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**CONNECTED IO LIMITED
AND ITS CONTROLLED ENTITIES
ABN 99 009 076 233**

**ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020**

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CORPORATE INFORMATION

Directors

Mr Adam Sierakowski (*Non-Executive Chairman*)

Mr Yakov Temov (*Managing Director and Chief Executive Officer*)

Mr Davide Bosio (*Non-Executive Director*)

Mr Dougal Ferguson (*Non-Executive Director*)

Company Secretary

Ms Nicki Farley

Registered and Principal Office

Level 24
44 St Georges Terrace
PERTH WA 6000

Auditors

HLB Mann Judd (WA) Partnership
Level 4, 130 Stirling Street
PERTH WA 6000

Share Registry & Register

Computershare
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PERTH WA 6000
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Stock Exchange Listing

Connected IO Limited
is listed on the Australian Securities Exchange.
ASX Code: CIO

Contact Information

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<http://www.connectedio.com/>

DIRECTORS' REPORT

The directors of Connected IO Limited ("the Company" or "CIO") and its controlled entities ("the Group") submit herewith the financial statements of the Group for the financial year ended 30 June 2020.

These financial statements cover the period from 1 July 2019 to 30 June 2020. In order to comply with the provision of the Corporations Act 2001, the directors' report is as follows:

Directors

The names and particulars of the directors of the Company during or since the end of the financial year are:

Mr Adam Sierakowski Non-Executive Chairman (appointed 3 December 2018)

Adam Sierakowski is a lawyer and a founding director of the legal firm Price Sierakowski. He has over 20 years of experience in legal practice, much of which he has spent as a corporate lawyer consulting and advising on a range of transactions to a variety of large private and listed entities.

Mr Sierakowski is also a co-founder and director of Perth based corporate advisory business, Trident Capital, where for 15 years he has advised a variety of large private and public companies on structuring their transactions and coordinating fundraisings both domestically and overseas.

Mr Sierakowski has held a number of directorships with ASX-listed companies, and he is a member of the Australian Institute of Company Directors and the Association of Mining and Exploration Companies.

Interest in Shares 5,645,160.

Interest in Options Nil.

Interest in Convertible Notes Nil.

Directorships held in other listed entities During the past three years Mr Sierakowski has served as a Director of the following other listed companies:

- (a) Kinetiko Energy Limited (8 December 2010 – present);
- (b) Rision Limited (Appointed 8 June 2018 – Delisted 20 April 2020);
- (c) Coziron Resources Limited (21 October 2010 – present); and
- (d) Dragontail Systems Limited (14 September 2016 – present).

Mr Yakov Temov Managing Director and Chief Executive Officer (appointed 18 January 2016)

Mr Temov specialises in product development and executive leadership, with a long and consistent track record of successfully delivering innovative products on time and under budget, fast yet high quality roadmap evolutions, and building and growing world-class engineering teams. Most recently, Mr Temov was CEO and Founder of White Label Corporation. Prior to that, Mr Temov was VP of Engineering at U4EA Technologies, Inc. (acquired by Gos Networks, Ltd.) where he was responsible for all product design, engineering, and testing.

Interest in Shares Mr Temov holds 23,668,333 ordinary shares, 10,000,000 Class A performance rights and 10,000,000 Class B performance rights directly in the Company.

Interest in Options Nil.

Interest in Convertible Notes Nil.

Directorships held in other listed entities During the past three years Mr Temov has not held directorship of any other listed companies.

DIRECTORS' REPORT

Mr Davide Bosio

Non-Executive Director (appointed 12 March 2019)

Mr Bosio is a Corporate Adviser specialising in offering corporate services and strategic advice to private and public organisations, specifically in relation to capital raisings and M&A advice. He has over 19 years' experience in the finance industry as an Investment Adviser, Responsible Manager, and through various Executive and Non-Executive Director Roles. Mr Bosio is the WA State Manager and Director of Corporate Finance of Shaw and Partners, having previously held the position of Managing Director, Chief Executive Officer and Head of Corporate Finance of DJ Carmichael.

