



Skyfii Limited
ABN 20 009 264 699

2016 ANNUAL REPORT

Table of Contents

Chairman's Letter	4
Review of Operations	5
Directors' Report	11
Remuneration Report	14
Auditor's Independence Declaration	18
Corporate Governance Statement	19
Consolidated Statement of Profit or Loss and Other Comprehensive Income	22
Consolidated Statement of Financial Position	23
Consolidated Statement of Changes in Equity	24
Consolidated Statement of Cash Flows	25
Notes to the Financial Statements	26
Directors' Declaration	45
Independent Auditor's Report	46
Additional ASX Information	48
Corporate Directory	50

Chairman's Letter

Dear Shareholder,

The Board of Skyfii limited is pleased to present to shareholders Skyfii's Annual Report for the year ended 30 June 2016 (**FY16**).

The Company experienced another year of strong growth across all metrics in FY16 and I'd like to take this opportunity to highlight some of the key milestones the Company has achieved and also acknowledge the valued contribution of our shareholders, staff, customers and channel partners in continuing to support us along this exciting journey.

Effective use of technology and data analytics is the cornerstone of all successful companies in today's economy. As Group Executive Director, Technology & Innovation at Seven Group Holdings I understand the role that data and innovative technologies play in driving improvement in operations, sales and services functions. I also understand the importance of innovation and early adoption of emerging technologies that can help companies solve the problems of today and the future.

During FY16 and in keeping with its objectives, Skyfii has significantly grown its venue base across existing and new customers, predominantly in the retail vertical, but has also begun to unlock growth in new and exciting verticals, such as municipalities, hospitality, transit and education. In addition to its continued footprint growth, the Company has maintained strong retention of existing customers and also growth in customer penetration via new product and service offerings.

The most exciting progression for me this last financial year has been the advancement of the Skyfii service offering into data science where we are beginning to unlock our customer's data to solve real world operational, sales and service issues, further entrenching our products and services within these organisations and opening up new and exciting revenue channels for the business as we build into FY17 and beyond.

I am also particularly buoyed by the strong appetite for our product and services in the North American markets and anticipate significant growth for Skyfii as we build into a truly global market leader.

Thank you

The Board and myself would like to thank our shareholders for the tremendous support and confidence they continue to show in the Company. We would also like to thank and acknowledge the support of all our employees, customers and technology partners, and we look forward to continuing this journey with you.

Yours faithfully,



James Scott
Chairman

Skyfii Limited

Review of Operations

Skyfii's business model

During FY16 the Company refined the categorisation of its revenue channels to accommodate for the Company's growing product and service capabilities and to align those categories with industry and market expectations. Previously in FY15, the Company described its revenues as being derived through 3 channels, namely: **Analytics**; **Advertising**; and **Data Services**.

The Company now categorises those key revenue channels in the context of: **Subscriptions**; **Services**; and **Transactions**.

Subscriptions

The Company's core recurring revenue base is derived from subscriptions to its software as a service (**SaaS**) products including guest WiFi, analytics and content delivery platform modules, which are typically contracted on 1, 3 or 5 year terms. The Company has remained focussed on its core target vertical within the retail sector and the Company's footprint growth in FY16 has predominantly been through increased penetration across its existing and new shopping centre customers.

The Company's subscription revenues vary based on the size of venue its SaaS products are deployed into, however typically range between \$1,500 - \$4,000 per month per large venue.

During Q4 FY16 the Company introduced a new marketing and content delivery product which has begun to gain traction across its existing customer base which the Company anticipates will deliver incremental recurring revenues from existing customers in FY17 and beyond. Those marketing tools are being sold as an additional monthly subscription on a per account basis, ranging between \$500 - \$2,000 per month per account, and typically on 12 month terms.

Services

The Company's current Services capabilities include **network design** and **data science** which underpin and complement the Company's Subscriptions.

The Company provides its network design services in order to ensure its customers' investment in wireless and other infrastructure provides an optimal level of accurate and insightful data collection for Skyfii's core data analytics and content delivery service offerings. These services are charged as a one-off fee, on a per venue basis, and forms a critical part of the Company's implementation revenues.

In addition, the Company's internal data science capability has become a key value added differentiator by providing bespoke data consultancy projects for the Company's existing customers using, in many cases, additional third party data sources. The Company has begun to deliver consultancy engagements on a project by project basis to solve specific objectives such as **Precinct analysis**, **Competitor impact analysis**, **Impact of new tenants on customer behaviour** and more, which are outlined further in this report.

The Company's data science capability provides a clear differentiator from its competitors and importantly provides an additional stickiness factor for the Company's subscription products and services.

Transactions

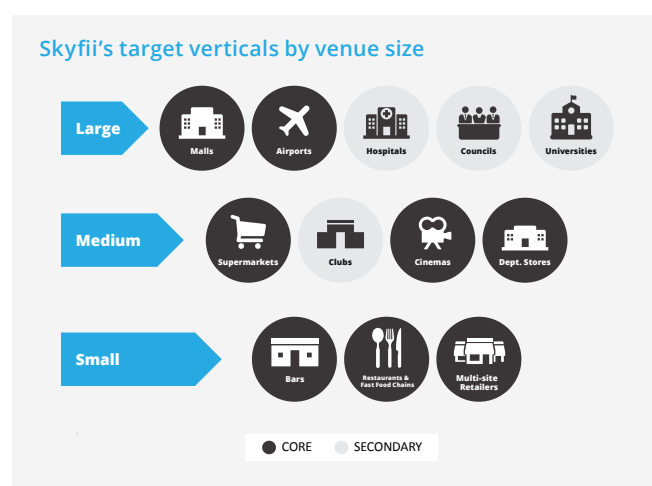
As the adoption of mobile increases and the ability for advertisers to deliver location based, contextualised marketing within physical spaces becomes more prominent, Skyfii has the ability to drive additional revenues through the delivery of location data into

a multitude of external platforms such as a loyalty and rewards applications, digital outdoor and other media buying platforms. In this exchange, Skyfii has the potential to earn transaction and/or a share of campaign revenues.

This performance based revenue approach is currently being explored by several of the Company's customers and prospective media partners, and represents a significant revenue opportunity in the future.

Skyfii's target verticals

The Company continued to focus on large venue deployments within its core retail vertical throughout FY16, with a specific focus on its shopping centre penetration in Australia and internationally. As an enterprise product, engineered for scalability and multi-data ingestion, the Company has begun to unlock growth in adjacent verticals including education (universities), councils, hospitality and transit (airports) during FY16. The Company has initiated a number of pilots within medium sized venues such as Supermarkets, Sports good retailers, Department stores and Cinema forecourts and as such the Company looks forward to updating the market on specific pilot and contract wins in these verticals in FY17. In addition, the Company looks forward to investing in further product development to more effectively service smaller venue customer requirements in FY17.



Skyfii's geographic focus

In FY16, the Company continued to focus on growth within Australia & New Zealand, Brazil and South Africa. In Australia, the Company experienced significant growth from the addition of new customers and increased contribution from existing customers due to increased penetration across their portfolios and the provision of additional services including the Company's new marketing tools and increased data science capabilities. Due to the Company's strong market position within the Australia retail landscape, additional verticals including transit, education and councils are being targeted in FY17 and beyond.

The Company entered the North American market in Q3 FY16, following extremely high inbound enquiries for the Company's core subscription services across the retail, transit and hospitality verticals. The entry into North America was followed by an expansion into the UK & Ireland markets in Q4 FY16, where the Company's focus is predominantly within the retail, education and hospitality sectors. Both markets are beginning to yield very large, progressed pipelines and with strong teams now in place in those markets, the Company looks forward to converting and announcing some significant contract wins in the near future.

Skyfii's international sales and execution strategy

The Company's international sales strategy centres around delivery through a network of channel partners whilst ensuring adequate resource are present in each regional market to support channel partners and direct client contact. The Company continued to build its channel partnerships locally and globally throughout FY16. Channel partners can be categorised as follows in order of strategic priority:

- **Solution partners:** Solution partners enable delivery of Skyfii's solutions or increase our capabilities using a "better together" go-to-market approach.
- **Managed service providers (MSPs):** MSPs purchase direct from Skyfii, retain title and provide a fully managed solution to customers that may also be bundled up with a managed WiFi solution. MSPs can provide critical go-to-market capabilities such as technical assistance centre support (**TAC**), managed network operations centres (**NOC**), proof of concept support and enterprise customer deployment capabilities.
- **Value added resellers (VARs):** VARs can provide a route to market for opportunistic and SMB opportunities. They provide varying degrees of professional services (e.g., design, installation, integration) but many have limited capabilities to provide NOC and TAC support services.

Key performance highlights

The Company commenced FY16 with the strategic aim of capitalising on its competitive advantage in the retail mall segment. With this strategic focus in FY16 and the continued investment in product development, staff and international growth opportunities, the Company experienced an incredibly strong uptake of its services and deployments across the retail mall segment across several major retail property groups.

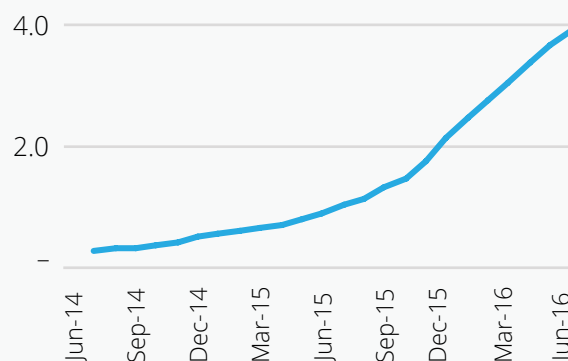
At year end the Company had deployed and was billing for Analytics and Guest WiFi services across 74 predominantly large format retail malls, up 335% from 17 venues at the end of the prior year.

Significant growth in key operating metrics in FY16

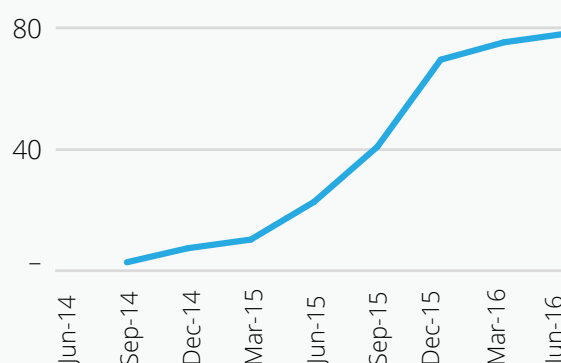
In line with the Company's continued growth in contract deployments, all key operating metrics continue to experience significant growth, lending strong user validation of Skyfii's services:

- Significant growth in total registered user base of +346% year on year from 0.9 million to 3.9 million unique users
- Significant growth in new unique registered users of +405% year on year
- Significant growth in WiFi sessions of +446% year on year
- Significant growth in customer venue visits of +468% year on year
- Significant growth in data transferred of +638% year on year.

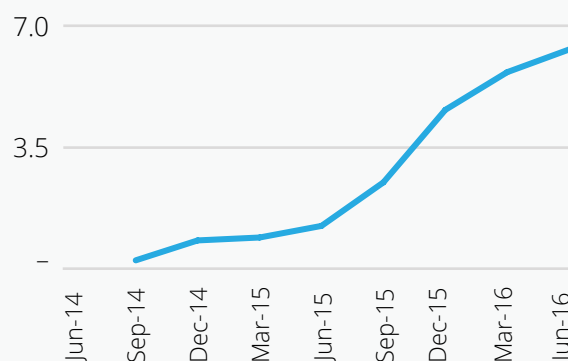
Total User Registrations (millions)



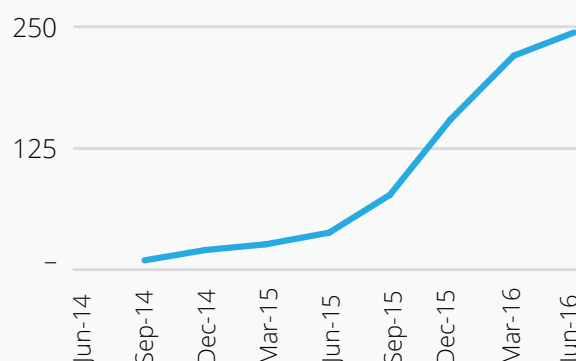
Quarterly Customer Visits (millions)



Quarterly WiFi Sessions (millions)



Quarterly Data Transfer (terabytes)



Key operating highlights

New contract wins in FY16

The Company secured some notable contract wins in FY16, including:

- **Mirvac property group:** Skyfii was selected as the Analytics and Guest WiFi partner by Mirvac, through its relationship with Optus Business. Skyfii's services have since been rolled out across 2 retail shopping centres on a 3 year contract term, with the potential to roll out across further Mirvac portfolio assets.
- **The Blackstone Group:** Following a successful pilot, Skyfii was selected as Blackstone's preferred Analytics and Guest WiFi partner. The Company deployed its services in 5 retail shopping centres on 3 year contract terms, and expects to deploy into an additional 4 retail shopping centres in FY17.
- **Waverley Council:** Following a competitive tender process, Skyfii was selected as the preferred Analytics and Guest WiFi partner to deploy its services across 4 public precincts on an initial 12 month contract term, including Bondi Beach, Bronte and Tamarama beach precincts which will commence in FY17.
- **The Merivale Hospitality Group:** Skyfii deployed its Analytics and Guest WiFi services in 3 major Merivale venues including The Ivy, Establishment and The Newport.
- **Barangaroo's south precinct:** Following a competitive tender and successful pilot, Skyfii was selected as the preferred Guest WiFi provider at Barangaroo's south precinct.
- **The Lederer Group:** Skyfii successfully deployed its Analytics and Guest WiFi services at the Imperial Gosford shopping centre on a 3 year contract term, with the potential to extend its rollout across an additional 5 shopping centres.

In addition to the strong conversion of pilots to contracts and continuing to significantly grow its retail shopping centre portfolio in Australia, the Company has also unlocked new verticals within hospitality, municipalities (councils) and leagues clubs, all of which represent significant growth potential for the Company in FY17.

Existing customer growth in FY16

In addition to new contract wins and opening up new and exciting verticals, the Company also delivered additional growth from existing customers.

- **Scentre Group (contract delivered through Optus Business):** Skyfii's services were deployed in an additional 21 shopping centres during FY16, bringing the total number of live venues to 29.
- **The GPT Group:** Skyfii's services were deployed in an additional 10 retail and office property venues during FY16, bringing the total number of live venues to 17.
- **World Square:** Skyfii successfully renewed its existing contract for its services at World Square in FY16, and subsequent to the acquisition of the asset by ISPT has extended its services and doubled its recurring revenues at the venue in early FY17.
- **IPOH:** Skyfii successfully renewed its existing contract for its services at the QVB, Chifley Plaza, Strand Arcade and Galeries retail centres in FY16.

