrus Networks Holdings Ltd as a consolidated entity consisting of Cirrus Networks Holdings Ltd and the entities it controlled at the end of, or during, the year.

Cirrus Networks Holdings Ltd is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is Level 3, 1 Roydhouse Street, Subiaco WA 6008.

These consolidated financial statements are presented in dollars which is the Company's functional currency.

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 27 August 2018. The Directors have the power to amend and reissue the financial statements.

## Note 2. Significant accounting policies

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

**New, revised or amending Accounting Standards and Interpretations adopted**
The Consolidated Entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

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

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

*Historical cost convention*
The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

*Critical accounting estimates*
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Consolidated Entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

*Going concern basis of accounting*
The consolidated financial statements have been prepared on a going concern basis.

The working capital deficiency at 30 June 2018 has arisen due to the $3,000,000 deferred consideration payable in relation to the acquisition of Correct Communications Pty Ltd as disclosed in note 19 of the financial statements. Of this balance, $1,000,000 will be settled in cash, and the remainder can be settled in cash or shares at the discretion of the Group. Based on business forecast and associated cash flow, the Group has sufficient working capital to fund its mandatory obligations for the period ending 12 months from this date of this report.

There are no indicators suggesting going concern issues and, therefore, no significant doubt regarding the entity's ability to continue as a going concern.

## Note 2. Significant accounting policies (continued)

### Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Cirrus Networks Holdings Ltd ('Company' or 'Parent Entity') as at 30 June 2018 and the results of all subsidiaries for the year then ended. Cirrus Networks Holdings Ltd and its subsidiaries together are referred to in these financial statements as the 'Consolidated Entity'.

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

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

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

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

### Operating segments

The Company has identified its operating segments based on the internal reports that are reviewed and used by the board of directors in assessing performance and determining the allocation of resources. The reportable segment is represented by the primary statements forming this financial report.

### Revenue recognition

Revenue is recognised when the amount of the revenue can be measured reliably, it is probable that economic benefits associated with the transaction will flow to the entity and specific criteria relating to the type of revenue as noted below, has been satisfied.

Revenue is measured at the fair value of the consideration received or receivable and is presented net of returns, discounts and rebates.

All revenue is stated net of the amount of goods and services tax (GST).

*Sale of goods*
Revenue is recognised on transfer of goods to the customer as this is deemed to be the point in time when risks and rewards are transferred and there is no longer any ownership or effective control over the goods.

*Interest revenue*
Interest is recognised using the effective interest method.

*Rendering of services*
Revenue in relation to rendering of services is recognised depending on whether the outcome of the services can be measured reliably. If this is the case, then the stage of completion of the services is used to determine the appropriate level of revenue to be recognised in the period.

If the outcome cannot be reliably measured, then revenue is recognised to the extent of expenses recognised that are recoverable.

## Note 2. Significant accounting policies (continued)

*Government Grants Received*
Grants received for research and development incentives are recognised as revenue in the period in which they are received, in accordance with IAS 20 “Government Grants”. The grants received in the current period are for R&D tax incentives for the 2017 financial year and fulfil all the necessary attached conditions.

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

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:
- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

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

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

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

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

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

**Note 2. Significant accounting policies (continued)**

**Trade and other receivables**
Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

**Inventories**
Stock on hand is stated at the lower of cost and net realisable value. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

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

**Property, plant and equipment**
Each class of property, plant and equipment is measured using the cost or revaluation model as specified below. Where the cost model is used, the asset is carried at its cost less any accumulated depreciation and any impairment losses. Costs include purchase price, other directly attributable costs and the initial estimate of the costs of dismantling and restoring the asset, where applicable.

Assets measured using the revaluation model are carried at fair value at the revaluation date less any subsequent accumulated depreciation and impairment losses. Revaluations are performed whenever there is a material movement in the value of an asset under the revaluation model.

*Plant and equipment*
Plant and equipment are measured using the cost model.

*Depreciation*
The depreciable amount of all property, plant and equipment is depreciated on a straight-line method from the date that management determine that the asset is available for use.

Leasehold improvements are depreciated over the shorter of the term of the lease and the assets useful life.

The depreciation rates used for each class of depreciable asset are shown below:

| **Fixed asset class** | **Depreciation rate** |
|---|---|
| Office Equipment | 25% |
| Computer Equipment | 25% |
| Leasehold improvements | 25% |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are recognised in profit or loss when the item is de-recognised. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

## Note 2. Significant accounting policies (continued)

### Intangible assets
Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

*Goodwill*
Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

### Impairment of non-financial assets
Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

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

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

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

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

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

## Note 2. Significant accounting policies (continued)

### Fair value measurement

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

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

### Issued capital

Ordinary shares are classified as equity.

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

### Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.
The excess of the:

- consideration transferred,
- amount of any non-controlling interest in the acquired entity,
- and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill.

If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently re-measured to fair value with changes in fair value recognised in profit or loss.

## Note 2. Significant accounting policies (continued)

### Earnings per share

*Basic earnings per share*

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

*Diluted earnings per share*

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

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

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

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

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

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

### New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Consolidated Entity for the annual reporting period ended 30 June 2018. The Consolidated Entity has not yet adopted the following new or amended standards in preparing these consolidated financial statements.

<u>AASB 9 Financial Instruments</u>

In July 2014, the International Accounting Standards Board issued the final version of AASB 9 *Financial Instruments*.

AASB 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group currently plans to apply AASB 9 initially on 1 January 2018.

There is an impact expected on Trade and other receivables and the impact is likely a potential increase in the receivables impairment allowance due to the requirement of AASB 9 to assess impairment based on the expected credit loss model. The company is currently assessing the quantification of the impact at the date of this report.

<u>AASB 15 Revenue from Contracts with Customers</u>

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*.

AASB 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

**Note 2. Significant accounting policies (continued)**

Management is currently assessing the effects of applying the new standard on the entity's revenue recognition policies and resulting effects on its financial statements. It has identified that the following areas could be affected, but more areas may be identified when the assessment has been completed:

i. Sale of goods

Revenue is currently recognised on transfer of goods to the customer as this is deemed to be in the point in time when risks and rewards are transferred and there is no longer any ownership or effective control over the goods. Revenue is recognised at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods.

Under AASB 15, revenue will be recognised when a customer obtains control of the goods rather than on transfer or risks and reward as is currently the case under AASB 118 *Revenue.* The application may result in revenue, and some associated costs being recognised earlier than at present – i.e. before the goods are transferred.

ii. Rendering of services

Revenue in relation to rendering of services is currently recognised depending on whether the outcome of the services can be measured reliably. If this is the case, then revenue is recognised using the stage-of-completion method.

If the outcome cannot be reliably measured, then revenue is recognised to the extent of expenses recognised that are recoverable.

Under AASB 15, the total consideration in the service contracts will be allocated to all services based on their stand-alone selling prices. The stand-alone selling prices will be determined based on the list prices at which the Group sells the services in separate transactions. The Group doesn't expect significant differences in the timing of revenue recognition for these services.

At this stage, the entity is not able to estimate the effects of any required changes to revenue recognition policies on the entity's financial statements. The entity will conduct a more detailed assessment over the next 12 months.

iii. Transition

Although transition date, 1 July 2017, has passed, the entity has not disclosed the impact of any transition adjustments on the statement of financial position on 1 July 2017 because it has not yet made a decision as to which transition method will be adopted (full or modified retrospective restatement), and it has not completed its assessment of the impacts of the new standard.

<u>AASB 16 Leases</u>

To the extent that the entity, as lessee, has significant operating leases outstanding at the date of initial application, 1 July 2019, right-of-use assets will be recognised for the amount of the unamortised portion of the useful life, and lease liabilities will be recognised at the present value of the outstanding lease payments.

Thereafter, earnings before interest, depreciation, amortisation and tax (EBITDA) will increase because operating lease expenses currently included in EBITDA will be recognised instead as amortisation of the right-of-use asset, and interest expense on the lease liability. However, there will be an overall reduction in net profit before tax in the early years of a lease because the amortisation and interest charges will exceed the current straight-line expense incurred under AASB 117 Leases. This trend will reverse in the later years.

There is an impact expected by bringing to account all operating lease, including rental of offices and the Group is still assessing the impact.

## Note 3. Critical accounting judgements, estimates and assumptions

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

*Share-based payment transactions*
Goods or services received or acquired in a share-based payment transaction are recognised as an increase in equity if the goods or services were received in an equity-settled share-based payment transaction or as a liability if the goods and services were acquired in a cash settled share-based payment transaction.

For equity-settled share-based transactions, goods or services received are measured directly at the fair value of the goods or services received provided this can be estimated reliably. If a reliable estimate cannot be made the value of the goods or services is determined indirectly by reference to the fair value of the equity instrument granted using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

Transactions with employees and others providing similar service are measured by reference to the fair value at grant date of the equity instrument granted using a Black-Scholes option pricing model.

*Provision for impairment of receivables*
The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtor's financial position.

*Fair value measurement*
Due to their short-term nature, the carrying amount of the current receivables, current payables and current borrowings are assumed to approximate their fair value. Loans and borrowings are recognised at the fair value of the consideration received, net of transaction costs.

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

*Goodwill and other indefinite life intangible assets*
The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

**Note 3. Critical accounting judgements, estimates and assumptions (continued)**

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

*Employee benefits provision*
As discussed in note 2, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

*Business combinations*
As discussed in note 2, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the consolidated entity taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

*Deferred Tax assets*
Deferred tax assets are recognised only if it is probable that future taxable amounts are available to utilise those temporary differences and losses. Management considers that it is probable that future taxable profits will be available to utilise those temporary differences. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future profits.

## Note 4. Other income

| | **Consolidated** | |
|---|---|---|
| | **2018** | **2017** |
| | **$** | **$** |
| Interest Income | 42,407 | 47,327 |
| Vendor Marketing Support | 215,811 | 220,647 |
| R&D Tax Offset | 356,759 | 1,188,686 |
| | **614,977** | **1,456,660** |

## Note 5. Current assets - trade and other receivables

| | **Consolidated** | |
|---|---|---|
| | **2018** | **2017** |
| | **$** | **$** |
| Trade receivables | 14,091,213 | 18,576,425 |
| Other receivables | 568,082 | 126,356 |
| | **14,659,295** | **18,702,781** |

*Receivables past due but not impaired*
Customers with balances past due but without provision for impairment of receivables amount to $2,134,235 as at 30 June 2018 ($1,186,078 as at 30 June 2017).

**Note 5. Current assets - trade and other receivables (continued)**

The consolidated entity did not consider a credit risk on the aggregate balances after reviewing the credit terms of customers based on recent collection practices.

The ageing of the past due but not impaired receivables are as follows:

| | Consolidated | |
|---|---|---|
| | 2018 $ | 2017 $ |
| 0 to 1 month overdue | 1,366,383 | 957,341 |
| 1 to 3 months overdue | 767,852 | 228,737 |
| Over 3 months overdue | - | - |
| | **2,134,235** | **1,186,078** |

Refer to note 20 for further information on credit ratings of all trade receivables.