Mr Bosio is a Fellow member of the Financial Services Institute of Australia (Finsia) and a Graduate Member of the Australian Institute of Company Directors (GAICD). Davide holds a Bachelor of Commerce (Marketing) degree and a Graduate Diploma in Applied Finance and Investment.

Interest in Shares 650,000

Interest in Options Nil.

Interest in Convertible Notes 2 convertible notes with a total face value of \$130,000.

Directorships held in other listed entities During the past three years Mr Bosio has served as a Director of the following other listed companies:

- (a) Shree Minerals Limited (4 October 2018 – present);
- (b) Spectrum Metals Limited (22 December 2017 to 15 November 2018); and
- (c) De Grey Mining Limited (18 December 2015 to 26 October 2017).

Mr Dougal Ferguson

Non-Executive Director (appointed 15 July 2020)

Mr Ferguson has a financial, commercial and business development background and has held senior management positions in listed companies with both domestic and international operations. Most recently, Mr Ferguson was Managing Director of XCD Energy Limited prior to its recent successful acquisition by 88 Energy Limited and he has held executive director positions with Salinas Energy, Sirocco Energy and Elixir Energy. Mr Ferguson spent seven years in London with Premier Oil plc and Hess Corporation and has gained extensive commercial and technical experience working in business development and commercial roles in small to medium sized enterprises. He has successfully raised and matched risk capital with value accretive opportunities creating tangible shareholder value in the process for a number of companies over his career and has over 25 years of capital markets, financial and commercial expertise and experience.

Interest in Shares 4,000,000

Interest in Options Nil.

Interest in Convertible Notes 1 convertible note with a total face value of \$30,000.

Directorships held in other listed entities During the past three years Mr Ferguson has served as a Director of the following other listed companies:

- (a) XCD Energy Limited (15 April 2019 to 22 July 2020); and
- (b) Elixir Energy Limited (4 September 2013 to 31 August 2019).

DIRECTORS' REPORT

Company Secretary

Ms Nicki Farley

Company Secretary (appointed 21 December 2015)

Ms Farley has over 15 years' experience working within the legal and corporate advisory sector providing advice in relation to capital raisings, corporate and securities laws, mergers and acquisitions and general commercial transactions. Ms Farley also holds a number of company secretarial roles for ASX listed companies. Ms Farley holds a Bachelor of Laws and Arts from the University of Western Australia.

Principal activities

The Group is focused on sales and marketing of the Group's products and further product development.

Operating and Financial Review

The net loss for the year ended 30 June 2020 was \$2,392,816 compared with a net loss of \$1,999,966 for the previous year. The Company had a net asset position as at 30 June 2020 of \$1,098,017 (2019: \$1,360,160).

Dividends

No amounts have been paid or declared by way of dividend by the Group since the end of the previous financial year and the Directors do not recommend the payment of any dividend.

Review of operations

Connected IO ("CIO" or "the Company") was able to attain an increase in revenue year-over-year and achieve an operating cashflow-positive quarter in Q4 of FY2020 despite the significant reduction in sales directly related to the COVID-19 restrictions that were in place in the United States. This result was achieved through a combination of better inventory management, workforce restructuring and the receipt of a fully forgivable loan from the United States Federal government, subject to meeting of certain conditions.

Over the course of Fiscal Year 2020 the Company has made significant improvements to its product portfolio to better adapt it to changing market requirements and eliminate less profitable lines to improve the margins. At the end of Fiscal Year 2019 CIO had 9 active product lines which have been reduced to 4 at the end of Fiscal Year 2020. The Company had also enhanced its strategy of eliminating operator specific products and focusing on products that are operator agnostic in order to minimise inventory levels, reduce outflow of cash required for manufacturing and improve customer experience. At the beginning of FY2020 CIO released to the market a new operator agnostic CM4NA modem that works with all major Telcos out of the box. The Company's Research and Development team has delivered a major upgrade to CIO's Software-as-a-Service (SaaS) software to facilitate remote office and home office applications. CIO's "Cloud IO" platform now provides support for Voice Over IP phones and Zoom conferencing that have effectively become a communications lifeline due to the enterprise push to keep employees working from home. These new features have also been retro-actively added to the Company's legacy products which resulted in 90% reduction of legacy inventory levels year-over-year.

