CYCLIQ

# Cycliq Group Limited

ABN 47 119 749 647

# ANNUAL REPORT

**30 June 2018**

# CORPORATE DIRECTORY

**Current Directors**

| | | |
|---|---|---|
| Chris Singleton | *Acting Chief Executive Officer and Executive Chairman* | Appointed 29 November 2016 |
| Piers Lewis | *Non-Executive Director* | Appointed 22 February 2016 |
| Mike Young | *Non-Executive Director* | Appointed 9 February 2017 |
| Cyril Daoud | *Non-Executive Director* | Appointed 17 March 2017 |

**Company Secretary**

| | | |
|---|---|---|
| Piers Lewis | *Joint Company Secretary* | Appointed 29 November 2016 |
| Arron Canicais | *Joint Company Secretary* | Appointed 17 March 2017 |

**Registered Office**

Address: C/O SmallCap Corporate - Suite 6, 295 Rokeby Road, Subiaco, WA, 6008
Telephone: +61 (8) 6555 2950
Facsimile: +61 (8) 6166 0261
Email: info@cycliq.com
Website: www.cycliq.com

**Principal place of business**

Address: Unit A14, Level 2, 435 Roberts Road, Subiaco, WA, 6008
Email: info@cycliq.com
Website: www.cycliq.com

**Securities Exchange**

Australian Securities Exchange
ASX Code: CYQ.AX

**Share Registry**

Computershare Investor Services Pty Ltd
Address: Level 11, 172 St Georges Terrace, Perth WA 6000
Telephone: +61 (3) 9415 4000
Website: www.computershare.com/au

**Auditors**

Bentleys Audit and Corporate (W.A) Pty LTD
Address: London House
Level 3, 216 St Georges Terrace, Perth WA 6000
Telephone: +61 (8) 9226 4500
Facsimile: +61 (8) 9226 4300
Website: www.bentleys.com.au

# ANNUAL REPORT
30 June 2018

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## CHAIRMAN'S REPORT

Dear Shareholders,

In our first full year as an ASX listed entity, we have seen several major milestones reached including: the launch of the new flagship 'Connected Edition' Fly6 CE and Fly12 CE which has underpinned significant unit sales and revenue growth; the development of a joint venture partnership with Glory Horse Investment Holdings Limited ("Glory Horse") in China to improve margin and control over manufacturing operations; signing major distribution deals with key partners in the USA and EU; and securing a trade finance facility to finance stock purchases and free up working capital to fund growth in new and existing markets.

At an operational level there has also been an intense focus on optimising core back of house functions – customer support, logistics and technology – to ensure that we are well placed to scale sales and marketing activity and drive top line growth over the coming year.

**FY18 year in review**

FY18 was a year of planned change and required the development of a more robust approach to managing people, process and technology to ensure certainty around operations and lay the foundation for scalable growth post the launch of the new CE products in Q2.

**Adopting a 'customer-first' approach**

A priority for the business was to commit to a 'customer first' orientation, focused on ensuring a compelling value proposition for both end consumers and our retail partners.

For our direct customers – the end users of our product – we delivered a robust, well-designed and functional product, priced to achieve our margin targets and deliver a strong value proposition for our market. The 'informed enthusiast' road cyclist is the primary market for our flagship CE products which are a fully featured, high specification device aimed at those who spend a lot of time on their bikes whether for sport, pleasure or commuting (usually a combination of all). In addition, we have dramatically improved our after-sales service and delivery of technical support, implemented a comprehensive warranty program and optimised our distribution operations to ensure that products are delivered in the shortest possible time.

In addition, for our retail partners a customer-first orientation has meant creating a product that is:

- Easy to buy – the new retailer portal allows for simple online ordering, combined with an investment in global telephone support and direct management of major accounts to ensure continuity and alignment to our channel partners' objectives;
- Easy to sell – the development of a range of sales enablement tools and collateral to assist in the sales process in-store and online, as well as a refresh of our point of presence displays for the launch of the new CE range.
- Demanded by customers – a focus on comprehensive demand generation activity to drive pull through, with integrated sales and marketing campaigns and the roll out of regular sales promotion activity in direct-to-consumer and retail channels.

**New product launch and channel engagement**

The highlight of the FY18 year was the launch of the Fly12 CE and Fly6 CE in Q2.

More than 12 months in development and the result of a significant investment in R&D, this new 'Connected Edition' range was launched to very positive reviews across all key global cycling media. Significant pre-orders were taken from existing customers upgrading their current devices, as well as a large number of new customers attracted to the new 'smarter, smaller, sharper, safer' positioning of the CE product.

This momentum underpinned the record-breaking growth which we saw in Q2 and H2, with total unit sales of the Fly products reaching 26,831 for FY18 (250% up on previous FY) with revenue of $4.9M (210% up on previous FY).

The launch of the new products also underpinned strong growth in gross margin as average unit sales revenue increased 29% in Q4 FY18 compared to the same period the previous year.

Importantly, we were also able to manage the run-out of the previous edition Fly12 and Fly6[v] devices through a strategic distribution agreement with Wiggle, who purchased all superseded stock for sale through their online global retail platform. This transaction was completed in Q3 and enabled the Cycliq team to maintain focus on growing the retail footprint for the new CE products, as well as maintain an acceptable target margin on the superseded stock.

The launch of new products has also given the sales and distribution team the opportunity to re-engage with channels and regions that had previously been inactive. There was a focus on signing US and other key regional distributors which included deals with BackCountry.com (USA), ESM Sports (France), AGU Holdings (Benelux) and several mid-tier players in other regions. This activity as well as ongoing channel management and retail footprint expansion in existing markets has increased Cycliq's global retail footprint to more than 4,500 points of presence across the USA, APAC, EU and the UK in addition to direct to consumer sales through Amazon and Cycliq's direct website which ships to more than 50 countries.

***Other notable achievements in FY18***

- Growing brand recognition: the launch of the CE products put Cycliq and the Fly6 and Fly12 firmly back in the cycling media spotlight in Q2. Combined with increased investment in advertising and the integration of user generated content in social media platform advertising to drive engagement, brand awareness has grown to record levels in key markets. One of the key challenges of category development is the creation of a nexus between 'selling the problem' (i.e. the dangers of cycling on increasing congested and dangerous roads and having limited recourse if something goes wrong) and delivering the solution (the Fly bike dashcams). A focus in FY18 has been on driving the awareness of the problem through coordinated PR activities in key regions. This has started to deliver results with Cycliq now engaged by the mainstream media around the world for comment, and to provide footage for news stories with the intention of providing a balanced take on cycling safety issues, which are often a contentious and divisive area of media coverage.
- Increased customer engagement: the new CE products have been designed to improve video quality and the suite of software and apps have been enhanced to encourage sharing of user generated content, which is a core pillar in the growth strategy moving forward; as a leading indicator of increasing customer engagement and ease of sharing, the submission of user generated content (videos from customers) has increased ten-fold over the past 6 months.
- Joint venture partnership with Glory Horse: the joint venture partnership was signed with Glory Horse in Q2 FY17 and this year has been focused on establishing operations and preparing for the first products to come out of the new JV in H2 FY19.

- **Financing arrangements in place to support growth:** a trade finance facility of up to $2m AUD was established in Q4 FY18 for the funding of stock purchases, giving the ability to fund these significant investments through debt and free up working capital for growth initiatives.
- **Gold Design Award Win at the Good Design Awards:** Cycliq won Gold at the Good Design Awards in Q4 which was a testament to the renewed focus on product and packaging design for the CE range, and recognition among a field which included global consumer electronics leaders.

**The year ahead**

The FY19 year will be a pivotal period in Cycliq's development, and focused on the following:

- **Expand and consolidate demand for CE products:** the successful launch of the CE range in FY18 has begun to deliver strong, recurring order rates from our channel partners and growing organic sales. As awareness of the category grows and we further develop our sales and marketing programs, growth in this flagship range is expected to increase throughout the year. A quality product with an aesthetic and features that appeal to the 'informed enthusiast' cyclist have cemented the CE as a must-have cycling safety accessory for many, and enhancements to user experience through software and app will continue to differentiate it from new Cycliq products which are aimed to appeal to the larger, more cost-conscious commuter segment.
- **Launch of a new commuter-focused product in H2 to extend range:** a new product range aimed specifically at commuters is planned in FY19. This product has been developed to meet the less sophisticated needs of the daily commuter and will not be as feature-rich as the flagship CE models. However, it will be priced to provide a more accessible entry point to the bike camera market and retain the core safety features that have made the Fly CE products a success (integrated camera and safety lights, smart video looping, fast USB-C charging and mobile app connectivity). The launch of these products will round out the Cycliq value proposition and access new markets; effectively giving Cycliq a compelling value proposition to the entire global market of circa. 75,000,000 frequent cyclists.
- **Expand the community of engaged Cycliq customers:** critical to scalable growth and driving word of mouth is an engaged community of users who share content from their devices; the good, bad and the beautiful of cycling. Enhancing the existing tools used to edit and share their content on their preferred social media or other platforms will increase social sharing, further growing awareness of the problem that we solve, and position the Fly bike camera as the solution. This content-led marketing strategy empowers customers and amplifies the content they create (through advertising, PR or promotional referral programs) and is a powerful and cost-effective way to accelerate organic growth.
- **Enhance user experience through software and apps:** as a tech business with a focus on user experience, the software and apps ecosystem that we have developed around the Fly product is as important as the hardware. We have recently rebuilt the user interfaces for the suite of mobile apps, and are in the process of improving the editing, sharing and social integration capabilities. In addition, partnerships with global fitness tracking brands to build new features into the Cycliq software and apps is underway and will be an integral part of our community engagement strategy in FY19.

- **Continue channel growth and activation in key markets:** FY19 will bring a renewed focus on the US market as we expand retail footprint and activate distribution agreements, as well as undertake integrated sales and marketing campaigns in specific US regions with high density frequent cycling populations. In addition, we will continue to drive our relationships with proactive channel partners in APAC (Korea, Japan, Thailand), capitalise on momentum in established markets (Australia, UK) and develop specific sales and marketing programs with key regional and global online direct to consumer partners.

**Concluding remarks**

FY18 has laid the foundation for the scaling of the Cycliq business into a sustainable entity with very strong prospects for growth in the year ahead. We have a much-improved understanding of the category dynamics and opportunities and have overseen a product launch that has taken the Fly bike cameras to the next level in terms of consumer perception. We have also spent significant effort on optimising the business to ensure further investment in the day to day operations generates an appropriate return.

All of this would not be possible without my co-directors and a team of professionals with the capability to deliver on the market opportunity for these products; thanks to all for their ongoing support and commitment.

I would also like to take this opportunity to reiterate our thanks to co-founder Kingsley Fiegert for his vision and innovation in bringing these products to market. Kingsley stepped back from day to day operations at the end of April this year and remains a significant shareholder in the business.

Finally, thank you again for your investment and interest in Cycliq. I look forward to the opportunities that lie ahead and to realising the vision of making the world a safer place for people to ride their bikes.

Ride safe,

Chris Singleton
Executive Chairman

# DIRECTORS' REPORT

Your directors present their report on the Group, consisting of Cycliq Group Limited ("**Cycliq**" or the "**Company**") and its controlled entities (collectively the "**Group**"), for the year ended 30 June 2018.

## 1. Directors

The names of Directors in office at any time during the year or since the end of the year are:

- *Chris Singleton* — *Acting Chief Executive Officer and Executive Chairman - Appointed 29 November 2016*
- *Piers Lewis* — *Non-Executive Director - Appointed 29 November 2016*
- *Mike Young* — *Non-Executive Director - Appointed 9 February 2017*
- *Cyril Daoud* — *Non-Executive Director - Appointed 17 March 2017*

Directors have been in office since the start of the year to the date of this report unless otherwise stated.

## 2. Company Secretary

| | | |
|---|---|---|
| Piers Lewis | *Joint Company Secretary* | Appointed 22 February 2016 |
| Arron Canicais | *Joint Company Secretary* | Appointed 17 March 2017 |

## 3. Principle Activities

Cycliq Group Limited ("Cycliq") produce the number one brand in HD camera and lighting combinations, delivering cycling safety and action camera solutions for commuters, mountain bikers, racers and professional cyclists alike. Cycliq products are aimed at helping our customers around the globe to enjoy their journey safely.

## 4. Operating Results

The consolidated loss for the year amounted to $3,855,124 (2017: $4,473,286).

