Financial Statements

FY21 Interim Report

For the six month period ended
30 September 2020

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ikeGPS Group Limited

Contents

Consolidated interim statement of profit or loss and other comprehensive income

		Unaudited 6 months to September 2020	Unaudited 6 months to September 2019
Continuing operations		**$'000's**	**$'000's**
Operating revenue	4	4,405	5,245
Cost of sales		(1,470)	(1,459)
Gross profit		**2,935**	**3,786**
Other income	7	899	1
Operations cost	4	(215)	(283)
Sales and marketing expenses	4	(2,913)	(1,894)
Research and engineering expenses	4	(1,104)	(1,091)
Corporate costs	4	(2,092)	(1,633)
Foreign exchange (losses)/gains		52	(1)
Expenses		**(6,272)**	**(4,902)**
Operating loss		**(2,438)**	**(1,115)**
Net finance income / (expense)		(42)	(7)
Net loss before income tax		**(2,480)**	**(1,122)**
Income tax (expense)/credit		-	-
Loss attributable to owners of ikeGPS Group		**(2,480)**	**(1,122)**
Other comprehensive loss			
Exchange differences on translation of foreign operations		(631)	222
Comprehensive loss		**(3,111)**	**(900)**
Basic and diluted loss per share		$ (0.02)	$ (0.01)

The accompanying notes form part of, and should be read in conjunction with, these financial statements.

Consolidated interim statement of changes in equity

	Share capital	Accum-ulated losses	Share based payment reserve	Foreign currency translation reserve	Total
	$'000's	$'000's	$'000's	$'000's	$'000's
Opening balance at 1 April 2019	**55,132**	**(45,846)**	**192**	**(115)**	**9,363**
Change in accounting policy	-	(45)	-	-	(45)
Restated balance at 1 April 2019	**55,132**	**(45,891)**	**192**	**(115)**	**9,318**
Loss for the year	-	(1,122)	-	-	(1,122)
Currency translation differences	-	-	-	222	222
Total comprehensive income/(loss)	**-**	**(1,122)**	**-**	**222**	**(900)**
Issue of ordinary shares	-	-	-	-	-
Recognition of vesting of share-based options	-	-	101	-	101
Share based payment reserve movement	6	8	(8)	-	6
Total transactions with owners	**6**	**8**	**93**	**-**	**107**
Balance at 30 September 2019	**55,138**	**(47,005)**	**285**	**107**	**8,525**

	Share capital	Accum-ulated losses	Share based payment reserve	Foreign currency translation reserve	Total
	$'000's	$'000's	$'000's	$'000's	$'000's
Opening balance at 1 April 2020	**61,498**	**(51,596)**	**545**	**437**	**10,884**
Loss for the year	-	(2,480)	-	-	(2,480)
Currency translation differences	-	-	-	(631)	(631)
Total comprehensive income/(loss)	**-**	**(2,480)**	**-**	**(631)**	**(3,111)**
Issue of ordinary shares	18,472	-	-	-	18,472
Recognition of vesting of share-based options	-	-	145	-	143
Issue of shares from exercise of share options	11	-	(11)		-
Share based payment reserve movement			134	-	134
Total transactions with owners	**18,483**	**-**	**266**	**-**	**18,749**
Balance at 30 September 2020	**79,981**	**(54,076)**	**813**	**(194)**	**26,524**

The accompanying notes form part of, and should be read in conjunction with, these financial statements.

Consolidated interim balance sheet

		Unaudited September 2020	Audited March 2020
ASSETS		**$'000's**	**$'000's**
Current assets			
Cash and cash equivalents		20,518	4,327
Trade and other receivables		1,364	1,576
Prepayments		516	681
Inventory		858	876
Total current assets		**23,256**	**7,460**
Non-current assets			
Property, plant and equipment		937	1,188
Intangible assets		6,114	6,501
Inventory		419	534
Lease assets		516	705
Total non-current assets		**7,986**	**8,928**
Total assets		**31,242**	**16,388**
LIABILITIES			
Current liabilities			
Trade and other payables		610	931
Employee entitlements		259	231
Current lease liabilities		345	327
Other liabilities		696	574
Deferred income		1,860	2,392
Total current liabilities		**3,770**	**4,455**
Non-current liabilities			
Lease Liabilities		284	460
Other liabilities		629	534
Deferred income		35	55
Total non-current liabilities		**948**	**1,049**
Total liabilities		**4,718**	**5,504**
Total net assets		**26,524**	**10,884**
EQUITY			
Share capital	5	79,981	61,498
Share based payment reserve		813	545
Accumulated losses		(54,076)	(51,596)
Foreign currency translation reserve		(194)	437
Total equity		**26,524**	**10,884**

Director Date: 27 November 2020 Director Date: 27 November 2020

NZ (New Zealand Time) NZ (New Zealand Time)

The accompanying notes form part of, and should be read in conjunction with, these financial statements.