CIO was successful in signing up new customer accounts including several providers of Voice over IP solutions and Multiple Service Providers during the quarter. The Company will continue to target these markets and is optimistic about its ability to scale and grow its market share in the Multiple Service Provider space.

The Company has focused its efforts on a significant reduction in operating and administrative expenses in the current quarter. Staff costs have been reduced 33% and administrative expenses were reduced by 61%. These reductions are expected to be maintained in the short to medium term until sales recover to pre COVID-19 levels at which time the Company intends to continue to grow the customer base and revenues as was the trend prior to the COVID-19 impacts on the current quarter.

DIRECTORS' REPORT

Review of operations (continued)

Shelter-in-place caused the American economy to contract at the annualised rate of 38% in April and May which directly affected the Company's ability to continue on its increased sales trajectory that had been achieved in prior quarters.

Revenues for the June quarter were impacted by customer budgets being temporarily frozen and general economy uncertainty caused by the COVID-19 outbreak. However, the COVID-19 pandemic triggered a world-wide trend for employees to work from home which may benefit CIO in the longer term if the working from home trend continues into the future. The Company is successful in generating business with school districts and enterprises transitioning to work from home model.

CIO is now pursuing new market opportunities that have become available as a result of the pandemic such as remote service broadcasting for churches, remote education, automation of safety precautions and remote work-place. The Company will focus its sales team on these new growth markets over the coming quarters.

CIO is pleased to advise that there has been little effect on the Company's supply chain and Taiwan based contract manufactures as a result of the COVID-19 pandemic and believes that should the COVID-19 restrictions continue in their current form, that the pandemic is unlikely to have lasting negative effects on CIO's business.

Corporate Review

During the year ended 30 June 2020, the Company successfully completed a capital raising of \$1.25 million through the issue of 41,666,667 shares, on a post consolidation basis, at an issue price of \$0.03 per share to sophisticated and professional investors.

On 21 November 2019, the Company extended its line of credit debt facility with Tyche Investments Pty Ltd to further accelerate its manufacturing of pending purchase orders. The facility was due to mature on 31 July 2020 however it was further extended subsequent to year end.

On 23 April 2020, following shareholder approval granted at the General Meeting held on 9 April 2020, the Company completed a consolidation of its issued capital on the basis that every ten (10) shares be consolidated into one (1) share. The total shares on issue post consolidation was 240,757,218.

Significant changes in the state of affairs

There have been no significant changes in the state of affairs of the Group to the date of this report other than as set out in this report.

Directors' meetings

The following table sets out the number of directors' meetings held during the financial year and the number of meetings attended by each director (while they were a director).

| Directors | Board of Directors | |
|---------------------------------|--------------------|----------|
| | Eligible to Attend | Attended |
| Mr Adam Sierakowski | 8 | 8 |
| Mr Yakov Temov | 8 | 8 |
| Mr Davide Bosio | 8 | 8 |
| Mr Dougal Ferguson ¹ | - | - |

The Board of Directors also approved five (5) circular resolutions during the year ended 30 June 2020 which were signed by all Directors of the Company. The audit, compliance and corporate governance committee functions are performed by the Board of Directors.

¹ Mr Dougal Ferguson was appointed as a Non-Executive Director on 15 July 2020.

DIRECTORS' REPORT

Interests in shares, rights and convertible notes of the Company and related bodies corporate

The following relevant interests in shares, rights and convertible notes of the Company or a related body corporate were held by the Directors as at the date of this report.

| Directors | Fully paid ordinary shares Number | Performance rights Number | Convertible notes Number | Convertible notes Face value |
|---------------------|--------------------------------------|------------------------------|-----------------------------|---------------------------------|
| Mr Adam Sierakowski | 5,645,160 | - | - | - |
| Mr Yakov Temov | 23,668,333 | 20,000,000 | - | - |
| Mr Davide Bosio | 650,000 | - | 2 | \$130,000 |
| Mr Dougal Ferguson | 4,000,000 | - | 1 | \$30,000 |

Share options granted to Directors

During the financial year, no options have been granted to Directors (30 June 2019: nil).