## 5. Dividends Paid or Recommended

There were no dividends paid or recommended during the financial year ended 30 June 2018.

## 6. Review of Operations

A detailed review of the Group's operations is set out in the section titled "Review of Operations" in this annual report.

## 7. Financial Position

The net assets of the Group are $1,651,918 at 30 June 2018 (2017: $4,757,292)

## 8. Significant Changes in State of Affairs

There were no significant changes in the state of affairs of Cycliq Group Limited and its controlled entities during the financial year ended 30 June 2018

## 9. Subsequent Events

There have been no significant subsequent events between 30 June 2018 and the date of this report.

## 10. Likely Developments

A detailed review of the Group's operations, including likely developments and plans, is set out in the section titled "Review of Operations" in this annual report.

# DIRECTORS' REPORT

## 11. Information Relating to the Directors and Company Secretary

**Christian (Chris) Singleton** – Acting Chief Executive Officer and Executive Chairman

*(Appointed 29 November 2016)*

Acting Chief Executive Officer and Executive Chairman Christian Singleton is the managing director of Minaret Capital. He has been the chairman, managing director and an executive director of numerous listed and unlisted groups and has had extensive involvement in acquisitions and divestments, structuring, capital management, capital raisings, listings, spin offs, the acquisition and divestment of assets and restructuring and turnaround strategy. Chris has more than 30 years' corporate experience in marketing and design, change management, telecommunications, technology, FMCG, resources and energy and labour hire/human capital. He has founded, developed, listed and sold businesses across those sectors. He has advised Australia's largest oil and gas company on Islamic debt issuance and worked with a number of groups on the development of their assets and corporate activity. He has advised technology, resources and energy, resources services, labour hire and ancillary services groups on M&A, capital raisings, efficiency management and general corporate matters. With a background in design, Chris has worked extensively in developing and executing 'go to market' strategies for both his own businesses and a wide variety of Australian and international groups. That included his role in the mid-2000s in charge of business marketing for one of Australia's largest mobile operators where he oversaw a complete overhaul of the marketing function and introduction of disruptive pricing.

Mr Singleton holds 8,100,000 fully paid ordinary shares and 2,150,000 performance options at the date of this report. Please refer to the Remuneration report for further details.

**Cyril Daoud** – Non-Executive Director

*(Appointed 17 March 2017)*

Mr Daoud has 20 years' experience in the technology sector and has built most of his 20-year career in the Asia Pacific region. Having worked for multinational companies such as Technicolor, Alcatel-Lucent and Nortel, Mr Daoud is highly experienced in sales, marketing, corporate advisory and general management. Mr Daoud holds a Master in Engineering from Telecom Paris Tech in France as well as an Executive Leadership diploma from the London Business School.

Mr Daoud has not held any other public Directorships in the last three years.

**Piers Lewis** – Non-Executive Director and Company Secretary
*(Appointed 17 March 2017)*

Mr Lewis is a Chartered Accountant and Chartered Company Secretary with over 20 years' global corporate experience. Mr Lewis currently sits on the Dawine Limited board and serves as company secretary on several ASX listed companies, including Grange Resources Limited and Ultima United Ltd. Mr Lewis has also held the position of Director at Ardiden Limited, Ultima United Limited and Hawkley Oil and Gas Limited in the past three years. Mr Lewis has extensive contacts within various financial institutions and broking houses within Australia and the UK. Mr Lewis holds a Bachelor of Commerce (Accounting and Finance).

Mr Lewis holds 459,157 fully paid ordinary shares at the date of this report. Please refer to the Remuneration report for further details.

**Michael (Mike) Young** – Non-Executive Director

*(Appointed 9 February 2017)*

BSc (Hon), MAusIMM, MAIG, MSEG

Mr Young has more than 12 years' of executive and director experience including senior roles at Vimy Resources Limited, Cassini Resources Limited, BC Iron Limited and Bannerman Resources Limited. He brings valuable corporate and capital market expertise to the company. Mr Young is currently Managing Director and CEO of Vimy Resources Limited, Non-Executive Chairman of Cassini Resources Limited. In the last three years Mr Young has also held the position of Non-Executive Director at Ascot Resources Limited.

# DIRECTORS' REPORT

**Arron Canicais** – Joint Company Secretary

*(Appointed 17 March 2017)*

CA GIA

Mr Canicais is a corporate advisory executive of corporate advisory firm Smallcap Corporate Pty Ltd, which specialises in corporate advice and compliance administration to public companies. Mr Canicais has been involved in financial reporting and corporate compliance for over 10 years. Mr Canicais is an associate member of the Institute of Chartered Accountants and an associate member of the Governance Institute of Australia.

## 12. Meetings of Directors

At the date of this Directors' Report, there are no separate committees for remuneration, audit, nomination, finance, due diligence or operations. The Directors believe that the Company is not currently of a size nor are its affairs of such complexity as to warrant the establishment of these separate committees. Accordingly, all matters capable of delegation to such committees are considered by the Board of Directors in its entirety.

| | Number Board Meetings eligible to attend | Number of Board Meetings Attended |
|---|---|---|
| Chris Singleton | 3 | 3 |
| Piers Lewis | 3 | 3 |
| Mike Young | 3 | 3 |
| Cyril Daoud | 3 | 3 |

## 13. Options

**Unissued shares under option**

As at 30 June 2018, there were 10,750,000 un-issued ordinary shares of Cycliq Group Limited under option (listed or unlisted). The details of the options are as follows:

| | Number | Exercise Price $ | Expiry Date |
|---|---|---|---|
| Options approved at 2017 AGM | 10,750,000 | $0.03 | 30-Nov-2019 |

**Shares issued upon exercise of options**

No ordinary shares were issued by the Company as a result of the exercise of options during the year or since the end of the year.

## 14. Non-Audit Services

There were no non-audit services provided during the year by the auditor.

## 15. Indemnifying Officers or Auditor

The Company has agreed to indemnify the directors of the Company, the directors of controlled entities and executive officers against all liabilities to other persons (other than the Company or a related body corporate) that may arise from their position as directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

During the year the Company paid insurance premiums to insure Directors and Officers against certain liabilities arising out of their conduct while acting as an officer of the Group. Under the terms and conditions of the insurance contract, the nature of the liabilities insured against and the premium paid cannot be disclosed.

# DIRECTORS' REPORT

## 16. Environmental Issues

In the normal course of business, there are no environmental regulations or requirements that the Company is subject to.

The Directors have considered the enacted National Greenhouse and Energy Reporting Act 2007 (the NGER Act) which introduced a single national reporting framework for the reporting and dissemination of information about the greenhouse gas emissions, greenhouse gas projects, and energy use and production of corporations. At the current stage of development, the Directors have determined that the NGER Act has no effect on the Company for the current, nor subsequent, financial year. The Directors will reassess this position as and when the need arises.

## 17. Corporate Governance Statement

The Group's full Corporate Governance Statement can be found on its website at the following location:

www.cycliq.com

## 18. Auditors Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2018 has been received and can be found on the following page of this annual report.

**Bentleys Audit & Corporate (WA) Pty Ltd**
London House
Level 3,
216 St Georges Terrace
Perth WA 6000

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Cloisters Square WA 6850

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bentleys.com.au

To The Board of Directors

## Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

As lead audit partner for the audit of the financial statements of Cycliq Group Limited for the financial year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

Yours faithfully

Bentleys

**BENTLEYS**
**Chartered Accountants**

Mark Delaurentis

**MARK DELAURENTIS CA**
**Partner**

Dated at Perth this 31st day of August 2018

# DIRECTORS' REPORT – REMUNERATION REPORT (AUDITED)

The information in this remuneration report has been audited as required by s308(3C) of the Corporations Act 2001.

## 1. Remuneration Policy

The remuneration policy of Cycliq Group Limited has been designed to align director and management objectives with shareholder and business objectives by providing a fixed remuneration component, and offering specific long-term incentives based on key performance areas affecting the Group's financial results. The Board of Cycliq Group Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best management and directors to run and manage the Group, as well as create goal congruence between directors, executives and shareholders. The Board's policy for determining the nature and amount of remuneration for Board members and senior executives of the Group is as follows:

- All executives receive a base salary (which is based on factors such as length of service and experience), superannuation, options and performance incentives. The Board reviews executive packages annually by reference to the Group's performance, executive performance, and comparable information from industry sectors and other listed companies in similar industries.
- Non-Executive Directors and Executives receive superannuation guarantee contributions as required by legislation and do not receive any other retirement benefits. All remuneration paid to Directors and executives is valued at cost and expensed. Options and performance shares given to Directors and employees are valued using Black-Scholes methodology. The Board's policy is to remunerate Non-Executive Directors at the lower end of market rates for comparable companies for time, commitment, and responsibilities.
- The Group has an incentive option and performance share scheme in place intended to incentivise the Non-Executive Directors. The Board determines payments to the Non-Executive Directors and reviews their remuneration annually based on market practice, duties, and accountability. Independent external advice may be sought when required. The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders at the Annual General Meeting. Fees for Non-Executive Directors are not linked to the performance of the Group. However, to align Directors' interests with shareholder interests, Directors are encouraged to hold shares in the Company.

The remuneration policy has been tailored to increase the direct positive relationship between shareholders' investment objectives and directors' and executives' performance. Currently, this is facilitated through the performance share and incentive option scheme which aims to encourage the alignment of personal and shareholder interests. The Company believes this policy will be effective in increasing shareholder wealth.

## 2. Details of Board Remuneration

There were no cash bonuses paid during the year and there are no set performance criteria for achieving cash bonuses.

The table on the following page details the various components of remuneration for each member of the key management personnel of the Group. The term "Key Management Personnel" (or "**KMP**") (as defined in AASB 124 Related Party Disclosures) refers to those persons having authority and responsibility for planning, directing and controlling the activities of the group directly or indirectly including any Director (whether executive or otherwise) of the Group. The Key Management Personnel of the Group are the following Non-Executive and Executive Directors and officers of the Group.

- Chris Singleton — Acting Chief Executive Officer and Executive Chairman
- Piers Lewis — Non-Executive Director
- Mike Young — Non-Executive Director
- Cyril Daoud — Non-Executive Director
- John Turner — Chief Operating and Financial Officer
- Kingsley Fiegert — Chief Development Officer (Resigned 27 April 2018)
- Terence Yap — Global Head of Sales (Resigned 31 January 2018)

No other employee had authority or responsibility for planning, directing and controlling the activities of the Company, either directly or indirectly, during the financial year.

## DIRECTORS' REPORT – REMUNERATION REPORT (AUDITED)

The tables below set out the summary information about the consolidated entity's earnings and movements in shareholder wealth for the period since listing to 30 June 2018.

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Revenue | 4,897,148 | 2,282,203 |
| Net profit before tax | (3,855,124) | (4,473,286) |
| Net profit after tax | (3,855,124) | (4,473,286) |

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Share price at the start of the year | 0.020 | 0.020 |
| Share price at the end of the year | 0.013 | 0.020 |
| Interim Dividend | - | - |
| Final Dividend | - | - |
| Basic and diluted loss per share | (0.50) | (1.28) |

### 2018 – Consolidated Group

| | Short-term benefits[4] | | | | Post-employment Benefits | | Equity-settled share-based payments | | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Salary, fees and leave<br>$ | Profit share and bonuses<br>$ | Non-monetary<br>$ | Other<br>$ | Superannuation<br>$ | Termination Benefits<br>$ | Equity<br>$ | Options/ Performance Shares<br>$ | Total<br>$ |
| Chris Singleton* | 178,100 | - | - | - | - | - | 123,200 | 1,921 | 303,221 |
| Mike Young | 40,000 | - | - | - | - | - | - | - | 40,000 |
| Cyril Daoud | 40,000 | - | - | - | - | - | - | - | 40,000 |
| Piers Lewis | 40,000 | - | - | - | - | - | - | - | 40,000 |
| ***Other Current Key Management Personnel*** | | | | | | | | | |
| Terence Yap | 128,000 | - | - | - | - | - | - | - | 128,000 |
| Kingsley Fiegert | 140,492 | - | - | - | 12,196 | - | - | (18,736)** | 133,952 |
| John Turner | 197,115 | - | - | - | 18,726 | - | - | - | 215,841 |
| ***Total*** | 763,707 | - | - | - | 30,922 | - | 123,200 | (16,815) | 901,014 |

*Chris Singleton's remuneration includes acting Chief Executive Officer fees of $128,100 relating to services performed during the financial year ended 30 June 2018. The full amount was recorded as an accrued liability at 30 June 2018.