Consolidated interim statement of cash flows

	Note	Unaudited 6 months to September 2020	Unaudited 6 months to September 2019
		$'000's	**$'000's**
Cash flows from operating activities			
Cash receipts from customers		4,152	4,385
Cash paid to suppliers and employees		(6,261)	(5,147)
Payment of low value and short term leases		(15)	(53)
COVID-19 relief receipts	7	817	-
Interest paid		(43)	(3)
Net cash used in operating activities	6	**(1,350)**	**(818)**
Cash flows from investing activities			
Purchases of property, plant and equipment		(180)	(337)
Additions to intangible assets		(489)	(183)
Interest received		1	8
Net cash used in investing activities		**(668)**	**(512)**
Cash flows from financing activities			
Payments of principal portion of lease liability		(109)	(37)
Exercising of share options		-	5
Proceeds from issuance of shares on listing		18,472	-
Net cash from financing activities		**18,363**	**(32)**
Net (decrease)/increase in cash and cash equivalents		**16,345**	**(1,362)**
Cash and cash equivalents at 1 April		4,327	3,475
Effect of exchange rate fluctuations on cash held		(154)	116
Cash and cash equivalents		**20,518**	**2,229**

The accompanying notes form part of, and should be read in conjunction with, these financial statements.

Notes to the consolidated interim financial statements

1. Reporting Entity

ikeGPS Group Limited (the "Company") is a limited liability company domiciled and incorporated in New Zealand, registered under the Companies Act 1993 and listed on the New Zealand Stock Exchange ("NZX") and Australian Securities Exchange ("ASX"). The Company is an FMC reporting entity for the purposes of the Financial Markets Conduct Act 2013. The interim financial statements for the six months ended 30 September 2020 comprise the Company and its subsidiaries (together referred to as the "Group") which include ikeGPS Limited and ikeGPS Inc.

The principal activity of the Group is that of design, sale, and delivery of a solution for the collection, analysis, and management of distribution assets for electric utilities and communications companies.

The interim financial statements were authorised for issue by the Directors on 27 November 2020.

2. Basis of preparation

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

Basis of measurement

These unaudited interim financial statements for the six months ended 30 September 2020 have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP") and NZ IAS 34, Interim Financial Reporting.

The financial statements have been prepared on the historical cost basis with the exception of certain financial instruments which are measured in accordance with the specific relevant accounting policy.

These unaudited interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 March 2020, which have been prepared in accordance with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). All significant accounting policies have been applied on a basis consistent with those used in the audited financial statements of the Group for the year ended 31 March 2020.

Notes to the consolidated interim financial statements

2. Basis of preparation (continued)

Critical estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

In preparing these condensed interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 March 2020.

Impact of COVID-19

The majority of the Group's customers operate in North America, where the economic environment has experienced a substantial slow-down over the period due to the impact of COVID-19.

Our target customers being communications companies, electric utilities and their associated engineering service providers are considered 'critical businesses'. However, while these customers may not have been as impacted by restrictions as other industries, trading has been significantly more restrictive than normal as discretionary work has been reduced. This reduction in discretionary work is most noticeable in the electric utilities sector.

The Group acknowledges the uncertainty that COVID-19 continues to have across the US. The Group is continuing to focus on the health and safety of staff and the resilience of its supply chain and operational capacity. During the period, the technology and operational procedures for working remotely were successfully rolled out, and the group has not felt any material decrease in the ability to perform. The US operation will continue to work remotely for the foreseeable future and will continue to monitor the NZ restrictions recommended by the government.

In preparing these interim financial statements, the Directors of the company have considered the impact of COVID-19 on the Group. This includes impacts on the FY21 and FY22 business plans. The Group retains the ability to reduce operating expenditure or limit further investment in response, should weaker expected demand or further restrictions eventuate. As the potential impact of COVID-19 could affect the Group's liquidity, it has been incorporated into our impairment and going concern assessments as outlined below.

Notes to the consolidated interim financial statements

2. Basis of preparation (continued)

Going concern

These financial statements have been prepared based on the Group being a going concern, which assumes the Group has the ability and intention to continue operations for a period of at least 12 months from the date of the financial statements.