Unissued shares under option

At the date of this report, the unissued ordinary shares of the Company under option is as follows:

| Grant date | Expiry date | Exercise price | Number under option |
|------------------|------------------|----------------|---------------------|
| 28 November 2018 | 20 December 2022 | \$0.10 | 7,500,000 |

Shares issued during or since the end of the year as a result of exercise

As at the date of this report no shares have been issued during or since the end of year as a result of the exercising of options.

Subsequent events

Subsequent to the end of the financial year, the Company has further extended its line of credit facility of \$500,000 with Tyche Investments Pty Ltd to 31 December 2020. Interest of 5% is payable on funds drawn down and payable quarterly. Additional interest of 1% per month is further payable on any amount that is outstanding beyond 90 days from initial drawdown.

On 31 July 2020, the Company announced that it had issued 4,986,811 shares on the conversion of convertible note interest accrued to 30 June 2020 at a conversion price of \$0.03 per share.

On 16 September 2020, the Company announced that the maturity date for all existing convertible notes with a total face value of \$1,321,000 have been extended for a further 12 months to 30 June 2021.

No other matters or circumstance has arisen since 30 June 2020 that has affected, or may significantly affect the Group's operations, the result of those operations, or the Group's state of affairs in future financial years.

Future developments

The Company will continue to develop, sell and market the Company's products.

Environmental issues

The Company's operations are not subject to significant environmental regulations under the law of the Commonwealth or of a State or Territory.

Indemnification of officers and auditors

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.

DIRECTORS' REPORT

Remuneration Report (Audited)

This report outlines the remuneration arrangements in place for the key management personnel of Connected IO Limited (the "Company") for the financial year ended 30 June 2020. The information provided in this remuneration report has been audited as required by Section 308(3C) of the Corporations Act 2001.

The remuneration report details the remuneration arrangements for key management personnel ("KMP") who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the parent company.

The board policy is to remunerate non-executive directors at a level which provides the company with the ability to attract and retain directors with the experience and qualification appropriate to the development strategy of the Company. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at a General Meeting. The current maximum amount of remuneration that may be paid to all non-executive Directors has been set at \$500,000 per annum at the Company's General Meeting held on 14 March 2014.

Directors' fees are reviewed annually. As announced on 22 August 2018, non-executive director fees were reduced from \$60,000 to \$36,000 per annum. Non-executive director fees are not linked to the performance of the company. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company.

During the financial year, the Company did not employ the use of remuneration consultants.

Key management personnel

The key management personnel of the Company are considered to be the directors of the Company.

The following table discloses the contractual arrangements with the Company's key management personnel that were in place as at 30 June 2020.

| Component | Managing Director and Chief Executive Officer – Mr Yakov Temov |
|--|--|
| Fixed remuneration | USD\$120,000 ¹ |
| Contract duration | 2 years commencing on 1 July 2017. From 1 July 2019, the contract converted into a periodical agreement. |
| Termination notice by the individual/company | 12 months. |
| Other entitlements | Annual leave. |
| Share based compensation | Mr Temov was granted shares and performance rights in the year ended 30 June 2020 as detailed below. |

¹ As announced on 22 August 2018, as part of the Company's cost reduction initiatives, the executive fees were reduced from USD\$225,000 to USD\$120,000 per annum to be paid to Mr Yakov Temov.

Relationship between the remuneration policy and company performance

Aside from the matters described above, no other Director held or holds any contract for performance-based remuneration with the Company.

DIRECTORS' REPORT

Remuneration expense details for the year ended 30 June 2020

The directors were paid the following amounts as compensation for their services as key management personnel of the Group during the year:

| 2020 | Short-term employee benefits | | | Post employment benefits | Share-based payment | Total | Performance based remuneration % |
|-------------------------------|------------------------------|----------|--------------------|--------------------------|------------------------------|------------------|----------------------------------|
| | Salary & fees | Bonus | Other ⁵ | Superannuation | Shares & rights ⁶ | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | |
| Directors | | | | | | | |
| Yakov Temov ¹ | 178,744 | - | - | - | 742,528 | 921,272 | 15% |
| Adam Sierakowski ² | 36,000 | - | 9,935 | - | - | 45,935 | - |
| Davide Bosio ³ | 36,000 | - | 6,500 | - | - | 42,500 | - |
| Dougal Ferguson ⁴ | - | - | - | - | - | - | - |
| Total | 250,744 | - | 16,435 | - | 742,528 | 1,009,707 | 81% |

¹ Mr Temov's executive fees were paid to himself.