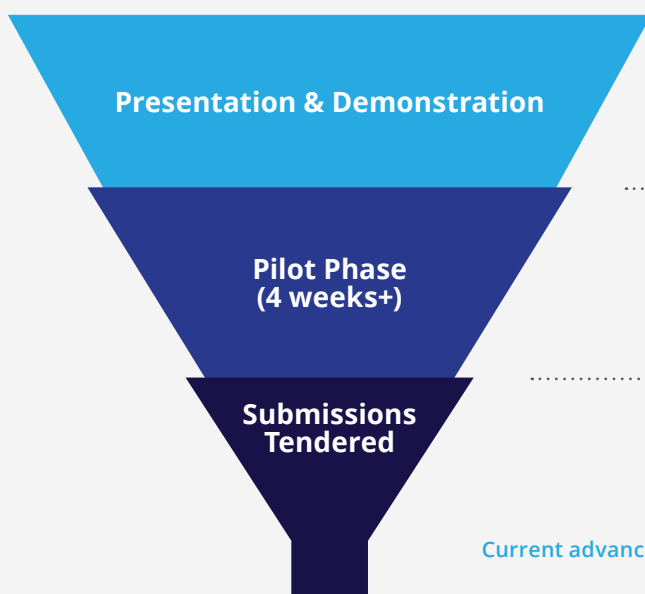
Strong growth in Skyfii's sales pipeline

The Company's total advanced stage pipeline grew 83% in FY16 on the prior year, from \$29 million to \$53 million (assuming full rollout and 5 year contract terms).

The Company continues to build and progress its sales pipeline, noting that the speed to conversion in the previous two financial years has been influenced by relatively long enterprise sales cycles (typically 12-18 months) and delays where customers have had a lack of, or inadequate, wireless infrastructure to support the Company's services.

The Company is extremely pleased that a large proportion of its existing early stage sales pipeline from FY15 and early FY16 remains live and is progressing towards conversion, with an annual recurring revenue potential of \$14 million, and growing.

Skyfii's sales pipeline as at FY16



Vertical	Market	Sites	Est. Ann. Rev.
Property Groups	AU	1215	\$1.5m
Transport	Asia	130	\$3.7m
Other: Conf. Centre	AU	1	\$60k
Govt.	Asia	1100	\$1.32m
\$6.6m			

Property Groups	AU/Asia/US	71	\$1.45m
Retailers	AU/Asia	1579	\$2.4m
Entertainment	AU	77	\$395k
Hospitality	UK	220	\$160k
\$4.4m			

Property	AU/US	122	\$1.5m
Banking	AU	35	\$210k
Hospitality	AU	30	\$540k
Retail	South Africa	398	\$720k
\$3m			

Current advanced stage pipeline – \$14m in recurring revenues per annum

Skyfii maintains strong conversion of pilots to customer wins

Skyfii has continued to deliver a strong conversion rate of pilots to customer wins through its direct sales efforts in Australia. The Company delivered on 12 new pilots in FY16, leading to 7 customer wins, with 3 of those pilots still in progress. None of the concluded pilots that failed to convert to customer wins during FY16 were lost to a competitor.

International highlights

The Company continued to extend its global footprint in FY16, with key strategic entries into the North American and UK markets in Q3 and Q4 FY16.

The Company has already begun to build very strong pipelines within the retail, transit, education and hospitality verticals across the North American, UK and Singapore markets with notable pilots currently underway with:

- a major retail property group, which represents a potential 40 large shopping centres (North America);
- two major international airports (North America);
- a major university (EMEA);
- a national 300 venue coffee retail chain (EMEA); and
- a high profile 15 venue fashion retail chain (Asia Pacific).

In addition, the Company is also in the late stages of negotiation with a major US based telecommunications company for a city wide wireless rollout project in North America.

Despite the challenging economic conditions in Brazil, the Company continued to expand its footprint with 5 additional deployments for Iguatemi, one of Brazil's leading shopping centre groups (FY16 total of 8 venues with an additional 6 venues anticipated in FY17), new contract wins with Saga Malls for an initial shopping centre and secured a small portfolio of 5 car dealerships. In addition, a number of notable pilots currently underway in Brazil include:

- a major international airport; and
- two major retail property groups which represent a potential 40+ shopping malls.

Expansion of Skyfii's product and service capabilities

During FY16 the Company increased its product and service capabilities to extend its share of wallet from existing customer and to build greater stickiness with its customer relationships.

There was a continuation of the rapid pace of product development that was set in the prior year, resulting in a number of key product milestones being met during the year. The Skyfii IO platform and modules underwent a full visual rebuild, including a range of improvements to the platform's presentation layer.

These improvements led to an increase in customer engagement including increases in the number and length of user sessions. In addition to the considerable updates made across the entire product suite, including new analytics reports, data mining capabilities and improvements to the platform's Guest WiFi functionality, a key focus of new product development in FY16 was expanding on the platform's marketing and content delivery tools.

The full launch of Skyfii's Engage product (marketing tools) has enabled automated marketing campaigns, multiple marketing triggers, customer contact scheduling and new delivery media such as portal video. Bringing the enhanced Engage product to market has provided the Company with a new channel to drive incremental revenue growth from existing customers whilst solidifying Skyfii's key differentiator from its competitor's products.

The two key enhancements to the Company's offering which will provide continued incremental revenue growth including its new marketing tools subscriptions and data science capabilities.

Some examples of successful marketing campaigns delivered in FY16 using the Company's new marketing and content delivery tools include:

- **Department store launch:** Skyfii's platform was utilised to deliver a real-time and location triggered email campaign on the day of a department store launch to shoppers "seen" in a shopping centre to drive them to the store opening. The result of the campaign resulted in customers who received the email being 26% more likely to visit the new store on that day and stayed in the shopping centre for 14% longer than the average customer on that day.
- **Retail venue exit survey:** Skyfii's platform was utilised to deliver an exit survey to shoppers who were "seen" to have exited a retail venue, collecting quantitative and qualitative shopper intent data, resulting in a high quality data set for the retailer to understand "top of mind" shopper intent in real time.

Some examples of the Company's data science capabilities delivered for its customers in FY16 include:

- **Elevator analysis:** measuring asset utilisation to support decision making around asset development and investment.
- **Competitor impact analysis:** measuring change in shopper behaviour as a result of new anchor tenants launching at a competitor centre in the same trade area.
- **Audience segmentation:** validating audience segments based on in-centre behaviour.
- **Major retail store launch impact:** measuring impact of launch of a new anchor tenant on shopper behaviour.
- **Spend analysis:** correlating retail spend with centre dwell time to determine acceleration / deceleration of spend over time.
- **Precinct analysis:** analysing shopper behaviour in an under-performing precinct and comparing to rest of centre.

A summary of the key findings of the final two examples are presented overleaf.

Case Study 1: Objective

Understand the relationship between visit length and visit spend, and whether it accelerates or decelerates.

Solution: We analysed visitor behaviour and transaction size to identify common shopper behaviours

“Mission shopping”:

- Short visits (under 60 min)
- Higher spend frequency, lower total spend
- Destinations

“Casual shopping”:

- Longer visits (60 min+)
- Lower spend frequency, higher total spend
- Exploration

Maximum visit duration (h:mm)	0:30	1:00	1:30	2:00	2:30	3:00	3:30	4:00
Average spent rate Per 30 min	\$112	\$73	\$57	\$44	\$41	\$27	\$44	\$43
Average total spend	\$112	\$146	\$171	\$176	\$205	\$162	\$309	\$345
	Highest efficiency			Highest total value				

Insight: We identified two common shopping behaviours, mission shopping and casual shopping, and the value of these two distinct groups over time in centre.

Case Study 2: Objective

Diagnose why venue performance of one shopping centre precinct is better than other areas.

Solution: We compared zone correlation and visitor behaviour in Precinct X to the rest of the centre



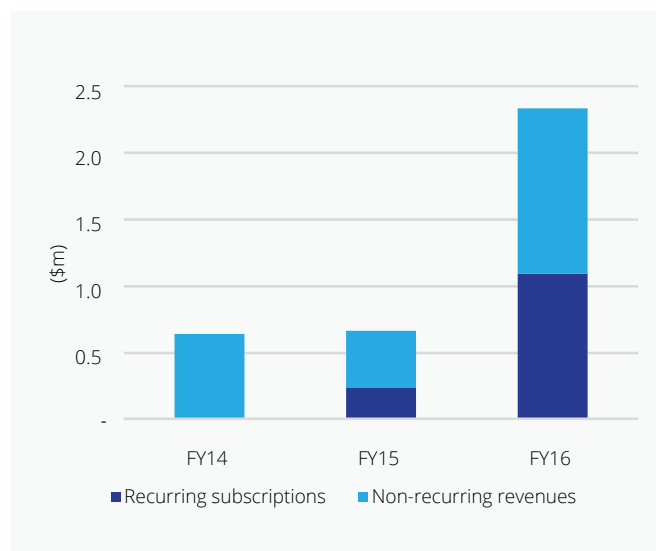
Insight: We were able to identify a visitation trap, and recommend initiatives to help drive shopper pollination across precincts.

Overview of financial performance

The Company achieved operating revenues of \$2.3 million in FY16, representing 256% growth on the previous corresponding period (FY15: \$0.7 million).

Underlying the growth in operating revenues in FY16 was an increase in recurring subscription revenues of 362% to \$1.1 million (FY15: \$0.2 million).

Significant growth in recurring revenues in FY16



In line with the Company's continued investment to support the future growth and roll-out of its services internationally, the Company reported an operating net loss after tax of \$2.3 million (FY15: \$2.0 million loss) and operating loss before interest, tax, depreciation and amortisation of \$1.9 million (FY15 operating EBITDA: \$2.0 million loss).

Reported net loss after tax of \$5.4 million in FY16 (FY15 NPAT: \$4.8 million loss) included one-off expenses totalling \$3.0 million, including non-cash costs relating to the issue of earn out shares.

Net operating cash outflows of \$2.0 million in FY16 remained in line with the previous financial year (FY15: \$2.0 million outflow), including the receipt of an R&D tax incentive rebate of \$0.8 million (FY15: \$0.5 million).

During the year, the Company also invested and capitalised \$1.8 million on software development activities relating to its SaaS platform (FY15: \$1.4 million).

As at 30 June 2016, the Company held cash and equivalents of \$2.6 million. In addition, the Company expects to receive an R&D tax incentive rebate of \$0.85 million in FY17 relating to research and development expenditures undertaken in FY16.

Successful capital raising in FY16

In November 2015, the Company conducted a placement to new institutional and retail investors combined with strong support from existing shareholders to raise an additional \$4.1 million (before costs) in order to accelerate the Company's business expansion and strengthen the Company's balance sheet.

The placement, which was oversubscribed, was conducted at a price of \$0.15 per share, representing a 6.3% discount to the then trading price of Skyfii's shares.

Outlook for FY17 and beyond

At the conclusion of FY15, the Company committed to focussing on a number of strategic objectives in FY16, including:

- Continued roll-out of new and existing contracts
- Continued focus on converting mall pipeline prospects into trials and full service contracts
- Continued focus on new verticals outside of retail malls
- Securing further distribution and reseller agreements globally
- Continued product development focus on marketing automation and associated media/advertising partnerships
- Development of new data source integrations and data services products.

The Company is pleased to have delivered on these strategic objectives in FY16, having delivered on new contracts in Australian and internationally, driving additional value from existing clients, maintaining a strong pilot conversion rate into customer wins, opening up new verticals in hospitality, municipal and transit, signing new distributors and re-sellers in new markets, developed various media partnerships including with MG Malls in the USA, launching our marketing tools and driving incremental revenues through its data science capabilities.

In addition to growth from the continued execution of these strategic objectives, the Company is excited by the significant growth potential in FY17 and FY18 from its investment in international markets such as North America. In the space of a few recent months the Company has grown a significant pipeline of prospects and pilots in North America, the pace of which is far exceeding the Company's original expectations.

Directors' Report

Your Directors submit the financial report of Skyfii Limited (**Skyfii** or **the Company**) for the year ended 30 June 2016. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows.

Directors

The names and particulars of the Directors of the Company during or since the end of the financial year (**Directors**) are:

Name, independence status and qualifications	Experience, interests in shares, special responsibilities and other directorships
James Scott Independent Non-Executive Chairman from 21 April 2016 Independent Non-Executive Director until 20 April 2016 (appointed 20 November 2014) BEng. (Hons)	- Mr Scott has 20 years' experience in digital technology, network and IT business, including network computing, server virtualisation, digital enablement and mobility solutions. He is Group Executive Director, Technology & Innovation at Seven Group Holdings and has responsibility for the strategies and execution of technology, processes and systems across its operating companies including WesTrac. Prior to Seven Group Holdings, Mr Scott was a Partner in KPMG's Business Performance and Technology division and has also held the position of Partner & Managing Director APAC at Accenture where he worked for 14 years. - Member of the Audit and Risk Committee and Member (Chairman) of the Nomination and Remuneration Committee. - Holds a relevant interest in 785,403 shares. - No other listed company directorships.
Andrew Johnson Independent Non-Executive Director (appointed 27 November 2014) BComm., M Sc.	- Mr Johnson, a highly experienced and successful telecommunications industry executive, is currently Chairman of bmobile-Vodafone, a mobile service provider for Papua New Guinea and the Solomon Islands and a Director of Dataco, the PNG national transmission company. He is also Managing Partner of Delta Systems International, a designer and builder/operator of telecommunications and defence systems. His prior roles include Divisional Manager for Computer Science Corporation's Australian and NZ Communications and Defence Division, CEO of Tenix (formerly Transfield) Defence Systems, which grew to become Australia's largest Defence company during his tenure, and Managing Director of Telstra's Data and Online Division. - Member of the Nomination and Remuneration Committee and Member (Chairman) of the Audit and Risk Committee. - Holds a relevant interest in 491,717 shares. - No other listed company directorships.
Wayne Arthur Chief Executive Officer/ Executive Director (appointed 20 November 2014) BComm.	- Mr Arthur, a co-founder of Skyfii, built a long standing career in the outdoor media sector in senior managerial roles for companies such as Titan Media Group and EYE Corp. His experience in these roles has spanned three international markets. He has been responsible for the delivery of key contracts and partnerships to the Skyfii business to date. - Holds a relevant interest in 11,626,211 shares. - No other listed company directorships.
Heath Roberts Company Secretary (appointed 20 November 2014) Dip Law (SAB), Grad. Dip. Legal Practice	- Mr Roberts is a commercial solicitor with 18 years' ASX listed company experience. He has particular strength in corporate operations and compliance, asset due diligence and acquisitions and equity/ debt funding, focussed on the IT, resources and healthcare sectors. He has acted as a Company Secretary and director for numerous ASX listed and private companies and was previously Secretary of the Sydney Kings Basketball team. - Holds a relevant interest in nil shares. - No other listed company directorships.

Former Directors – Skyfii Limited

The names of Directors who held office from 1 July 2015 and resigned prior to the date of this report are:

- Gary Flowers (resigned 21 April 2016)
- Chris Taylor (resigned 21 April 2016)
- Anthony Dunlop (resigned 21 April 2016)

Company Secretary

Mr Heath Roberts held the position of Company Secretary during and at the end of the financial year (appointed 20 November 2014).