The percentage of Chris Singleton's total remuneration which is performance based is 0.63% derived from performance based options issued in in the financial year ended 30 June 2017. No other KMP's had performance based remuneration during the financial year ended 30 June 2018.

** A total of $18,736 was recorded in the financial year ended 30 June 2017 in relation to Tranche 1 of performance based options issued to Kingsley Fiegert as it was deemed probable that the performance milestone associated with that Tranche would be met. During the financial year ended 30 June 2018 this tranche of options was forfeited and the expense recorded in the previous financial year was reversed.

# DIRECTORS' REPORT – REMUNERATION REPORT (AUDITED)

## 2017 – Consolidated Group

| | Short-term benefits[4] | | | | Post-employment Benefits | | Equity-settled share-based payments | | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Salary, fees and leave $ | Profit share and bonuses $ | Non-monetary $ | Other $ | Superannuation $ | Termination Benefits $ | Equity $ | Options/ Performance Shares $ | Total $ |
| Chris Singleton | 29,167 | - | - | - | - | - | - | 9,312 | 38,479 |
| Mike Young | 15,833 | - | - | - | - | - | - | - | 15,833 |
| Andrew Hagen | 139,213 | - | - | - | 11,663 | - | - | - | 150,876 |
| Cyril Daoud | 11,505 | - | - | - | - | - | - | - | 11,505 |
| Piers Lewis | 38,338 | - | - | - | - | - | - | - | 38,338 |
| ***Other Current Key Management Personnel*** | | | | | | | | | |
| Terence Yap | 40,000 | - | - | - | - | - | - | - | 40,000 |
| Kingsley Fiegert | 132,896 | - | - | - | 11,063 | - | - | 74,499 | 218,458 |
| John Turner | 125,865 | - | - | - | 11,957 | - | - | - | 137,822 |
| ***Total*** | 532,817 | - | - | - | 34,683 | - | - | 83,811 | 651,311 |

### 3. Service Agreements

Remuneration and other terms of employment for the following Key Management Personnel are formalised in employment agreements. The significant terms of employment at the date of this report are set out below:

**Chris Singleton**

Mr Singleton's current service agreement has been in place since his commencement of employment on 29 November 2016.

*Other Details*

Mr Singleton's remuneration comprises director's fees of $50,000 per annum and contracted Chief Executive Officer consulting fees of $18,300 per month. Mr Singleton commenced his role as acting Chief Executive Officer on 1 December 2017.

**Mike Young**

Mr Young's current service agreement has been in place since his commencement of employment on 9 February 2017.

*Other Details*

Mr Young's remuneration comprises director's fees of $40,000.

**Cyril Daoud**

Mr Daoud's current service agreement has been in place since his commencement of employment on 17 March 2017.

*Other Details*

Mr Daoud's remuneration comprises director's fees of $40,000 per annum.

**Piers Lewis**

Mr Lewis current service agreement has been in place since his commencement of employment on 29 November 2017.

*Other Details*

Mr Lewis remuneration comprises director's fees of $40,000 per annum.

**John Turner**

Mr Turner's current service agreement has been in place since 13 October 2016. Mr Turner commenced his employment with the Group on 13 October 2016 as Chief Financial Officer and was appointed Chief Operating Officer on 28 April 2017.

*Notice period and Term of Agreement:*

The agreement may be terminated by either the company or Mr Turner by giving at least 4 weeks notice.

*Other Details*

Mr Turner's remuneration comprises a salary of $200,000 per annum, plus superannuation guarantee contributions as required by law (currently 9.5% of gross salary). Mr Turner is entitled to annual leave and long service leave as required by law.

# DIRECTORS' REPORT – REMUNERATION REPORT (AUDITED)

## 4. Share-based Remuneration

**Shares issued to kay management personnel**

5,600,000 fully paid ordinary shares were issued to director, Chris Singleton during the period. The fair value of the ordinary shares issued was determined by reference to market price at grant date.

**Performance shares**

There has been no change to the valuation methodology applied to 10,000,000 performance shares issued to employees and consultants in previous periods. The performance milestones and valuation methodology are outlined in the notes to the 30 June 2017 consolidated financial statements.

**Options**

There were no new options over ordinary shares issued during the period.

There was no other share-based remuneration made to Directors during the period.

## 5. Key Management Personnel Equity Holdings

a) Fully paid ordinary shares of Cycliq Group Limited held by each Key Management Personnel

| 2018 - Group | Opening balance | Received during the year as remuneration | Other changes during the year | Consolidation of share capital | Balance at end of year |
|---|---|---|---|---|---|
| | No. | No. | No. | No. | No |
| Chris Singleton | - | 5,600,000 | 2,500,000 | - | 8,100,000 |
| Mike Young | - | - | - | - | - |
| Kingsley Fiegert* | 7,610,539 | - | - | - | 7,610,539 |
| Cyril Daoud | - | - | - | - | - |
| Piers Lewis | 459,157 | - | - | - | 459,157 |
| Terence Yap | - | - | - | - | - |
| John Turner | 1,000,000 | - | - | - | 1,000,000 |
| | 9,069,696 | 5,600,000 | 2,500,000 | - | 17,169,696 |

Balance at the end of the year represents Directors' interests as of their respective resignation dates. Please refer "Details of Board Remuneration", above, for resignation dates of individual Directors.

*Kingsley Fiegert holds an additional 73,834,800 ordinary shares escrowed until 8 December 2018.

| 2017 - Group | Opening balance | Received during the year as remuneration | Other changes during the year | Consolidation of share capital | Balance at end of year |
|---|---|---|---|---|---|
| | No. | No. | No. | No. | No |
| Chris Singleton | - | - | - | - | - |
| Mike Young | - | - | - | - | - |
| Kingsley Fiegert | - | - | 7,610,539 | - | 7,610,539 |
| Andrew Hagen | - | - | 2,960,538 | - | 2,960,538 |
| Cyril Daoud | - | - | - | - | - |
| Piers Lewis | - | - | 459,157 | - | 459,157 |
| Terence Yap | - | - | - | - | - |
| John Turner | - | - | - | - | - |
| | - | - | 11,030,234 | - | 11,030,234 |

## DIRECTORS' REPORT – REMUNERATION REPORT (AUDITED)

b) Options and Performance shares in Cycliq Group Limited held by each Key Management Personnel

| 2018 - Group | Opening balance No. | Granted as remuneration during the year No. | Exercised during the year No. | Other changes during the year No. | Consolidation of share capital No. | Balance at end of year No. | Vested and Exercisable |
|---|---|---|---|---|---|---|---|
| Chris Singleton | 2,150,000 | - | - | - | - | 2,150,000 | 537,500 |
| Mike Young | - | - | - | - | - | - | - |
| Kingsley Fiegert | 21,850,000 | - | - | (12,900,000) | - | 8,950,000 | 4,300,000 |
| Cyril Daoud | - | - | - | - | - | - | - |
| Piers Lewis | - | - | - | - | - | - | - |
| Terence Yap | - | - | - | - | - | - | - |
| John Turner | - | - | - | - | - | - | - |
| | 24,000,000 | - | - | (12,900,000) | - | 11,100,000 | 4,837,500 |

Balances at end of year represents Directors' interests as of their respective resignation dates. Please refer "Details of Board Remuneration", above, for resignation dates.

| 2017 - Group | Opening balance No. | Granted as remuneration during the year No. | Exercised during the year No. | Other changes during the year No. | Consolidation of share capital No. | Balance at end of year No. | Vested and Exercisable |
|---|---|---|---|---|---|---|---|
| Chris Singleton | - | 2,150,000 | - | - | - | 2,150,000 | 752,000 |
| Mike Young | - | - | - | - | - | - | - |
| Kingsley Fiegert | - | 17,200,000 | - | 4,650,000 | - | 21,850,000 | 6,020,000 |
| Andrew Hagen | - | 17,200,000 | - | 4,650,000 | - | 21,850,000 | 6,020,000 |
| Cyril Daoud | - | - | - | - | - | - | - |
| Piers Lewis | - | - | - | - | - | - | - |
| Terence Yap | - | - | - | - | - | - | - |
| John Turner | - | - | - | - | - | - | - |
| | - | 36,550,000 | - | 9,300,000 | - | 45,850,000 | 12,792,000 |

### 6. Other Transactions with Key Management Personnel

**Equity-based Key Management Personnel Transactions**

There have been no other transactions with Key Management Personnel involving equity instruments other than those detailed above.

**Loans to Key Management Personnel**

There were no loans made to Directors or KMP during the period or as at 30 June 2018 (2017: NIL)

# DIRECTORS' REPORT – REMUNERATION REPORT (AUDITED)

**Loan from Key Management Personnel**

During the financial year ended 30 June 2018, a trade finance facility was put in place with a group of shareholders to provide a total facility limit of $1.5m as at 30 June 2018. The Board had pre-approved an extension of this facility to be negotiated with shareholders for an additional $500,000 as and when necessary. Of the $1.5m facility limit at 30 June 2018, $1m of this was provided by The Toad Group Pty Ltd, a related entity of Executive Chairman, Chris Singleton. As at 30 June 2018, $510,000 of the available balance was drawn down at an annualized interest rate of 16% p.a, all of which was provided by The Toad Group Pty Ltd.

The parties to the loan facility agreement shall receive equal ranking first priority general security interest over the business assets of Cycliq Products Pty Ltd – being the operating subsidiary of Cycliq Group Ltd.

| **Other transactions with Key Management Personnel or their Related Parties** | 2018<br>$ |
|---|---|
| All transactions with related parties are on commercial terms and under conditions no more favourable than those available to other parties unless otherwise stated. | |
| Related entity: | |
| SmallCap Corporate Pty Ltd – Corporate secretarial and accounting services | 35,339 |
| Clear Corporate Solutions – Subcontract Labour | 348,088 |
| Toad Group Pty Ltd – Accrued interest on trade finance facility | 14,687 |
| Transactions with KMP | |
| Short-term employee benefits | 763,307 |
| Post-employment benefits | 30,922 |
| Share Based Payments | 106,835 |
| Employment of Directors' spouses (Group expense)<br>Directors' spouses were employed within the business during the period via Bunk Marketing consulting services | |
| consulting services | 152,679 |

**END OF AUDITED REMUNERATION REPORT**

This Report of the Directors, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors.

**Chris Singleton – Executive Chairman**

Dated this Friday, 31 August 2018

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2018

| | Note | 2018 $ | 2017 $ |
|---|---|---|---|
| Continuing operations | | | |
| Revenue | 2 | 4,897,148 | 2,282,203 |
| Cost of Sales | | (3,313,729) | (1,767,065) |
| Gross Profit | | 1,583,419 | 515,138 |
| Other income | 2 | 366,504 | 250,239 |
| Administrative expenses | | (156,046) | (464,164) |
| Distribution expenses | | (1,070,690) | (686,403) |
| Depreciation and amortisation | 3 | (677,886) | (228,799) |
| Employment costs | 3 | (2,407,818) | (1,494,408) |
| Finance costs | | (16,196) | (95,793) |
| Impairment | | - | (16,134) |
| Legal and consulting fees | | (316,513) | (82,878) |
| Occupancy costs | | (51,518) | (54,116) |
| Other operating expenses | | (348,002) | (503,710) |
| Share-based payments | 18 | (671,303) | (711,661) |
| Research and development expenses | | (89,075) | (57,001) |
| Corporate transaction accounting expense | | - | (843,596) |
| Loss before income tax | | (3,855,124) | (4,473,286) |
| Income tax benefit / (expense) | 5 | - | - |
| Loss from continuing operations | | (3,855,124) | (4,473,286) |
| *Profit/ (loss) attributable to minority interests* | | (13,659) | - |
| *Profit/ (loss) attributable to members of the parent entity* | | (3,841,465) | (4,473,286) |
| | | (3,855,124) | (4,473,286) |
| Other comprehensive income, net of income tax | | | |
| *Exchange difference on translating foreign operations attributable to Minority interest* | | - | - |
| *Exchange difference on translating foreign operations attributable to Parent* | | 12,430 | 55,490 |
| Other comprehensive income for the year, net of tax | | 12,430 | 55,490 |
| Total comprehensive income / (loss) | | (3,842,694) | (4,417,796) |
| *Profit/ (loss) attributable to minority interests* | | (13,659) | - |
| *Profit/ (loss) attributable to members of the parent entity* | | (3,829,035) | (4,417,796) |
| | | (3,842,694) | (4,417,796) |
| *Earnings per share:* | | | |
| *Basic and diluted loss per share (cents per share)* | 6 | (0.50) | (1.28) |