## Note 6. Current assets - inventories

| | Consolidated | |
|---|---|---|
| | 2018 $ | 2017 $ |
| Inventories - at cost | **210,069** | **751,725** |

## Note 7. Current assets - other

| | Consolidated | |
|---|---|---|
| | 2018 $ | 2017 $ |
| Work in Progress | **341,658** | **98,815** |

## Note 8. Non-current assets - property, plant and equipment

| | Consolidated 2018 $ | Consolidated 2017 $ |
|---|---|---|
| Computer equipment - at cost | 413,985 | 283,945 |
| Less: Accumulated depreciation | (209,959) | (136,037) |
| | **204,026** | **147,908** |
| | | |
| Office equipment - at cost | 306,074 | 69,128 |
| Less: Accumulated depreciation | (179,463) | (28,215) |
| | **126,611** | **40,913** |
| | | |
| Hosting Infrastructure - at cost | 450,075 | 153,075 |
| Less: Accumulated depreciation | (159,772) | (72,410) |
| | **290,303** | **80,665** |
| | | |
| Leasehold Improvements - at cost | 138,932 | 138,932 |
| Less: Accumulated depreciation | (106,729) | (60,144) |
| | **32,203** | **78,788** |
| | **653,143** | **348,274** |

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

| Consolidated | Computer Equipment $ | Office Equipment $ | Hosting Infrastructure $ | Leasehold Improvements $ | Total $ |
|---|---|---|---|---|---|
| Balance at 1 July 2016 | 52,488 | 25,415 | 118,933 | 30,313 | 227,149 |
| Additions / (Disposals) | (1,460) | 16,856 | - | (35,629) | (20,233) |
| Additions through business combinations (note 19) | 131,609 | 16,456 | - | 103,242 | 251,307 |
| Depreciation expense | (34,729) | (17,814) | (38,268) | (19,138) | (109,949) |
| Balance at 30 June 2017 | **147,908** | **40,913** | **80,665** | **78,788** | **348,274** |
| Additions / (Disposals) | 114,604 | 11,151 | 297,000 | - | 422,755 |
| Additions through business combinations (note 19) | 13,233 | 108,420 | - | - | 121,653 |
| Depreciation expense | (71,719) | (33,873) | (87,362) | (46,585) | (239,539) |
| Balance at 30 June 2018 | **204,026** | **126,611** | **290,303** | **32,203** | **653,143** |

## Note 9. Intangible assets and goodwill

| | Consolidated 2018 $ | Consolidated 2017 $ |
|---|---|---|
| Intangible asset – customer relationships | 1,473,189 | 74,785 |
| Goodwill - at cost | 7,319,606 | 3,457,462 |
| | **8,792,795** | **3,532,247** |

*(i) Reconciliation of carrying amount*
Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

| **Consolidated** | **Total $** |
|---|---|
| Balance at 1 July 2016 | 957,474 |
| Additions through asset purchase | 95,000 |
| Additions through business combinations (note 19) | 2,499,988 |
| Amortisation expense | (20,215) |
| **Balance at 30 June 2017** | **3,532,247** |
| Additions through asset purchase | 1,625,080 |
| Additions through business combinations (note 19) | 3,862,144 |
| Amortisation expense | (226,676) |
| **Balance at 30 June 2018** | **8,792,795** |

*(ii) Impairment test*
During the year ended 30 June 2018, the Company acquired Correct Communications Pty Ltd. During the year ended 30 June 2017, the Company acquired NGage Technology Group Pty Ltd. Refer to Note 19 for detail on the Correct Comms acquisition.

| | **Allocation of purchase price $** | **Fair value of identifiable assets $** | **Goodwill $** |
|---|---|---|---|
| NGage Technology Group Pty Ltd | 2,500,000 | 12 | 2,499,988 |
| Correct Communications Pty Ltd | 5,000,000 | 1,137,856 | 3,862,144 |
| **Total** | **7,500,000** | **1,137,868** | **6,362,132** |

a) *Impairment disclosures*

The aggregate carrying amount of intangibles allocated to the Group's reportable segment is:

| | Consolidated 2018 $ | Consolidated 2017 $ |
|---|---|---|
| Intangible asset | 1,473,189 | 74,785 |
| Goodwill – Correct Communications Pty Ltd | 3,862,144 | - |
| Goodwill – NGage Technology Group Pty Ltd | 2,499,988 | 2,499,988 |
| Goodwill – L7 Solutions | 957,474 | 957,474 |
| | **8,792,795** | **3,532,247** |

For the purpose of impairment testing, intangibles are allocated to one (2017: one) Cash Generating Unit (CGU). As at 30 June 2018, the business monitors the operating results of one distinct business unit for the purposes of making decisions about resource allocation and performance assessment.

## Note 9. Intangible assets and goodwill (continued)

The performance of this business unit was primarily evaluated based on Earnings before Interest, Taxes, Depreciation and Amortisation (EBITDA).

2018: The aggregate carrying amounts allocated to the CGU is:

| | 2018 $ |
|---|---|
| Cirrus Networks Holdings Ltd | 8,792,795 |
| **Closing value at 30 June 2018** | **8,792,795** |

2017: The aggregate carrying amounts allocated to the CGUs are:

| | 2017 $ |
|---|---|
| Cirrus Networks Holdings Ltd | 3,532,247 |
| **Closing value at 30 June 2017** | **3,532,247** |

b) *Significant estimate: key assumptions used for value-in-use calculations*

The Group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of a CGU is determine based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period.

Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. These growth rates are consistent with forecasts included in industry reports specific to the industry in which the CGU operates.

The following table sets out the key assumptions for those CGUs that have significant goodwill allocated to them.

| | 2018 CGU | 2017 CGU |
|---|---|---|
| Sales growth (% annual growth rate) | 5.0 | 5.0 |
| Budgeted gross margin (%) | 18.0 | 15.0 |
| Other operating costs ($'000) | 15,108 | 11,783 |
| Annual capital expenditure ($'000) | 100 | - |
| Long term growth rate (%) | 2.5 | 2.5 |
| Pre-tax discount rate (%) | 13.0 | 13.0 |

Management has determined the values assigned to each of the above key assumptions as follows:

| Assumption | Approach used to determining values |
|---|---|
| Sales growth | Average annual growth rate over the five-year forecast based on past performance and management's expectations of market development. |
| Budgeted gross margin | Based on past performance and management's expectations for the future. |
| Other operating costs | Fixed costs of the CGUs, which do not vary significantly with sales growth. Management forecasts these costs based on the current structure of the business, adjusting for inflationary increases but not reflecting any future restructurings or cost saving measures. |
| Annual capital expenditure | There is generally limited need for additions or capital improvements therefore no capital expenditure assumed in the five-year forecast. |
| Long-term growth rate | This is the weighted average growth rate used to extrapolate cash flows beyond the budgeted period. |
| Pre-tax discount rate | Reflect specific risks relating to the relevant segments |

**Note 9. Intangible assets and goodwill (continued)**

c) *Sensitivity to change in assumptions*
The Directors and management have considered and assessed reasonable possible changes to key assumptions that result in a change to the recoverable amount for each CGU. With regards to the assessment, management recognises that the actual time value of money and the discount rate used may vary from the estimated. Management note that there is sufficient margin in estimates that no significant changes to key assumptions will result in an impairment, based on expected cash flows of the CGU.

d) *Useful life of intangible asset*
Intangible assets are stated at their historical cost and amortised on a straight-line basis over their expected useful lives being 5 years.
The fair value determination of customer contracts and related relationships is derived from expected retention rates and cash flow over the customers' remaining estimated lifetime.

## Note 10. Current liabilities - trade and other payables and provisions

| | Consolidated | |
|---|---|---|
| | **2018** | **2017** |
| | **$** | **$** |
| **Trade and other payables:** | | |
| Trade payables | 15,394,753 | 19,470,402 |
| Accruals & customer deposits | 730,438 | 601,958 |
| Deferred revenue | - | - |
| Other payables | 1,752,625 | 1,070,822 |
| | **17,877,816** | **21,143,182** |
| **Provisions** | | |
| Annual leave | 615,966 | 317,989 |
| Lease incentive | 1,980 | 37,620 |
| Provision for onerous lease | 38,544 | (14,304) |
| | **656,490** | **341,305** |

Refer to note 20 for further information on financial risk management.

## Note 11. Non-current liabilities – other payables and provisions

| | Consolidated | |
|---|---|---|
| | **2018** | **2017** |
| | **$** | **$** |
| Lease incentive | 23,760 | - |
| Long service leave | 233,730 | 172,108 |
| | **257,490** | **172,108** |

## Note 12. Borrowings

| | Consolidated | |
|---|---|---|
| | **2018** | **2017** |
| | **$** | **$** |
| Borrowings – current | 333,332 | **-** |
| Borrowings – non-current | 500,001 | |
| | **833,333** | **-** |

The Group entered into a separate unsecured Commercial Advance Facility with Bankwest specifically for Acquisition Funding. Interest is payable at BBSY plus a margin of 3.00% per annum. The loan is repayable over 3 years. As at 30 June 2018, $833,333 has been drawdown under the Commercial Advance Facility.

## Note 13. Equity - issued capital

*a) **Issued and paid up capital***

| | Consolidated | | | |
|---|---|---|---|---|
| | 2018 No. | 2017 No. | 2018 $ | 2017 $ |
| Share Capital | 861,502,650 | 795,771,629 | 15,296,584 | 12,645,690 |
| Capital Raising Costs | - | - | (1,520,976) | (93,279) |
| | **861,502,650** | **795,771,629** | **13,775,608** | **12,552,411** |

*Movement Reconciliation*

| | Consolidated | | | |
|---|---|---|---|---|
| | 2018 No. | 2017 No. | 2018 $ | 2017 $ |
| Balance at the beginning of the year | 795,771,629 | 626,426,485 | 12,552,411 | 10,145,690 |
| Issue of shares | 43,761,400 | 119,345,144 | 787,705 | 2,500,000 |
| Issue of deferred consideration shares | 21,969,621 | 50,000,000 | 500,000 | - |
| Less: Capital raising costs | - | - | (64,508) | (93,279) |
| **Balance at the end of the year** | **861,502,650** | **795,771,629** | **13,775,608** | **12,552,411** |

### b) Options on issue

The Company had the following classes of options on issue as at the reporting date:

| Class | Number | | Exercise Price | Expiry Date | Vesting |
|---|---|---|---|---|---|
| | 2018 | 2017 | | | |
| 1 | - | 4,500,000 | $0.30 | 31-12-17 | 5 day VWAP 30 cents |
| 2 | 6,500,000 | 6,500,000 | $0.180 | 31-12-18 | Vested |
| 3 | 7,000,000 | 7,000,000 | $0.080 | 31-12-19 | Vested |
| 4 | 13,750,000 | 13,750,000 | $0.060 | 31-05-19 | Vested |
| 5 | 10,025,000 | 12,500,000 | $0.035 | 13-11-20 | Vested |
| 6 | 10,025,000 | 12,500,000 | $0.045 | 13-11-20 | Vests 13-11-18 |
| 7 | 5,912,500 | 9,087,500 | $0.035 | 30-06-21 | Vested |
| 8 | 5,912,500 | 9,087,500 | $0.045 | 30-06-21 | Vests 05-07-19 |
| 9 | 5,000,000 | 5,000,000 | $0.045 | 5 years from vesting date | When EBIT > $2M |
| 10 | 5,000,000 | 5,000,000 | $0.060 | 5 years from vesting date | When EBIT > $4M |
| 11 | 5,000,000 | 5,000,000 | $0.045 | 18-04-23 | Vested |
| 12 | 5,000,000 | 5,000,000 | $0.060 | 18-10-24 | Vests 18-09-19 |
| 13 | 3,000,000 | 3,000,000 | $0.035 | 30-06-22 | Vested |
| 14 | 3,000,000 | 3,000,000 | $0.045 | 30-06-22 | Vested |
| 15 | 2,062,500 | - | $0.035 | 30-06-22 | Vests 09-12-18 |
| 16 | 2,062,500 | - | $0.045 | 30-06-22 | Vests 09-07-20 |
| 17 | 7,500,000 | - | $0.045 | 11-10-23 | Vests 11-10-20 |
| 18 | 7,500,000 | - | $0.060 | 11-10-23 | Vests 11-10-22 |
| 19 | 4,250,000 | - | $0.035 | 22-11-21 | Vested |
| 20 | 4,250,000 | - | $0.045 | 22-11-21 | Vested |
| **Total** | **112,750,000** | **100,925,000** | | | |

### Note 13. Equity – issued capital (continued)

Movements in the number of options on issue during the current and prior financial years are as follows:

| | No. |
|---|---|
| **Balance as at 1 July 2016** | **71,500,000** |
| Options issued during the year – employees | 18,175,000 |
| Options issued during the year – advisory shares | 6,000,000 |
| Options issued during the year – Matthew Sullivan | 20,000,000 |
| Options cancelled/expired during the year | (14,750,000) |
| **Balance as at 30 June 2017** | **100,925,000** |
| | |
| Options issued during the year – employees | 24,250,000 |
| Options issued during the year – directors | 7,500,000 |
| Options cancelled/expired during the year | (19,925,000) |
| **Balance as at 30 June 2018** | **112,750,000** |

## Note 14. Equity - reserves

a) **Reserves**

| | | Consolidated | |
|---|---|---|---|
| | | **2018** | **2017** |
| | | **$** | **$** |
| Equity Settled Employee Benefits Reserve | (i) | 734,455 | 508,409 |
| | | **734,455** | **508,409** |

### b) Share based payment plans

The following share-based payment arrangements were in place during the current and prior periods:

**Note 14. Equity - reserves (continued)**

**2018**

| Number of Options | Grant Date | Expiry Date | Exercise Price | Share Price at Grant Date | Fair Value at Grant Date | % Vested | Vesting Date |
|---|---|---|---|---|---|---|---|
| 6,500,000 | 25-11-13 | 31-12-18 | $0.1800 | $0.0300 | $117,000 | 100% | 25-11-13 |
| 7,000,000 | 02-12-14 | 31-12-19 | $0.0800 | $0.0200 | $162,400 | 100% | 02-12-14 |
| 13,750,000 | 02-07-15 | 31-05-19 | $0.0600 | $0.0170 | $123,750 | 100% | 02-07-15 |
| 10,025,000 | 20-11-15 | 13-11-20 | $0.0350 | $0.0300 | $190,498 | 100% | 13-05-17 |
| 10,025,000 | 20-11-15 | 13-11-20 | $0.0450 | $0.0300 | $176,490 | 0% | 13-11-18 |
| 5,912,500 | 05-07-16 | 30-06-21 | $0.0350 | $0.0280 | $72,686 | 100% | 05-12-17 |
| 5,912,500 | 05-07-16 | 30-06-21 | $0.0450 | $0.0280 | $61,911 | 0% | 05-07-19 |
| 5,000,000 | 18-10-16 | 5 years from vesting date | $0.0450 | $0.0280 | $50,681 | 0% | When EBIT > $2M |
| 5,000,000 | 18-10-16 | 5 years from vesting date | $0.0600 | $0.0280 | $48,766 | 0% | When EBIT > $4M |
| 5,000,000 | 18-10-16 | 18-04-23 | $0.0450 | $0.0280 | $50,681 | 100% | 18-03-18 |
| 5,000,000 | 18-10-16 | 18-10-24 | $0.0600 | $0.0280 | $48,766 | 0% | 18-09-19 |
| 3,000,000 | 13-06-17 | 30-06-22 | $0.0350 | $0.0170 | $13,500 | 100% | 13-06-17 |
| 3,000,000 | 13-06-17 | 30-06-22 | $0.0450 | $0.0170 | $10,507 | 100% | 13-06-17 |
| 2,062,500 | 09-07-17 | 30-06-22 | $0.0350 | $0.0170 | $24,956 | 0% | 09-12-18 |
| 2,062,500 | 09-07-17 | 30-06-22 | $0.0450 | $0.0170 | $23,756 | 0% | 09-07-20 |
| 7,500,000 | 11-10-17 | 11-10-21 | $0.0450 | $0.0230 | $76,530 | 0% | 11-10-20 |
| 7,500,000 | 11-10-17 | 11-10-23 | $0.0600 | $0.0230 | $89,822 | 0% | 11-10-23 |
| 4,250,000 | 23-11-17 | 22-11-21 | $0.0350 | $0.0170 | $41,650 | 100% | 23-11-17 |
| 4,250,000 | 23-11-17 | 22-11-21 | $0.0450 | $0.0170 | $38,675 | 100% | 23-11-17 |

**2017**

| Number of Options | Grant Date | Expiry Date | Exercise Price | Share Price at Grant Date | Fair Value at Grant Date | % Vested | Vesting Date |
|---|---|---|---|---|---|---|---|
| 4,500,000 | 16-11-12 | 31-12-17 | $0.3000 | $0.0590 | $24,300 | Vesting on a 5 day VWAP of 30c | |
| 6,500,000 | 25-11-13 | 31-12-18 | $0.1800 | $0.0300 | $117,000 | 100% | 25-11-13 |
| 7,000,000 | 02-12-14 | 31-12-19 | $0.0800 | $0.0200 | $162,400 | 100% | 02-12-14 |
| 13,750,000 | 02-07-15 | 31-05-19 | $0.0600 | $0.0170 | $123,750 | 100% | 02-07-15 |
| 12,500,000 | 20-11-15 | 13-11-20 | $0.0350 | $0.0300 | $237,528 | 100% | 13-05-17 |
| 12,500,000 | 20-11-15 | 13-11-20 | $0.0450 | $0.0300 | $220,062 | 0% | 13-11-18 |
| 9,087,500 | 05-07-16 | 30-06-21 | $0.0350 | $0.0280 | $111,719 | 0% | 05-12-17 |
| 9,087,500 | 05-07-16 | 30-06-21 | $0.0450 | $0.0280 | $95,156 | 0% | 05-07-19 |
| 5,000,000 | 18-10-16 | 5 years from vesting date | $0.0450 | $0.0280 | $50,681 | 0% | When EBIT > $2M |
| 5,000,000 | 18-10-16 | 5 years from vesting date | $0.0600 | $0.0280 | $48,766 | 0% | When EBIT > $4M |
| 5,000,000 | 18-10-16 | 18-04-23 | $0.0450 | $0.0280 | $50,681 | 0% | 18-03-18 |
| 5,000,000 | 18-10-16 | 18-10-24 | $0.0600 | $0.0280 | $48,766 | 0% | 18-09-19 |
| 3,000,000 | 13-06-17 | 30-06-22 | $0.0350 | $0.0170 | $13,500 | 100% | 13-06-17 |
| 3,000,000 | 13-06-17 | 30-06-22 | $0.0450 | $0.0170 | $10,507 | 100% | 13-06-17 |

**Note 14. Equity - reserves (continued)**

The following table illustrates the number and weighted average exercise prices of and movements in share options issued during the year.

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Number | Weighted average exercise price $ | Number | Weighted average exercise price $ |
| Outstanding at the beginning of year | 100,925,000 | 0.07 | 71,500,000 | 0.08 |
| Granted during the year | 31,750,000 | 0.05 | 46,125,000 | 0.05 |
| Forfeited during the year | (15,425,000) | 0.04 | (15,700,000) | 0.04 |
| Exercised during the year | - | - | - | - |
| Expired during the year | (4,500,000) | 0.30 | (1,000,000) | 0.30 |
| Outstanding at the end of year | 112,750,000 | 0.06 | 100,925,000 | 0.07 |
| Exercisable at the end of the year | 62,687,500 | 0.03 | 41,583,333 | 0.03 |

The options outstanding at 30 June 2018 had an exercise price in the range of $0.035 to $0.180.
The weighted average remaining contractual life of options outstanding (excluding EBIT based options) at the end of the year was 2.6 years.

**c) Expenses arising from share-based payment transactions**

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

| | 2018 $ | 2017 $ |
|---|---|---|
| Options issued under employee option plan | 226,046 | 230,927 |
| | **226,046** | **230,927** |

**d) Fair value of options granted**

The fair value of the equity-settled share options granted under the option plan is estimated as at the date of grant using the Black and Scholes model taking into account the terms and conditions upon which the options were granted.

For the options granted during the current financial period, the valuation model inputs used to determine the fair value at the grant date are as follows:

| | 2018 | |
|---|---|---|
| | **Tier 1** | **Tier 2** |
| Grant date | 9 Jul 2017 | 9 Jul 2017 |
| Expiry date | 30 Jun 2022 | 30 Jun 2022 |
| Share price at grant date | $0.017 | $0.017 |
| Exercise price | $0.035 | $0.045 |
| Expected volatility | 110.58% | 110.58% |
| Dividend yield | 0.00% | 0.00% |
| Risk free interest rate | 2.25% | 2.25% |
| Fair value at grant date | $0.0121 | $0.0115 |
| Number granted | 4,125,000 | 4,125,000 |
| Total fair value | $49,820 | $47,511 |

## Note 14. Equity - reserves (continued)

For each of the above tier's 2,062,500 were cancelled prior to 30 June.

| | 2018 | |
|---|---|---|
| | **Tier 1** | **Tier 2** |
| Grant date | 11 Oct 2017 | 11 Oct 2017 |
| Expiry date | 11 Oct 2021 | 11 Oct 2023 |
| Share price at grant date | $0.023 | $0.023 |
| Exercise price | $0.045 | $0.06 |
| Expected volatility | 78.95% | 110.58% |
| Dividend yield | 0.00% | 0.00% |
| Risk free interest rate | 2.37% | 2.37% |
| Fair value at grant date | $0.0102 | $0.012 |
| Number granted | 7,500,000 | 7,500,000 |
| Total fair value | $76,530 | $89,821 |

| | 2018 | |
|---|---|---|
| | **Tier 1** | **Tier 2** |
| Grant date | 23 Nov 2017 | 23 Nov 2017 |
| Expiry date | 22 Nov 2021 | 22 Nov 2021 |
| Share price at grant date | $0.017 | $0.017 |
| Exercise price | $0.035 | $0.045 |
| Expected volatility | 100.00% | 100.00% |
| Dividend yield | 0.00% | 0.00% |
| Risk free interest rate | 2.20% | 2.20% |
| Fair value at grant date | $0.0098 | $0.0091 |
| Number granted | 4,250,000 | 4,250,000 |
| Total fair value | $41,650 | $38,675 |

For the options granted during the 2017 financial year, the valuation model inputs used to determine the fair value at the grant date are as follows:

| | 2017 | |
|---|---|---|
| | **Tier 1** | **Tier 2** |
| Grant date | 5 July 2016 | 5 July 2016 |
| Expiry date | 30 June 2021 | 30 June 2021 |
| Share price at grant date | $0.028 | $0.028 |
| Exercise price | $0.035 | $0.045 |
| Expected volatility | 57.07% | 57.07% |
| Dividend yield | 0.00% | 0.00% |
| Risk free interest rate | 1.64% | 1.64% |
| Fair value at grant date | $0.0123 | $0.0052 |
| Number granted | 10,062,500 | 10,062,500 |
| Total fair value | $123,705 | $105,366 |

**Note 14. Equity - reserves (continued)**

| | 2017 | | | |
|---|---|---|---|---|
| | **Tier 1** | **Tier 2** | **Tier 3** | **Tier 4** |
| Grant date | 18 Oct 2016 | 18 Oct 2016 | 18 Oct 2016 | 18 Oct 2016 |
| Expiry date | 5 years from vesting | 5 years from vesting | 18 Apr 2023 | 17 Oct 2024 |
| Share price at grant date | $0.028 | $0.028 | $0.028 | $0.028 |
| Exercise price | $0.045 | $0.060 | $0.045 | $0.060 |
| Expected volatility | 47.70% | 47.70% | 47.70% | 47.70% |
| Dividend yield | 0.00% | 0.00% | 0.00% | 0.00% |
| Risk free interest rate | 1.86% | 1.86% | 1.86% | 1.86% |
| Fair value at grant date | $0.0101 | $0.0098 | $0.0101 | $0.0098 |
| Number granted | 5,000,000 | 5,000,000 | 5,000,000 | 5,000,000 |
| Total fair value | $50,681 | $48,766 | $50,681 | $48,766 |

| | 2017 | |
|---|---|---|
| | **Tier 1** | **Tier 2** |
| Grant date | 13 June 2017 | 13 June 2017 |
| Expiry date | 30 June 2022 | 30 June 2022 |
| Share price at grant date | $0.017 | $0.017 |
| Exercise price | $0.035 | $0.045 |
| Expected volatility | 50.90% | 50.90% |
| Dividend yield | 0.00% | 0.00% |
| Risk free interest rate | 1.95% | 1.95% |
| Fair value at grant date | $0.0045 | $0.0035 |
| Number granted | 3,000,000 | 3,000,000 |
| Total fair value | $13,500 | $10,500 |

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

## Note 15. Equity - accumulated losses

| | Consolidated | |
|---|---|---|
| | **2018** | **2017** |
| | **$** | **$** |
| Accumulated losses at the beginning of the financial year | (7,336,020) | (7,736,596) |
| Profit after income tax benefit for the year | 2,831,291 | 400,576 |
| Accumulated losses at the end of the financial year | (4,504,729) | (7,336,020) |

## Note 16. Remuneration of Auditors

During the financial year the following fees were paid or payable for services provided by BDO Audit (WA) Pty Ltd, the auditor of the Company:

| | Consolidated 2018 $ | Consolidated 2017 $ |
|---|---|---|
| *Audit services - BDO Audit (WA) Pty Ltd* | | |
| Audit or review of the financial statements | 50,425 | 43,757 |
| *Other services - BDO Corporate Tax (WA) Pty Ltd* | | |
| Tax advice & return preparation | 66,781 | 64,560 |
| | **117,206** | **108,317** |

## Note 17. Income Tax

| ***(a) Income tax expense / (benefit)*** | Consolidated 2018 $ | Consolidated 2017 $ |
|---|---|---|
| Current tax | - | - |
| Deferred tax | (3,197,446) | - |
| Recoupment of prior year tax losses | - | - |

| | Consolidated 2018 $ | Consolidated 2017 $ |
|---|---|---|
| **(b) Reconciliation of income tax expense to prima facie tax payable** | | |
| (Loss) / profit for the period | (366,155) | 400,576 |
| Prima facie tax payable at 30% | (109,847) | (120,173) |
| *Add tax effect of:* | | |
| Non-deductible expenses | 80,803 | 92,694 |
| Non-assessable income | (107,013) | (355,836) |
| R&D tax incentives | - | - |
| Current year losses realised | 85,675 | - |
| Current year losses not realised | | 298,361 |
| Other deferred tax assets brought to account | 50,382 | - |
| Deferred tax asset on losses brought to account | (3,197,446) | (155,392) |
| **Income tax benefit / (expense)** | (3,197,446) | - |
| | | |
| **(c) Deferred tax liability** | | |
| Accrued revenue | 125,173 | 28,721 |
| Prepaid expenditure | 7,022 | - |
| Intangible | 487,524 | - |
| Other temporary differences | 5,596 | 4,291 |
| Offset of deferred tax assets | (625,315) | (33,012) |
| **Net deferred tax liability recognised** | - | - |

**Note 17. Income Taxes (continued)**

| | | |
|---|---|---|
| **(d) Deferred tax asset** | | |
| Tax losses bought to account | 2,756,185 | - |
| Property, plant and equipment | 2,369 | - |
| Expenses taken into equity | 90,472 | - |
| Other temporary differences | 486,211 | - |
| | 3,335,237 | - |
| Offset of deferred tax liabilities | (625,315) | (33,012) |
| Net deferred tax assets recognised | 2,709,922 | 33,012 |
| **Deferred tax asset on tax losses not brought to account** | 2,663,659 | 5,770,730 |

**(e) Tax losses carried forward**

As at 30 June 2018, the Company had $2,663,659 (2017: $5,770,730) of unrecognised deferred tax assets relating to unused tax losses. Net deferred tax assets of $2,709,922 have been recognised in the statement of financial position in respect of the amount of the loss bought to account to the extent that it is probable future taxable profits will be generated by the group.