Meetings of Directors

During the financial year, 12 meetings of Directors were held. Other matters arising during the year were resolved by circulating resolutions.

The following persons were Directors of the Company during the financial year, with attendances to meetings of Directors as follows:

	Directors' meetings		Audit and Risk Committee meetings		Nomination and Remuneration Committee meetings	
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
James Scott	12	11	2	1	-	-
Andrew Johnson	12	11	2	2	-	-
Wayne Arthur	12	12	-	-	-	-
Gary Flowers	9	9	-	-	-	-
Chris Taylor	9	9	-	-	1	1
Anthony Dunlop	9	9	-	-	1	1

Principal activities

The principal activity of the Group during the financial year was the provision of data analytics services.

Review of operations

The consolidated entity's loss attributable to equity holders of the Company, after providing for income tax, amounted to \$5,415,324 (2014 loss: \$4,789,482). Refer to the commentary in the Review of Operations.

Dividends paid or recommended

In respect of the financial year ended 30 June 2016, there have been no dividends paid or provided for (2015: nil).

Significant changes in state of affairs

The following significant changes in the state of affairs of the parent entity occurred during the financial year:

- On 10 July 2015, the Company held a general meeting at which shareholders ratified and approved the allotment and issue of 12,727,276 ordinary shares at \$0.22 per share to existing and new sophisticated investors which occurred on 19 May 2015 for the purposes of Listing Rule 7.4 and the issue of 200,000 ordinary shares at \$0.22 per share to a non-executive director, Gary Flowers.
- On 29 July 2015, the Company incorporated a wholly-owned subsidiary in the Republic of South Africa, Skyfii South Africa (Pty) Ltd, for the purposes of conducting operations in that country.
- On 11 August 2015, the Group entered into various commercial agreements for the leasing of new commercial office premises for the Group's head office.
- On 21 January 2016, the Company announced that it had entered into agreements with the majority (by shareholding) of the Skyfii Vendor Shareholders to provide certainty in relation to the dilutionary impact of the Earn Out Shares and the intentions and continued support of the Skyfii Vendor Shareholders, which, subject to shareholder approval, would result in:
 - the issue of up to 22,500,000 fully paid ordinary shares to the Skyfii Vendor Shareholders and thereby removing any further potential entitlement to Earn Out Shares (**Proposed Earn Out Shares**); and
 - up to 92,500,000 fully paid ordinary shares held by the Skyfii Vendor Shareholders being placed under voluntary escrow for an additional 12 months (**New Escrow Shares**), thereby varying the terms of the Acquisition Agreement (**Earn Out Variation Deed**).

- On 22 February 2016, the shares to be issued pursuant to the Earn Out Variation Deeds were approved at an Extraordinary General Meeting and subsequently on 26 February 2016, the Company issued 22,342,028 ordinary shares to Skyfii Vendor Shareholders pursuant to various Earn Out Variation Deeds.
- On 19 April 2016, the Company incorporated a wholly-owned subsidiary in the United Kingdom, Skyfii UK Operations Limited, for the purposes of conducting operations in that country.
- On 21 April 2016, the Company announced a number of changes to its Board of directors and management structure, including the resignation of Messrs Gary Flowers, Chris Taylor and Anthony Dunlop.
- On 28 April 2016, the Company incorporated a wholly-owned subsidiary in the United States, Skyfii US Operations, LLC., for the purposes of conducting operations in that country.

Subsequent events

On 15 July 2016, the Company announced that certain conditions precedent to the share subscription agreement with Chapmans Opportunities Limited had not been fulfilled and the COL Transaction had been terminated. Refer to Note 24(d) for further details on the terms of the COL Transaction.

Other than the above matters there are no other matters or circumstances that have arisen since 30 June 2016 that have significantly affected, or may significantly affect:

- the Group's operations in the future financial years, or
- the results of those operations in future financial years, or
- the Group's state of affairs in the future financial affairs.

Future developments

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Company. Accordingly, this information has not been disclosed in this report.

Environmental regulations

The Group's operations are not involved in any activities that have a marked influence on the environment. As such, the Directors are not aware of any material issues affecting the Group or its compliance with the relevant environment agencies or regulatory authorities.

Indemnification of officers and auditors

During the financial year, the Company paid premiums based on normal commercial terms and conditions to insure all directors, officers and employees of the Group against claims brought against the individual while performing services for the Group. The premium paid has not been disclosed as it is subject to the confidentiality provisions of the insurance policy. Except as noted below, the Company has not otherwise, during or since the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

During the financial year the Company entered into a Deed of Indemnity, Insurance and Access with each of its current Directors. The purpose of the Deed is to:

- confirm the indemnity provided by the Company in favour of Directors under the Company's Constitution;
- include an obligation upon the Company to maintain adequate Directors and Officers liability insurance; and
- confirm the right of access to certain documents under the Corporations Act.

Non-audit services

Amounts paid or payable to the auditor for non-audit services provided during the year by the auditor amounted to \$34,486.

The Directors are satisfied that the provision of non-audit services in the form of tax compliance services, during the year, by the auditor (or another person or firm on the auditors' behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act.

The Directors are of the opinion that the services as disclosed in Note 20 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit and Risk Committee, for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditors own work, acting in a management or decision making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Officers of the Company who are former audit partners of Hall Chadwick

There are no officers of the Company who are former audit partners of Hall Chadwick.

Auditor's Independence Declaration

The auditor's independence declaration is included on page 18 of this report and forms part of the Directors' Report for the year ended 30 June 2016.

Proceedings on behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings. The Group was not a party to any such proceedings during the year.

Remuneration Report

The Remuneration Report, which has been audited, details the nature and amount of remuneration for each Director and the Executives.

Key management personnel (**KMP**) include:

- the following persons who were directors of Skyfii Limited during the financial year:
 - James Scott – Non-Executive Chairman
 - Andrew Johnson – Non-Executive Director
 - Wayne Arthur – Chief Executive Officer
 - Gary Flowers – Former Non-Executive Chairman (resigned 21 April 2016)
 - Chris Taylor – Former Non-Executive Director (resigned 21 April 2016)
 - Anthony Dunlop – Former Non-Executive Director (resigned 21 April 2016)
- the following persons also had the authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, during the financial year:
 - John Rankin – Managing Director, Australia and Chief Operating Officer (commenced 9 May 2016)
 - Jason Martin – Chief Technology Officer
 - Brone Roze – Chief Financial Officer
 - Michael Walker – Director of Channel & Operations
 - Ian Robinson – Sales Director

Remuneration policy

The performance of the Group depends upon the quality of its directors and executives. The Group recognises the need to attract, motivate and retain highly skilled directors and executives.

The Board of Directors, through its Nomination and Remuneration Committee, accepts responsibility for determining and reviewing remuneration arrangements for the Directors and Executives. The Nomination and Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of Directors and Executives on a periodic basis by reference to relevant employment market conditions, giving due consideration to the overall profitability and financial resources of the Group, with the objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

Non-Executive Director remuneration

Fees and payments to Non-Executive Directors reflect the demands which are made of the Directors in fulfilling their responsibilities. Non-Executive Director fees are reviewed annually by the Board. The constitution of the Company provides that the Non-Executive Directors of the Company are entitled to such remuneration, as determined by the Board, which must not exceed in aggregate the maximum amount determined by the Company in a general meeting. The most recent determination was at a general meeting held on 3 December 2012 where the shareholders approved a maximum aggregate remuneration of \$500,000. Annual Non-Executive Directors' fees currently agreed to be paid by the Company are \$100,000 inclusive of superannuation.

Executive and Executive Director remuneration

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes any fringe benefits tax charges related to employee benefits), as well as employer contributions to superannuation funds.

Executive and Executive Director remuneration levels are reviewed annually by the Nomination and Remuneration Committee through a process that considers the overall performance of the Group. Executive Directors are not paid any director fees in addition to their fixed remuneration as Executives.

Performance based remuneration

Performance based remuneration, which may take the form of cash or equity based bonuses, is at the discretion of the Nomination and Remuneration Committee.

Remuneration of Directors and Executives

Remuneration shown below relates to the period in which the Director or Executive was a member of key management personnel. Amounts below have either been paid out or accrued in the period.

	Short-term benefits			Post employment benefits	Share based payments	
	Directors' fees	Salary & fees	Other	Superannuation	Shares	Total
	\$	\$	\$	\$	\$	\$
FY16						
Directors						
J. Scott	-	-	-	-	50,000	50,000
A. Johnson	-	-	-	-	50,000	50,000
W. Arthur	-	209,778	-	19,929	7,553	237,260
G. Flowers	50,000	-	6,667	4,750	20,000	81,417
C. Taylor	41,670	-	12,500	3,958	-	58,128
A. Dunlop	16,667	-	12,500	-	-	29,167
Other KMP						
J. Martin	-	182,260	-	17,315	6,180	205,755
J. Rankin	-	29,545	-	2,807	-	32,352
I. Robinson	-	177,197	-	16,834	6,180	200,211
B. Roze	-	161,824	-	15,373	6,180	183,377
M. Walker	-	202,511	-	19,239	6,180	227,930
Total	108,337	963,115	31,667	100,205	152,273	1,355,597
FY15						
Directors						
G. Flowers	35,000	-	-	3,325	12,167	50,492
W. Arthur	-	170,684	-	16,215	-	186,899
A. Dunlop	-	-	-	-	30,417	30,417
A. Johnson	-	-	-	-	30,417	30,417
C. Taylor	70,309	-	-	6,679	-	76,988
J. Scott	-	-	-	-	30,417	30,417
Other KMP						
J. Martin	-	133,249	-	12,658	-	145,907
I. Robinson	-	155,342	-	14,757	-	170,099
B. Roze	-	45,974	-	4,367	-	50,341
M. Walker	-	170,684	-	16,215	-	186,899
G. Yeoh	-	37,418	-	-	-	37,418
Total	105,309	713,351	-	74,216	103,418	996,294

The remuneration of key management personnel in the years ended 30 June 2016 and 2015 were 100% fixed, and there is no link between remuneration and the market price of the Company's shares.

Ordinary shares

Details of ordinary shares in the Company held directly, indirectly or beneficially, by KMP, including their related parties, is as follows:

	Balance at start of year	Issued to Skyfii Vendor Shareholders ¹	Received as part of remuneration	Purchase of shares	Sale of shares	Balance at end of year
FY16						
Directors						
J. Scott	613,150	116,727	-	55,526	-	785,403
A. Johnson	250,000	-	-	241,717	-	491,717
W. Arthur	8,819,836	2,796,375	-	10,000	-	11,626,211
G. Flowers ²	544,000	-	133,334	123,750	-	801,084
C. Taylor ²	-	-	-	55,000	-	55,000
A. Dunlop ²	250,000	-	-	-	-	250,000
Other KMP						
J. Martin	-	-	-	-	-	-
J. Rankin	-	-	-	-	-	-
I. Robinson	7,956,690	2,557,508	-	-	-	10,514,198
B. Roze	877,232	281,968	-	-	-	1,159,200
M. Walker	2,941,546	945,497	-	-	-	3,887,043
Total	22,252,454	6,698,075	133,334	485,993	-	29,569,856

Notes:

- On 26 February 2016, the Company issued 22,342,028 ordinary shares to Skyfii Vendor Shareholders pursuant to various Earn Out Variation Deeds. Further information in relation to the Earn Out Shares can be found in Note 17 to the financial statements.
- Represents the ordinary share movements up until 21 April 2016, being the date upon which the director ceased to be a director of the Company.

ESP Shares

Details of ESP shares in the Company held directly, indirectly or beneficially, by KMP including their related parties, is as follows:

	Balance at start of year	Granted/ Issued	Released from restrictions	Forfeited/ Cancelled	Balance at end of year	Balance of unvested ESP shares	Balance of vested ESP shares
FY16							
Directors							
W. Arthur	-	550,000	-	-	550,000	550,000	-
Other KMP							
J. Martin	-	450,000	-	-	-	450,000	-
J. Rankin	-	-	-	-	-	-	-
I. Robinson	-	450,000	-	-	-	450,000	-
B. Roze	-	450,000	-	-	-	450,000	-
M. Walker	-	450,000	-	-	-	450,000	-
Total	-	2,350,000	-	-	2,350,000	2,350,000	-

Loans to directors and KMP

The following loan balances are outstanding at the reporting date in relation to remuneration arrangements with Executive Directors and KMP in respect of shares issued under the Employee Share Plan (**ESP**).

As the ESP is considered in substance to be an option, the ESP shares issued and corresponding loan receivable are not recognised by the Group in its financial statements. The ESP shares will not be considered issued to participants until the corresponding loan has been repaid, at which time there will be an increase in the issued capital and increase in cash. Further information relating to the ESP is set out in Note 23 to the financial statements.

	2016 \$	2015 \$
Directors		
W. Arthur	81,400	-
Other KMP		
J. Martin	66,600	-
J. Rankin	-	-
I. Robinson	66,600	-
B. Roze	66,600	-
M. Walker	66,600	-
Total	347,800	-

Other transactions with KMP and/or their related parties

During the full year ended 30 June 2016, the Company incurred \$397,244 of expenses relating to outsourced software development services provided by Simple Machines Pty Ltd, a company associated with Jason Martin (CTO). These services were provided under normal commercial terms and conditions. Further information in relation to related parties can be found in Note 24 to the financial statements.

Executive service agreements

The employment terms and conditions of KMP and Group executives are formalised in service agreements.

Position	Key terms of service agreements
Chief Executive Officer	• Base salary: \$200,000 excluding superannuation. • Term: unspecified. • Base remuneration: Reviewed annually by the Nomination and Remuneration Committee. • Bonus entitlements: Determined annually by the Nomination and Remuneration Committee. • Termination notice period: 12 weeks' notice (or 13 weeks' notice after two years' service and is over the age of 45 at the time the notice is given), or without notice in the event of serious misconduct. • Restraint of trade period: up to 6 months.
Other Executives	Other Executives are employed under individual executive services agreements. These establish amongst other things: • total compensation; • bonus entitlements; • variable notice and termination provisions of up to 12 weeks, or by the Group without notice in the event of serious misconduct; and • restraint and confidentiality provisions.

This concludes the Remuneration Report, which has been audited.

The Directors' Report is signed in accordance with a resolution of the Directors made pursuant to s298(2) of the Corporations Act 2001.

On behalf of the Directors



James Scott
Chairman

31 August 2016

Auditor's Independence Declaration

HALL CHADWICK  **(NSW)**

Chartered Accountants and Business Advisers

SYDNEY

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Sydney NSW 2000
Australia

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SKYFII LIMITED

ACN 009 264 699

AND CONTROLLED ENTITIES

AUDITOR'S INDEPENDENCE DECLARATION

UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

TO THE DIRECTORS OF SKYFII LIMITED

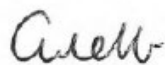
AND CONTROLLED ENTITIES

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2016 there have been no contraventions of:

- i. the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- ii. any applicable code of professional conduct in relation to the audit.