² Mr Sierakowski's director fees were paid to Trident Capital Pty Ltd, a company of which he is a Director and Shareholder.

³ Mr Bosios's director fees were paid to himself.

⁴ Mr Ferguson was appointed as a Non-Executive Director on 15 July 2020. No director fees were paid to him for the year ended 30 June 2020.

⁵ Refer to Note 21(a) for further details.

⁶ Following shareholder approval granted at the 2019 Annual General Meeting, the Company issued 15,000,000 ordinary shares (post consolidation), 10,000,000 Class A Performance Rights (post consolidation) and 10,000,000 Class B Performance Rights (post consolidation) to Mr Temov in recognition of his efforts to date and as part of an incentive for him to provide ongoing dedicated services to the Company.

Based on the Company's closing share price as at the date of the Company's 2019 Annual General Meeting, the shares granted to Mr Temov were valued at \$600,000.

The Performance Rights were granted at nil consideration, do not have an exercise price and will expire on 31 December 2023. Each Performance Right will vest and convert to one fully paid ordinary share subject to the satisfaction of certain Performance Milestones, completion of a vesting period of 12 months and Mr Temov's continued engagement as Managing Director.

The total fair value of the rights granted to Mr Temov was \$800,000 based on the Company's closing share price of \$0.04 (post consolidation) as at the date of the Company's 2019 Annual General Meeting. This amount is to be amortised over the respective vesting periods. An amount of \$142,528 is included in the Statement of Profit or Loss and Other Comprehensive Income and Statement of Changes in Equity for the year ended 30 June 2020.

DIRECTORS' REPORT

Remuneration expense details for the year ended 30 June 2020 (continued)

| 2019 | Short-term employee benefits | | | Post employment benefits | Share-based payment | Total | Performance based remuneration % |
|-------------------------------|------------------------------|--------------|-------|--------------------------|---------------------|----------------|----------------------------------|
| | Salary & fees | Bonus | Other | Superannuation | Options & rights | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | |
| Directors | | | | | | | |
| Yakov Temov ¹ | 180,518 | 9,960 | - | - | - | 190,478 | - |
| Adam Sierakowski ² | 20,806 | - | - | - | - | 20,806 | - |
| Davide Bosio ³ | 10,500 | - | - | - | - | 10,500 | - |
| Jason Ferris ⁴ | 116,542 | - | - | - | - | 116,542 | - |
| Blaise Thomas ⁵ | 32,000 | - | - | - | - | 32,000 | - |
| Total | 360,366 | 9,960 | - | - | - | 370,326 | - |

¹ Mr Temov's executive fees were paid to himself.

² Mr Sierakowski's director fees were paid to Trident Capital Pty Ltd, a company of which he is a Director and Shareholder.

³ Mr Bosio's director fees were paid to himself

⁴ Mr Ferris's executive fees were paid directly to himself. Mr Ferris resigned as a Non-Executive Director on 4 December 2018.

⁵ Mr Thomas's director fees were paid to International Island Group Pty Ltd, a company of which he is a Director and Shareholder. Mr Thomas resigned as a Non-Executive Director on 12 March 2019.

Securities received that are not performance-related

No members of key management personnel are entitled to receive securities that are not performance-based as part of their remuneration package.