## Note 18. Related party transactions

**a) Directors' transactions with the Company**

A number of Directors of the Company, or their Director-related entities, held positions in other entities during the financial year that result in them having control or significant influence over the financial or operating policies of those entities.

The terms and conditions of the transactions with Directors and their Director related entities were no more favourable to the Directors and their Director related entities than those available, or which might reasonably be expected to be available, on similar transactions to non-Director related entities on an arm's length basis. The aggregate amounts recognised during the year (excluding re-imbursement of expenses incurred on behalf of the Company) relating to Directors and their Director-related entities were as follows:

***Marketing Costs***

For the period ending 30 June 2018, $108,370 (2017: $120,309) of marketing fees and related costs were paid to Roobix Pty Ltd (of which Andrew Milner and Matthew Sullivan were Directors up to 30 April 2018). As at 30 June 2018, there is nil (2017: nil) in outstanding invoices payable to Roobix Pty Ltd.

**b) Key management personnel compensation**

| | **2018** | **2017** |
|---|---|---|
| | **$** | **$** |
| Short-term employee benefits | 460,205 | 700,202 |
| Post-employment benefits (superannuation) | 43,719 | 64,601 |
| Long-term benefits | - | - |
| Share-based payments | 143,428 | 75,064 |
| | **647,352** | **839,867** |

## Note 19. Business Combination

### Acquisition of Correct Communications Pty Ltd

On 23 November 2017, Cirrus Networks Holdings Limited completed the acquisition of 100% of the share capital of Correct Communications Pty Ltd for 3.92 times FY18 EBIT ("EBIT multiple") with a minimum purchase price of $2 million and a maximum of $5 million.

The purchase price comprises two tranches. The first tranche being $1.5 million paid in cash on completion and $500,000 in CNW shares issued on the 25th May 2018 at an issue price based on 5-day VWAP at the time of issue and escrowed for 2 years. On 25th May 2018, 21,969,621 shares were issued with an issue price of $0.0228.

The second tranche will depend on the EBIT multiple result being greater than $2 million and will be calculated after the release of the audited FY18 full year financial results.

Correct Communications Pty Ltd is a leading IT solutions provider specialising in Networking, Storage, Security and Unified Communications Infrastructure to Government and large enterprises in Canberra.

Details of the purchase consideration, the net assets acquired and good will are as follows:

| **Purchase consideration** | | **$** |
|---|---|---|
| Cash paid | | 1,500,000 |
| Ordinary Shares (Escrowed at 2 years) | | 500,000 |
| Contingent consideration (Cash Component) | 19 (iii) | 1,000,000 |
| Contingent consideration (Cash/Shares) | 19 (iii) | 2,000,000 |
| **Total purchase consideration** | | **5,000,000** |

The assets and liabilities recognised as a result of the acquisition are as follows:

| | **Fair value** **$** |
|---|---|
| Cash and cash equivalents | 413,947 |
| Trade & Other Receivables | 1,184,288 |
| Inventory | 28,007 |
| Property, plant and equipment | 121,653 |
| Intangible asset: Customer Relationships | 1,625,080 |
| Trade & Other Payables | (1,080,738) |
| Deferred Tax Liability | (487,524) |
| Provisions & Other Liabilities | (666,857) |
| Net identifiable assets acquired | 1,137,856 |
| Add: Goodwill | 3,862,144 |
| **Net assets acquired** | **5,000,000** |

**(i) Fair values measured on a provisional basis**
The fair values have only been provisionally determined as at period end and will be finalised within 12 months of the acquisition date in accordance with applicable accounting standards.

If new information obtained within one year of date of acquisition about facts and circumstances that existed at the date of acquisition identifies adjustments to the above amounts, or any additional provisions that existed at the date of acquisition, then the accounting for the acquisition will be revised.

**(ii) Goodwill**
The goodwill is attributable mainly to the synergies expected to be achieved from integrating the company into the Group's existing business. None of the goodwill recognised is expected to be deductible for tax purposes.

**Note 19. Business combinations (continued)**

**(iii) Significant estimate: Contingent consideration**
In the event that the EBIT multiple which will be calculated after the release of the audited FY18 full year financial results, is greater than $2 million, additional consideration will be payable.

The potential undiscounted amount payable relating to the tranche two payment is $1 million in cash with the balance in cash or CNW shares up to a maximum tranche two payment of $3 million. Should shares be issued as part of tranche two these shares would be priced based on 5 day VWAP at the time of issue and escrowed for 2 years.

The fair value of the contingent consideration relating to the balance of the tranche two payment was estimated based on the forecasted EBIT multiplied by 3.92, less $1 million cash paid.

**(iv) Deferred Tax Liability**
Deferred tax liability recognised on intangible asset resulted in an income tax credit of $487,524 for the Group.

**(v) Revenue and profit contribution**
The acquired business contributed revenues of $14,123,757 and net contribution of $1,176,790 to the Group for the period from 23 November 2017 to 30 June 2018.

**Acquisition of NGage Technology Group Pty Ltd**
There has been no change in the fair value of the assets of NGage Technology Group Pty Ltd since the acquisition date.

## Note 20. Financial Risk Management

***Financial risk management objectives***
The Consolidated Entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Consolidated Entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the Group through regular reviews of the risks.

***Market risk***
Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

*Foreign currency risk*
The Consolidated Entity undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations. This risk is considered low for the Group.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

*Price risk*
The Consolidated Entity is not exposed to any significant price risk.

*Interest rate risk*
The Consolidated Entity's does not have any borrowings and therefore is not exposed to interest rate risk.

**Note 20. Financial Risk Management (continued)**

***Credit risk***
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

The Group limits its exposure to credit risk from trade receivables through regular review. At the reporting date there were no significant concentrations of credit risk.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

| | Consolidated | |
|---|---|---|
| | 2018 $ | 2017 $ |
| **Trade receivables** | | |
| Counterparties without external credit ratings * | | |
| Group 1 | 1,586,774 | 4,507,666 |
| Group 2 | 12,504,439 | 14,068,759 |
| Group 3 | - | - |
| Total trade receivables | 14,091,213 | 18,576,425 |

** Group 1 – new customers (less than 6 months)*
*Group 2 – existing customers (more than 6 months) with no defaults in the past*
*Group 3 – existing customers (more than 6 months) with some defaults in the past. All defaults were fully recovered.*

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

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

If the Directors anticipate a need to raise additional capital in the next 12 months to meet forecasted operational activities, then the decision on how the Group will raise future capital will depend on market conditions existing at that time.

***Financing Facilities Available***
The Group maintains a Multi Option Facility with Bankwest which forms part of the cash management for general business purposes. This Bankwest Multi Option Facility includes the following facilities drawn at the companies discretion across any or all of the facilities and totalling $1,000,000. The facility options are:
- Commercial Advance Facility with interest payable at the rate of BBSY plus a Margin of 2.20% per annum;
- Bank Guarantee Contingent Instrument Facility and
- Business Corporate Transaction Account Facility with interest payable at the rate of the variable Bankwest Business Variable Overdraft Reference Rate.

The Group also entered into a separate unsecured Commercial Advance Facility with Bankwest specifically for Acquisition Funding. Interest is payable at BBSY plus a margin of 3.00% per annum. The loan is repayable over 3 years. As at 30 June 2018, $833,333 has been drawdown under the Commercial Advance Facility

## Note 21. Cash Flow Information

***a) Reconciliation of Cash and Cash Equivalents***

| | Consolidated | |
|---|---|---|
| | 2018 $ | 2017 $ |
| Cash at bank | **5,263,581** | **3,947,553** |

**Note 21. Cash Flow Information (continued)**

***b) Reconciliation of the net profit after income tax to the net cash flows used in operations***

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Profit for the year | 2,831,291 | 400,576 |
| Cash flows excluded from profit attributable to operating activities | | |
| *Non-cash flows in profit:* | | |
| - depreciation and amortisation | 466,215 | 130,164 |
| - employee remuneration (options) | 226,046 | 230,927 |
| - cost of listing | - | - |
| *Changes in assets and liabilities (net effect):* | | |
| - (increase)/decrease in trade and other receivables | 4,043,486 | (14,368,021) |
| - (increase)/decrease in other assets | 298,813 | (746,902) |
| - increase/(decrease) in trade and other payables | (4,148,413) | 14,160,379 |
| - increase/(decrease) in deferred taxes | (2,709,922) | - |
| - increase/(decrease) in employee benefits | 297,977 | 142,461 |
| **Cash inflow/(outflow) from operations** | 1,305,493 | (50,416) |

***c) Non-cash investing and financing activities***

| | |
|---|---|
| **2018:** Issue of 21,969,621 deferred consideration shares in Cirrus Networks Holdings for acquisition of Correct Communications Pty Ltd – refer to note 19. | $500,000 |
| **2017:** Issue of 44,345,144 shares in Cirrus Networks Holdings Ltd on acquisition of NGage Technology Group Pty Ltd – refer to note 19. | $1,000,000 |

## Note 22. Events after the reporting period

Change in Non Executive Director
On 23 July 2018, Mr Patrick Glovac announced his resignation as Non Executive Director. Mr Paul Everingham was appointed Non Executive Director on 23 July 2018.

Subsequent to year end, 975,000 options have been cancelled.

Other than the matters discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

## Note 23. Earnings per share

| | Consolidated 2018 | 2017 |
|---|---|---|
| Profit attributable to the owners of Cirrus Networks Holdings Ltd | $2,831,291 | $400,576 |
| Weighted average number of ordinary shares | 825,153,515 | 693,518,766 |
| Earnings per share – cents | 0.3431 | 0.06 |
| Diluted earnings per share – cents | 0.3431 | 0.06 |

The number of options on issue at 30 June 2018 is 112,750,000 (2017: 100,425,000). These are not considered dilutive as the average market price of the ordinary shares exceeds the exercise price of the options.

## Note 24. Parent Entity Disclosures

***a) Financial Position***

| | 2018 $ | 2017 $ |
|---|---|---|
| **Assets** | | |
| Current Assets | 2,792,232 | 3,802,044 |
| Non-Current Assets | 11,183,346 | 2,156,191 |
| **Total Assets** | 13,975,578 | 5,958,235 |
| **Liabilities** | | |
| Current Liabilities | 3,333,310 | - |
| Non-Current Liabilities | 637,791 | 2,156,191 |
| **Total Liabilities** | 3,971,101 | 2,156,191 |
| **Equity** | | |
| Issued Capital | 13,558,308 | 12,335,126 |
| Accumulated Losses | (4,288,286) | (6,885,300) |
| Option Premium Reserve | - | - |
| Equity Settled Employee Benefits Reserve | 734,455 | 508,409 |
| **Total Equity** | 10,004,477 | 5,958,235 |

***b) Statement of Profit or Loss and other Comprehensive Income***

| | 2018 $ | 2017 $ |
|---|---|---|
| **Profit/(Loss) for the Year** | | |
| Profit/(Loss) for the Year | 2,597,014 | (1,224,525) |
| Other Comprehensive Income | - | - |
| **Total Comprehensive Income/(Loss)** | 2,597,014 | (1,224,525) |

***c) Contingent Liabilities of the Parent Company***
The Group has no known contingent liabilities or contingent assets.