HALL CHADWICK
Level 40, 2 Park Street
SYDNEY NSW 2000



GRAHAM WEBB
Partner

Dated: 31 August 2016

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Corporate Governance Statement

The Company's Board of Directors is responsible for the Corporate Governance of the Company and its controlled entities. The Board guides and monitors the business and affairs of the group on behalf of the shareholders by whom they are elected and to whom they are accountable. The governance practices adopted by the Company are structured with reference to the 3rd Edition of the ASX Corporate Governance Council's Principles and Recommendations (**ASX CGPR**).

The Board is committed to improving its corporate governance practices and embracing the principles published by the ASX Corporate Governance Council, however the Board is of a view that the adoption of the practices and principles should be considered in line with the size, stage and nature of the business and the industry in which it operates.

The Board aims to achieve all of the Principles and Recommendations in stages as the Company grows and its circumstances change over time. Subsequent to the acquisition of Skyfii Group Pty Ltd and relisting of the Company in late 2014, significant progress in the improvement of the Company's Corporate Governance practices has been achieved. During the financial year ended 30 June 2016 the Board and senior management team was significantly re-structured to reflect the needs of the Company moving forward.

The information provided below summarises how the Company presently complies with the ASX CGPR, and how it intends to comply with each of the current Principles and Recommendations going forward. This statement is current as 30 June 2016 and has been approved by the Board of Directors of the Company.

Principle 1 – Lay solid foundations for management and oversight

The Company has adopted a Board Charter clearly setting out the respective roles and responsibilities of the Board and management. The Board Charter is available on the Company's website, www.skyfii.io.

The key responsibilities of the Board include:

- (a) setting the long-term strategy and annual business plan including objectives and milestones to be achieved;
- (b) monitoring the performance of the Company against the financial objectives and operational goals set by the Board and reviewing the implementation of Board approved strategies;
- (c) assessing the appropriateness of the skill sets and the levels of experience of the members of the Board, individually and as a whole and selecting new members to join the Board when a vacancy exists;
- (d) appointing, removing and determining the terms of engagement of the Directors, Chief Executive Officer and Company Secretary;
- (e) overseeing the delegation of authority for the day to day management of the Company;
- (f) ensuring that the risk management systems, financial reporting and information systems, personnel, policies and procedures are all operating efficiently and effectively by establishing a framework of internal controls and compliance;
- (g) approving the capital structure and major funding requirements of the Company;
- (h) approving the Company's half year and full year reports to the shareholders, ASX and ASIC; and

- (i) ensuring that recruitment, retention, termination, remuneration, performance review and succession planning policies and procedures are in place and complied with.

The Company has established a Nomination and Remuneration Committee to identify and make recommendations to the Board for the appointment of new Board candidates, having regard to their skills, experience and expertise. The Committee is currently comprised of two independent Directors, Messrs Scott and Johnson. Prior to 21 April 2016 the Committee was comprised of two independent Directors, Messrs Chris Taylor (Chairman) and Mr Anthony Dunlop. Mr Scott acts as Chairperson. The Board requires this Committee to undertake appropriate checks on potential Board candidates. The Nomination and Remuneration Committee engaged the services of an external, independent consultant to assist it and provide advice on a range of remuneration related issues. The number of times the Nomination and Remuneration Committee met, and the attendance at those meetings, is set out in the Directors' Report. The Nomination and Remuneration Committee Charter is available on the Company's website, www.skyfii.io.

All Directors and senior executives have entered into written appointment agreements with the Company, setting out the terms and conditions of their appointment.

Under the Board Charter, each Director's performance is assessed when standing for re-election. Before each Annual General Meeting, the Chairperson of the Board assesses the performance of any Director standing for re-election and the Board will determine their recommendation to shareholders on the re-election of the Director (in the absence of the Director involved). The Board (excluding the Chairperson), will conduct the review of the Chairperson.

Under the Board Charter, senior executives' performance will be considered by the Nomination and Remuneration Committee on at least an annual basis. The Chairperson is responsible for ensuring these meetings take place.

A formal Board performance evaluation was not undertaken during the 2016 financial year. However, the Board undertook a Board Self-Assessment Programme concluding in January 2016. In part as a result of that process, the Board was significantly streamlined in early 2016, recognising that the initial re-listing phase of the Company's operations was complete and a smaller Board, with increased executive support, would best position the Company moving forward. The Board will consider conducting a formal performance evaluation during the 2017 financial year.

During the financial year, the Nomination and Remuneration Committee commissioned external and independent reviews of several remuneration issues pertaining to the Company's Board and executives. The recommendations of these reviews were implemented during the financial year.

The Company Secretary is accountable directly to the Board, through the Chairperson, on all matters to do with the proper functioning of the Board. The Board Charter sets out the Company Secretary's responsibilities, which include:

- (a) coordinating the timely completion and dispatch of Board and committee papers;
- (b) ensuring the business at Board and committee meetings is accurately captured in the minutes;
- (c) monitoring and ensuring the Board and committee policy and procedures are followed; and

- (d) advising the Board and its committees on governance matters.

The Board has established a Diversity Policy, which recognises diversity to encompass ethnicity, gender, sexual orientation, age, physical abilities, family status, religious beliefs or other ideologies, and is committed to creating and maintaining an inclusive and collaborative workforce. The Company understands that encouraging diversity is not just a socially responsible necessity, but that it is essential to the Company's continued growth and vital to a successful future.

Given the size and nature of the Company, the Board determined not to establish measurable objectives for achieving diversity for the 2016 financial year. Establishing measurable objectives for achieving diversity will be reconsidered on an annual basis.

As at 30 June 2016, the proportion of women employed by the Group was as follows:

- Board of Directors: 0%
- Senior Executive positions: 0%
- Total Group workforce: 7%

The Diversity Policy is available on the Company's website, www.skyfii.io.

Principle 2 – Structure the board to add value

The Nomination and Remuneration Committee has the authority and power to exercise the roles and responsibilities granted to it under the Nomination and Remuneration Committee Charter.

The Committee is comprised of two independent Directors, one of whom acts as chairperson. The Company's Nomination and Remuneration Committee does not meet the recommended minimum of three members. The Board is of the view that given the Company's size and stage of operations, two independent Directors as members of the Nomination and Remuneration Committee is sufficient to perform the relevant responsibilities of the committee.

The Board has not, at this time, adopted a board skills matrix given the Company's size and stage of operations. The Board aims to attract and maintain a Board which has an appropriate mix of skills, experience, expertise and diversity. The names and particulars of the Directors of the Company during or since the end of the financial year are set out in the Directors' Report.

The Board regularly assesses the independence of each Director in light of the interests disclosed by them. That assessment is made at each Board meeting in relation to matters under consideration at the meeting, at least annually at, or around the time that the Board considers candidates for election to the Board, and each independent Director is required to provide the Board with all relevant information for this purpose. If the Board determines that a Director's independent status has changed, that determination will be disclosed to the market in a timely fashion.

A majority of the Board (comprising the Chairperson of the Board, James Scott and Andrew Johnson) are considered to be independent Directors. Wayne Arthur, Managing Director and CEO, and a major founding shareholder of the Company, is not considered to be an independent Director.

Under the Board Charter, the Directors are expected to participate in any induction or orientation programs on appointment, and any continuing education or training arranged for them. The Company Secretary assists in organising and facilitating the induction and professional development of Directors.

Principle 3 – Act ethically and responsibly

The Board has adopted a Code of Conduct which sets out the values, commitments, ethical standards and policies of the Company and outlines the standards of conduct expected of the Company's business and people, taking into account the Company's legal and other obligations to its stakeholders. The Code of Conduct applies to all Directors, as well as all officers, employees, contractors, consultants, other persons that act on behalf of the Company. The Code of Conduct is available on the Company's website, www.skyfii.io.

Principle 4 – Safeguard integrity in corporate reporting

The Board has established an Audit and Risk Committee. This Committee is responsible for, amongst other things, appointing the Company's external auditors and overseeing the integrity of the Company's financial reporting systems and financial statements. The Company has adopted an Audit and Risk Committee Charter which is available on the Company's website, www.skyfii.io.

The number of times the Audit and Risk Committee met, and the attendance at those meetings, is set out in the Directors' Report.

The Committee is comprised of two independent Directors, Messrs Scott and Johnson. Mr Johnson acts as Chairperson. The Audit and Risk Committee does not meet the recommended minimum of three members. The Board is of the view that given the Company's size and stage of operations, two independent Directors as members of the Audit and Risk Committee is sufficient to perform the relevant responsibilities of the Committee.

The Board has implemented a process to receive written assurances from its Chief Executive Officer and Chief Financial Officer that the declarations that will be provided under section 295A of the Corporations Act 2001 (Cth) are founded on a system of risk management and internal control and that the system is operating in all material respects in relation to financial reporting risks. The Board seeks these assurances prior to approving the annual financial statements for all half year and full year results that follow.

Representatives from the Company's external auditor, Hall Chadwick, are present at the Annual General Meeting to answer questions that shareholders might have about the scope and conduct of the audit, the preparation and content of the auditor's report, the accounting policies adopted by the Company and the independence of the auditor.

The Company has adopted a formal Disclosure and Communication Policy, where there is an express requirement that the external auditor will attend the Annual General Meeting and be available to answer questions about the conduct of the audit and the preparation and content of the auditor's report.

Principle 5 – Make timely and balanced disclosure

The Company ensures that it complies with the requirements of ASX listing rules and the Corporations Act in providing information to shareholders. Consistent with the Board's commitment to improving its disclosure policy, the Board has adopted a Disclosure and Communication Policy, which sets out the Company's commitment to the objective of promoting investor confidence and the rights of shareholders by:

- (a) complying with the continuous disclosure obligations imposed by law;
- (b) ensuring that company announcements are presented in a factual, clear and balanced way;

- (c) ensuring that all shareholders have equal and timely access to material information concerning the Company; and
- (d) communicating effectively with shareholders and making it easy for shareholders to participate in general meetings.

The Disclosure and Communication Policy is available on the Company's website, www.skyfii.io.

Principle 6 – Respect the rights of security holders

The Company recognises the rights of its shareholders and other interested stakeholders to have easy access to balanced, understandable and timely information concerning the operations of the Company. Information concerning the Company and its governance practices are made available on its website and addressed in detail in each years' Annual Report.

The Board has adopted a Disclosure and Communication Policy which supports its commitment to effective communication with its shareholders. In addition, the Company intends to communicate with its shareholders:

- (a) by making timely market announcements;
- (b) by posting relevant information on to its website;
- (c) by inviting shareholders to make direct inquiries to the Company; and
- (d) through the use of general meetings.

The Board encourages participation of shareholders at the Annual General Meeting or any other shareholder meetings to ensure a high level of accountability and identification with the Company's strategy and goals.

The Company's shareholders may elect to receive information from the Company and its registry electronically. Otherwise, the Company and its registry will communicate by post with shareholders who have not elected to receive information electronically.

Principle 7 – Recognise and manage risk

The Board has established an Audit and Risk Committee to ensure the Company has an effective risk management system in place and to manage key risk areas.

The Company's Audit and Risk Committee, which has two members, does not meet the recommended minimum of three members. The Board is of the view that given the Company's size and stage of operations, two independent Directors as members of the Audit and Risk Committee is sufficient to perform the relevant responsibilities of the Committee.

The Company has adopted an Audit and Risk Committee Charter which is available on the Company's website, www.skyfii.io.

Under the Board Charter, the Board ensures that the Company has in place an appropriate risk management framework. A risk management framework was developed during the 2015 financial year by the Audit and Risk Committee, and approved by the Board. The Board will review, at least annually, the Company's risk management framework in order to satisfy itself that it continues to be sound. A risk review was undertaken at the end of the financial year.

The Audit and Risk Committee is responsible for ensuring that the Company has appropriate internal audit systems and controls in place, and for overseeing the effectiveness of these internal controls. The Committee is also responsible for conducting investigations of breaches or potential breaches of these internal controls.

Principle 8 – Remunerate fairly and responsibly

The Company's Nomination and Remuneration Committee is responsible for developing, reviewing and making recommendations on:

- (a) the remuneration framework for Directors, including the process by which any pool of Directors fees approved by security holders is allocated to Directors;
- (b) the remuneration packages to be awarded to senior executives;
- (c) equity based remuneration plans for senior executives and other employees; and
- (d) superannuation arrangements for Directors, senior executives and other employees.

The Company's remuneration policy is disclosed in the Directors' Report. The policy has been set out to ensure that the performance of Directors, key executives and staff reflect each person's accountabilities, duties and their level of performance, and to ensure that remuneration is competitive in attracting, motivating and retaining staff of the highest quality. A program of regular performance appraisals and objective setting for key executives and staff is in place. These annual reviews take into account individual and company performance, market movements and expert advice, if required.

The Constitution permits Directors, senior executives and other officers of the Company to trade in Company shares as long as they comply with the Company's Share Trading Policy. The Share Trading Policy is a code that is designed to minimise the potential for intentional and unintentional insider trading violations. The Company's Share Trading Policy is available on the Company's website, www.skyfii.io.

Directors must notify the Chairman of the Board, before they buy or sell shares in the Company. The details of the share trading must be given to the Company Secretary who must lodge such details of such changes with the ASX.

Senior executives must give prior notice to the Chief Executive Officer, while other officers must notify the Company Secretary, before trading in the Company shares and details of all such transactions must be given, in writing, to the Company Secretary within 5 business days.