*The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the accompanying notes*

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

| | Note | 2018<br>$ | 2017<br>$ |
|---|---|---|---|
| Current assets | | | |
| Cash and cash equivalents | 7 | 315,046 | 3,253,972 |
| Trade and other receivables | 8 | 789,540 | 253,974 |
| Inventories | 11 | 727,348 | 459,651 |
| Prepayments | | 411,180 | 504,082 |
| Total current assets | | 2,243,114 | 4,471,679 |
| Non-current assets | | | |
| Plant and equipment | 9 | 219,466 | 487,589 |
| Intangible assets | 10 | 573,137 | 414,873 |
| Total non-current assets | | 792,603 | 902,462 |
| **Total assets** | | 3,035,717 | 5,374,141 |
| Current liabilities | | | |
| Trade and other payables | 13 | 723,722 | 441,284 |
| Provisions | 14 | 124,170 | 157,786 |
| Borrowings | 15 | 535,907 | 17,779 |
| Total current liabilities | | 1,383,799 | 616,849 |
| **Total liabilities** | | 1,383,799 | 616,849 |
| **Net assets / (deficiency)** | | **1,651,918** | **4,757,292** |
| Equity | | | |
| Issued capital | 16 | 12,122,191 | 11,412,975 |
| Reserves | 17 | 310,711 | 270,177 |
| Accumulated losses | | (10,767,325) | (6,925,860) |
| **Parent entity interest** | | **1,665,577** | **4,757,292** |
| **Minority interest** | | **(13,659)** | - |
| **Total equity** | | **1,651,918** | **4,757,292** |

*The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the accompanying notes*

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2018

| | Note | Issued Capital $ | Accumulated Losses $ | Foreign Currency Translation Reserve $ | Share Based Payments Reserve $ | Minority Interests $ | Total $ |
|---|---|---|---|---|---|---|---|
| Balance at 1 July 2016 | | 1,173,640 | (2,452,574) | (9,124) | - | - | (1,288,058) |
| Loss for the year attributable owners of the parent | | - | (4,473,286) | - | - | - | (4,473,286) |
| Other comprehensive income: | | | | | | | |
| Foreign exchange gains / (loss) on consolidation | | - | - | 55,490 | - | - | 55,490 |
| **Total comprehensive income for the year attributable owners of the parent** | | - | (4,473,286) | 55,490 | - | - | (4,417,796) |
| Transaction with owners, directly in equity | | - | - | - | - | - | - |
| Shares issued during the year | | 10,861,525 | - | - | - | - | 10,861,525 |
| Performance shares issued | | - | - | - | 223,811 | - | 223,811 |
| Transaction costs | | (622,190) | - | - | - | - | (622,190) |
| **Balance at 30 June 2017** | | **11,412,975** | **(6,925,860)** | **46,366** | **223,811** | **-** | **4,757,292** |
| Balance at 1 July 2017 | | 11,412,975 | (6,925,860) | 46,366 | 223,811 | - | 4,757,292 |
| Loss for the year attributable owners of the parent | | - | (3,841,465) | - | - | (13,659) | (3,855,124) |
| Other comprehensive income: | | | | | | | |
| Foreign exchange gains / (loss) on consolidation | | - | - | 12,430 | - | - | 12,430 |
| **Total comprehensive income for the year attributable owners of the parent** | | - | (3,841,465) | 12,430 | - | (13,659) | (3,842,694) |
| Transaction with owners, directly in equity | | | | | | | |
| Shares issued during the year | 16a | 709,216 | - | - | - | - | 709,216 |
| Performance shares issued | | - | - | - | 28,103 | - | 28,103 |
| Transaction costs | | - | - | - | - | - | - |
| **Balance at 30 June 2018** | | **12,122,191** | **(10,767,325)** | **58,796** | **251,914** | **(13,659)** | **1,651,918** |

*The consolidated statement of changes in equity is to be read in conjunction with the accompanying notes.*

*

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2018

| | Note | 2018<br>$ | 2017<br>$ |
|---|---|---|---|
| Cash flows from operating activities | | | |
| Receipts from customers | | 4,637,215 | 2,171,850 |
| Other income | | 64,334 | 250,239 |
| Payments to suppliers and employees | | (7,574,304) | (5,766,213) |
| Net cash used in operating activities | 7a | (2,872,755) | (3,344,123) |
| Cash flows from investing activities | | | |
| Purchase of businesses, net of cash acquired | | - | 34,764 |
| Purchase of intangible assets | | (547,755) | (323,743) |
| Purchases of property, plant and equipment | | (20,272) | (407,283) |
| Net cash used in investing activities | | (568,027) | (696,262) |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares | | - | 7,250,000 |
| Payments for share issue costs | | - | (622,190) |
| Repayment of borrowings | | (17,779) | (90,848) |
| Proceeds from borrowings | | 535,907 | - |
| Net cash provided by financing activities | | 518,128 | 6,536,962 |
| Net increase/(decrease) in cash held | | (2,922,654) | 2,496,577 |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | | (16,272) | - |
| Cash at beginning of year | | 3,253,972 | 757,395 |
| Cash at end of year | 7 | 315,046 | 3,253,972 |

*The consolidated statement of cash flows is to be read in conjunction with the accompanying notes.*

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2018

## NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

These are the consolidated financial statements and notes of Cycliq Group Limited ("Company") and controlled entities ("Consolidated Group" or "Group"). Cycliq Group Limited is a company limited by shares, domiciled and incorporated in Australia.

The separate financial statements of the parent entity, Cycliq Group Limited, have not been presented with this financial report as permitted by the Corporations Act 2001.

The financial statements were authorised for issue on 31 August 2018 by the Directors of the Company.

### a) Basis of preparation

The financial statements comprise the consolidated financial statements of the Group. For the purpose of preparing the consolidated financial statements, the Company is a for-profit entity. Material accounting policies adopted in the preparation of these financial statements are presented below. They have been consistently applied unless otherwise stated.

#### i. Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board (**AAS Board**) and International Financial Reporting Standards (**IFRS**) as issued by the International Accounting Standards Board (**IASB**), and the Corporations Act 2011 (Cth).

Australian Accounting Standards (**AASBs**) set out accounting policies that the AAS Board has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with AASBs ensures that the financial statements and notes also comply with IFRS as issued by the IASB.

#### ii. Financial position

The consolidated financial statements have been prepared on an accruals basis and are based on historical costs unless otherwise stated in the notes. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted. The amounts presented in the financial statements have been rounded to the nearest dollar.

#### iii. Going Concern

The financial report has been prepared on a going concern basis which contemplates the continuity of normal business activity, and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The Group incurred a loss for the financial year ended 30 June 2018 of $3,855,124 (2017: $4,473,286 loss) and net operating cash out-flows of $2,872,755 (2017: $3,344,123 out-flows). The net assets of the Group are $1,651,918 (2017: $4,757,292). As at 30 June 2018, the Group had cash and cash equivalents of $315,046 (2017: $3,253,972) and had a working capital surplus of $859,315 (2017: $3,854,830).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2018

Whilst the Group is in a net asset and net working capital surplus position, the incurred losses and operating cash outflows indicate a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern. The Directors however have prepared a cash flow forecast, which indicates that the Group will have sufficient cash flows to meet all commitments and working capital requirements for the 12-month period from the date of signing this financial report.

The Directors believe it is appropriate to prepare these accounts on a going concern basis because the Group:

- expects to start generating positive operating cash flows for the next 12-month period from existing businesses; will also look to launch further new product lines during this time to complement existing product offerings;
- executed a $1,500,000 trade finance facility (refer note 15) during FY 18 to assist with the management of current working capital requirements and the directors are confident that further funds will be raised as and when required during the year.

The ability of the Group to continue to pay its debts as and when they fall due is dependent upon the consolidating entity generating consistent profits during the next 12 months from existing operations, and if required raising additional capital to meet any shortfall should the consolidated entity require it. Should the Group not achieve these results or be unable to raise additional capital, there is material uncertainty whether the consolidated entity would continue as a going concern and therefore whether it would realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements.

The financial statements do not include any adjustment relating to the recoverability or classification of recorded asset amounts or to the amounts or classifications of liabilities that might be necessary should the Group not be able to continue as a going concern.

### iv. Use of estimates and judgements

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period which the estimate is revised and in any future periods affected.

Judgments made by management in the application of AASBs that have significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 1o.

### v. Comparative figures

Where required by AASBs comparative (2017) figures have been adjusted to conform with changes in presentation for the current financial year.

Where the Group retrospectively applies an accounting policy, makes a retrospective restatement or reclassifies items in its financial statements, an additional (third) statement of financial position as at the beginning of the preceding period in addition to the minimum comparative financial statements is presented.

## b) Principles of consolidation

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended. Where controlled entities have entered or left the Consolidated Group during the year, their operating results have been included or excluded from the date control was obtained or ceased.

### i. Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control exists when the Group is exposed to variable returns from another entity and has the ability to affect those returns through its power over the entity.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquire; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; *less*
- the net recognised amount of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

### ii. Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

A list of controlled entities is contained at note 12 Controlled Entities.

### iii. Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, than such interest is measured at fair value at the date control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

### iv. Transactions eliminated on consolidation

All intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

## c) Income tax

The income tax expense/(income) for the year comprises current income tax expense/(income) and deferred tax expense/(income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items recognised outside profit or loss.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2018

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

## d) Inventories

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

## e) Property, plant, and equipment

### i. Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation (see below) and impairment losses (impairment losses are discussed further in note 1i(vii).

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in profit or loss.

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have not been discounted to their present values in determining recoverable amounts.

### ii. Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as an expense as incurred.

### iii. Depreciation

Depreciation is charged to the income statement on a straight-line basis over the asset's useful life to the consolidated group commencing from the time that the assets is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

| | 2018<br>% | 2017<br>% |
|---|---|---|
| Countertop Display advertising units | 50% | 33% |
| Computer equipment | 33% | 33% |
| Office furniture and equipment | 33% | 33% |
| Test Model | 33% | 33% |

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

## f) Intangibles

### i. Intangible assets other than goodwill

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value as 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.

Research costs are expensed in the period which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the consolidated entity is able to use or sell the asset; the consolidated entity has sufficient resources and intent to complete the development and its costs can be measured reliably. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit.

### ii. Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of the acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group’s cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

## g) Employee benefits

### i. Defined contribution superannuation funds

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions onto a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution superannuation funds are recognised as an expense in the income statement as incurred.

### ii. Short-term benefits

Liabilities for employee benefits for wages, salaries, superannuation and leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees’ services provided to the reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay at the reporting date including related on-costs, such as workers’ compensation insurance and payroll tax. Liabilities for employee benefits expected to be settled in excess of the 12 months from reporting date are recognised as non-current liabilities.

Non-accumulating non-monetary benefits, such as medical care, housing, cars and free or subsidised goods and services, are expensed based on the net marginal cost to the Group as the benefits are taken by employees.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

iii. Termination benefits

When applicable, the Group recognises a liability and expense for termination benefits at the earlier of the date when the Group can no longer withdraw the offer for termination benefits and the date when the Group recognises costs for restructuring pursuant to AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and the costs include termination benefits. In either case, unless the number of employees affected is known, the obligation for termination benefits is measured on the basis of the number of employees expected to be affected. Termination benefit that are expected to be settled wholly before 12 months after the annual reporting period in which the benefits are recognised are measured at the (undiscounted) amounts expected to be paid. All other termination benefits are accounted for on the same basis as other long-term employee benefits.

iv. Equity-settled compensation

The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of options granted is measured using the Black-Scholes pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to market conditions not being met.

### h) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to entities in the Group are classified as finance leases.

Leased assets are depreciated on a straight-line basis over their estimated useful lives where it is likely that the Group will obtain ownership of the asset or over the term of the lease.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised in the income statement on a straight-line basis over the term of the lease.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

### i) Financial instruments

i. Initial recognition and measurement

A financial instrument is recognised if the Group becomes party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Group's obligations specified on the contract expire or are discharged or cancelled.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

ii. Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity securities, trade and other receivables, cash and cash equivalents and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transactions costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

iii. Classification and Subsequent Measurement

(1) *Cash and cash equivalents*

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of nine (9) months or less, and bank overdrafts. Bank overdrafts are shown within short-borrowings in current liabilities on the Statement of financial position.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2018

(2) *Loans*

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period.