***d) Guarantees***
The Group has not entered into any guarantees, in the current or previous financial years, in relation to the debts of its subsidiaries.

**Note 24. Parent Entity Disclosures (continued)**

***e) Contractual Commitments***

At 30 June 2018, the Group had not entered into any contractual commitments for the acquisition of property, plant or equipment.

## Note 25. Segment Information

The Company has identified its operating segments based on the internal reports that are reviewed and used by the board of directors in assessing performance and determining the allocation of resources. The reportable segment is represented by the primary statements forming this financial report.

At the end of the reporting period, the Group was operating primarily in one segment, as an information technology business in Australia.

## Note 26. Commitments

***Operating lease commitments***

The Group leases four office premises which are all non-cancellable leases.

One lease has a five-year term, with rent payable monthly in advance. Contingent rental provisions within this lease agreement require that the minimum lease payments shall be increased by CPI + 1% per annum. An option exists to renew the lease at the end of the five-year term and the lease allows for subletting of all lease areas pending the lessor's consent.

One lease has a term of 3 years and 2 months, with rent payable monthly in advance. Contingent rental provisions within this lease agreement require that the minimum lease payments shall be increased by 4% per annum.

The other two leases have a two-year term, with rent payable on the first day of each month. Contingent rental provisions within these lease agreements require that the minimum lease payments shall be increased by 3% per annum. One of these leases also contains a 1-year option to renew the lease at the end of the two-year term.

| | **2018** | **2017** |
|---|---|---|
| | **$** | **$** |
| *Minimum lease payments under non-cancellable operating leases:* | | |
| Within one year | 335,696 | 299,440 |
| After one year but not more than five years | 313,948 | 448,668 |
| More than five years | - | - |
| | 649,644 | 748,108 |

## Note 27. Contingent liabilities and assets

The group has no known contingent liabilities or contingent assets.

# Directors' Declaration
**30 June 2018**

The Directors of the Company declare that:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

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

On behalf of the Directors

Matthew Sullivan
Managing Director

27 August 2018
Subiaco

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# INDEPENDENT AUDITOR'S REPORT

To the members of Cirrus Networks Holdings Limited

## Report on the Audit of the Financial Report

### Opinion

We have audited the financial report of Cirrus Networks Holdings Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, 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:

(i) Giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and

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

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

### Key audit matters

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

## Business Acquisition

| Key audit matter | How the matter was addressed in our report |
|---|---|
| During the financial year ended 30 June 2018 the Group made a business acquisition of Correct Communications Pty Ltd ("Correct Communications") as disclosed in Note 19. The company also finalised the accounting of the prior year business acquisition for Ngage Technology Group Pty Ltd ("Ngage").<br><br>The accounting for these acquisition's is a key audit matter due to the significant judgment and complexity involved in assessing the determination of the fair value of assets and liabilities acquired and the final purchase price. | Our procedures included, but are not limited to:<br><br>• Reading the purchase and sale agreement to understand the terms and conditions of the acquisition and evaluating management's application of the relevant accounting standards;<br>• Challenging the methodology and assumptions utilised to identify and determine the fair value of the assets and liabilities acquired;<br>• Assessing managements determination of total consideration by agreeing amounts to underlying data including contracts and settlement statements; and<br>• Assessing the adequacy of the Group's disclosures of the acquisition. |

## Impairment testing of intangible assets

| Key audit matter | How the matter was addressed in our report |
|---|---|
| Note 9 to the financial report discloses the individual intangible assets and the assumptions used by the Group in testing these assets for impairment.<br><br>This was determined to be a key audit matter as management's assessment of the recoverability of the intangible assets is supported by a value in use cash flow forecast which requires estimates and judgements about future performance.<br><br>These include judgements and estimates over the expectation of future revenues, anticipated EBITDA (which includes assessment as to the costs incurred), growth rates expected and the discount rate applied. | Our procedures included, but are not limited to the following:<br><br>• Evaluating the Group's categorisation of cash generating units ("CGUs") and the allocation of goodwill to the carrying value of CGUs based on our understanding of the Group's business.<br>• Evaluating management's ability to accurately forecast cash flows by assessing the precision of the current year actuals against forecasted outcomes;<br>• Challenging key inputs used in the value in use calculations including the following:<br>o assessing the discount rate used by involving internal valuation experts and comparing them to market data and industry research;<br>o Comparing growth rates with 3rd party data for the information technology industry<br>o Comparing the Group's forecast cash flows to the board approved budget; and<br>o Performing sensitivity analysis on the growth and discount rates.<br><br>Evaluating the adequacy of the related disclosures in the financial report. |

## Recognition and measurement of Deferred Tax Asset

| Key audit matter | How the matter was addressed in our report |
|---|---|
| Refer to Note 17 in the financial report.<br><br>The Group recognised a deferred tax asset which arises from tax losses carried forward. Australian Accounting Standards require deferred tax assets to be recognised only to the extent that it is probable that sufficient future taxable profits will be generated in order for the benefits of the deferred tax assets to be realised. These benefits are realised by reducing tax payable on future taxable profits.<br><br>The recognition and measurement of these deferred tax assets is a key audit matter given the quantum of accumulated losses, the judgement in assessing availability of tax losses being recognised by the Group from recent business acquisitions and the judgement in assessing whether there will be enough future taxable profits to utilise the existing tax losses. | Our procedures included, but were not limited to the following:<br><br>• Using our internal tax specialists to evaluate the availability of these losses given the change in control as a result of recent acquisitions;<br><br>• Reviewing management's key assumptions in the cash flow budget and forecasts and assessing whether deferred tax assets had been appropriately recognised to the extent it is probable that taxable profit will be available before the unused tax losses expire; and<br><br>• Assessing the appropriateness of the Group's disclosures in respect of the recognition and measurement of deferred tax assets (refer Note 17) |

## Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and the auditor's report thereon.

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

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

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

## Responsibilities of the directors for the Financial Report

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

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

Auditor's responsibilities for the audit of the Financial Report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (http://www.auasb.gov.au/Home.aspx) at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our auditor's report.

## Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 16 of the directors' report for the year ended 30 June 2018.

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

Responsibilities

The directors of the Group 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.

BDO Audit (WA) Pty Ltd

BDO

Dean Just

Director

Perth, 27 August 2018

## Corporate Governance

This statement reports on the Company's key governance framework, principles and practices as at 27 August 2018. These principles and practices are reviewed regularly and revised as appropriate to reflect changes in law and best practice in corporate governance.

### ASX principles of good corporate governance

The Company, as a listed entity, must comply with the Corporations Act 2001 (Cth) ("Corporations Act"), the Australian Securities Exchange Limited ("ASX") Listing Rules ("ASX Listing Rules") and other Australian laws.

To the extent applicable, the Company has adopted the 3rd edition of The Corporate Governance Principles and Recommendations ("Recommendations") as published by the ASX Corporate Governance Council.

ASX Listing Rule 4.10.3 requires ASX listed companies to report on the extent to which they have followed the Recommendations and require the Board to consider carefully the development and adoption of appropriate corporate governance policies and practices founded on the same.

### Access to information on the website

Further information about the Company's corporate governance practices is set out on the Company's website at www.cirrusnetworks.com.au. In accordance with the Recommendations, information published on the Company's website includes charters (for the Board and its Committees), the Company's code of conduct and other policies and procedures relating to the Board and its responsibilities.

### Compliance with ASX principles of good corporate governance

Commensurate with the spirit of the Recommendations, the Company has followed each recommendation where the Board has considered it to be an appropriate benchmark for corporate governance practices, taking into account factors such as the size of the Company and the Board, resources available and the activities of the Company. Where, after due consideration, the Company's corporate governance practices depart from the Recommendations, the Board has offered full disclosure of the nature of, and reason for, the adoption of its own practice.

### 1. The Board of Directors

#### a) Board composition and expertise

The Board has an expansive range of relevant industry experience, financial and other skills and expertise to meet its objectives.

Election of Board members is substantially the province of the Shareholders in general meetings, with the Company being committed to the following principles:

- The Board is to comprise persons with a blend of skills, experience and attributes appropriate for the Company and its business; and
- The principal criterion for the appointment of new Directors is their ability to add value to the Company and its business.

No formal nomination committee or procedures have been adopted for the identification, appointment and review of the Board's membership, but an informal assessment process, facilitated in consultation with the Company's professional advisors, has been committed to by the Board.

The Board at the end of the Reporting Period comprised of one Managing Director, one Non-Executive Chairman and two other Non-Executive Directors.

Details on each of the director's backgrounds including experience, knowledge and skills and their status as an independent or non-independent director are set out in the directors' report.

### b) Board role and responsibilities

The roles and responsibilities of the Board are formalised in the Board Charter. The Board Charter defines in detail the matters that are reserved for the Board and its committees, and those that the Board has delegated to management. The central role of the Board is to oversee and approve the company's strategic direction, to select and appoint a Managing Director ("MD"), to oversee the Company's management and business activities and report to Shareholders.

The goals of the corporate governance processes are to:

- Maintain and increase Shareholder value;
- Ensure a prudential and ethical basis for the Company's conduct and activities; and
- Ensure compliance with the Company's legal and regulatory objectives.

Consistent with these goals, the Board assumes the following responsibilities:

- Developing initiatives for profit and asset growth;
- Reviewing the corporate, commercial and financial performance of the Company on a regular basis;
- Acting on behalf of, and being accountable to, the Shareholders; and
- Identifying business risks and implementing actions to manage those risks and corporate systems to assure quality.

The Company is committed to the circulation of relevant materials to Directors in a timely manner to facilitate Directors' participation in the Board's discussions on a fully-informed basis.

The Board also recognises its responsibilities to the Company's personnel, the communities and environments within which the Company operates and, where relevant, other stakeholders.

Responsibility for management of the Company's business activities is delegated to the Managing Director who is accountable to the Board.

### c) Chairman

The Chairman is responsible for leadership of the Board, for the efficient organisation and conduct of the Board's function and for the promotion of relations between Board members and between Board and management that are open, cordial and conducive to productive co-operation.

Mr Andrew Milner was appointed Non-Executive Chairman of the Company on 2 July 2015.

### d) Director independence

The Board has approved a policy on independence of Directors, a copy of which is available in the corporate governance section of the Company's website.

The policy provides that the independence of a Director will be assessed by determining whether the Director is independent of management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement.

The test of whether a relationship or business is material is based on the nature of the relationship or business and on the circumstances and activities of the director. Materiality is considered from the perspective of the Company, the persons or organisations with which the Director has an affiliation and from the perspective of the Director. Materiality thresholds are considered by the Board from time to time. The Board considers that:

A supplier is material if the Company accounts for more than 5% of the supplier's consolidated gross revenue;

- A substantial shareholder of the Company is someone who holds greater than 5% of the voting capital of the Company; and
- Service on the Board for a period exceeding 10 years is a period which could, or could reasonably be perceived to, materially interfere with a director's ability to act in the best interests of the Company.

In the event that one or more of these thresholds is exceeded, the Board then focuses on whether or not in their view that impacts materially on the independent judgement of the Director.

On appointment, each Director is required to provide information for the Chairman to assess and confirm their independence as part of their consent to act as a Director.

The Chairman has considered the associations of each of the Non-Executive Directors in office at the date and considers that all Non-Executive Directors are considered independent.

**e) Directors' retirement and re-election**

The Company's Constitution states that at each annual general meeting ("AGM") one of its Directors (excluding the Managing Director and any director appointed to fill a casual vacancy) and any director who has held office for three or more years since their last election must retire. At least one non-executive Director must stand for election at each AGM.

Any Director appointed to fill a casual vacancy since the date of the previous AGM must submit themselves to shareholders for election at the next AGM. Directors who retire as required may offer themselves for re-election by shareholders at the next AGM. Re-appointment of Directors retiring by rotation or filling a casual vacancy is not automatic.

**f) Board succession planning**

The Board in conjunction with the Remuneration and Nominations Committee reviews the size and composition of the Board and the mix of existing and desired competencies across members from time to time. Criteria considered by the Directors when evaluating prospective candidates are contained in the Board's Charter.