Any changes in substantial shareholding of the Directors, senior executives or other officers must be reported to the ASX within 2 business days of such trading. The policy also recommends that trading in the Company shares only occur in certain trading windows.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the financial year ended 30 June 2016

	Note	2016 \$	2015 \$
Revenue and other income			
Revenue	5	2,339,570	658,237
Other income	5	1,040,309	877,963
Total revenue		3,379,879	1,536,200
Expenses			
Direct costs and implementation expenses		(786,738)	(547,605)
Employee benefits expense	6	(2,428,258)	(1,561,427)
Contractor and consultant expenses		(69,089)	(48,296)
Marketing and promotion expenses		(227,517)	(140,652)
Data hosting expenses		(316,041)	(162,238)
Travel and accommodation expenses		(257,694)	(212,289)
Office and other expenses		(870,363)	(681,381)
Directors' fees		(295,003)	(208,726)
Issue of Earn Out Shares	17	(3,013,535)	-
Acquisition costs		-	(443,931)
Corporate advisory services		-	(150,000)
Impairment of goodwill and domain names	13	-	(2,157,841)
Depreciation and amortisation expenses	6	(461,091)	(10,903)
Share based payments expense	23	(60,492)	-
Finance costs	6	(925)	(393)
Loss before tax		(5,406,868)	(4,789,482)
Income tax expense	7	(8,456)	-
Loss for the period		(5,415,324)	(4,789,482)
Other comprehensive income			
Items that will be reclassified to profit or loss when specific conditions are met:			
Exchange differences on translation of foreign operations		3,588	-
Total comprehensive loss for the period		(5,411,737)	(4,789,482)
Earnings per share			
		Cents	Cents
Basic earnings per share	30	(3.8)	(7.1)
Diluted earnings per share	30	(3.8)	(7.1)

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

As at 30 June 2016

	Note	2016 \$	2015 \$
Assets			
Current assets			
Cash and cash equivalents	8	2,612,422	2,684,548
Trade and other receivables	9	1,515,106	961,021
Inventories	10	10,444	43,500
Other assets	11	93,930	114,265
Total current assets		4,231,902	3,803,334
Non-current assets			
Plant and equipment	12	164,374	24,740
Intangible assets	13	2,803,857	1,419,984
Total non-current assets		2,968,231	1,444,724
Total assets		7,200,133	5,248,058
Liabilities			
Current liabilities			
Trade and other payables	15	674,768	414,920
Provisions	16	136,841	67,465
Deferred revenue		166,926	88,770
Total current liabilities		978,534	571,155
Total liabilities		978,534	571,155
Net assets		6,221,599	4,676,903
Equity			
Contributed equity	17	17,987,101	11,091,161
Reserves	18	64,080	-
Accumulated losses		(11,829,582)	(6,414,258)
Total equity		6,221,599	4,676,903

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the financial year ended 30 June 2016

	Note	Contributed equity \$	Share based payments \$	Foreign currency translation reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2014		1,500,600	-	-	(1,624,776)	(124,176)
Loss for the period		-	-	-	(4,789,482)	(4,789,482)
Total comprehensive loss for the year		-	-	-	(4,789,482)	(4,789,482)
Transactions with owners in their capacity as owners:						
Issue of ordinary shares	17	10,710,158	-	-	-	10,710,158
Capitalised equity raising costs (net of tax)	17	(1,119,597)	-	-	-	(1,119,597)
Balance at 30 June 2015		11,091,161	-	-	(6,414,258)	4,676,903
	Note	Contributed equity \$	Share based payments \$	Foreign currency translation reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2015		11,091,161	-	-	(6,414,258)	4,676,903
Loss for the period		-	-	-	(5,415,324)	(5,415,324)
Exchange differences on translation of foreign operations		-	-	3,588	-	3,588
Total comprehensive loss for the year		-	-	3,588	(5,415,324)	(5,411,737)
Transactions with owners in their capacity as owners:						
Issue of ordinary shares	17	7,138,535	-	-	-	7,138,535
Capitalised equity raising costs (net of tax)	17	(242,595)	-	-	-	(242,595)
Share based payments	23	-	60,492	-	-	60,492
Balance at 30 June 2016		17,987,101	60,492	3,588	(11,829,582)	6,221,599

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the financial year ended 30 June 2016

	Note	2016 \$	2015 \$
Cash flows from operating activities			
Receipts from customers		1,845,191	834,775
Payments to suppliers and employees		(4,791,419)	(3,393,872)
Receipts from other income		145,796	64,125
Receipts from government R&D tax incentive		791,729	480,994
Interest received		43,294	22,109
Interest paid		(925)	(393)
Net cash (outflow) from operating activities	29	(1,966,335)	(1,992,262)
Cash flows from investing activities			
Payments for plant and equipment		(165,282)	(25,836)
Payments for intangible assets		(1,819,316)	(1,419,984)
Payments for other assets		(757)	(3,884)
Receipts from security deposits		17,159	-
Payments for acquisition costs		-	(443,931)
Net cash (outflow) from investing activities		(1,968,196)	(1,893,635)
Cash flows from financing activities			
Proceeds from issue of shares		4,105,000	4,450,090
Repayment of loans from shareholders		-	71,667
Payments for loans to shareholders		-	(71,667)
Capitalised capital raising costs		(242,595)	(260,274)
Repayment of borrowings		-	(453,333)
Net cash inflow from financing activities		3,862,405	3,736,483
Net (decrease) in cash held		(72,126)	(149,414)
Cash at the beginning of the financial year		2,684,548	33,175
Cash at acquisition of RKS Consolidated Limited		-	2,800,787
Cash at the end of the financial year	8	2,612,422	2,684,548

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

For the financial year ended 30 June 2016

Contents to the notes to the consolidated financial statements

1. Reporting entity	27
2. Basis of preparation	27
3. Significant accounting policies	27
4. Operating segments	32
5. Revenue	33
6. Expenses	33
7. Income tax	33
8. Cash and cash equivalents	34
9. Trade and other receivables	34
10. Inventories	34
11. Other assets	34
12. Plant and equipment	34
13. Intangible assets	35
14. Net tangible asset backing	35
15. Trade and other payables	35
16. Provisions	36
17. Contributed equity	36
18. Equity – reserves	37
19. Financial risk management	37
20. Remuneration of auditors	39
21. Contingent liabilities	39
22. Commitments for expenditure	39
23. Share based payments	39
24. Related parties	41
25. Parent entity information	42
26. Business combinations	43
27. Interests in controlled entities	43
28. Events occurring after the reporting date	43
29. Reconciliation of loss after tax to net cash from operating activities	44
30. Earnings per share (EPS)	44

1. Reporting entity

Skyfii Limited (the **Company**) is a company domiciled in Australia. The address of the Company's registered office and principal place of business is Level 1, 34-36 Oxford Street, Darlinghurst NSW 2010. The consolidated financial statements of the Company as at and for the year ended 30 June 2016 comprise the Company and its subsidiaries (together referred to as the Group and individually as Group entities). The Group is a for-profit entity and primarily is involved in providing data analytics services. The separate financial statements of the parent entity, Skyfii Limited, have not been presented within this financial report as permitted by the Corporations Act 2001. The financial statements were authorised for issue on 31 August 2016 by the Directors of the Company.

2. Basis of preparation

(a) Compliance with International Financial Reporting Standards

These general purpose financial statements have been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

(b) Historical cost convention

The consolidated financial statements have been prepared on the historical cost basis unless otherwise stated in the notes. Except for the cash flow information, the financial statements have been prepared on an accrual basis, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

(c) Functional and presentation currency

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

(d) Critical accounting estimates

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

(e) Going concern

The financial statements of the Group have been prepared on a going concern basis, which contemplates the continuation of normal business operations and the realisation of assets and settlement of liabilities in the normal course of business.

The Group is in the research, development and commercialisation stage of its data analytics technology and services. During the year ended 30 June 2016 the Group incurred a loss after tax of \$5,415,324, which included a one-off cost amounting to \$3,013,535 relating to the issue of Earn Out Shares and incurred cash outflows from operating activities of \$1,966,335 for the year. At 30 June 2016, the Group had a surplus in net current assets of \$3,253,368 and a surplus in net assets of \$6,221,599.

The Group has to date been successful in raising equity capital since the Company's re-listing in November 2014, having undertaken a private placement to new and existing investors of \$2,800,000 in May 2015 and \$4,105,000 in November 2015.

Management have prepared cash flow projections that support the Group's ability to continue as a going concern after expected

future capital raisings. This forecast acknowledges that the Group is in the early stages of development and assumes that the Directors will be able to raise between \$2,000,000 and \$4,000,000 in the next financial year and that the Group will continue to grow sales of its products and services and successfully exploit the Group's technology.

The Directors of the Company consider that the cash flow projections and assumptions will be achieved, and in the longer term, significant revenues will be generated from the commercialisation of intellectual property, and accordingly, the Group will be able to continue as a going concern.

In the event that the Group cannot continue as a going concern, it may not be able to realise its assets and settle its liabilities in the normal course of operations and at the amounts stated in the financial statements.

3. Significant accounting policies

(a) Principles of consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of Skyfii Limited and all subsidiaries. Subsidiaries are all entities over which the Group has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. A list of the subsidiaries is provided in Note 27.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

Equity interests in a subsidiary not attributable, directly or indirectly, to the Group are presented as "non-controlling interests". The Group initially recognises non-controlling interests that are present ownership interests in subsidiaries and are entitled to a proportionate share of the subsidiary's net assets on liquidation at either fair value or at the non-controlling interests' proportionate share of the subsidiary's net assets. Subsequent to initial recognition, non-controlling interests are attributed their share of profit or loss and each component of other comprehensive income. Non-controlling interests are shown separately within the equity section of the statement of financial position and statement of comprehensive income.

The consolidated financial statements have been prepared using reverse acquisition accounting. In reverse acquisition accounting, the cost of the business combination is deemed to have been incurred by the legal subsidiary Skyfii Group Pty Ltd (the acquirer for accounting purposes) in the form of equity instruments issued to the owners of the legal parent, Skyfii Limited (the acquiree for accounting purposes).

(b) Business combinations

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exceptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expensed to the statement of profit or loss and comprehensive income.

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

(c) Income tax

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and jointly controlled entities to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the

Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax liabilities and assets will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

The Company and its wholly-owned Australian resident entities are part of a tax consolidated group. As a consequence, all members of the tax consolidated group are taxed as a single entity. Skyfii Limited became the head entity within the tax consolidated group on 20 November 2014 (previously Skyfii Group Pty Ltd).

Where the Group receives the Australian Government's R&D tax incentive, the Group accounts for the refundable tax offset under AASB 112. Funds are received as a rebate through the parent company's income tax return and disclosed as such in Note 7.

(d) Inventories

Inventories are measured at the lower of cost and net realisable value. Costs of inventories are determined on a first-in, first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

(e) Plant and equipment

Plant and equipment is stated at historical cost less depreciation, amortisation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

The carrying amount of plant and equipment is reviewed annually 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 asset's employment and subsequent disposal. The expected net cash flows have not been discounted in determining recoverable amounts.

Depreciation of all fixed assets is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

- Office and computer equipment: 3-10 years.

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

(f) Intangibles

Software development

Costs relating to research and development of new software products are expensed as incurred until technological feasibility has been established. Costs incurred in developing new software are recognised as intangible assets only when technological feasibility studies identify that it is probable that the project will deliver future economic benefits and these benefits can be measured reliably. The expenditure capitalised comprises all

directly attributable costs, including costs of materials, services, licenses and direct labour.

Capitalised development costs have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a systematic basis based on the future economic benefits over the useful life of the project as follows: Year 1: 0%; Year 2: 40%; Year 3: 40%; Year 4: 20%.

Domain names

Domain names are valued at cost of acquisition. Domain names are tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Goodwill

Goodwill is initially recorded at the amount by which the purchase price for a business combination exceeds the fair value attributed to the interest in the net fair value of identifiable assets, liabilities and contingent liabilities acquired at date of acquisition. Goodwill is not amortised. Instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses.

(g) Employee benefits

Short-term obligations

Employee benefits that are expected to be settled within 12 months have been measured at the amounts expected to be paid when the liabilities are settled, plus related on-costs.

The liability for annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

Short term incentive plans

The Group recognises a liability and an expense for bonuses payable under short term incentive plans. Short term incentive plans are based on the achievement of targeted performance levels that may be set at the beginning of each financial year. The Group recognises a liability to pay out short term incentives when contractually obliged based on the achievement of the stated performance levels, or where there is a past practice that has created a constructive obligation.

Other long-term employee benefit obligations

Employee benefits payable later than 12 months have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wages increases and the probability that the employee may satisfy any vesting requirements. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows attributable to employee benefits.

(h) Borrowing costs

All borrowing costs are recognised in profit and loss in the period in which they are incurred.

(i) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. Provisions recognised represent the best estimate of the amounts required to settle the obligation at reporting date.

(j) 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 three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

(k) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. This provision includes amounts that are not considered to be recoverable from debtors and amounts that are expected to be credited to debtors. Trade receivables are generally due for settlement no more than 30 days from the date of recognition. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade receivables is reviewed on an ongoing basis. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. In addition, the trade receivables balances are considered for credit notes that are expected to be raised against individual and collective balances.

(l) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group at the end of financial year which are unpaid. The amounts are unsecured and are payable as and when they are due. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date.

(m) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. When the inflow of consideration is deferred, it is treated as the provision of financing and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Revenue for installation projects are recognised on the basis of that portion of total estimated costs that have been incurred to date in the completion of a particular project.

Interest revenue is recognised using the effective interest method.

Government grants and R&D tax incentives are recognised at fair value where there is reasonable assurance that the grant/tax incentive will be received and all grant/tax incentive conditions will be met.

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

(n) Goods and Services Tax (GST)

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 Tax Office (ATO). In these

circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the statement of financial position.

Cash flows are presented in the cash flow statement on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

(o) Foreign currency transactions and balances

Functional and presentation currency

The functional currency of each of the Group entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars, which is the parent entity's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the profit or loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in other comprehensive income to the extent that the underlying gain or loss is recognised in other comprehensive income, otherwise the exchange difference is recognised in profit or loss.

Group companies

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency is translated as follows:

- Assets and liabilities are translated at year end exchange rates prevailing at that reporting date.
- Income and expenses are translated at average exchange rates for the year.
- Retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations with functional currencies other than the Australian dollar are recognised in other comprehensive income and included in the foreign currency translation reserve in the statement of financial position. The cumulative amount of these differences is reclassified into profit or loss in the period in which the operation is disposed of.

(p) Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(q) Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. For financial assets, this is equivalent to the date that the Group commits itself to either purchase or sell the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest method, or 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.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of Accounting Standards specifically applicable to financial instruments.

Loans and receivables

Loans and receivables 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. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

Financial liabilities

Non-derivative financial liabilities other than financial guarantees are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

Impairment

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial asset has been impaired. A financial asset (or a group of financial assets) is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a "loss event") having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of financial assets carried at amortised cost, loss events may include: indications that the debtors (or a group of debtors) are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account, or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

When the terms of financial assets that would otherwise have been past due or impaired have been renegotiated, the Company recognises the impairment for such financial assets by taking into account the original terms as if the terms have not been renegotiated so that the loss events that have occurred are duly considered.

Derecognition

Financial assets are derecognised when the contractual rights to receipt of cash flows expire 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 when the related obligations are discharged, cancelled or have expired. The difference between the carrying amount 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.

(r) Impairment of assets

At the end of 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. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is recognised immediately in the profit and loss.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

(s) Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Leases are made up of operating leases of property. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease. Benefits that are provided to the Group as an incentive to enter into a lease arrangement are recognised as a liability and amortised on a straight-line basis over the life of the lease.

(t) Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Where the Group has retrospectively applied an accounting policy, made a retrospective restatement or reclassified items in its financial statements, an additional statement of financial position as at the beginning of the earliest comparative period will be disclosed.

(u) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly

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

(v) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. These include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities. The chief operating decision maker has been identified as the Board of Directors.

(w) Critical accounting estimates and judgments

The directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and judgements 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.

Business combinations

Following the guidance in AASB 3: *Business Combinations*, the Group has made assumptions and estimates to determine the purchase price of businesses acquired as well as its allocation to acquired assets and liabilities. To do so, the Group is required to determine at the acquisition date the fair value of the identifiable net assets acquired, including intangible assets such as brand, customer relationships and liabilities assumed. Goodwill is measured as the excess of the fair value of the consideration transferred including the recognised amount of any non-controlling interest over the net recognised amount of the identifiable assets and liabilities.