(3) *Trade and other receivables*

Receivables are usually settled within 60 days. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Collectability of trade and other receivables is reviewed on an ongoing basis. An impairment loss is recognised for debts which are known or expected to be uncollectible. An impairment provision is raised for any doubtful amounts.

(4) *Trade and other payables*

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid and stated at their amortised cost. The amounts are unsecured and are generally settled on 30 day terms.

(5) *Share capital*

Ordinary issued capital is recorded at the consideration received. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any related income tax benefit. Ordinary issued capital bears no special terms or conditions affecting income or capital entitlements of the shareholders.

### iv. Amortised cost

Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

### v. Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

### vi. Effective interest method

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) over the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying amount with a consequential recognition of an income or expense item in profit or loss.

### vii. Impairment

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Financial assets are tested for impairment on an individual basis.

All impairment losses are recognised in the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in the income statement.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2018

viii. Derecognition

Financial assets are derecognised where the contractual rights to cash flow expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

ix. Finance income and expenses

Finance income comprises interest income on funds invested (including available-for-sale financial assets), gains on the disposal of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Financial expenses comprise interest expense on borrowings calculated using the effective interest method, unwinding of discounts on provisions, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets. All borrowing costs are recognised in profit or loss using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in income in the period in which they are incurred.

Foreign currency gains and losses are reported on a net basis.

### j) Impairment of non-financial assets

The carrying amounts of the Group’s non-financial assets, other than deferred tax assets (see accounting policy 1c) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset’s recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement, unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment loss had been recognised.

### k) Provisions

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

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

Provisions are measured at the present value of management’s best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2018

## l) Revenue and other income

Interest revenue is recognised in accordance with note 1(i)ix Finance income and expenses.

Revenue from the sale of goods and services is measured at the fair value of the consideration received or receivable, net of returns and allowances. Revenue is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due or there is a risk of return of goods or there is continuing management involvement with the goods.

All revenue is stated net of the amount of value added taxes (note 1m Goods and Services Tax).

## m) Goods and Services Tax

Goods and Services Tax (**GST**) is the term for the broad-based consumption taxes that the Group is exposed to in Australia.

Revenues, expenses, and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

The net amount of GST recoverable from, or payable to, the Australian Taxation Office is included as a current asset or liability in the balance sheet.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

## n) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' results are regularly reviewed by the Group's Managing Director to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

## o) Critical Accounting Estimates and Judgments

Management discusses with the Board the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates. The estimates and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### i. Key judgment: Going Concern

Refer Note 1(a)iii Going concern.

### ii. Key estimate: Impairment

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. As a result of this review, the Group has determined that no material impairment was required.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

iii. Key estimate: Provision for warranty claims

The group provides warranties to customers for a number of its products. Judgement is required in determining the warranty provision required to be recognised to fulfil any warranty claims. The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The best estimate is based on historical experience and an understanding of the product base applied against sales within the warranty period.

iv. Key estimate: Taxation

Balances disclosed in the financial statements and the notes thereto, related to taxation, are based on the best estimates of directors. These estimates take into account both the financial performance and position of the Group as they pertain to current income taxation legislation, and the directors understanding thereof. No adjustment has been made for pending or future taxation legislation. The current income tax position represents that directors' best estimate, pending an assessment by the Australian Taxation Office.

v. Key estimate: Share-based payments

The value attributed to share options and remuneration shares issued is an estimate calculated using an appropriate mathematical formula based on Black-Scholes option pricing model. The choice of models and the resultant option value require assumptions to be made in relation to the likelihood and timing of the conversion of the options to shares and the value and volatility of the price of the underlying shares. Details of share-based payments assumptions are detailed in Note 18.

## p) New, revised or amending Accounting Standards and Interpretations adopted

The group 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. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the group during the financial year.

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

## q) 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 group for the annual reporting period ended 30 June 2018. The group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the group, are set out below.

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 July 2018. The Standard will be applicable retrospectively (subject to the provisions on hedge accounting outlined below) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

The key changes that may affect the Group on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, upfront accounting for expected credit loss, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. AASB 9 also introduces a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items. Should the entity elect to change its hedge policies in line with the new hedge accounting requirements of the Standard, the application of such accounting would be largely prospective.

The directors do not anticipate that the adoption of AASB 15 will have a material impact on the Group's financial statements in the financial year ended 30 June 2019.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2018

### AASB 15 Revenue from Contracts with Customers

Applicable to annual reporting periods beginning on or after 1 July 2018, as deferred by AASB 2015-8: Amendments to Australian Accounting Standards – Effective Date of AASB 15).

When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Apart from a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers.

The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract(s); and
- recognise revenue when (or as) the performance obligations are satisfied.

The transitional provisions of this Standard permit an entity to either: restate the contracts that existed in each prior period presented per AASB 108: Accounting Policies, Changes in Accounting Estimates and Errors (subject to certain practical expedients in AASB 15); or recognise the cumulative effect of retrospective application to incomplete contracts on the date of initial application. There are also enhanced disclosure requirements regarding revenue.

The directors do not anticipate that the adoption of AASB 15 will have a material impact on the Group's financial statements in the financial year ended 30 June 2019.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

AASB 16 Leases

Applicable to annual reporting periods beginning on or after 1 July 2019

When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117: Leases and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases.

The main changes introduced by the new Standard are as follows:

- recognition of a right-of-use asset and liability for all leases (excluding short-term leases with less than 12 months of tenure and leases relating to low-value assets);
- depreciation of right-of-use assets in line with AASB 116: Property, Plant and Equipment in profit or loss and unwinding of the liability in principal and interest components;
- inclusion of variable lease payments that depend on an index or a rate in the initial measurement of the lease liability using the index or rate at the commencement date;
- application of a practical expedient to permit a lessee to elect not to separate non-lease components and instead account for all components as a lease; and
- inclusion of additional disclosure requirements.

The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with AASB 108 or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application.

Although the directors anticipate that the adoption of AASB 16 will impact the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact

AASB 2014-10: Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Applicable to annual reporting periods beginning on or after 1 July 2018, as deferred by AASB 2015-10: Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128).

This Standard amends AASB 10: Consolidated Financial Statements with regards to a parent losing control over a subsidiary that is not a "business" as defined in AASB 3: Business Combinations to an associate or joint venture, and requires that:

- a gain or loss (including any amounts in other comprehensive income (OCI)) be recognised only to the extent of the unrelated investor's interest in that associate or joint venture;
- the remaining gain or loss be eliminated against the carrying amount of the investment in that associate or joint venture; and
- any gain or loss from remeasuring the remaining investment in the former subsidiary at fair value also be recognised only to the extent of the unrelated investor's interest in the associate or joint venture. The remaining gain or loss should be eliminated against the carrying amount of the remaining investment.

The application of AASB 2014-10 will result in a change in accounting policies for transactions of loss of control over subsidiaries (involving an associate or joint venture) that are businesses per AASB 3 for which gains or losses were previously recognised only to the extent of the unrelated investor's interest.

The transitional provisions require that the Standard should be applied prospectively to sales or contributions of subsidiaries to associates or joint ventures occurring on or after 1 July 2018. Although the directors anticipate that the adoption of AASB 2014-10 may have an impact on the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

## NOTE 2 REVENUE AND OTHER INCOME

| | 2018 $ | 2017 $ |
|---|---|---|
| a) Revenue | | |
| Fly 12 sales | 1,125,657 | 1,139,583 |
| Fl y6 sales | 977,653 | 1,024,138 |
| Fly 12CE sales | 1,414,262 | - |
| Fly 6CE sales | 1,232,413 | - |
| Other accessories sales | 147,163 | 118,482 |
| | 4,897,148 | 2,282,203 |
| b) Other Income | | |
| Interest Income | 3,739 | 7,422 |
| Grant income | 362,765 | 242,817 |
| | 366,504 | 250,239 |

## NOTE 3 PROFIT / (LOSS) BEFORE INCOME TAX

| | 2018 $ | 2017 $ |
|---|---|---|
| The following significant revenue and expense items are relevant in explaining the financial performance: | | |
| **Depreciation and amortisation** | | |
| Depreciation of property, plant and equipment | (288,396) | (77,918) |
| Amortisation of intangible assets | (389,490) | (150,881) |
| | (677,886) | (228,799) |
| **Employment costs** | | |
| Key management personnel remuneration | 635,707 | 373,275 |
| General wages, salaries and superannuation | 871,214 | 1,062,660 |
| Other employment related costs | 900,897 | 58,473 |
| | 2,407,818 | 1,494,408 |

## NOTE 4 AUDITORS REMUNERATION

| | 2018 $ | 2017 $ |
|---|---|---|
| **Auditing or reviewing the financial reports** | | |
| Bentleys | 41,698 | 41,302 |
| | 41,698 | 41,302 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

### NOTE 5 INCOME TAX

| | 2018 $ | 2017 $ |
|---|---|---|
| **a) Income tax expense / (benefit)** | | |
| Current tax (benefit) / expense | - | - |
| Deferred tax expense / (benefit) | - | - |
| | - | - |
| **b) Reconciliation of income tax expense to prima facie tax payable** | | |
| The prima facie tax payable / (benefit) on loss from ordinary activities before income tax is reconciled to the income tax expense as follows: | - | - |
| Loss from continuing operations before income tax expense | (3,855,124) | (4,473,286) |
| Australian tax rate % | 27.5 | 27.5 |
| Tax amount at the Australian tax rate | (1,060,159) | (1,230,154) |
| Add / (Less) the tax effect of: | | |
| Non-deductible expenses | 193,210 | 307,271 |
| Non-taxable income | (82,425) | (55,775) |
| Effect of unrecognised temporary difference | (18,508) | 180,462 |
| Deferred tax asset not brought to account | 967,882 | 798,196 |
| Total income tax expense/ (benefit) | - | - |
| c) Deferred tax liabilities | | |
| The balance comprises temporary differences attributable to: | | |
| Unrealised foreign exchange losses | 7,080 | - |
| Employee benefits | 11,664 | 14,219 |
| Accrued expenses | 7,268 | 26,595 |
| Other provisions | 23,485 | 24,369 |
| Property, Plant and Equipment | 11,705 | - |
| Capital raising costs | 157,976 | 136,882 |
| Tax losses | 2,184,273 | 1,217,660 |
| Total deferred tax assets | 2,403,451 | 1,419,725 |
| Set-off deferred tax liabilities pursuant to set-off provisions | (11,521) | (4,426) |
| Less deferred tax assets not recognised | (2,391,930) | (1,419,725) |
| Net deferred tax assets | - | - |
| **d) Deferred tax liabilities** | | |
| The balance comprises temporary differences attributable to: | | |
| Accrued income | - | 4,426 |
| Prepayments | 9,892 | - |
| Unrealised foreign exchange gain | 1,629 | - |
| Total deferred tax liabilities | 11,521 | 4,426 |
| Set-off deferred tax liabilities pursuant to set-off provisions | (11,521) | (4,426) |
| Net deferred tax liabilities | - | - |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

## NOTE 6 EARNINGS PER SHARE (EPS)

| | 2018 $ | 2017 $ |
|---|---|---|
| **a) Reconciliation of earnings to profit or loss** | | |
| Loss used in the calculation of basic and diluted EPS | (3,841,465) | (4,473,286) |
| Weighted average number of ordinary shares outstanding during the year used in calculation of basic and diluted EPS | 761,945,230 | 348,197,711 |
| **Basic EPS (cents per share)** | (0.50) | (1.28) |

b) The Group does not report diluted earnings per share where options would not result in the issue of ordinary shares for less than average market price during the period ("out of the money"). In addition, the Group does not report diluted earnings per share on annual losses generated by the Group. At the end of the 30 June 2018 financial year, the Group had 10,750,000 unissued shares under option that were "out of the money" which were anti-dilutive (June 2017: 36,550,000).