The Group has continued its plan for growth, investing in developing and expanding the Group's product and service offerings to generate increased revenue. In the 31 March Annual Report, the Group identified liquidity risk as a material uncertainty in that cash inflows and cash on hand may not be sufficient to meet obligations as they fall due.

However, in FY21, the Group completed an institutional placement and entitlement offer raising approximately $19.7m. This successful capital raise has put The Group in a strong position to invest in increasing the Group's sales pipeline, supporting customer wins, increasing operational capacity, and provide funding capacity for potential growth opportunities. The cash balance on 30 September 2020 was $20,518,000 (2020: $4,327,000).

During the first half of the fiscal year 2021 (FY21), the Group has felt the impact of the uncertainty and restrictions around Covid-19, resulting in a net loss of $2,480,000.The Group had cash outflows of $1,350,000 (2019: $818,000) relating to operations, and $668,000 (2019: $512,000) relating to capitalised internal development for the six months ended 30 September 2020.

The Group's business plan for FY21 considers the uncertainty of Covid-19 on the market and acknowledges the uncertainty through the remainder of the year and FY22. The remaining 6 months of the FY21 plan has been reviewed and assumes revenue growth in the communications and utilities market based on a strong sales pipeline through the second half of the year. The Group will focus on continuing investment in realizing the significant sales opportunities for the entity's products and services in accordance with the capital raise.

In a high growth business, accuracy of forecasting is challenging, and this is exacerbated in the current economic climate caused by COVID-19. In response to this, the FY21 business plan has been extended out to December 2021 to project cashflows for a period of twelve months after the approval of these financial statements. To assess the degree of sensitivity, stress testing has been performed on the FY21 plan to December 2021, reducing forecasted receipts from customers by 25-30%. The outcome of this analysis shows that the group remains in a strong cash on hand position, albeit with reduced available funds. Further cost-cutting measures are available to the Group if one or more components of the plan are not realized.

Notes to the consolidated interim financial statements

2. Basis of preparation (continued)

The Groups listing on the NZX and ASX, provides the Group the option to pursue capital raise opportunities from a wider market. As reflected in the capital raise discussed above, the Directors believe that additional capital could be raised should growth opportunities arise in the future.

While acknowledging the uncertainty that exists, the Directors believe that projected cash inflows, combined with cash on hand at 30 September 2020 of $20,518,000, means that the Group has sufficient funding to continue a growth trajectory for at least the next 12 months from the date of approval of the financial statements, and hence consider the use of the going concern basis appropriate.

Impairment

The carrying amounts of the Group's assets were reviewed to determine whether there is any indication of impairment. The Directors concluded the Utilities and Communications operating losses as an indicator of impairment of the intangibles assets, total property plant & equipment, leased assets and working capital associated with the Utilities and Communications Business, requiring an estimate of the Cash Generating Unit's (CGU1) recoverable amount. Additionally, it determined that due to the low relative revenue from the Spike Business unit, an indicator of impairment existed requiring an estimate of the Cash Generating Unit's (CGU2) recoverable amount of the assets directly associated with the Spike Business.

CGU1 was determined to be the IKE & Core platform intangible assets, total property plant & equipment, leased assets and working capital totalling $4,741,497. Future cash flows are forecast based on a five-year business model for CGU1, which included Utilities & Communications average revenue growth rate of 23% and operating expenses reflect the FY21 business plan. A pre-tax discount rate of 15.5% was used to establish the net present value on a value in use basis.

The forecast financial information is based on both past experience and future expectations of operating segment performance and requires judgements to be made as to revenue growth, operating cost projections and the market environment. Despite the impact of COVID-19, in the medium term, the Group remains optimistic that its core infrastructure market will continue due to the significant multiyear investment programmes our customers have in place. The value in use assessment is sensitive to changes in each of these assumptions, actual results may be substantially different. The terminal growth rate assumed is 1 x year 5 net operating profit.

Sensitivity analysis was performed on key assumptions. A likely material impairment would need to be considered if the forecast sales volume growth was lower than the forecast by greater than 10%.

Notes to the consolidated interim financial statements

2. Basis of preparation (continued)

The Directors have determined that no impairment is required as CGU1 continues to have a useful life and that the current carrying value of the CGU1 does not exceed its value in use.

CGU2 is the total intangible assets of Spike applications, SDK and working capital totalling $660,112. Future cash flows are forecast based on a five-year business model for CGU2 and a pre-tax discount rate of 14.1% was used to establish the net present value on a value in use basis.