The assumptions and estimates made by the Group have an impact on the asset and liability amounts recorded in the financial statements. In addition, the estimated useful lives of the acquired amortisable assets, the identification of intangible assets and the determination of the indefinite or finite useful lives of intangible assets acquired will have an impact on the Group's future profit or loss.

Impairment of intangible assets

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

During the year ended 30 June 2015, the Group recognised \$2,157,841 in respect of an impairment of the entire goodwill arising from the acquisition of RKS Consolidated Limited by Skyfii Group Pty Ltd (in accordance with reverse acquisition accounting) and the impairment of intangible domain name assets.

Should the software development expenditure not meet the requirements set out in Note 3(f), an impairment loss would be recognised up to the maximum carrying value of intangible assets at 30 June 2016 of \$2,803,857.

R&D tax incentive

The Group has established a precedent for entitlement to grant income from the R&D tax incentive in prior periods. This experience supports the assumption that eligibility for the grant will continue on the same basis, and accordingly, it is appropriate

to recognise entitlement to the receivable in the current period. The value of the R&D tax incentive entitlement is determined by notional deductions based on eligible R&D expenditures.

Earn Out Shares

The Group has assessed that the various Earn Out Variation Deeds do not constitute part of the acquisition accounting of Skyfii Group Pty Limited and is therefore outside the scope of AASB 3 *Business Combinations*. The Earn Out Shares issued pursuant to the Earn Out Variation Deeds have been fair valued using a volume weighted average price of the Company's share price over the 5 days prior to 22 February 2016, being the date that shareholder approval was obtained for the issue of the Earn Out Shares.

(x) New Accounting Standards for application in future periods

Accounting Standards and Interpretations issued by the AASB that are not yet mandatorily applicable to the Group, together with an assessment of the potential impact of such pronouncements on the Group when adopted in future periods, are discussed below:

- AASB 9: *Financial Instruments* and associated Amending Standards (applicable to annual reporting periods beginning on or after 1 January 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 anticipate that the adoption of AASB 9 will not have a significant impact on the Group's financial statements.
- AASB 15: *Revenue from Contracts with Customers* (applicable to annual reporting periods commencing on or after 1 January 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. Except for 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:
 - » 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.
- Although the directors anticipate that the adoption of AASB 15 may have an impact on the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.
- AASB 16: *Leases* (applicable to annual reporting periods beginning on or after 1 January 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 include:
 - » recognition of a right-to-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-to-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;
 - » variable lease payments that depend on an index or a rate are included in the initial measurement of the lease liability using the index or rate at the commencement date;
 - » by applying a practical expedient, a lessee is permitted to elect not to separate non-lease components and instead account for all components as a lease; and
 - » 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.

4. Operating segments

The Group operates predominantly in one industry and one geographical segment, being the development and commercialisation of data analytics, marketing and advertising services to its customers in Australia. At this stage the Group's overseas operations are not significant to the Group. The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

5. Revenue

	2016 \$	2015 \$
Revenue from operations	2,339,570	658,237
Other income		
R&D tax incentive	851,219	791,729
Government grants	145,796	64,125
Interest income	43,294	22,109
Total other income	1,040,309	877,963
Total revenue	3,379,879	1,536,200

6. Expenses

	Note	2016 \$	2015 \$
Employee benefits expense			
Salaries and related expenses (including superannuation)		2,235,746	1,452,927
Other employment costs		192,512	108,500
Total employee benefits expense		2,428,258	1,561,427
Depreciation and amortisation expenses			
Plant and equipment	12	25,648	10,903
Software development amortisation	13	435,443	-
Total depreciation and amortisation expenses		461,091	10,903
Rental expense relating to operating leases			
Minimum lease payments	22	152,547	81,218
Rent recovery from sub-lease agreements	22	(64,842)	-
Net rental expense relating to operating leases		87,705	81,218
Net foreign exchange losses		27,423	16,736
Finance costs			
Interest expense		925	393

7. Income tax

	Note	2016 \$	2015 \$
(a) Income tax			
Current tax		8,456	-
Income tax expense		8,456	-

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

Loss from ordinary activities before income tax expense	(5,406,868)	(6,372,939)
Tax at the Australian rate of 30%	(1,622,060)	(1,911,882)

Tax effect amounts which are not deductible / (taxable) in calculating taxable income:

Difference in tax rates	963	-
Goodwill impairment not allowable	-	647,352
Share issue costs not allowable	904,061	-
Accounting for R&D expenditure	331,682	783,539
Accounting for reverse acquisition	-	(122,262)
Deferred tax assets not recognised	373,787	577,325
Other non-allowable items	20,024	25,928
Income tax expense	8,456	-

(c) Current tax liabilities

Current tax liabilities	8,456	-
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Franking credits

Franking credits available at the reporting date based on a tax rate of 30%	-	-
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The amount of deductible temporary differences and unused tax losses for which no deferred tax assets have been brought to account in the period are as follows:

- temporary differences: (\$1,342,314) (2015: \$52,994)
- tax losses: operating losses \$7,533,567 (2015: \$4,649,757)
- tax losses: capital losses \$16,911 (2015: \$16,911)

The benefits of the above temporary differences and unused tax losses will only be realised if the conditions for deductibility set out in Note 3(c) occur. These amounts have no expiry date.

Skyfii Limited and its wholly-owned Australian entities elected to form an income tax consolidated group as of 20 November 2014. The accounting policy on implementation of the income tax consolidation legislation is set out in Note 3(c).

8. Cash and cash equivalents

	2016 \$	2015 \$
Current		
Cash at bank and on hand	2,612,422	2,679,548
Term deposits	-	5,000
Total cash and cash equivalents	2,612,422	2,684,548

9. Trade and other receivables

	2016 \$	2015 \$
Current		
Trade receivables	682,874	110,339
R&D tax incentive receivable	823,325	791,729
Other debtors	8,907	58,953
Total current trade and other receivables	1,515,106	961,021

(a) Ageing of trade receivables

1-30 days	538,282	45,101
31-60 days	84,672	42,908
61-90 days	23,516	22,330
90+ days	36,403	-
Provision for impairment	-	-
Total trade receivables net of provision for impairment	682,874	110,339

10. Inventories

	2016 \$	2015 \$
Current		
Equipment – at cost	10,444	43,500
Total inventories	10,444	43,500

Inventories include servers and other networking equipment which the Group sells to its customers in order to deliver data analytics services.

11. Other assets

	2016 \$	2015 \$
Current		
Prepayments	87,629	104,598
Security deposits	4,057	9,667
Other	2,244	-
Total current other assets	93,930	114,265

12. Plant and equipment

	2016 \$	2015 \$
Non-current		
Office and computer equipment – at cost	201,773	36,474
Accumulated depreciation	(37,399)	(11,734)
Carrying value of office and computer equipment	164,374	24,740
Total carrying value of plant and equipment	164,374	24,740

Reconciliations

Reconciliations of the carrying amount of plant and equipment at the beginning and end of the current financial year are set out below:

	Office and computer equipment \$	Total \$
Balance as at 1 July 2014	9,807	9,807
Additions	25,836	25,836
Depreciation	(10,903)	(10,903)
Balance at 30 June 2015	24,740	24,740
Balance at 1 July 2015	24,740	24,740
Additions	165,282	162,391
Depreciation	(25,648)	(19,719)
Balance at 30 June 2016	164,374	167,412

13. Intangible assets

	2016 \$	2015 \$
Non-current		
Software development – at cost	3,239,300	1,419,984
Accumulated amortisation	(435,443)	-
Carrying value of software development	2,803,857	1,419,984
Domain names – at cost	65,000	65,000
Accumulated impairment	(65,000)	(65,000)
Carrying value of domain names	-	-
Goodwill – at cost	2,092,841	2,092,841
Accumulated amortisation and impairment	(2,092,841)	(2,092,841)
Carrying value of goodwill	-	-
Total carrying value of intangible assets	2,803,857	1,419,984

Reconciliations

Reconciliations of the carrying amount of intangible assets at the beginning and end of the current financial year are set out below:

	Software development \$	Domain names \$	Goodwill \$	Total \$
Balance as at 1 July 2014	-	65,000	-	65,000
Additions	1,419,984	-	2,092,841	3,512,825
Impairment	-	(65,000)	(2,092,841)	(2,157,841)
Amortisation	-	-	-	-
Balance at 30 June 2015	1,419,984	-	-	1,419,984
Balance at 1 July 2015	1,419,984	-	-	1,419,984
Additions	1,819,316	-	-	1,819,316
Amortisation	(435,443)	-	-	(435,443)
Balance at 30 June 2016	2,803,857	-	-	2,803,857

During the year ended 30 June 2015, the Group recognised a loss of \$2,157,841 in respect of an impairment of the entire goodwill arising from the acquisition of RKS Consolidated Limited by Skyfii Group Pty Ltd and the impairment of domain name assets.

14. Net tangible asset backing

	2016 Cents per share	2015 Cents per share
Net tangible asset backing per share	2.03	2.86
Net assets per share	3.70	4.11

15. Trade and other payables

	2016 \$	2015 \$
Current		
Trade payables	633,289	395,937
Sundry payables	41,478	18,983
Total trade and other payables	674,768	414,920

16. Provisions

	2016 \$	2015 \$
Current		
Employee benefits	136,841	67,465
Total provisions	136,841	67,465

17. Contributed equity

(a) Share capital

	2016 Number	2015 Number	2016 \$	2015 \$
Ordinary shares	168,265,551	113,768,522	17,987,101	11,091,161
Total share capital			17,987,101	11,091,161

(b) Movements in ordinary share capital

	Date	Number	Unit Price	\$
Reconciliation to 30 June 2015:				
Balance at 1 July 2014		7,500,000		1,500,600
Capitalised equity raising costs (net of tax)		-		(1,119,597)
Movements in ordinary shares:				
Issued for cash	22-Jul-14	900,000	\$0.0001	90
Issued for cash	22-Jul-14	1,224,746	\$0.8546	1,046,668
Conversion of convertible notes to ordinary shares	22-Jul-14	530,463	\$0.8546	453,333
Issued in settlement of a liability	22-Jul-14	58,507	\$0.8546	50,000
Issued in settlement of a liability	22-Jul-14	112,500	\$1.3333	150,000
Public share offer	14-Nov-14	17,500,000	\$0.2000	3,500,000
Issue of shares to former shareholders of Skyfii Group Pty Ltd	17-Nov-14	70,000,000	-	2,000,067
Issued in settlement of a liability	17-Nov-14	2,500,000	\$0.2000	500,000
Elimination of Skyfii Group Pty Ltd shares on issue on acquisition	20-Nov-14	(10,326,216)	-	-
Shares of Skyfii Ltd (formerly RKS Consolidated Ltd) on acquisition	20-Nov-14	10,000,337	-	-
Issued in settlement of a liability	10-Dec-14	850,000	\$0.2000	170,000
Issued in settlement of a liability	16-Feb-15	100,000	\$0.2000	20,000
Share placement	19-May-15	12,727,276	\$0.2200	2,800,000
Issued in settlement of a liability	4-Jun-15	90,909	\$0.2200	20,000
Balance at 30 June 2015		113,768,522		11,091,161
Reconciliation to 30 June 2016:				
Balance at 1 July 2015		113,768,522		11,091,161
Capitalised equity raising costs (net of tax)		-		(242,595)
Movements in ordinary shares:				
Share placement	9-Nov-15	27,366,667	\$0.150	4,105,000
Issue of ESP shares ¹	23-Dec-15	4,655,000	\$0.148	-
Issue of Earn Out Shares	26-Feb-16	22,342,028	\$0.135	3,013,535
Issued in settlement of a liability	26-Feb-16	133,334	\$0.150	20,000
Balance at 30 June 2016		168,265,551		17,987,101

Note:

- All eligible employees who accepted an offer of ESP shares were given an interest free loan from the Company to finance the whole of the purchase of the ESP shares they were invited to apply for (**ESP Loan**). The ESP Loans are provided to participants on a non-recourse basis and upon vesting must be repaid in order to remove trading restrictions on vested ESP shares. The term of the ESP Loan is five years however participants may forfeit their ESP shares if they do not repay the ESP Loan or leave the Company under certain scenarios. As the ESP removes the risk to participants from decreases in the share price by limiting the maximum loan amount repayable to the value of the ESP shares disposed and waiving the ESP Loan should the participant forfeit their ESP shares, whilst still allowing participants the rewards of any increase in share price, the Company has effectively granted the participants an option to the ESP shares due to the ESP Loans being non-recourse. As such, this arrangement is accounted for under AASB 2.

(c) Ordinary shares

Ordinary shares have the right to receive dividends as declared, and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

(d) Employee Share Plan (ESP)

Information relating to the Employee Share Plan, including details of shares issued under the plan, is set out in Note 23.

(e) Earn Out Shares

In July 2014, the Company (formerly RKS Consolidated Limited and referred to in this note as **RKS**) entered into an agreement to acquire 100% of the issued capital of Skyfii Group Pty Ltd (**SGPL**) (**Acquisition Agreement**). As part of the Acquisition Agreement entered into between RKS and the shareholders of SGPL, the Company agreed that on or after the fifth business day following 16 March 2017, it will issue to those shareholders who were shareholders of SGPL as at the acquisition date (**Skyfii Vendor Shareholders**), additional ordinary shares to the value of the lesser of a) \$30,000,000 or b) three times the Company's gross revenue for the year ending 31 December 2016 minus \$13,500,000, at an issue price of \$0.20 per share (**Earn Out Shares**). The minimum number of Earn Out Shares which may have been issued pursuant to the Acquisition Agreement is nil, and the maximum number is 82,500,000 (**Earn Out Mechanism**).

On 21 January 2016, the Company announced that it had entered into agreements with the majority (by shareholding) of the Skyfii Vendor Shareholders to provide certainty in relation to the dilutionary impact of the Earn Out Shares and the intentions and continued support of the Skyfii Vendor Shareholders, which, subject to shareholder approval, would result in:

- the issue of up to 22,500,000 fully paid ordinary shares to the Skyfii Vendor Shareholders and thereby removing any further potential entitlement to Earn Out Shares (**Proposed Earn Out Shares**); and
- up to 92,500,000 fully paid ordinary shares held by the Skyfii Vendor Shareholders being placed under voluntary escrow for an additional 12 months (**New Escrow Shares**),

thereby varying the terms of the Acquisition Agreement (**Earn Out Variation Deed**).

On 22 February 2016, the shares to be issued pursuant to the Earn Out Variation Deeds were approved at an Extraordinary General Meeting.

Of the twenty-five (25) Skyfii Vendor Shareholders, twenty-two (22) had entered into an Earn Out Variation Deed as it related to their rights and entitlements under the Acquisition Agreement, representing 99.3% of the Proposed Earn Out Shares and New Escrow Shares. As a result, on 26 February 2016, 22,342,028 shares were issued in accordance with the Earn Out Variation Deeds. Costs of \$3,013,535 relating to the Earn Out Shares issued were expensed in the year ended 30 June 2016. A maximum of 579,230 Earn Out Shares may be issued in accordance with the original Earn Out Mechanism.