## NOTE 7 CASH AND CASH EQUIVALENTS

| | 2018 $ | 2017 $ |
|---|---|---|
| Cash at bank | 315,046 | 3,253,972 |
| | 315,046 | 3,253,972 |
| **a) Reconciliation of cash flow from operations to loss after income tax** | | |
| Loss after income tax | (3,855,124) | (4,473,286) |
| Non-cash flows in profit from ordinary activities: | | |
| ▸ Depreciation | 677,886 | 228,799 |
| ▸ Corporate transaction accounting expense | - | 843,596 |
| ▸ Impairment | - | 16,134 |
| ▸ Accrued intertest – Trade finance facility | 14,486 | - |
| ▸ Accrued employee, contractor and ambassador fees | 333,705 | - |
| ▸ Share-based payments expense | 737,319 | 751,661 |
| ▸ Accrued grant income | (300,460) | - |
| ▸ Foreign currency gains/ (losses) | 28,703 | 55,490 |
| Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries | | |
| ▸ (Increase)/decrease in trade and other receivables | (142,204) | (644,560) |
| ▸ (Increase)/decrease in inventories | (267,697) | (399,624) |
| ▸ Increase/(decrease) in trade and other payables and accruals | (65,754) | 128,596 |
| ▸ Increase/(decrease) in provisions | (33,616) | 149,071 |
| Cash flow from operations | (2,872,755) | (3,344,123) |

b) **Credit standby facilities**

The Group has no credit standby facilities (2017: None).

Refer to Note 15 for details of Trade Finance facility entered into during the financial year ended 30 June 2018.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

## NOTE 8 TRADE AND OTHER RECEIVABLES

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| **Current** | | |
| Trade debtors | 388,141 | 150,889 |
| Less: provision for impairment | - | - |
| Accrued income receivable | 28,915 | 15,439 |
| Research and Development tax refund receivable | 300,460 | - |
| Other receivables | 11,445 | 4,997 |
| Goods and Services Tax receivable | 60,579 | 82,649 |
| | 789,540 | 253,974 |

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 23 Financial risk management.

## NOTE 9 PROPERTY, PLANT & EQUIPMENT

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| **Non-current** | | |
| Computer equipment at cost | 47,310 | 36,870 |
| Accumulated depreciation | (25,598) | (11,100) |
| | 21,711 | 25,770 |
| Office furniture and equipment at cost | 43,989 | 37,589 |
| Accumulated depreciation | (28,435) | (19,087) |
| | 15,554 | 18,502 |
| Leasehold Improvements | 3,433 | - |
| Accumulated depreciation | (1,133) | - |
| | 2,300 | - |
| Point of Presence countertop display units at cost | 503,367 | 503,367 |
| Accumulated depreciation | (323,466) | (60,050) |
| | 179,901 | 443,317 |
| Total property, plant, and equipment | **219,466** | **487,589** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

## NOTE 10 INTANGIBLE ASSETS

| | 2018 $ | 2017 $ |
|---|---|---|
| **Non-current** | | |
| Product development costs | 1,169,151 | 621,397 |
| Accumulated amortisation | (596,014) | (206,524) |
| Impairment | - | - |
| | 573,137 | 414,873 |
| Total Intangible assets | 573,137 | 414,873 |
| **Movements for the year** | | |
| Opening balance | 414,873 | 242,011 |
| Additions from internal developments | 547,754 | 323,743 |
| Amortisation | (389,490) | (150,881) |
| Closing balance | 573,137 | 414,873 |

## NOTE 11 INVENTORIES

| | 2018 $ | 2017 $ |
|---|---|---|
| Stock on hand at cost | 727,348 | 459,651 |
| Total Inventory assets | 727,348 | 459,651 |

## NOTE 12 CONTROLLED ENTITIES

a) **Legal parent entity**

Cycliq Group Limited is the ultimate parent of the Group

| i. **Legal subsidiaries** | Country of Incorporation | Class of Shares | Percentage Owned 30 June 2018 | Percentage Owned 30 June 2017 |
|---|---|---|---|---|
| - Cycliq Products Pty Ltd | Australia | Ordinary | 100% | 100% |
| - BSA International Limited** | British Virgin Islands | Ordinary | - | 100% |
| - Cycliq Research and Development (HK) Ltd* | Hong Kong | Ordinary | 50% | - |

b) **Accounting parent entity**

Cycliq Products Pty Ltd is the accounting parent of the Group

| ii. **Accounting subsidiaries** | Country of Incorporation | Class of Shares | Percentage Controlled 30 June 2018 | Percentage Controlled 30 June 2017 |
|---|---|---|---|---|
| - Cycliq Group Limited | Australia | Ordinary | 100% | 100% |
| - BSA International Limited** | British Virgin Islands | Ordinary | 100% | 100% |
| - Cycliq Research and Development (HK) Ltd* | Hong Kong | Ordinary | 50% | - |

*- Cycliq Research and Development (HK) Ltd was incorporated on the 14th of November 2017 with 50-50 shareholdings by Cycliq Group Limited and Glory Horse Investment Holdings Limited, but controlled by Cycliq Group Limited

**- Deregistration of Cycliq Products Pty Ltd's wholly owned subsidiary – BSA International Limited occurred on 28 July 2017

a. Investments in subsidiaries are accounted for at cost.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

## NOTE 13 TRADE AND OTHER PAYABLES

| | 2018 $ | 2017 $ |
|---|---|---|
| **Current** | | |
| *Unsecured* | | |
| Trade payables | 268,555 | 255,944 |
| Accrued expenses | 323,102 | 96,708 |
| Other payables | 132,065 | 88,632 |
| | 723,722 | 441,284 |

Trade payables are non-interest bearing and arise from the usual operating activities of the Group. Trade payables and other payables and accruals, except directors' fees, are usually settled within the lower of terms of trade or 30 days.

a) The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 23 Financial risk management.

## NOTE 14 PROVISIONS

| | 2018 $ | 2017 $ |
|---|---|---|
| **Current** | | |
| Provision for current employee benefits | 33,504 | 39,045 |
| Provision for warranty claims* | 85,399 | 88,616 |
| Provision for unearned income | 5,267 | 30,125 |
| | 124,170 | 157,786 |

*Refer note 1o(iii) for further details on warranty provision calculations.

## NOTE 15 BORROWINGS

| | 2018 $ | 2017 $ |
|---|---|---|
| **Current** | | |
| Insurance premium funding | 25,907 | 17,779 |
| Trade Finance Facility* | 510,000 | - |
| | 535,907 | 17,779 |

*During the financial year ended 30 June 2018, a trade finance facility was put in place with a group of shareholders to provide a total facility limit of $1.5m as at 30 June 2018. The Board had pre-approved an extension of this facility to be negotiated with shareholders for an additional $500,000 as and when necessary. Of the $1.5m facility limit at 30 June 2018, $1m of this was provided by The Toad Group Pty Ltd, a related entity of Executive Chairman, Chris Singleton. As at 30 June 2018, $510,000 of the available balance was drawn down at an annualized interest rate of 16% p.a, all of which was provided by The Toad Group Pty Ltd.

The parties to the loan facility agreement shall receive equal ranking first priority general security interest over the business assets of Cycliq Products Pty Ltd – being the operating subsidiary of Cycliq Group Ltd.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2018

## NOTE 16 ISSUED CAPITAL

| | 2018 No. | 2017 No. | 2018 $ | 2017 $ |
|---|---|---|---|---|
| Fully paid ordinary shares at no par value | 741,433,530 | 741,433,530 | 11,412,975 | 11,412,975 |
| **a) Ordinary shares** | | | | |
| At the beginning of the period | 741,433,530 | 5,000,000 | 11,412,975 | 1,173,640 |
| Shares issued during the period: | | | | |
| - Issue of shares | - | 736,433,530 | - | 10,861,525 |
| Shares issued to Glory Horse Investment Holding Limited | 28,409,091 | - | 500,000 | - |
| Shares issued to key management personnel | 5,600,000 | - | 123,200 | - |
| Shares issued to consultants | 4,341,869 | - | 88,016 | - |
| Transaction costs relating to share issues | - | - | (2,000) | (622,190) |
| At reporting date | 779,784,490 | 741,433,530 | 12,122,191 | 11,412,975 |

### b) Options

| | 2018 No. | 2017 No. |
|---|---|---|
| Unlisted options on issue at balance date | 36,550,000 | 36,550,000 |
| At the beginning of the period | 36,550,000 | - |
| - Options Granted * | - | 36,550,000 |
| - Forfeited | (25,800,000) | - |
| - Exercised | - | - |
| - Expired | - | - |
| Balance | 10,750,000 | 36,550,000 |
| Options exercisable at balance date | 9,137,500 | 9,137,500 |

The weighted average Exercise price of options on issue at balance date is $0.03 (2017: $0.03)

*Cycliq Research and Development (HK) Ltd was incorporated on the 14th of November 2017 with 50-50 shareholdings by Cycliq Group Limited and Glory Horse Investment Holdings Limited, but controlled by Cycliq Group Limited. As part of the contractual agreement between Cycliq Group Limited and Glory Horse Investment Holdings Limited, Thompson & Kenneth Cheung - the founding shareholders of Glory Horse Industries Limited - hold a right to be issued up to a maximum of 200 million of Cycliq's Ordinary shares at a 20% discount to Cycliq's previous 5-day volume weighted average share price, to a maximum holding of no more than 19.9%, valid for a period of 3 years commencing from the date of the signing of the shareholder agreement, 10 November 2017. Should this option be exercised Cycliq Group Limited will be required to seek shareholder approval to issue the shares via a general meeting. As at the date of this report Thompson & Kenneth Cheung have not sought to exercise this right and no value has been assigned to it in the 30 June 2018 accounts of Cycliq Group Limited as approval for issue of the shares is subject to shareholder approval.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2018

### c) Capital Management

The working capital position of the Group at balance date is as follows:

| | | 2018<br>$ | 2017<br>$ |
|---|---|---|---|
| Cash and cash equivalents | 7 | 315,046 | 3,253,972 |
| Trade and other receivables | 8 | 789,540 | 253,974 |
| Inventories | | 727,348 | 459,651 |
| Other current assets | | 411,180 | 504,083 |
| Trade and other payables | 13 | (723,722) | (441,284) |
| Short-term provisions | 14 | (124,170) | (157,786) |
| Short-term borrowings | 15 | (535,907) | (17,779) |
| Working capital position | | 859,315 | 3,854,831 |

## NOTE 17 RESERVES

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Foreign currency translation reserve | 58,796 | 46,366 |
| Share based payment reserve (Options) | 111,915 | 83,811 |
| Share Based payment reserve (Performance shares) | 140,000 | 140,000 |
| Total reserves | 310,711 | 270,177 |

For details regarding share-based payments during the period, please refer Note 18 Share Based Payments

## NOTE 18 SHARE BASED PAYMENTS

The following share-based payments were made during the year ended 30 June 2018.

**a) Shares issued to employees**
No fully paid ordinary shares were issued to employees as part of their remuneration during the period.

**b) Shares issued to key management personnel**
5,600,000 fully paid ordinary shares were issued to director, Chris Singleton during the period. The fair value of the ordinary shares issued was determined by reference to market price at grant date.

**c) Shares issued to consultants**
4,341,869 fully paid ordinary shares were issued to consultants in lieu of cash payment for services provided. The fair value of the ordinary shares issued was determined by reference to the invoiced cost of the service provided.

**d) Shares issued to Glory Horse Investment Holdings Limited**
Cycliq Research and Development (HK) Ltd ("Cycliq R&D") was formed during the period to 30 June 2018 for the design, development and manufacture of future Cycliq products. The entity was formed via 50-50 shareholdings by Cycliq Group Limited ("Cycliq") and Glory Horse Investment Holdings Limited ("Glory Horse"). The newly formed entity has been consolidated as a subsidiary of Cycliq Group Limited as Cycliq was deemed to have control over the entity through the composition and voting rights of its board of directors.
As part of the shareholder agreement, it was agreed Cycliq would issue ordinary shares with a fair value of $500,000 to Glory Horse as consideration for services provided by Glory Horse to Cycliq prior to the establishment of the Cycliq R&D entity These shares were issued at the 30-day volume weighted average share price at the time of signing the agreement, being 0.0176 cents equating to 28,409,091 ordinary shares.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2018

e) **Options**
There were no new options over ordinary shares issued during the period.

Refer to Note 16(b) above for details of a right to purchase ordinary shares included in the contractual shareholder agreement between Cycliq Group Limited and Glory Horse Investment Holdings Limited.

f) **Performance shares**
There has been no change to the valuation methodology applied to 10,000,000 performance shares issued to employees and consultants in previous periods. The performance milestones and valuation methodology are outlined in the notes to the 30 June 2017 consolidated financial statements.