**g) Board performance evaluation**

The Board undertakes ongoing self-assessment and review of performance of the Board, committees and individual Directors annually. The Chairman of the Board is responsible for determining the process for evaluating Board performance. The Chairman's performance is reviewed each year by the other members of the Board.

**h) Nominations and appointment of new directors**

Recommendations for nomination of new Directors are considered by the Remuneration and Nominations Committee and approved by the Board as a whole.

The Remuneration and Nominations Committee reviews director appointments having regard to the candidate's commercial experience, skills and other qualities. External consultants may be used from time to time to access a wide base of potential Directors. Further information on the Remuneration and Nominations Committee is set out below.

### i) Professional advice

Subject to the Chairman's approval (not to be unreasonably withheld), the Directors, at the Company's expense, may obtain independent professional advice on issues arising in the course of their duties.

### j) Conflicts of interest

Directors are required to disclose any actual or potential conflict or material personal interests on appointment as a Director and are required to keep these disclosures up to date.

In the event that there is, or may be, a conflict between the personal or other interests of a Director, then the Director with an actual or potential conflict of interest in relation to a matter before the Board does not receive the Board papers relating to that matter. When the matter comes before the Board for discussion, the Director withdraws from the meeting for the period the matter is considered and takes no part in the discussion or decision making process.

### k) Terms of appointment, induction training and continuing education

All new Directors are provided with a formal letter of appointment setting out the key terms and conditions of the appointment, including duties, rights and responsibilities, the time commitment envisaged and the Board's expectations regarding their involvement with committee work. An induction folder is provided to all new Directors. It includes a copy of the Constitution, board and committee charters and key Company policies.

All Directors are expected to maintain the skills required to discharge their obligations to the Company. Directors are encouraged to undertake continuing professional education and where this involves industry seminars and approved education courses, this is paid for by the Company where appropriate. A Directors' Skills Matrix is contained in the Directors' Report.

### l) Directors' remuneration

Details of remuneration paid to Directors (Chairman and non-executive) are set out in the remuneration report. The remuneration of an executive Director will be decided by the Board, without the affected executive Director participating in that decision-making process.

The total maximum remuneration of non-executive Directors is initially set by the Constitution and subsequent variation is by ordinary resolution of Shareholders in general meeting in accordance with the Constitution, the Corporations Act and the ASX Listing Rules, as applicable. The determination of non-executive Directors' remuneration within that maximum will be made by the Board having regard to the inputs and value to the Company of the respective contributions by each non-executive Director. The current amount has been set at an amount not to exceed $250,000 per annum.

In addition, a Director may be paid fees or other amounts (i.e. subject to any necessary Shareholder approval, non-cash performance incentives such as options) as the Directors determine where a Director performs special duties or otherwise performs services outside the scope of the ordinary duties of a Director.

Directors are also entitled to be paid reasonable travelling, accommodation and other expenses incurred by them respectively in or about the performance of their duties as Directors.

The Board will review and approve the remuneration policy to enable the Company to attract and retain executives and Directors who will create value for Shareholders having consideration to the amount considered to be commensurate for a company of its size and level of activity as well as the relevant Directors' time, commitment and responsibility. The Board is also responsible for reviewing any employee incentive and equity-based plans including the appropriateness of performance hurdles and total payments proposed.

Further information on the Remuneration Committee is set out below.

### m) Board meetings

The Chairman sets the agenda for each meeting in conjunction with the executive management and the Company Secretary. Any Director may request additional matters be added to the agenda. Members of senior management attend meetings of the Board by invitation and sessions are also held for non-executive Directors to meet without management present.

Copies of Board papers are circulated in advance of the meetings in either electronic or hard copy form. Directors are entitled to request additional information where they consider the information is necessary to support informed decision making.

The Board works to an agenda encompassing periodic reviews of the Company's operating business units, recurring statutory obligations, business approvals, strategy and other responsibilities identified in the Board Charter.

### n) Company Secretary

Responsibilities for the secretarial function include providing advice to directors and executives on corporate governance and regulatory matters, developing the Company' corporate governance framework and giving effect to the Board's decisions. All directors have access to advice from the Company Secretary.

The Company Secretary is Catherine Anderson. Ms Anderson is a legal practitioner admitted in Western Australia and Victoria and has over 25 years' experience in both private practice and in house legal roles from working in Melbourne and Perth.

Catherine also has experience in company secretarial roles for ASX listed companies, as well as having been a director of an ASX listed junior explorer. She currently also provides consultancy services to entities wishing to proceed to IPO and listing on ASX and has twice been nominated for the Telstra Business Woman of the Year Award for an online retail business she established.

## 2. Board committees

### a) Board committees and membership

During the reporting period, the Board had a maximum of five and a minimum of three members but continued to maintain two committees to assist in the discharge of its responsibilities. These are the:

i. Audit and Risk Management Committee; and
ii. Remuneration and Nominations Committee.

As at the date of this Report, the Company has 4 Directors.

The charters of all Board committees detailing the roles and duties of each are available in the corporate governance section of the Company's website. All Board committee charters are reviewed at least annually.

During the reporting period and while the relevant person remained a Director of the Company the membership of each Board committee was as follows:

***Audit and Risk Management Committee***
Andrew Milner
Daniel Rohr (Chairman)
Patrick Glovac

***Remuneration and Nominations Committee***
Andrew Milner (Chairman)
Daniel Rohr
Patrick Glovac

Committee members are chosen for the skills, experience and other qualities they bring to the committees. The executive management attends, by invitation, board committee meetings. Any papers considered by the standing committees are available on request to Directors who are not on that committee.

Following each committee meeting, generally at the next Board meeting, the Board is given a verbal update by the Chair of each committee. In addition, minutes of all committee meetings are provided to all Directors. The Company Secretary provides secretariat services for each committee.

Other committees are convened to address major transactions or other matters calling for special attention. This did not occur in this reporting period.

**b) Audit and Risk Management Committee**

The role of the Audit and Risk Management Committee is to assist the Board to meet its oversight responsibilities in relation to the Company's financial reporting, internal control structure, financial and operational risk management procedures and the internal and external audit function. In doing so, it is the Committee's responsibility to maintain free and open communication between the Committee and the external auditors and the management of the Company.

The duties of this Committee include but are not limited to, monitoring and reviewing any matters of significance affecting financial reporting and compliance, the integrity of the financial reporting of the Company, the Company's internal financial control system and risk management systems and the external audit function.

The Audit and Risk Management Committee is required to have a minimum of three members composed of independent non-executive Directors. Notwithstanding this requirement, there were periods during the reporting period where the Company did not have sufficient non-executive Directors to maintain an audit and risk committee of three members.

The external auditors and Managing Director attend Committee meetings by invitation.

This Committee met twice during the reporting period.

**c) Remuneration and Nominations Committee**

The role of the Remuneration and Nominations Committee is to assist the Board by reviewing and approving the Company's remuneration policies and practices and the appointment of non-executive Directors to the Board. The Committee's responsibilities include:

- Assessing the necessary and desirable competencies of Board members;
- Reviewing Board succession plans and Board performance;
- Reviewing the Company's remuneration framework, which is used to attract, retain and motivate employees to achieve operational excellence and create value for shareholders;
- Reviewing the remuneration packages and incentive schemes for the Managing Director and senior executives, to establish rewards, which are fair and responsible, having regard to the financial results of the group, individual performance and general remuneration conditions;

- Reviewing the performance and succession planning for the Managing Director and senior executives; and
- Reviewing the Company's corporate governance policies and practices.
- The Managing Director attends Committee meetings by invitation.

This Committee met twice during the reporting period.

## 3. Audit governance and independence

### a) Approach to audit and governance

The Board is committed to the basic principles that:

- The Company's financial reports represent a true and fair view;
- The Company's accounting practices are comprehensive, relevant and comply with applicable accounting standards and policies; and
- The external auditor is independent and serves shareholder's interests.

### b) External auditor relationship

The Company's independent external auditor is BDO Audit (WA) Pty Ltd ("BDO"). BDO was appointed by shareholders at the 2015 Annual General Meeting in accordance with the Corporations Act.

### c) Attendance of auditor at the AGM

The Company's external auditor attends the AGM and is available to answer questions from shareholders on:

- The conduct of the audit;
- The preparation and content of the auditor's report;
- The accounting policies adopted by the Company in relation to the preparation of the financial statements; and
- The independence of the auditor in relation to the conduct of the audit.

## 4. Controlling and managing risk

### a) Approach to risk management

The Board and senior executives are responsible for overseeing the implementation of the Company's Risk Management Policy.

The Company's approach to risk management is based on the identification, assessment, monitoring and management of material risks embedded in its business and management systems. This framework is based on the Australian Standards for Risk Management.

The Company's management team is responsible for implementation of the Board approved risk management strategy and developing policies, processes and procedures to identify risks and mitigation strategies in the Company's activities.

### b) Managing Director and accounting assurance on corporate reporting

The Board receives regular reports about the financial condition and operational results of the Company and its controlled entities.

The Managing Director and the Company accountants provide, at the end of each six-monthly period, a formal statement to the Board confirming that the Company's financial reports present a true and fair view, in all material respects, and the group's financial condition and operational results have been prepared accordance with the relevant accounting standards.

The statement also confirms the integrity of the Company's financial statements and notes to the financial statements, is founded on a sound system of risk management and internal compliance and control which implements the policies approved by the Board, and that the Company's risk management and internal compliance and control systems, to the extent they relate to financial reporting, are operating efficiently and effectively in all material respects.

## 5. Promoting ethical and responsible behaviour

### a) Codes of conduct

The Board has approved a Code of Conduct which describes the standards of ethical behaviour that the Directors and employees are required to maintain.

Compliance with the Code of Conduct by Directors and employees will also assist the Company in effectively managing its operating risks and meeting its legal and compliance obligations, as well as enhancing the Company's corporate reputation.

The Code of Conduct describes requirements on matters such as confidentiality, conflicts of interest, sound employment practices, compliance with laws and regulations and the protection and proper use of the Company's assets.

The Code of Conduct can be viewed on the Company's website.

### b) Share trading policy

The Company's Securities Trading Policy ("Policy") is binding on all Directors and employees. The Policy provides a summary of the law on insider trading and other relevant laws, sets out the restrictions on dealing in securities by people who work for, or are associated with, the Company and is intended to assist in maintaining market confidence in the integrity of dealings in the Company's securities.

The Policy stipulates that the only appropriate time for a Director or employee to deal in the Company's securities is when he or she is not in possession of 'price sensitive information' that is not generally available to the share market.

A Designated Person wishing to deal in the Company's securities may only do so after first having advised the Chairman of their intention to do so. The Chairman must advise another Director. Following an approved transaction, the Designated Person must notify the Company Secretary immediately to allow for any appropriate announcements to be made to ASX. Directors have entered an agreement with the Company under which they are obliged to notify changes in interests in shares and other matters.

Designated Persons dealing in the Company's securities are also subject to specified closed periods, which are set out in the Policy or as otherwise determined by the Board from time to time.

The Policy can be viewed on the Company's website.

## 6. Corporate responsibility and sustainability

The Company aims to produce positive outcomes for all stakeholders in managing its business and to maximise financial, social and environmental value from its activities.

In practice, this means having a commitment to transparency, fair dealing, responsible treatment of employees and customers and positive links into the community.

Sustainable and responsible business practices within the Company are viewed as an important long-term driver of performance and Shareholder value. Through such practices, the Company seeks to reduce operational and reputation risk and enhance operational efficiency while contributing to a more sustainable society.

The Company accepts that the responsibilities on the Board and management, which flow from this approach, go beyond strict legal and financial obligations. The Board seek to take a practical and broad view of directors' fiduciary duties, in line with stakeholders' expectations.

### 7. Continuous disclosure

The Company is committed to maintaining a level of disclosure that meets the highest standards and provides all investors with timely and equal access to information.

The Company's Continuous Disclosure Policy reinforces the Company's commitment to ASX continuous disclosure requirements and outlines management's accountabilities and the processes to be followed for ensuring compliance. The policy also describes the Company's guiding principles for market communications.

The Company's Continuous Disclosure Policy can be viewed on the Company's website.

### 8. Shareholder communications and participation

The Company is committed to giving all Shareholders comprehensive, timely and equal access to information about its activities so that they can make informed decisions. Similarly, prospective new investors are entitled to be able to make informed investment decisions when considering the purchase of the Company's shares.