18. Equity – reserves**(a) Movements**

	2016 \$	2015 \$
Share based payment reserve movements		
Balance at the beginning of the period	-	-
Share based payments expense	60,492	-
Balance at the end of the period	60,492	-
Foreign currency translation reserve movements		
Balance at the beginning of the period	-	-
Currency translation differences arising during the period	3,588	-
Balance at the end of the period	3,588	-
Total reserves	64,080	-

(b) Nature and purpose of reserves**Share based payments reserve**

The share based payments reserve represents the value of the ESP share grants to employees under the Company's Employee Share Plan.

Foreign currency translation reserve

The foreign currency translation reserve records exchange differences arising on translation of foreign controlled subsidiaries.

19. Financial risk management**Financial risk management objectives**

The Group's activities expose it to a variety of financial risks: market risk (including currency risk), credit risk and liquidity risk.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Risk management policies are established to identify and analyse the risks faced by the Group to set appropriate risk limits and controls, and to monitor risks and adhere to limits. Risk management is carried out by senior executives under policies approved by the Board of Directors. These policies include identification and analysis of the risk exposure of the Group and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the Group's operating units.

The Group holds the following financial instruments:

	Note	2016 \$	2015 \$
Financial assets			
Cash and cash equivalents	8	2,612,422	2,684,548
Trade and other receivables	9	1,515,106	961,021
Other financial assets	11	93,930	114,265
Total financial assets		4,221,458	3,759,835
Financial liabilities			
Trade and other payables	15	674,768	414,920
Total financial liabilities		674,768	414,920

The carrying value of the assets and liabilities disclosed in the table above closely approximates or equals their fair value. The carrying amounts of trade receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

(a) Market risk

Foreign currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group has an insignificant exposure to foreign currency risk as the overseas operations are in start-up phase.

Interest rate risk

The Group is not exposed to any significant interest rate risk.

(b) Credit risk

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

Other credit risk arises from cash and cash equivalents, deposits with banks and other financial institutions, security deposits, other receivables and GST receivable from the ATO.

The maximum exposure to credit risk at the reporting date to recognised financial assets is 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. The Group does not hold any collateral.

Credit risk is managed by a risk assessment process for all customers and counterparties, which takes into account past experience.

There have been no impairment losses recognised during the year (2015: nil).

(c) Liquidity risk

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, where possible, that it will always have sufficient liquidity to meet its liabilities when due.

Ultimate responsibility for liquidity management rests with the Directors. The Group ensures that, where possible, it has sufficient cash on demand to meet expected net cash outflows, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

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

Financing arrangements

The Group does not have any borrowing facilities in place at the reporting date.

Maturities of financial liabilities

The following table details the Group's remaining contractual maturity for its financial instrument liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The table includes both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

	1 year or less \$	1 to 2 years \$	2 to 5 years \$	Over 5 years \$
2016				
Non-derivatives				
Trade and other payables	674,768	-	-	-
2015				
Non-derivatives				
Trade and other payables	414,920	-	-	-

Trade and other payables are payable as and when they are due. The cash flows in the maturity analysis above are not expected to occur significantly earlier than disclosed.

(d) Capital management

The Board's aim is to maintain a strong capital base so as to maintain investor, creditor and market confidence to sustain future development of the business and increase shareholder value. The Board ensures the Group has sufficient capital as required for working capital purposes. There were no changes to the Group's approach to capital management during the year. The Group is not subject to externally imposed capital requirements.

20. Remuneration of auditors

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

	2016 \$	2015 \$
Hall Chadwick		
Audit and review of financial reports	50,650	40,342
Taxation services	34,486	36,000
Total	85,136	76,342

21. Contingent liabilities**(a) Earn out shares**

The minimum number of Earn Out Shares that may still be issued pursuant to the original Earn Out Mechanism in the Acquisition Agreement is nil, and the maximum number is 579,230. No value has been attributed to the remaining Earn Out Shares as the likelihood of them being issued is uncertain. Further information in relation to the Earn Out Shares can be found in Note 17 to the financial statements.

(b) Other contingent liabilities

There are no other contingent liabilities as at 30 June 2016.

22. Commitments for expenditure**(a) Non-cancellable operating leases**

The Group has entered into a commercial lease for office property. Rentals paid under operating leases are charged to the income statement on a straight line basis over the period of the lease. Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

	2016 \$	2015 \$
Less than one year	246,223	12,227
Later than one year	69,470	-
Total operating lease commitments	315,694	12,227

(b) Sub-lease arrangements

The Group has entered into several sub-lease arrangements with respect to the Group's head office. Rentals paid to the Group under these sub-lease arrangements are reflected as a reduction in rental expense in the profit or loss statement on a straight line basis over the period of the sub-lease arrangements. Future minimum rentals receivable under the sub-lease arrangements as at 30 June are as follows:

	2016 \$	2015 \$
Less than one year	51,649	-
Later than one year	-	-
Total operating sub-lease commitments	51,649	-

(c) Other contractual capital expenditure commitments

The Group has entered into several sub-lease arrangements with respect to the Group's head office. Rentals paid to the Group under these sub-lease arrangements are reflected as a reduction in rental expense in the profit or loss statement on a straight line basis over the period of the sub-lease arrangements. Future minimum rentals receivable under the sub-lease arrangements as at 30 June are as follows:

	2015 \$	2014 \$
Less than one year	-	3,878
Later than one year	-	-
Total capital expenditure commitments	-	3,878

23. Share based payments**(a) Employee Share Plan (ESP)**

During the year ended 30 June 2016, the Company established a share based payment plan, the Employee Share Plan (**ESP**) to assist the Company in retaining and attracting current and future employees by providing them with the opportunity to own shares in the Company.

The key terms of the ESP are as follows:

- the Board may invite a person who is employed or engaged by or holds an office with the Group (whether on a full or part-time basis) and who is declared by the Board to be eligible to participate in the ESP from time to time (**Eligible Employee**) to apply for fully paid ordinary shares under the plan from time to time (**ESP Shares**);
- invitations to apply for ESP Shares are to be made on the basis of the market price per share defined as the volume weighted average price at which the Company's shares have traded during the 30 days immediately preceding the date of the invitation;
- invitations to apply for ESP Shares under the ESP will be made on a basis determined by the Board (including as to the conditionality on the achievement of any key performance indicators) and notified to Eligible Employees in the invitation, or if no such determination is made by the Board, on the basis that ESP Shares will be subject to a 3 year vesting period, with:
 - 33% of ESP Shares applied for vesting on the date that is the first anniversary of the issue date of the ESP Shares;
 - 33% of ESP Shares applied for vesting on the date that is the second anniversary of the issue date of the ESP Shares; and
 - 34% of ESP Shares applied for vesting on the date that is the third anniversary of the issue date of the ESP Shares.
- Eligible Employees who accept an invitation (**ESP Participants**) may be offered an interest free loan from the Company to finance the whole of the purchase of the ESP Shares they are invited to apply for (**ESP Loan**). ESP Loans will have a term of 5 years and become repayable in full on the earlier of:
 - the fifth anniversary of the issue date of the ESP Shares; and
 - if the ESP Participant ceases to be an Eligible Employee, either:
 - » the fifth anniversary of the issue date of the ESP Shares, if the Eligible Employee is a good leaver (as defined in the ESP); or
 - » that date of cessation, if the Eligible Employee is a bad leaver (as defined in the ESP).
- if the ESP Participant does not repay the outstanding ESP Loan, or it notifies the Company that it cannot, then such number of ESP Shares that equal by value (using the price at which the ESP Shares were issued) the outstanding amount of the ESP Loan will become the subject of a buy-back notice from the Company which the ESP Participant must accept. The buy-back of such number of ESP Shares will be considered full and final satisfaction of the ESP Loan and the Company will not have any further recourse against the ESP Participant;
- any dividends received by the ESP Participant whilst the whole or part of the ESP Loan remains outstanding must be applied to the repayment of the ESP Loan;
- the maximum number of ESP Shares for which invitations may be issued under the ESP together with the number of ESP Shares still to be issued in respect of already accepted invitations and that have already been issued in response to invitations in the previous 5 years (but disregarding ESP Shares that are or were issued following invitations to non-residents, that did not require a disclosure document under the Corporations Act, or that were issued under a disclosure document under the Corporations Act) must not exceed 10% of the total number of ordinary shares on issue in the Company at the time the invitations are made;
- in the event of a corporate reconstruction, the Board will adjust, subject to the Listing Rules (if applicable), any one or more of the maximum number of shares that may be issued under the ESP (if applicable), the subscription price, the buy-back price and the number of ESP Shares to be vested at any future vesting date (if applicable), as it deems appropriate so that the benefits conferred on ESP Participants after a corporate reconstruction are the same as the benefits enjoyed by the ESP Participants before the corporate reconstruction. On conferring the benefit of any corporate reconstruction, any fractional entitlements to shares will be rounded down to the nearest whole share;
- ESP Participants will continue to have the right to participate in dividends paid by the Company despite some or all of their ESP Shares not having vested yet or being subject to an ESP Loan. If an ESP Loan has been made to the ESP Participant, then any dividend due must first be applied to reducing any outstanding ESP Loan amount applicable to the ESP Shares on which the dividend is paid;
- ESP Shares which have not vested and/or are subject to repayment of the ESP Loan will be restricted (escrowed) from trading;
- the Company may buy-back at the issue price any ESP Shares which:
 - have not vested, or are incapable of vesting at any time (including as a result of the ESP Participant failing to meet any key performance indicators on which vesting of ESP Shares is conditional); or
 - remain in escrow and/or are the subject of an ESP Loan, on the occurrence of:
 - » the ESP Participant ceasing to be an Eligible Employee (unless the Board, in its sole and absolute discretion determines otherwise, subject to any conditions that it may apply, including the repayment of any outstanding ESP Loan); or
 - » the expiration of the term of the ESP Loan.
- any bonus securities issued in relation to ESP Shares which remain unvested or are subject to an ESP Loan which becomes repayable in full will be the subject of a buy-back by the Company at the issue price for no consideration;
- on the death or permanent disability of an ESP Participant, all ESP Shares held by the ESP Participant or their estate will immediately vest subject to the repayment of any outstanding ESP Loan by the curator, executor or nominated beneficiary(ies) (as the case may be) within 30 days of their appointment (or such longer period as the Company in its discretion may allow). Failing such repayment, the Company will buy-back all ESP Shares in respect of which there is an outstanding ESP Loan;

- the rules of the ESP and any amendment to the rules of the ESP must be in accordance with the Listing Rules and the Corporations Act;
- if, while the Company's shares are traded on the ASX or any other stock exchange, there is any inconsistency between the terms of the ESP and the Listing Rules, the Listing Rules will prevail; and
- the ESP is governed by the laws of the State of New South Wales, Australia.

(b) ESP share grants

On 23 December 2015, 4,655,000 ESP shares were issued at an issue price of \$0.148 and are subject to the following vesting conditions:

- 33% of the ESP shares vest on the first anniversary of their issue date, subject to the Company's share price achieving \$0.40 on 10 days in any 20 consecutive trading days prior to that date (Tranche 1);
- 33% of the ESP shares vest on the second anniversary of their issue date, subject to the Company's share price achieving \$0.60 on 10 days in any 20 consecutive trading days prior to that date (Tranche 2); and
- 34% of the ESP shares vest on the third anniversary of their issue date, subject to the Company's share price achieving \$0.80 on 10 days in any 20 consecutive trading days prior to that date (Tranche 3).

If the share price performance condition in the first tranche is not satisfied, then those ESP shares will roll forward to the second tranche and be required to meet the higher share price performance condition for the second tranche. Subsequently, if the share price performance condition applicable in the second tranche is not satisfied, then any unvested ESP shares will roll forward to the third tranche and be required to meet the share price performance condition for the third tranche.

All Eligible Employees who accepted an offer of ESP shares were given an interest free loan from the Company to finance the whole of the purchase of the ESP shares they were invited to apply for (**ESP Loan**).

The ESP Loans are provided to participants on a non-recourse basis and upon vesting must be repaid in order to remove trading restrictions on vested ESP shares. The term of the ESP Loan is five years, however participants may forfeit their ESP shares if they do not repay the ESP Loan or leave the Company under particular circumstances. As the ESP removes the risk to participants from decreases in the share price by limiting the maximum loan amount repayable to the value of the ESP shares disposed and waiving the ESP Loan should the participant forfeit their ESP shares, whilst still allowing participants the rewards of any increase in share price, the Company has effectively granted the participants an option to the ESP shares due to the ESP Loans being non-recourse. As such, this arrangement is accounted for under AASB 2.

The assessed weighted average fair value at grant date of the effective share options granted during the financial year is \$0.0764 per option. Options were priced using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. The expected volatility of the Company's shares is based on the historical volatility of the Company's shares and other ASX listed companies considered to be comparable to Skyfii Limited.

The model inputs for the share option grants outstanding during the year ended 30 June 2016 include:

- Weighted average exercise price: \$0.148
- Weighted average life of the option: 5 years
- Expected share price volatility: 61%
- Risk-free interest rate: 2.24%.

(c) Other share based payments

Issue Date	Creditor	Purpose	Valuation	No. of shares	Value per share	Total \$
Directors:						
26-Feb-16	G. Flowers	Director's fees	Value of services	100,000	\$0.200	20,000
Total				100,000	\$0.200	20,000

24. Related parties

(a) Parent and ultimate controlling party

Skyfii Limited became the parent and ultimate controlling party of the Group on 20 November 2014. Prior to that date the parent and ultimate controlling party of the Group was Skyfii Group Pty Ltd.

(b) Subsidiaries

Interests in subsidiaries are set out in Note 27.

(c) Key management personnel compensation

	2016 \$	2015 \$
Short-term employee benefits, including contractor fees	1,103,119	818,660
Share based employee benefits	152,273	103,418
Other long term benefits	100,205	74,216
Total benefits	1,355,597	996,294

Short-term employee benefits

These amounts include fees and benefits paid to Directors as well as all salary, paid leave benefits and fringe benefits awarded to other KMP.

Share based employee benefits

These amounts represent the expense related to ordinary shares issued in lieu of payments for liabilities in cash as measured by the fair value of the shares issued or liabilities extinguished.

Further information in relation to KMP remuneration can be found in the Remuneration Report.

(d) Payable transactions with directors and key management personnel

The aggregate value of payable transactions and outstanding balances relating to director and key management personnel and entities over which they have control or significant influence were as follows:

KMP	Related party entity	Transaction	Transaction value		Balance outstanding	
			2016 \$	2015 \$	2016 \$	2015 \$
Jason Martin	Simple Machines Pty Ltd	Outsourced software development services	397,244	499,101	-	-

Other payable transactions with directors and key management personnel

At 30 June 2016 the payable balance outstanding with directors and key management personnel relating to expense reimbursements for supplier payments and business expenses was \$61,831 (2015: \$14,220).