### NOTE 19 KEY MANAGEMENT PERSONNEL COMPENSATION

The names and positions of Key Management Personnel ("KMP") during the period are as follows:

- Chris Singleton - Non-Executive Chairman appointed 29 November 2016, appointed Executive Chairman on 28 April 2017 and appointed acting Chief Executive Officer on 1 December 2017.
- Mike Young - Non-Executive Director appointed 9 February 2017
- Cyril Daoud - Non-Executive Director appointed 17 March 2017
- Piers Lewis - Non-Executive director and joint company secretary appointed 29 November 2016
- Terence Yap - Global Head of Sales appointed 28 April 2017 (Resigned 31 January 2018).
- John Turner - Chief Financial Officer appointed on 13 October 2016, also appointed Chief Operating Officer on 28 April 2017.
- Kingsley Fiegert – Chief Operating Officer (resigned 28 April 2017), also appointed Chief Development Officer on 28 April 2017 (Resigned 27 April 2018).

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Short-term employee benefits | 763,707 | 532,817 |
| Other short-term benefits | - | - |
| Post-employment benefits | 30,922 | 34,683 |
| Share-based payments[1] | 106,385 | 83,811 |
| Other long-term benefits | - | - |
| Termination benefits | - | - |
| Total | 901,014 | 651,311 |

[1]Refer to Note 18 for full details

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

## NOTE 20 RELATED PARTY TRANSACTIONS

| | 2018 $ | 2017 $ |
|---|---|---|
| All transactions with related parties are on commercial terms and under conditions no more favourable than those available to other parties unless otherwise stated. | | |
| Transactions with other related entities: | | |
| SmallCap Corporate Pty Ltd – Corporate secretarial and accounting services | 35,339 | 108,852 |
| Clear Corporate Solutions – Subcontract Labour | 348,088 | 27,500 |
| Toad Group Pty Ltd – Accrued interest on trade finance facility* | 14,687 | - |
| Transactions with KMP | | |
| Short-term employee benefits | 763,707 | 532,817 |
| Post-employment benefits | 30,922 | 34,683 |
| Share based payments | 106,835 | 83,811 |
| Directors' spouses were employed within the business during the period via Bunk Marketing Consulting Services | 152,679 | 141,105 |

*During the financial year ended 30 June 2018, a trade finance facility was put in place with a group of shareholders to provide a total facility limit of $1.5m as at 30 June 2018. The Board had pre-approved an extension of this facility to be negotiated with shareholders for an additional $500,000 as and when necessary. Of the $1.5m facility limit at 30 June 2018, $1m of this was provided by The Toad Group Pty Ltd, a related entity of Executive Chairman, Chris Singleton. As at 30 June 2018, $510,000 of the available balance was drawn down at an annualized interest rate of 16% p.a, all of which was provided by The Toad Group Pty Ltd.

The parties to the loan facility agreement shall receive equal ranking first priority general security interest over the business assets of Cycliq Products Pty Ltd – being the operating subsidiary of Cycliq Group Ltd.

## NOTE 21 CONTINGENT LIABILITIES

There were no contingent liabilities not recognised in the financial statements of the parent entity and the consolidated entity as at 30 June 2018.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

## NOTE 22 OPERATING SEGMENTS

### a) Identification of reportable segments

The Group operates predominantly in the technology industry, manufacturing HD Bike Cameras & Safety lights.

The Group has identified its operating segments based on the internal reports that are provided to the Board on a monthly basis that are used in determining the allocation of resources across the Group. Management has identified the group has four reporting segments.

| Year ended 30 June 2018 | USA $ | Australia $ | UK $ | Other $ | Total $ |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Revenue | 1,472,916 | 1,156,710 | 1,725,558 | 541,964 | 4,897,148 |
| **Total Segment Revenue** | 1,472,916 | 1,156,710 | 1,725,558 | 541,964 | 4,897,148 |
| **Segment net profit / (loss) from continuing operations before tax** | 476,245 | 374,005 | 557,933 | 175,236 | 1,583,419 |
| *Reconciliation of segment profit / (loss) to group profit / (loss):* | | | | | |
| Amounts not included in segment results but reviewed by the board: | | | | | |
| Other income | | | | | 366,504 |
| Administrative expenses | | | | | (156,046) |
| Distribution expenses | | | | | (1,070,690) |
| Depreciation and amortisation | | | | | (677,886) |
| Employment costs | | | | | (2,407,818) |
| Finance costs | | | | | (16,196) |
| Impairment | | | | | - |
| Legal and consulting fees | | | | | (316,513) |
| Occupancy costs | | | | | (51,518) |
| Other operating expenses | | | | | (348,002) |
| Share-based payments | | | | | (671,303) |
| Research and development expenses | | | | | (89,075) |
| Corporate transaction accounting expense | | | | | - |
| **Net (loss)/profit for the year** | | | | | (3,855,124) |
| **Segment Assets** | 13,497 | - | 251,699 | - | 265,196 |
| *Reconciliation of segment assets to group assets:* | | | | | |
| Unallocated assets | | | | | 2,770,521 |
| **Total Assets** | | | | | 3,035,717 |
| **Segment Liabilities** | - | - | - | - | - |
| *Reconciliation of segment liabilities to group liabilities:* | | | | | |
| Unallocated liabilities | | | | | 1,383,799 |
| **Total Liabilities** | | | | | 1,383,799 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2018

### NOTE 22 OPERATING SEGMENTS (CONTINUED)

| Year ended 30 June 2017 | USA $ | Australia $ | UK $ | Other $ | Total $ |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Revenue | 799,586 | 554,371 | 583,859 | 344,387 | 2,282,203 |
| **Total Segment Revenue** | 799,586 | 554,371 | 583,859 | 344,387 | 2,282,203 |
| **Segment net profit / (loss) from continuing operations before tax** | 180,482 | 125,132 | 131,788 | 77,736 | 515,138 |
| *Reconciliation of segment profit / (loss) to group profit / (loss):* | | | | | |
| Amounts not included in segment results but reviewed by the board: | | | | | |
| Other income | | | | | 250,239 |
| Administrative expenses | | | | | (464,164) |
| Distribution expenses | | | | | (686,403) |
| Depreciation and amortisation | | | | | (228,799) |
| Employment costs | | | | | (1,494,408) |
| Finance costs | | | | | (95,793) |
| Impairment | | | | | (16,134) |
| Legal and consulting fees | | | | | (82,878) |
| Occupancy costs | | | | | (54,116) |
| Other operating expenses | | | | | (503,498) |
| Share-based payments | | | | | (711,611) |
| Research and development expenses | | | | | (57,001) |
| Corporate transaction accounting expense | | | | | (843,596) |
| **Net (loss)/profit for the year** | | | | | (4,473,286) |
| **Segment Assets** | 174,857 | - | 43,714 | - | 218,572 |
| *Reconciliation of segment assets to group assets:* | | | | | |
| Unallocated assets | | | | | 5,155,569 |
| **Total Assets** | | | | | 5,374,141 |
| **Segment Liabilities** | - | - | - | - | - |
| *Reconciliation of segment liabilities to group liabilities:* | | | | | |
| Unallocated liabilities | | | | | 616,849 |
| **Total Liabilities** | | | | | 616,849 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2018

## NOTE 23 FINANCIAL RISK MANAGEMENT

### a) Financial risk management policies

This note presents information regarding the Group's exposure to each of the above risks, its objectives, policies and procedures for measuring and managing risk, and the management of capital.

The Group's financial instruments consist mainly of deposits with banks and accounts payable and receivable.

The Group does not speculate in the trading of derivative instruments.

A summary of the Group's financial assets and liabilities is shown below:

| | Floating Interest Rate $ | Fixed Interest Rate $ | Non-Interest Bearing $ | 2018 Total $ | Floating Interest Rate $ | Fixed Interest Rate $ | Non-Interest Bearing $ | 2017 Total $ |
|---|---|---|---|---|---|---|---|---|
| Financial Assets | | | | | | | | |
| Cash and cash equivalents | 315,046 | - | - | 315,046 | 3,253,972 | - | - | 3,253,972 |
| Trade and other receivables | - | - | 448,721 | 448,721 | - | - | 233,534 | 233,534 |
| Financial assets | - | - | - | - | - | - | - | - |
| **Total Financial Assets** | 315,046 | - | 448,721 | 763,767 | 3,253,972 | - | 233,534 | 3,487,506 |
| Financial Liabilities | | | | | | | | |
| **Current** | | | | | | | | |
| Trade and other payables | - | - | 400,270 | 400,270 | - | - | 344,576 | 344,576 |
| Short-term borrowings | 25,907 | 510,000 | - | 535,907 | 17,779 | - | - | 17,779 |
| **Total Current Financial Liabilities** | 25,907 | 510,000 | 400,270 | 936,177 | 17,779 | - | 344,576 | 362,355 |
| **Total Financial Liabilities** | 25,907 | 510,000 | 400,270 | 936,177 | 17,779 | - | 344,576 | 362,355 |
| **Net Financial Assets** | **289,139** | **(510,000)** | **48,451** | **(172,410)** | **3,236,193** | **-** | **(111,042)** | **3,125,151** |

### b) Specific financial risk exposures and management

The main risks that the Group is exposed to through its financial instruments are credit risk, liquidity risk and market risk consisting of interest rate, foreign currency and equity price risk.

The Board has overall responsibility for the establishment and oversight of the risk management framework. The Board adopts practices designed to identify significant areas of business risk and to effectively manage those risks in accordance with the Group's risk profile. This includes assessing, monitoring and managing risks for the Group and setting appropriate risk limits and controls. The Group is not of a size nor its affairs of such complexity to justify the establishment of a formal system for risk management and associated controls. Instead, the Board approves all expenditure, is intimately acquainted with all operations and discuss all relevant issues at the Board meetings. Operational and other compliance risk management have also been assessed and found to be operating efficiently and effectively.

#### i. Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group.

The Group does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the Group.

The objective of the Group is to minimise the risk of loss from credit risk. The Group trades only with creditworthy third parties.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

## NOTE 23 FINANCIAL RISK MANAGEMENT (CONTINUED)

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is insignificant. The Group's maximum credit risk exposure is limited to the carrying value of its financial assets as indicated on the statement of financial position.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables.

- *Credit risk exposures*

The maximum exposure to credit risk is to the Group's trade receivables and that is limited to the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements.

Credit risk related to balances with banks and other financial institutions is managed by the Group in accordance with approved Board policy. Such policy requires that surplus funds are only invested with financial institutions residing in Australia, wherever possible.

- *Impairment losses*

The ageing of the Group's trade and other receivables at reporting date was as follows:

| | 2018 Gross $ | 2018 Impaired $ | 2017 Gross $ | 2017 Past due but not impaired $ |
|---|---|---|---|---|
| Trade receivables | | | | |
| Not past due | 388,141 | - | 150,889 | - |
| Past due up to 3 months | - | - | - | - |
| Past due over 3 months | - | - | - | - |
| Other receivables | | | | |
| Not past due | 60,580 | - | 82,649 | - |
| **Total trade and other receivables** | 448,721 | - | 233,538 | - |

### ii. Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities.

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and ensuring cash is available to meet the current and future commitments of the Group.

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically, the Group ensures that it has sufficient cash to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted.

The financial liabilities of the Group are confined to trade and other payables and borrowings as disclosed in the statement of financial position. All trade and other payables are non-interest bearing and due within 30 days of the reporting date.

- *Contractual Maturities*

The following are the contractual maturities of financial assets and liabilities of the Group:

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

## NOTE 23 FINANCIAL RISK MANAGEMENT (CONTINUED)

| | WITHIN 1 YEAR | | GREATER THAN 1 YEAR | | TOTAL | |
|---|---|---|---|---|---|---|
| | 2018 $ | 2017 $ | 2018 $ | 2017 $ | 2018 $ | 2017 $ |
| Financial Assets | | | | | | |
| Cash and cash equivalents | 315,046 | 3,253,972 | - | - | 315,046 | 3,253,972 |
| Trade and other receivables | 448,721 | 233,534 | - | - | 448,721 | 233,534 |
| **Total anticipated inflows** | 763,767 | 3,487,506 | - | - | 763,767 | 3,487,506 |
| Financial Liabilities | | | | | | |
| Trade and other payables | 400,270 | 344,576 | - | - | 400,270 | 344,576 |
| Borrowings | 535,907 | 17,779 | - | - | 535,907 | 17,779 |
| **Total contractual outflows** | 936,177 | 362,355 | - | - | 936,177 | 362,355 |
| **Net (outflow) / inflow from financial instruments** | **(172,410)** | **3,125,151** | **-** | **-** | **(172,410)** | **3,125,151** |

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts than presented.