A wide range of communication approaches are employed including direct communications with Shareholders and presentations to Shareholders at the company's Annual General Meeting. Publication of all relevant Company information, including the Company's Annual Report is in the "Investors" section of the Company's website. Shareholders have the opportunity to receive information in print or electronic format.

The Company strive to communicate effectively with Shareholders and give them ready access to balanced and understandable information about the Company. The way it does this includes:

- Ensuring that financial reports are prepared in accordance with applicable laws;
- Ensuring the disclosure of full and timely information about the Company's activities in accordance with the continuous disclosure principles of the ASX Listing Rules and the Corporations Act 2001.
- The Chairman and Managing Director being present at the Company's Annual General Meeting;
- Placing all ASX announcements (including financial reports) on the Company's website as soon as practicable following release; and
- Ensuring that reports, notices of meeting and other Shareholder communications are prepared in a clear and concise manner.

### 9. Diversity Policy

The Company has in place a Diversity Policy.

The Board is committed to workplace diversity and is responsible for developing measurable objectives and strategies to meet the Objectives of the Diversity Policy (Measurable Objectives) and monitoring the progress of the Measurable Objectives through the monitoring, evaluation and reporting mechanisms listed below.

The Board will conduct all Board appointment processes in a manner that promotes gender diversity, including establishing a structured approach for identifying a pool of candidates, using external experts where necessary.

The Company's diversity strategies include:

a) Recruiting from a diverse pool of candidates for all positions, including senior management and the various subsidiary company boards;
b) Reviewing succession plans to ensure an appropriate focus on diversity;

c) Identifying specific factors to take account of in recruitment and selection processes to encourage diversity;
d) Developing programs to develop a broader pool of skilled and experienced senior management and board candidates, including, workplace development programs, mentoring programs and targeted training and development; and
e) Developing a culture which takes account of domestic responsibilities of employees.

As at 30 June 2018, the Board consisted of 4 male members and no female members. The Company Secretary is female.

As at 30 June 2018, the Company has 130 employees, of which 115 are male and 15 are female.

### ASX Recommendation and Principles Compliance Table

Set out below is a table describing the various ASX Principles and statements as to the Company's compliance or otherwise with them.

| PRINCIPLES AND RECOMMENDATIONS | COMPLY (YES/NO) | EXPLANATION |
|---|---|---|
| ***Principle 1: Lay solid foundations for management and oversight*** | | |
| **Recommendation 1.1**<br>**A listed entity should have and disclose a charter which sets out the respective roles and responsibilities of the board, the chair and management; and includes a description of those matters expressly reserved to the board and those delegated to management.** | YES | The Company has adopted a Board Charter.<br>The Board Charter sets out the specific responsibilities of the Board, requirements as to the Boards composition, the roles and responsibilities of the Chairman and Company Secretary, the establishment, operation and management of Board Committees, Directors access to company records and information, details of the Board's relationship with management and details of the Board's disclosure policy.<br>The Managing Director (as a delegate of the board) is responsible for the effective leadership and day to day operations and administration of the Company.<br>A copy of the Company's Board Charter is available on the Company's website. |
| **Recommendation 1.2**<br>**A listed entity should:**<br>**(a) Undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and Provide security holders with all material information relevant to a decision on whether or not to elect or re-elect a director.** | YES | (a) The Company undertakes checks on any person who is being considered as a director. These checks may include character, experience, education and financial history and background.<br>(b) All material information relevant to a decision on whether or not to elect or re-elect a Director will be provided to security holders in a Notice of Meeting pursuant to which the resolution to elect or re-elect a Director will be voted on. |
| **Recommendation 1.3**<br>**A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.** | YES | Each senior executive and executive director has a formal employment contract and the non-executive directors have a letter of appointment. |
| **Recommendation 1.4**<br>**The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.** | YES | The Company Secretary is accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board.<br>The Company Secretary has primary responsibility for ensuring that Board processes and procedures run efficiently and effectively. |

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| **Recommendation 1.5**<br>**A listed entity should:**<br>**(a) Have a diversity policy which includes requirements for the board:**<br>**(i) To set measurable objectives for achieving gender diversity; and**<br>**(ii) To assess annually both the objectives and the entity's progress in achieving them;**<br>**(b) Disclose that policy or a summary or it; and**<br>**(c) Disclose as at the end of each reporting period:**<br>**(i) The measurable objectives for achieving gender diversity set by the board in accordance with the entity's diversity policy and its progress towards achieving them; and**<br>**(ii) Either:**<br>**(A) The respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or**<br>**(B) The entity's "Gender Equality Indicators", as defined in the Workplace Gender Equality Act 2012.**<br>**(C)** | YES | (a) The Company has adopted a Diversity Policy<br>(i) The Diversity Policy provides a framework for the Company to achieve a list of measurable objectives that encompass gender, age, ethnicity and cultural equality.<br>(ii) The Diversity Policy provides for the monitoring and evaluation of the scope and currency of the Diversity Policy. The Company is responsible for implementing, monitoring and reporting on the measurable objectives.<br>(b) Information on the Company's Diversity Policy is set out in the Annual Report.<br>(i) The measurable objectives set by the board are included in the Annual Report. In addition, the board will review progress against the objectives in its annual performance assessment.<br><br>The Board includes in the Annual Report each year the measurable objectives, progress against the objectives, and the proportion of male and female employees in the whole organisation, at senior management level and at Board Level. |
| **Recommendation 1.6**<br>**A listed entity should:**<br>**(a) Have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and** | YES | The Chairman is responsible for evaluating the performance of the Board, its committees and individual directors. This is generally done through a meeting with the Chair. |

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| **(b) Disclose in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.** | | The review is currently informal but is based on a review of goals for the Board and individual Directors.<br>Generally, the goals for the Board are based on corporate requirements and any areas for improvement that may be identified. The Chairman will provide each Director with confidential feedback on his or her performance. |
| **Recommendation 1.7**<br>**A listed entity should:**<br>**(a) Have and disclose a process for periodically evaluating the performance of its senior executives; and**<br>**(b) Disclose in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.** | YES | (a) The Remuneration Committee is responsible for evaluating the performance of senior executives. The Committee is to arrange an annual performance evaluation of the senior executives.<br>(b) The Remuneration Committee is required to disclose whether or not performance evaluations were conducted during the relevant reporting period. Details of the performance evaluations conducted will be provided in the Company's Annual Report. |
| ***Principle 2: Structure the board to add value*** | | |
| **Recommendation 2.1**<br>**The board of a listed entity should:**<br>**(a) Have a nomination committee which:**<br>**(i) Has at least three members, a majority of whom are independent directors; and**<br>**(ii) Is chaired by an independent director,**<br>**and disclose:**<br>**(iii) The charter of the committee;**<br>**(iv) The members of the committee; and**<br>**(v) As at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or**<br>**(b) If it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the** | YES | A nomination committee has been established and the Company has a Remuneration and Nomination Committee Charter which is available on the Company's website. This Committee comprises a minimum of 3 non-executive Directors. During the reporting period, this Committee met once. |

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| **board has the appropriate balance of skills, experience, independence and knowledge of the entity to enable it to discharge its duties and responsibilities effectively.** | | |
| **Recommendation 2.2**<br>**A listed entity should have and disclose a board skill matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.** | YES | The Board reviews capabilities, technical skills and personal attributes of its directors. It will normally review the Board's composition against those attributes and recommend any changes in Board composition that may be required. An essential component of this will be the time availability of Directors. Information about the skills and expertise of all Board members is contained in the Annual Report.<br>The Board believes that it has a diverse mix of experience and skills which will lead to a better outcome for the Company and the Shareholders, and the Board is comfortable with the skills matrix represented by the current Board. |
| **Recommendation 2.3**<br>**A listed entity should disclose:**<br>**(a) The names of the directors considered by the board to be independent directors;**<br>**(b) If a director has an interest, position, association or relationship of the type described in Box 2.3 of the ASX Corporate Governance Principles and Recommendation (3rd Edition), but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and**<br>**(c) The length of service of each director** | YES | (a) Disclosure of the names of Directors, considered by the board to be independent is provided in the Annual Report.<br>(b) Directors' interests, positions, associations and relationships are regularly assessed by the Board. Details of the Directors' interests, positions associations and relationships are provided in the Annual Report.<br>(c) The Board Charter provides for the determination of the Directors' terms and requires the length of service of each Director to be disclosed. The length of service of each Director is provided in the Annual Report. |
| **Recommendation 2.4**<br>**A majority of the board of a listed entity should be independent directors.** | YES | The Board Charter requires that an appropriate balance between independent and non-independent directors is represented on the Board.<br>Details of each Director's independence are provided in the Annual Report. |

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| **Recommendation 2.5**<br>**The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.** | YES | This is complied with as at the date of this Report, with Andrew Milner the non-executive, independent Chairman from 2 July 2015. |
| **Recommendation 2.6**<br>**A listed entity should have a program for inducting new directors and providing appropriate professional development opportunities for continuing directors to develop and maintain the skills and knowledge needed to perform their role as a director effectively.** | YES | All new Directors are provided with a copy of all Company Policies and Charters. It is also the responsibility of the Board to procure appropriate professional development opportunities for Directors. The Remuneration and Nominations Committee is responsible for the approval and review of induction and continuing professional development programs and procedures for Directors to ensure that they can effectively discharge their responsibilities. |
| ***Principle 3: Act ethically and responsibly*** | | |
| **Recommendation 3.1**<br>**A listed entity should:**<br>**(a) Have a code of conduct for its directors, senior executives and employees; and**<br>**(b) Disclose that code or a summary of it.** | YES | (a) The Company's Code of Conduct applies to the Company's Directors, senior executives and employees.<br>(b) The Company's Code of Conduct is available on the Company's website. |
| **Principle 4*: Safeguard integrity in financial reporting*** | | |
| **Recommendation 4.1**<br>**The board of a listed entity should:**<br>**(a) Have an audit committee which:**<br>**(i) Has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and**<br>**(ii) Is chaired by an independent director, who is not the chair of the board,**<br>**and disclose:**<br>**(iii) The charter of the committee;**<br>**(iv) The relevant qualifications and experience of the members of the committee; and** | YES | (a) The Audit and Risk Committee Charter states that:<br>(i) The Audit and Risk Committee shall comprise the Company's non-executive directors;<br>(ii) The Audit and Risk Committee Charter is available on the Company website;<br>(iii) The Audit and Risk Committee Charter requires the Committee in relation to the reporting period to disclose the number of times that the Committee met throughout the period, and the individual attendances of the members at those Committee meetings. Details of the Committee meetings will be provided in the Company's Annual Report.<br><br>This Committee met twice during the reporting period. |

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| **(v) In relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or**<br>**(b) If it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its financial reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.** | | |
| **Recommendation 4.2**<br>**The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.** | YES | Before the Board approves the entity's financial statements for a financial period, the CEO and CFO declares that in their opinion the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively. |
| **Recommendation 4.3**<br>**A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.** | YES | The Audit and Risk Committee Charter provides that the Committee must ensure the Company's external auditor attends its AGM and is available to answer questions from security holders relevant to the audit. |
| ***Principle 5: Make timely and balanced disclosure*** | | |
| **Recommendation 5.1**<br>**A listed entity should:**<br>**(a) Have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and**<br>**(b) Disclose that policy or a summary of it.** | YES | (a) The Company has a Continuous Disclosure Policy.<br>(b) This Policy is available on the Company's website, as is all information provided to ASX for release to the market. |

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| **Principle 6:** ***Respect the rights of security holders*** | | |
| **Recommendation 6.1**<br>**A listed entity should provide information about itself and its governance to investors via its website.** | YES | Information about the Company and its governance is available in its Corporate Governance Policies which can be found on the Company's website.<br>A link is available on the Company's website to the Company's announcements page on the ASX website, meaning that all the Company's ASX announcements are immediately accessible through the Company's website. |
| **Recommendation 6.2**<br>**A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.** | YES | The Company aims to promote and facilitate effective two-way communication with investors through the availability of the MD and the Company Secretary to respond directly to shareholder queries. A link to directly email the Company Secretary is available on the Company's website, as well as the provision of a general email address investors@cirrusnetworks.com.au |
| **Recommendation 6.3**<br>**A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.** | YES | Shareholders are encouraged to participate at all EGMs and AGMs of the Company. Upon the dispatch of any notice of meeting to Shareholders, the Company Secretary shall send out material with that notice of meeting stating that all Shareholders are encouraged to participate at the meeting.<br>Shareholders who are not able to attend at meetings and vote in person are able to utilise the share registry's electronic voting platform, either online or by downloading the relevant phone Application. The introduction of this facility has resulted in a marked increase in the number of Shareholders voting. |
| **Recommendation 6.4**<br>**A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.** | YES | The Company's share registry provides (through its website) the ability to email the share registry and to receive documents by email from the share registry.<br>Shareholders queries should be referred to the Company Secretary at first instance. Contact details are provided on the Company's website. |
| ***Principle 7: Recognise and manage risk*** | | |
| **Recommendation 7.1**<br>**The board of a listed entity should:** | YES | The Board has adopted an Audit and Risk Committee Charter and a Financial Risk Management Policy. These are available on the |