Conditional Subscription Agreement

On 25 February 2016, the Company and Chapmans Opportunities Limited (**COL**), of which Mr Anthony Dunlop is a director, entered into a subscription agreement that, subject to certain conditions, would have resulted in the issue of 16,000,000 ordinary shares and 5,000,000 options over the same number of ordinary shares in the Company to COL (**COL Transaction**). Details of the agreement are disclosed in the Company's interim financial statements for the half-year ended 31 December 2015.

On 10 May 2016, the Company's shareholders approved the COL Transaction at a general meeting of shareholders.

On 15 July 2016, the Company announced that the remaining conditions precedent had not been fulfilled and that the COL Transaction had been terminated.

The terms and conditions of the transactions with these entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

(e) Receivable transactions with directors and key management personnel

At 30 June 2016 the receivables balance outstanding with directors and key management personnel was \$9,507 (2015: \$8,150) relating to employee debit and credit card advances utilised for the sole purpose of supplier payments and business expenses.

25. Parent entity information

Set out below is information about the legal parent entity, Skyfii Limited (previously known as RKS Consolidated Limited).

	Parent	
	2016 \$	2015 \$
Statement of comprehensive income		
Loss after tax	(2,876,784)	(577,545)
Total comprehensive income	(2,876,784)	(577,545)
Statement of financial position		
Current assets	10,363,934	6,171,271
Total assets	10,363,934	6,171,271
Current liabilities	176,041	63,026
Total liabilities	176,041	63,026
Net assets	10,187,893	6,108,245
Contributed equity	47,773,689	40,877,749
Reserves	294,492	234,000
Accumulated losses	(37,880,288)	(35,003,504)
Total equity	10,187,894	6,108,245

Contingent liabilities

Other than the contingent earn-out obligation, as discussed in Note 21, the parent entity had no contingent liabilities at 30 June 2016 and 30 June 2015.

Capital commitments – plant and equipment

The parent entity had no capital commitments for plant and equipment as at 30 June 2016 and 30 June 2015.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in Note 3.

26. Business combinations

In the prior financial year, on 20 November 2014, the Company (formerly RKS Consolidated Limited and referred to in this note as **RKS**) acquired 100% of the issued capital of Skyfii Group Pty Ltd (**SGPL**), a retail focussed technology company that captures and utilises big data to drive customer loyalty and sales for retailers. The acquisition was seen as an opportunity to use the existing listed company structure of the Company and provide existing shareholders of RKS the opportunity to participate in the significant future opportunities of SGPL. Details of the acquisition are disclosed in the 2015 Annual Report.

The acquisition resulted in goodwill of \$2,092,841 which was written off in the year ended 30 June 2015. Goodwill represented the value to SGPL of having an immediate ASX listed company status with all of the capital raising avenues available to this type of company. Acquisition costs of \$443,931 were expensed in the year ended 30 June 2015.

27. Interests in controlled entities

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 3:

Parent entity	Country of incorporation	Ownership interest	
		2016	2015
Skyfii Limited	Australia		
Subsidiaries:			
Skyfii Group Pty Ltd	Australia	100%	100%
Skyfii International Pty Ltd (incorporated 3 November 2014)	Australia	100%	100%
Skyfii Brasil Inteligência, Mídia e Tecnologia Mobile Ltda. (incorporated 24 February 2015)	Brazil	100%	100%
Skyfii South Africa (Pty) Ltd (incorporated 29 July 2015)	Republic of South Africa	100%	-
Skyfii UK Operations Limited (incorporated 19 April 2016)	United Kingdom	100%	-
Skyfii US Operations, LLC. (incorporated 28 April 2016)	United States of America	100%	-

28. Events occurring after the reporting date

On 15 July 2016, the Company announced that certain conditions precedent to the share subscription agreement with Chapmans Opportunities Limited had not been fulfilled and the COL Transaction had been terminated. Refer to Note 24(d) for further details on the terms of the COL Transaction.

Other than the above matters there are no other matters or circumstances that have arisen since 30 June 2016 that have significantly affected, or may significantly affect:

- the consolidated entity's operations in the future financial years, or
- the results of those operations in future financial years, or
- the consolidated entity's state of affairs in the future financial affairs.

29. Reconciliation of loss after tax to net cash from operating activities

	2015 \$	2014 \$
Loss for the year	(5,415,324)	(4,789,482)
Investment cash flows included in comprehensive loss:		
Payments for acquisition costs	-	443,931
Non-cash items in operating loss:		
Depreciation and amortisation	461,091	10,903
Issue of Earn Out Shares	3,013,535	-
Impairment of goodwill and domain names	-	2,157,841
Acquisition costs paid by RKS Consolidated Limited prior to acquisition	-	344,881
R&D tax incentive receivable	(851,219)	(791,729)
Share based payments	80,492	235,000
Changes in operating assets and liabilities:		
Decrease / (increase) in trade and other receivables	297,891	517,958
Decrease / (increase) in inventories	33,056	(43,500)
Decrease / (increase) in prepayments	16,970	(94,153)
Decrease / (increase) in other assets	3,366	(2,000)
Increase / (decrease) in trade and other payables	246,276	(58,871)
Increase / (decrease) in provisions and employee benefits	69,376	(11,812)
Increase / (decrease) in deferred revenue	78,155	88,770
Net cash used in operating activities	(1,966,335)	(1,992,262)

Non-cash financing activities

During the year ended 30 June 2016, 22,342,028 shares were issued pursuant to a number of Earn Out Variation Deeds for no consideration. A fair value of \$3,013,535 was applied to these shares.

30. Earnings per share (EPS)

	2016 Cents per share	2015 Cents per share
(a) Basic earnings per share		
Basic EPS attributable to ordinary equity holders of the Company	(3.8)	(7.1)
(b) Diluted earnings per share		
Diluted EPS attributable to ordinary equity holders of the Company	(3.8)	(7.1)
(c) Weighted average number of shares used as the denominator	Number	Number
Weighted average number of ordinary shares used in calculating basic EPS	141,357,785	67,579,606
Weighted average number of ordinary shares used in calculating diluted EPS	141,357,785	67,579,606
(d) Reconciliation of earnings used in calculating earnings per share	\$	\$
Loss attributable to the ordinary equity holders of the Company used in calculating basic EPS	(5,415,324)	(4,789,482)

Directors' Declaration

In the Directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 2 to the financial statements;
- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by section 259A of the Corporations Act 2001.

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

On behalf of the Directors

A handwritten signature in black ink, appearing to read 'J. Scott', with a long horizontal flourish extending to the right.

James Scott

Chairman

31 August 2016

**SKYFII LIMITED
ACN 009 264 699
AND CONTROLLED ENTITIES**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
SKYFII LIMITED AND CONTROLLED ENTITIES**

SYDNEY

Level 40
2 Park Street
Sydney NSW 2000
Australia

GPO Box 3555
Sydney NSW 2001

Ph: (612) 9263 2600
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Report on the Financial Report

We have audited the accompanying financial report of Skyfii Limited, which comprises the consolidated statement of financial position as at 30 June 2016, 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, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility 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 is free from material misstatement, whether due to fraud or error. In Note 2(a), the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements that the financial statements comply with International Financial Reporting Standards (IFRS).

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. 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 whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

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Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's Opinion

In our opinion:

- (a) the financial report of Skyfii Limited 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 2015 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a).

Emphasis of Matter

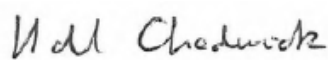
Without modifying our opinion, we draw attention to Note 2(e) in the financial report which indicates that the Group has incurred a net loss after tax of \$5,415,324 and net cash outflows from operating activities of \$1,966,335. These conditions, along with other matters as set forth in Note 2(e) indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern and therefore, the Company may be unable to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 14 to 17 of the Directors' Report for the year ended 30 June 2016. 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 Skyfii Limited for the year ended 30 June 2016 complies with s 300A of the Corporations Act 2001.



HALL CHADWICK
Level 40, 2 Park Street
SYDNEY NSW 2000



GRAHAM WEBB
Partner
Dated: 31 August 2016

SYDNEY

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Additional ASX Information

Use of cash and cash equivalents

In accordance with ASX Listing Rule 4.10.19, the Board has determined that the Company has used the cash and equivalents that it had at the time of its re-admission to the ASX in a way consistent with its business objectives during the financial year ended 30 June 2016.

Shareholder information

Additional information required by the Australian Securities Exchange Limited Listing Rules and not disclosed elsewhere in this report. This additional information was applicable as at 26 August 2016.

Substantial shareholders

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Act are:

Substantial shareholder	Date of notice	Number of shares
Birketu Pty Ltd	25-May-15	10,784,284
Jagafii Pty Ltd	11-Nov-15	14,378,638
Avenue C Pty Ltd	13-Nov-15	13,703,440
Karibu Pty Ltd	11-Nov-15	8,829,836
Bonduffmex Pty Ltd	11-Nov-15	7,956,690

Top 20 shareholders as at 26 August 2016

#	Name	Number of ordinary shares held	% of ordinary shares held
1	Jagafii Pty Ltd <Skyfii Unit A/C>	18,055,536	10.73%
2	Avenue C Pty Ltd <Orchard Street Family A/C>	17,189,642	10.22%
3	Birketu Pty Ltd	15,392,436	9.15%
4	Karibu Pty Ltd <Wayne Arthur Family A/C>	11,626,211	6.91%
5	Bonduffmex Pty Ltd <Ian Robinson Family A/C>	10,514,198	6.25%
6	Shanderlay Investments Pty Ltd <Shanderlay Disc A/C>	7,808,988	4.64%
7	Montella Investments Pty Ltd <R White Disc A/C>	7,581,715	4.51%
8	JP Morgan Nominees Australia Limited	5,705,565	3.39%
9	Alterac Pty Ltd <Alterac A/C>	4,620,465	2.75%
10	Yellow Monkey Holdings Pty Ltd <Bernberg Family A/C>	4,174,327	2.48%
11	Devero Holdings Pty Ltd	3,887,043	2.31%
12	Mr Marco Bettelli	2,620,465	1.56%
13	Payneham Investments Pty Ltd <Payneham Investment A/C>	2,445,086	1.45%
14	Meruma Pty Ltd <Meruma Investment A/C>	1,666,667	0.99%
15	Mr Martin Eric Robinson	1,452,500	0.86%
16	The Chimes Private Foundation	1,373,847	0.82%
17	Capella Trust Investments Limited	1,335,000	0.79%
18	Adgemis Holdings Pty Ltd	1,253,036	0.74%
19	Chapmans Corporate Advisory Pty Ltd	1,250,000	0.74%
20	1001 Investments Pty Ltd <The Binary A/C>	1,250,000	0.74%
Total top 20 holders		121,202,727	72.03%
Total remaining holders		47,062,824	27.97%

Distribution of ordinary shareholders as at 26 August 2016

	Number of shareholders	Number of shares
1 – 1,000	642	7,808
1,001 – 5,000	65	230,309
5,001 – 10,000	58	489,037
10,001 – 100,000	225	10,337,607
100,001 and over	148	157,200,790
Total	1,138	168,265,551

At the closing market price of \$0.074 per share on 26 August 2016, there were 725 shareholders with less than a marketable parcel of shares (\$500).

Restricted securities as at 26 August 2016

There are ordinary shares on issue that are subject to escrow in accordance with the ASX Listing Rules and other voluntary escrow arrangements, as set out in the table below:

	End date(s)	Number of shares
Skyfii Vendor Shareholder shares subject to escrow ¹	22-Feb-17	91,850,560
Promotor shares subject to ASX escrow	21-Nov-16	2,500,000
Total shares subject to escrow		94,350,560

Note:

- Shares issued to Skyfii Vendor Shareholders that are subject to escrow provisions in accordance with various Earn Out Variation Deeds or by operation of the ASX Listing Rules. Inclusive of 8,699,836 shares held by Karibu Pty Ltd which are also subject to ASX escrow ending 21-Nov-16.

Top 21 shareholders subject to escrow as at 26 August 2016

#	Name	Number of ordinary shares held subject to escrow	% of ordinary shares held subject to escrow
1	Avenue C Pty Ltd <Orchard Street Family A/C>	15,359,945	16.28%
2	Jagafii Pty Ltd <Skyfii Unit A/C>	15,116,141	16.02%
3	Karibu Pty Ltd <Wayne Arthur Family A/C>	11,496,211	12.18%
4	Bonduffmex Pty Ltd <Ian Robinson Family A/C>	10,514,198	11.14%
5	Montellay Investments Pty Ltd <R White Disc A/C>	7,581,715	8.04%
6	Shanderlay Investments Pty Ltd <Shanderlay Disc A/C>	7,581,715	8.04%
7	Birketu Pty Ltd	5,240,921	5.55%
8	Yellow Monkey Holdings Pty Ltd <Bernberg Family A/C>	4,174,327	4.42%
9	Devero Holdings Pty Ltd	3,887,043	4.12%
10	Mr Marco Betelli	2,620,465	2.78%
11	Alterac Pty Ltd <Alterac A/C>	2,620,465	2.78%
12	Chapmans Corporate Advisory Pty Ltd	1,250,000	1.32%
13	1001 Investments Pty Ltd	1,250,000	1.32%
14	Bmr Securities Pty Ltd <The Bmr Securities A/C>	1,159,200	1.23%
15	Glenmaress Pty Ltd <Glenmaress Family A/C>	1,118,119	1.19%
16	Ms Alice Klara Senn	1,050,031	1.11%
17	The Chimes Private Foundation	623,847	0.66%
18	Ms Rachel Scott	479,877	0.51%
19	Ma Duck & Me Pty Ltd <Ma Duck & Me A/C>	335,917	0.36%
20	Ms Kerry McCabe	335,917	0.36%
Total top 20 holders		93,796,054	99.41%
Total shares subject to escrow		94,350,560	

Voting rights

The voting rights attaching to ordinary shares, set out in the Company's Constitution are:

- at meetings of members, each member is entitled to vote in person or by proxy, attorney or representative; and
- on a show of hands, every person present who is a member has one vote, and on a poll every member present has a vote for each fully paid share owned.

There are no voting rights attached to unlisted ordinary shares or unlisted options, voting rights will be attached to unlisted ordinary shares once issued and to options upon exercise.

On-market Buy Back

There is no current on-market buy back.

Corporate Directory

Company Directors

Mr James Scott	Chairman, Non-Executive Director
Mr Wayne Arthur	Executive Director
Mr Andrew Johnson	Non-Executive Director

Company Secretary

Mr Heath Roberts

Registered Office

Level 1
34-36 Oxford Street
Darlinghurst NSW 2010
Telephone: +61 2 8188 1188

Share Registry

Boardroom Limited
Level 7
207 Kent Street
Sydney NSW 2000

Auditors

Hall Chadwick
Level 40
2 Park Street
Sydney NSW 2000

Securities exchange listing

Skyfii Limited shares are listed on the Australian Securities Exchange (Listing code: SKF).

Website

www.skyfii.io

skyfiiio