Spike revenue reflects the FY21 and FY22 business plan, with a revenue growth rate assumed to be 2% from year 2. An estimate of the cash flows required to market and sell the Spike products was based on the business plan for FY21 and forecast sales volume profile. The terminal value assumed is 1x year-5 net operating profit, which aligns with the remaining expected useful life of the assets.

The Directors have determined that no impairment is required as the carrying value does not exceed the value in use.

The forecast financial information is based on both past experience and future expectations of operating segment performance and requires judgements to be made as to revenue growth, operating cost projections and the market environment. It is sensitive to changes in each of the assumptions outlined above and actual results may be substantially different. Any change in the assumptions would likely cause a material change in the impairment recognised by the Group.

3. Operating segments

The CEO and senior management team are the Group's operating decision-makers. During the six months ended 30 September 2020, the Group's selling activities were focused and organised into two customer segments namely Utility & Communications and Other Business. The Utility & Communications segment includes sales to companies involved in the broadband fiber and cellular roll out in the United States. Other Business includes sales of Spike into the Signage, Architecture Engineering and Construction (AEC) and Geospatial markets.

Within the Utilities & Communications segment, the Group sold the IKE device, corresponding annual subscription revenue, pole loading software licences, pole loading maintenance and support subscriptions and IKE analyze transactions being an end to end technical solution to customers performing make ready engineering (MRE) projects.

The segment reporting format reflects the Group's management and internal reporting structure. Contribution is after allocating cost of goods sold. Reporting of overheads and balance sheet position is not undertaken at a level lower than the Group as a whole. Geographically, revenue is substantially generated in the United States.

Notes to the consolidated interim financial statements

3. Operating segments (Cont.)

	Unaudited 6 months to September 2020			Unaudited 6 months to September 2019		
	Utility & Communication	Other Business	Group	Utility & Communication	Other Business	Group
	$'000's	$'000's	$'000's	$'000's	$'000's	$'000's
Sale of product and services (Point in Time)	1,011	124	1,135	1,436	366	1,802
IKE rental	309	-	309	167	-	167
Subscription (Over time)	1,287	18	1,305	1,299	26	1,325
Contribution	**2,038**	**122**	**2,160**	**2,183**	**332**	**2,515**
IKE Analyze solution (Point in Time)	1,122	-	1,122	1,951	-	1,951
Contribution	**256**	**-**	**256**	**1,271**	**-**	**1,271**
Pole loading software licenses, services and subscriptions (Point in time & Over time)	534	-	534	-	-	-
Contribution	**519**	**-**	**519**	**-**	**-**	**-**
Gross Profit			**2,935**			**3,786**
Sales and marketing costs			(2,913)			(1,894)
Other corporate income and expenses			(2,503)			(3,014)
Net loss before tax			**(2,480)**			**(1,122)**

4. Revenue and expenses

Revenue	Unaudited 6 months to September 2020	Unaudited 6 months to September 2019
	$'000's	$'000's
Sale of product	1,006	1,687
IKE rental	309	167
IKE Solution	1,122	1,950
IKE subscription	1,305	1,326
Pole loading licence and subscription	534	-
Services	129	115
Total operating revenue	**4,405**	**5,245**

Notes to the consolidated interim financial statements

4. Revenue and expenses (Cont.)

Operating expenses

Operating expenses consist of operations costs, sales and marketing expenses, engineering and research expenses and corporate expenses.

	Unaudited 6 months to September 2020 $'000's	Unaudited 6 months to September 2019 $'000's
Amortisation of development asset	513	433
Depreciation[4.]	238	174
Total amortisation and depreciation	**751**	**607**
Employee benefit expense	4,393	2,954
Employee benefit, contractors and consultants expense capitalised[1.]	(489)	(184)
Share-based payment	278	101
Credit loss provision movements & write off expense	(107)	-
Operating lease expenses	88	53
Direct selling and marketing[2.]	157	541
Other operating expenses[3.]	1,254	830
Total operating expenses	**6,325**	**4,902**

Notes

1. Relates to employee benefit expense, external contractors and consultants' expenses that are directly attributable to the development of intangible assets and have been capitalised.
2. Direct selling and marketing expenses includes expenses incurred mainly in relation to promotional activities such as commissions, travel and other direct marketing expenses.
3. Other operating expenses include corporate advisory, contractor and consultants, travel, engineering expenses, facilities and IT expenses.
4. Total depreciation is $465,000, with $238,000 included in operating expenses with the remaining balance of $227,000 included in cost of sales.