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| **(a) have a committee or committees to oversee risk, each of which:**<br>**(i) has at least three members, a majority of whom are independent directors; and**<br>**(ii) is chaired by an independent director,**<br>**and disclose:**<br>**(iii) the charter of the committee;**<br>**(iv) the members of the committee; and**<br>**(v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or**<br>**(b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the process it employs for overseeing the entity's risk management framework.** | | Company's website. There is no other risk management committee and this role is undertaken by the Board, however, the overall basis for risk management is to provide recommendations about:<br>1. Assessing the internal processes for determining and managing key risk areas, particularly:<br>• Non-compliance with laws, regulations, standards and best practice guidelines, including environmental and industrial relations laws;<br>• Litigation and claims; and<br>• Relevant business risks other than those that are dealt with by other specific Board Committees.<br>2. Ensuring that the Company has an effective risk management system and that major risks are reported at least annually to the Board.<br>3. Receiving from management reports on all suspected and actual frauds, thefts and breaches of laws.<br>4. Evaluating the process, the Company has in place for assessing and continuously improving internal controls, particularly those related to areas of significant risk.<br>5. Assessing whether management has controls in place for unusual types of transactions and/or any potential transactions that may carry more than an acceptable degree of risk.<br>6. Meeting periodically with key management, internal and external auditors and compliance staff to understand and discuss the Company's control environment. |
| **Recommendation 7.2**<br>**The board or a committee of the board should:**<br>**(a) Review the entity's risk management framework with management at least annually to satisfy itself that it continues to be sound, to determine whether there have been any changes in the material business risks the entity faces and to ensure that they remain within the risk appetite set by the board; and** | YES | The Board meets on a regular basis to discuss the Company's operating activities. As part of this, all risks are considered including but not limited to strategic, operational, legal, reputation and financial risks. This is an on-going process rather than an annual formal review. As referred to above, the Company has in place a Financial Risk Management Policy. |

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| **(b) Disclose in relation to each reporting period, whether such a review has taken place.** | | |
| **Recommendation 7.3**<br>**A listed entity should disclose:**<br>**(a) If it has an internal audit function, how the function is structured and what role it performs; or**<br>**(b) If it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.** | NO | The Company does not have a formal internal audit function but reviews its risk management and internal control processes on a regular basis and has in place a Financial Risk Management Policy as referred to above. |
| **Recommendation 7.4**<br>**A listed entity should disclose whether, and if so how, it has regard to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.** | YES | The Company is of the view that its operations do not create a material exposure to economic and social sustainability risks. With respect to past minerals exploration activities and the environment, the Company has complied with all rehabilitation requirements of the relevant legislation. |
| ***Principle 8: Remunerate fairly and responsibly*** | | |
| **Recommendation 8.1**<br>**The board of a listed entity should:**<br>**(a) Have a remuneration committee which:**<br>**(i) Has at least three members, a majority of whom are independent directors; and**<br>**(ii) Is chaired by an independent director,**<br>**and disclose:**<br>**(iii) The charter of the committee;**<br>**(iv) The members of the committee; and**<br>**(v) As at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or**<br>**(b) If it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and** | YES | (a) The Remuneration and Nomination Committee Charter outlines the roles and responsibilities of that Committee and provides that the Committee comprises the non-executive members of the Board but excludes the relevant member of the Board when their performance is under review;<br>(b) The Remuneration and Nomination Committee Charter is available on the Company's website.<br>(c) The Remuneration and Nomination Committee discloses the number of times that the Committee meets throughout the period, and the individual attendances of the members at those Committee meetings. Details of the Committee meetings will be provided in the Company's Annual Report. During the reporting period this Committee met once. |

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| **composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.** | | |
| **Recommendation 8.2**<br>**A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives and ensure that the different roles and responsibilities of non-executive directors compared to executive directors and other senior executives are reflected in the level and composition of their remuneration.** | YES | The Company provides disclosure of all Directors' and executives' remuneration in its Annual Report.<br>Non-executive Directors are remunerated at a fixed fee to take account of their time, commitment and responsibilities. Remuneration for non-executive Directors is not linked to the performance of the Company. There are no documented agreements providing for termination or retirement benefits for non-executive Directors. Any long term performance incentives may include options or shares granted at the discretion of the Board and subject to obtaining the relevant Shareholder approvals.<br>Executive Directors and senior executives are offered a competitive level of base pay at market rates which are reviewed annually to ensure market competitiveness. Long term performance incentives may include performance and sales bonus payments, shares and/or options granted at the discretion of the Board and subject to obtaining relevant Shareholder approvals (if required). |
| **Recommendation 8.3**<br>**A listed entity which has an equity-based remuneration scheme should:**<br>**(a) Have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and**<br>**(b) Disclose that policy or a summary of it.** | Not applicable | The Company does not have an equity based remuneration scheme which is affected by this recommendation although it has previously obtained Shareholder approval to the issue of shares to directors in lieu of fees; and for the issue of bonus options to Directors. The Company has in place a "Directors and Employees Share Option Plan", under which both employees and Directors may be offered options (subject to Shareholder approval in the case of any officer of the Company). |

## Shareholder Information

### Distribution of Shareholders

At 26 August 2018 there were 1,414 holders of 861,502,650 ordinary fully paid shares in the Company. Analysis of numbers of equity holders by size of holding:

| Number of Shares Held | Holders | Units |
|---|---|---|
| 1 – 1,000 | 46 | 5,089 |
| 1,001 – 5,000 | 140 | 496,264 |
| 5,001 – 10,000 | 82 | 663,110 |
| 10,001 – 100,000 | 548 | 24,767,530 |
| 100,001 and over | 598 | 835,570,657 |
| Total | 1,414 | 861,502,650 |

The number of shareholders holding less than a marketable parcel of 23,810 shares: 417.

### Substantial shareholders

At 26 August 2018 the substantial shareholders in the Company are the following:

| Name of Shareholder | Number Held | Percentage |
|---|---|---|
| JARABA AVENUE PTY LTD <SULLIVAN FAMILY A/C><br>PACKENHAM PTY LTD <PACKENHAM SUPER A/C> | 47,023,387 | 5.46 |
| ALCOTRACK PTY LTD <MILNER INVESTMENT A/C> | 44,323,387 | 5.14 |

### Substantial option holders

At 26 August 2018 the substantial option holders in the Company are set out below:

| Name of Option Holder | Number Held | Percentage |
|---|---|---|
| JARABA AVENUE PTY LTD <SULLIVAN FAMILY A/C> | 20,000,000 | 17.89 |
| MR GLENN MCATEE + MS HEIDI MCATEE <THE MCATEE FAMILY A/C> | 15,000,000 | 13.42 |
| MURDOCH CAPITAL PTY LTD <GLOVAC SUPER FUND A/C> | 6,666,667 | 5.96 |
| ZENIX NOMINEES PTY LTD | 6,000,000 | 5.37 |
| MR MATTHEW GREEN | 5,075,000 | 4.54 |
| MR CHARLES THOMAS | 4,166,667 | 3.73 |
| SYRACUSE CAPITAL PTY LTD <THE TENACITY A/C> | 4,166,666 | 3.73 |
| TESHA PTY LTD | 4,000,000 | 3.58 |
| MR GRAHAME GILSON | 3,425,000 | 3.06 |
| MR CHRISTOPHER MCLAUGHLIN | 3,350,000 | 3.00 |
| Remaining Holders | 39,925,000 | 35.72 |
| TOTAL | 111,775,000 | 100.00 |

### Voting Rights

The voting rights attaching to the ordinary shares are in accordance with the Company's Constitution being that:

- Each Shareholder entitled to vote may vote in person or by proxy, attorney or corporate representative;
- On a show of hands, every person present who is a Shareholder or a proxy, attorney or corporate representative of a Shareholder has one vote; and
- On a poll, every person present who is a Shareholder or a proxy, attorney or corporate representative of a Shareholder shall, in respect of each fully paid share held by them, or in respect of which they are appointed a proxy, attorney or corporate representative, have one vote for the share, but in respect of partly paid shares, shall, have such number of votes as bears the proportion which the paid amount (not credited) is of the total amounts paid and payable (excluding amounts credited).

There are no voting rights attached to options in the Company. Voting rights will be attached to the unissued ordinary shares when options have been exercised.

### Stock Exchange Listing

Cirrus Networks Holdings Limited securities are listed on the Australian Securities Exchange ('ASX'). The Company's ASX code is CNW. Prior to the re-admission to ASX as Cirrus on 8 July 2015, the Company was named Liberty Resources Limited and its ASX code was LBY. The Company has no listed options on the ASX.

Directors' interests in share capital are disclosed in the Directors' Report.

There is currently no on-market buy-back in place.

**Cirrus Networks Holdings Ltd**
**ABN: 98 103 348 947**

## Equity security holders

Top 20 ordinary shareholders at 26 August 2018:

| | Name of Ordinary Shareholder | Number of Shares Held | Percentage of Shares Held |
|---|---|---|---|
| 1 | JARABA AVENUE PTY LTD <SULLIVAN FAMILY A/C> PACKENHAM PTY LTD <PACKENHAM SUPER A/C> | 47,023,387 | 5.46 |
| 2 | ALCOTRACK PTY LTD <MILNER INVESTMENT A/C> | 44,323,387 | 5.14 |
| 3 | MR FRANK RICHMOND <THE RICHMOND FAMILY A/C> | 42,552,910 | 4.94 |
| 4 | MR GRAHAME ANTHONY GILSON <GILSON FAMILY A/C> | 36,966,478 | 4.29 |
| 5 | MR MARK NEIL BLACKBURNE OLIVER <OLIVER FAMILY A/C> | 24,644,318 | 2.86 |
| 6 | EMPOWERED LIFE TECHNOLOGIES PTY LIMITED <THE MAVERICK FAMILY A/C> | 22,172,572 | 2.57 |
| 7 | VERTEC IT SOLUTIONS PTY LIMITED <THE BLOOMFIELD FAMILY A/C> | 22,172,572 | 2.57 |
| 8 | WEIR SUPER FUND PTY LTD <WEIR FAMILY SUPER FUND A/C> | 21,969,621 | 2.55 |
| 9 | MR MATTHEW GREEN + MRS NATALIE GREEN <GREEN FUTURE FUND A/C> | 14,457,781 | 1.68 |
| 10 | MR CHRISTOPHER STEVENS | 11,779,477 | 1.37 |
| 11 | MR JOHNATHON MATTHEWS | 11,125,260 | 1.29 |
| 12 | RAPTOR RACING PTY LTD | 10,039,721 | 1.17 |
| 13 | CH GLOBAL PTY LTD <ABC INVESTMENT A/C> | 10,000,000 | 1.16 |
| 14 | J P MORGAN NOMINEES AUSTRALIA LIMITED | 9,582,337 | 1.11 |
| 15 | MR MATTHEW CHARLES MILNER | 8,127,001 | 0.94 |
| 16 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2 | 7,422,680 | 0.86 |
| 17 | HOLDER SUPER PTY LTD <HOLDER SUPER FUND A/C> | 7,200,000 | 0.84 |
| 18 | MR PETER HOWELLS | 6,500,000 | 0.75 |
| 19 | MR GAVIN BRADLEY LEHMANN + MRS MICHELLE YVETTE LEHMANN <THE GAMA SUPER FUND A/C> | 6,000,000 | 0.70 |
| 20 | MR RICHARD VERE MURSELL | 6,000,000 | 0.70 |
| | Totals – Top 20 | 370,059,502 | 42.96 |
| | Totals – Remaining Shareholders | 491,443,148 | 57.04 |

## Registered Office & Principal Place of Business

Arcadia Chambers
Level 3, 1 Roydhouse Street
Subiaco WA 6008
Telephone: (08) 6180 4222

## Register of Securities

The register of securities is held at:

Computershare Registry Services Pty Ltd
Level 2, 45 St Georges Terrace
Perth WA 6000
Telephone: +61 8 9323 2000
Facsimile: +61 8 9323 2033