### iii. 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.

The Board meets on a regular basis and considers the Group's exposure to interest rate risk.

- *Interest rate risk*

  Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group is also exposed to earnings volatility on floating rate instruments.

- *Foreign exchange risk*

  Exposure to foreign exchange risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments which are other than the Australian Dollar presentation currency of the Group.

  Foreign exchange risk is naturally hedged with material trade and other receivables and trade and other payables both being held in USD.

- *Price risk*

  Price risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

### iv. Sensitivity analyses

The following table illustrates sensitivities to the Group's exposures to changes in interest rates. The table indicates the impact on how profit and equity values at reporting date would have been affected by changes in the relevant risk variable that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

| *Interest rates on borrowings* | Profit Effect | | Equity Effect | |
|---|---|---|---|---|
| | 2018 $ | 2017 $ | 2018 $ | 2017 $ |
| ± 100 basis points change in interest rates | - | - | - | - |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

## NOTE 23 FINANCIAL RISK MANAGEMENT (CONTINUED)

v. Net fair values

The fair values of financial assets and financial liabilities are presented in the table in this note and can be compared to their carrying values as presented in the statement of financial position. Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Cash and cash equivalents, trade and other receivables, and trade and other payables are short-term investments in nature whose carrying value is equivalent to fair value.

The methods and assumptions used in determining the fair values of financial instruments are disclosed in the accounting policy notes specific to the asset or liability.

## NOTE 24 PARENT ENTITY DISCLOSURES

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| **a) Financial position of Cycliq Group Limited (Legal Parent Only)** | | |
| Current assets | | |
| Cash and cash equivalents | 8,118 | 2,791,805 |
| Trade and other receivables | 29,090 | 45,516 |
| Other current assets | - | - |
| Total current assets | 37,208 | 2,837,321 |
| Non-current assets | | |
| Property plant and Equipment | - | - |
| Total non-current assets | 37,208 | 2,837,321 |
| Total assets | 37,208 | 2,837,321 |
| Current liabilities | | |
| Trade and other payables | 193,115 | 61,793 |
| Short-term borrowings | - | - |
| Total current liabilities | 193,115 | 61,793 |
| Total liabilities | 193,115 | 61,793 |
| Net assets | (155,907) | 2,775,528 |
| Equity | | |
| Issued capital | 83,763,615 | 83,054,399 |
| Reserves | 204,914 | 176,811 |
| Accumulated losses | (84,124,436) | (80,455,682) |
| Total equity | (155,907) | 2,775,528 |
| **b) Financial performance of Cycliq Group Limited (Legal Parent Only)** | | |
| Profit / (loss) for the year | (3,668,754) | (7,896,321) |
| Other comprehensive income | - | - |
| Total comprehensive income | (3,668,754) | (7,896,321) |

### c) Guarantees entered into by Cycliq Group Limited (Legal Parent Only)

There are no guarantees entered into by Cycliq Group Limited for the debts of its subsidiaries as at 2018 (2017: none).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2018

## NOTE 25 COMMITMENTS
Operating leases relate to the office lease with lease terms of 3 years. Non-cancellable operating lease commitments are as follows:

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| No later than 1 year | 60,770 | 21,256 |
| Later than 1 year and not later than 5 years | 35,448 | - |
| Later than 5 years | - | - |
| | 96,218 | 21,256 |

## NOTE 26 EVENTS SUBSEQUENT TO REPORTING DATE
There have been no significant subsequent events between 30 June 2018 and the date of this report.

## NOTE 27 COMPANY DETAILS

The registered office and principle place of business of the Company as at the date of this report is as follows:

**Registered Office**

Address: C/O SmallCap Corporate - Suite 6, 295 Rokeby Road, Subiaco, WA, 6008

Telephone: +61 (8) 6555 2950

Facsimile: +61 (8) 6166 0261

Email: info@cycliq.com

Website: www.cycliq.com

**Principal place of business**

Address: Unit A14, Level 2, 435 Roberts Road, Subiaco, WA, 6008

Email: info@cycliq.com

Website: www.cycliq.com

# DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The financial statements and notes, as set out on pages 20 to 52 are in accordance with the *Corporations Act 2001* (Cth) and:

    a) comply with Accounting Standards;

    b) are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, as stated in Note 1 to the financial statements; and

    c) give a true and fair view of the financial position as at 30 June 2018 and of the financial performance for the year ended on that date of the Company and the Consolidated Group.

2. The Chief Executive Officer (equivalent) and Chief Finance Officer (equivalent) have each declared that:

    a) the financial records of the Company for the financial year have been properly maintained in accordance with s286 of the *Corporations Act 2001 (Cth);*

    b) the financial statements and notes for the financial year comply with the Accounting Standards; and;

    c) the financial statements and notes for the financial year give a true and fair view.

3. In the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:

**CHRIS SINGLETON**
Executive Chairman

Dated this Friday, 31 August 2018

Bentleys
THINKING AHEAD

**Bentleys Audit & Corporate (WA) Pty Ltd**
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# Independent Auditor's Report

## To the Members of Cycliq Group Limited

## Report on the Audit of the Financial Report

### Opinion

We have audited the financial report of Cycliq Group Limited ("the Company") and its subsidiaries ("the Consolidated Entity"), 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 statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion:

a. the accompanying financial report of the Consolidated Entity is in accordance with the Corporations Act 2001, including:

   (i) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2018 and of its financial performance for the year then ended; and

   (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(ai).

### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement. 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 Consolidated Entity in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

## Material Uncertainty Related to Going Concern

We draw attention to Note 1(aiii) in the financial report which indicates that the Consolidated Entity incurred a net loss of $3,855,124 during the year ended 30 June 2018. As stated in Note 1(aiii), these events or conditions, along with other matters as set forth in Note 1(aiii), indicate that a material uncertainty exists that may cast significant doubt on the Consolidated Entity's ability to continue as a going concern. Our opinion is not modified in this respect of this matter.

## Key Audit Matters

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

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Existence and valuation of inventory** | |
| As disclosed in note 11 to the financial statements as at 30 June 2018, Cycliq Group Limited had an inventory balance of $727,348.<br><br>Existence and valuation of inventory were considered key audit matters due to:<br>– The quantum of inventory on hand;<br>– The location of the inventory;<br>– Risk of stock obsolescence from changing technology; and<br>– The importance of inventory in relation to generating positive operating cashflows. | Our procedures amongst others included:<br>– Verifying the quantum of stock held by third parties to third party stock reports;<br>– Reviewing gross margins on inventory sales during the year on a monthly basis;<br>– Reviewing margins and inventory turnover via analytical procedures;<br>– Reviewing unit cost of inventory items and related sales of that item to supporting documentation on a sample basis to assess whether inventory was recorded at the lower of cost or net realisable value;<br>– Assessing the appropriateness of the related disclosures in note 11 to the financial statements |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Accounting for capitalised development costs** | |
| A total of $547,754 of development costs were capitalised during the year. The capitalised development costs of $573,137 as disclosed in Note 10 of the consolidated financial statements is considered to be a key audit matter due to the significance to the consolidated statement of financial position and the specific criteria that are required to be met for capitalisation.<br><br>This involves management judgement with respect to technical feasibility, intention and ability to complete the intangible asset, ability to use or sell the asset, generation of future benefits and the ability to measure the costs reliably. In addition, management judgement is also required in the estimation of useful lives of the completed projects and assessment for any impairment trigger events. | Our procedures amongst others included:<br>– Assessing the recognition criteria for internally generated intangible assets;<br>– Evaluating the key assumptions used for estimates made in capitalising development costs, including assessment of whether capitalised costs related to the development phase of the project, the generation of probable future economic benefits and the useful economic life attributed to the asset;<br>– Testing a sample of items capitalised to assess the recognition and accuracy of the amounts capitalised in the year;<br>– Evaluating management's assessment as to whether indicators of impairment had occurred; and<br>– Assessing the adequacy of the disclosures in Note 10. |

## Other Information

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

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

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

If, based on the work we have performed, 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 Note 1(ai), the directors also state in accordance with Australian Accounting Standard *AASB 101 Presentation of Financial Statements*, that the financial report complies with International Financial Reporting Standards.

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

## Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Consolidated Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Consolidated Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Consolidated Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Consolidated Entity to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Consolidated Entity audit. We remain solely responsible for our audit opinion.

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

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

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

### Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2018. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with s 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.

### Auditor's Opinion

In our opinion, the Remuneration Report of the Company, for the year ended 30 June 2018, complies with section 300A of the Corporations Act 2001.

Bentleys

**BENTLEYS**
**Chartered Accountants**

Mark Delaurentis

**MARK DELAURENTIS CA**
**Partner**

Dated at Perth this 31st day of August 2018

## ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

The following information is required by the Australian Securities Exchange in respect of listed public companies:
The shareholder information set out below was applicable as at 27 August 2018.

**Distribution of equitable securities**

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

| | FULLY PAID SHARES | |
|---|---|---|
| | **No. of holders** | **Securities** |
| 1 to 1,000 | 645 | 76,924 |
| 1,001 to 5,000 | 56 | 117,438 |
| 5,001 to 10,000 | 12 | 90,730 |
| 10,001 to 100,000 | 166 | 8,125,122 |
| 100,001 and over | 310 | 772,440,539 |
| | **1,189** | **780,850,753** |
| | | |
| Holding less than a marketable parcel | 785 | 1,911,502 |

**Equity security holders**

*Twenty largest quoted equity security holders*

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

| | Ordinary shares | |
|---|---|---|
| | **Number held** | **% of total shares issued** |
| THE TRUST COMPANY (AUSTRALIA) LIMITED <MOF A/C> | 81,000,000 | 10.37 |
| BREAKWATER (WA) PTY LTD <THE BREAKWATER (WA) A/C> | 74,846,501 | 9.59 |
| SUNSET ENTERPRISES WA PTY LTD <THE SUNSET ENTERPRISES WA A/C> | 73,834,800 | 9.46 |
| AJAVA HOLDINGS PTY LTD | 37,333,334 | 4.78 |
| P & P OPERATIONS PTY LTD <PARADICE SUPER FUND A/C> | 29,166,667 | 3.74 |
| GLORY HORSE INVESTMENT HOLDINGS LIMITED | 28,409,091 | 3.64 |
| MRS DAWN EMMA KENNEDY <KENNEDY INVESTMENT A/C> | 27,871,652 | 3.57 |
| MR EDWIN POPE <CUMBERNAULD A/C> | 19,780,374 | 2.53 |
| CAPRICORN INVESTMENT PARTNERS (NOMINEES) PTY LTD <MERCHANT LEADERS FUND> | 17,662,051 | 2.26 |
| MR JOHN ANDREW RODGERS <JOHN RODGERS FAMILY A/C> | 16,425,000 | 2.10 |
| MARKOTA PTY LTD <SEPAROVIC SUPER FUND A/C> | 12,000,000 | 1.54 |
| NAMEO PTY LTD | 11,612,150 | 1.49 |
| JOYRESS PTY LTD | 10,600,000 | 1.36 |
| MS FREYJA MEI-LIANG BRUUN | 10,000,000 | 1.28 |
| PURESTEEL HOLDINGS PTY LTD <RATTIGAN SUPER FUND A/C> | 7,000,000 | 0.90 |

| | | |
|---|---|---|
| MR ANDREW JOHN SUTHERLAND | 7,000,000 | 0.90 |
| MR ROBERT CHARLES FIEGERT + MRS ANNETTE ROSE FIEGERT | 6,850,392 | 0.88 |
| MR PHILLIP RICHARD PERRY | 6,833,333 | 0.88 |
| RATATAT INVESTMENTS PTY LTD <RATATAT INVESTMENT A/C> | 6,678,888 | 0.86 |
| LARFRAE PTY LTD <LARFRAE SUPER FUND A/C> | 6,500,000 | 0.83 |
| | **491,404,233** | **62.93** |

**Substantial holders**

Substantial holders in the company are set out below:

| | Ordinary Shares | |
|---|---|---|
| | Number held | % of total shares issued |
| THE TRUST COMPANY (AUSTRALIA) LIMITED <MOF A/C> | 81,000,000 | 10.37 |
| BREAKWATER (WA) PTY LTD <THE BREAKWATER (WA) A/C> | 74,846,501 | 9.59 |
| SUNSET ENTERPRISES WA PTY LTD <THE SUNSET ENTERPRISES WA A/C> | 73,834,800 | 9.46 |

**Voting rights**

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

*Ordinary shares*

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

There are no other classes of equity securities