Notes to the consolidated interim financial statements

5. Contributed equity

Share capital

	Unaudited 6 months to September 2020	Audited year ended March 2020
	$'000's	**$'000's**
On issue at 01 April 2020	61,498	55,132
Shares issued under share-based option scheme	11	37
Issue as part of business combination	-	389
Issued under share placement and institutional entitlement offer	9,757	5,306
Issued under retail entitlement offer	9,938	-
Issued under share purchase plan	-	1,194
Less listing costs offset against issue proceeds	(1,223)	(560)
Total share capital	**79,981**	**61,498**

Share capital on issue

Fully paid total shares at beginning of year	102,194,048	90,469,567
Ordinary shares issued on settlement of options	115,094	242,134
Ordinary shares issued as part of business combination	-	649,014
New shares offered	28,963,035	10,833,333
Fully paid ordinary shares	**131,272,177**	**102,194,048**

The Group completed an institutional placement and entitlement offer during the period. The capital raise is for the business to continue to invest in increasing the Group's sales pipeline, supporting customer wins, increasing operational capacity, and provide funding capacity for potential growth opportunities.

Notes to the consolidated interim financial statements

6. Cash used in operations

	Unaudited 6 months to September 2020	Unaudited 6 months to September 2019
	$'000's	**$'000's**
Loss for the year	**(2,480)**	**(1,122)**
Less investment interest received	(1)	(8)
Non-cash items included in net loss		
Depreciation	465	295
Amortisation of intangible assets	513	433
Debtor and creditor write off	(107)	18
Share based payment expense	278	101
Write off of assets, materials and IKE devices	55	33
Foreign exchange (gains)/losses	(52)	1
	1,151	**881**
Add/(less) movement in working capital items		
Decrease/(Increase) in trade and other receivables	219	(1,238)
Decrease/(Increase) in inventories	110	114
Decrease/(Increase) in prepayments	168	50
Increase/(Decrease) in trade and other payables	(320)	64
Increase/(Decrease) in deferred revenue	(552)	375
Increase/(Decrease) in other liabilities	327	-
Increase/(Decrease) in employee entitlements	27	66
	(21)	**(569)**
Net cash used in operating activities	**(1,350)**	**(818)**

Notes to the consolidated interim financial statements

7. Other income

	Unaudited 6 months to September 2020
	$'000's
PPP forgivable Loan	817
NZ Wages subsidy	82
Other income	**899**

On 1 May 2020 IKE received USD$511,594 ($825,000 NZD) under the U.S. Federal Government CARES Act Paycheck Protection Program (PPP) via its bank, Silicon Valley Bank.

Under the PPP structure, the loan principal amount is forgivable if the proceeds are used to cover payroll costs, rent, and utility costs over the 8 week or 24 week period after the loan is made. Loan forgiveness is contingent upon recipients requesting forgiveness, providing supporting documentation, and certifying compliance to the forgiveness conditions as per the PPP legislation. IKE will request forgiveness for the maximum loan principal amount available under the conditions.

After assessing the conditions of the PPP loan, the Group has made a judgement that this amount is a forgivable loan and the Group has reasonable assurance that they will meet the terms of forgiveness. As such, the loan has been recognised as a government grant in accordance with NZ IAS 20. This is based on the structure of the PPP loan and management's expectation that the full loan amount will be forgiven. Therefore, the Group has recognised the loan received as other income over the period in which the related expenses were incurred and not netted off against the expenses consistent with prior periods. If the loan for some reason is not forgiven the amount would be treated as a liability and required to be repaid.

In addition to the PPP loan, the group received the New Zealand wage subsidy in relation to the Groups New Zealand based employees. The Group applied for the loan based on the condition that the Group would experience a minimum 30% decline in actual or predicted revenue over a month between January 2020 and 9 June 2020, when compared with the same month in the previous year, and that decline is related to COVID-19. The Group has met the conditions as outlined and has recorded the amount received as a grant not a loan. As above, the subsidy received was recognised as income over the period in which the related expenses were incurred.

Notes to the consolidated interim financial statements

8. Related parties

We note that during the annual shareholders meeting held on 29 September 2020, independent director Bruce Harker notified the Group and shareholders that he was retiring as a director.

The group issued 300,000 unlisted share options at NZD$0.90 to Mark Ratcliffe during the period. The options were issued in accordance with the resolution passed during the Group's annual shareholders meeting and the ikeGPS Group Limited Employee Share Scheme.

In addition to the unlisted options issued, Glenn Milnes was issued 111,141 new ordinary shares on the net settled of 200,000 unlisted options (exercisable at NZD$0.29 per share, market price of NZD$0.65).

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