Key management personnel shareholdings

The number of ordinary shares in Connected IO Limited held by each key management personnel of the Company during the financial year is as follows:

| Ordinary Shares 2020 | Balance at 1 July 2019 or on date of appointment | Granted as remuneration during the year ¹ | Net other changes during the year ² | Balance at 30 June 2020 or on date of resignation |
|---|--|--|--|---|
| Adam Sierakowski | 46,516,267 | 9,935,333 | (50,806,440) | 5,645,160 |
| Yakov Temov | 86,683,333 | 150,000,000 | (213,015,000) | 23,668,333 |
| Davide Bosio | - | 6,500,000 | (5,850,000) | 650,000 |
| Dougal Ferguson (appointed 15 July 2020) | - | - | - | - |
| | 133,199,600 | 166,435,333 | (269,671,440) | 29,963,493 |

¹ The shares granted as remuneration during the year relates to shares that were issued prior to the consolidation of the Company's issued capital.

² Net other changes during the year was due to the consolidation of the Company's issued capital on a 1:10 basis as approved by shareholders at the General Meeting held on 9 April 2020.

DIRECTORS' REPORT

Key management personnel shareholdings (continued)

The number of performance shares in Connected IO Limited held by each key management personnel of the Company during the financial year is as follows:

| Performance Shares 2020 | Balance at 1 July 2019 or on date of appointment | Granted as remuneration during the year | Cancellation of performance shares ¹ | Balance at 30 June 2020 or on date of resignation |
|---|--|---|---|---|
| Adam Sierakowski | - | - | - | - |
| Yakov Temov | 51,825,000 | - | (51,825,000) | - |
| Davide Bosio | - | - | - | - |
| Dougal Ferguson (appointed 15 July 2020) | - | - | - | - |
| | 51,825,000 | - | (51,825,000) | - |

¹ 34,550,000 Class A Performance Shares and 17,275,000 Class B Performance Shares were issued to Mr Temov as part of the consideration under the Vendor Offer for the acquisition of the Connected Group. As the milestones associated with the Performance Shares were not satisfied, the Performance Shares were cancelled on 15 March 2020, being the date 4 years from being readmitted to quotation.

The number of performance rights in Connected IO Limited held by each key management personnel of the Company during the financial year is as follows:

| Performance Rights 2020 | Balance at 1 July 2019 or on date of appointment | Granted as remuneration during the year | Net other changes during the year ¹ | Balance at 30 June 2020 or on date of resignation |
|---|--|---|--|---|
| Adam Sierakowski | - | - | - | - |
| Yakov Temov | - | 200,000,000 | (180,000,000) | 20,000,000 |
| Davide Bosio | - | - | - | - |
| Dougal Ferguson (appointed 15 July 2020) | - | - | - | - |
| | - | 200,000,000 | (180,000,000) | 20,000,000 |

¹ Net other changes during the year was due to the consolidation of the Company's issued capital on a 1:10 basis as approved by shareholders at the General Meeting held on 9 April 2020.

Options

No options were granted as equity compensation benefits to key management personnel during the years ended 30 June 2020 or 30 June 2019.

Other equity-related key management personnel transactions

There have been no other transactions involving equity instruments apart from those describe in the tables above relating to options, rights and shareholdings.

DIRECTORS' REPORT

Other transactions with key management personnel

Transactions with key management personnel related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

| | 2020 \$ | 2019 \$ |
|---|------------|------------|
| (i) Payments to Trident Management Services Pty Ltd, a company of which Adam Sierakowski is a Director and shareholder, for accounting and company secretarial services provided. | 61,580 | 28,000 |
| (ii) Payments to Price Sierakowski Pty Ltd, a company of which Adam Sierakowski is a Director and shareholder, for legal services provided. | 11,769 | 12,792 |

Amounts outstanding at reporting date

Aggregates amount payable to key management personnel and their related entities at reporting date.

| | | |
|---------------------------|---------------|---------------|
| (i) Director remuneration | 37,000 | 51,864 |
| (ii) Other transactions | 49,255 | 35,914 |
| | <u>86,255</u> | <u>87,778</u> |

End of Remuneration Report (Audited)

Voting and comments made at the Company's 2019 Annual General Meeting (AGM)

The approval of the remuneration report was passed as indicated in the results of the Annual General Meeting dated 27 November 2019. The Company did not receive specific feedback at the AGM or throughout the year on its remuneration practices.

Proceedings on behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

Non-audit services

During the year \$4,123 was paid to the auditor for the provision of non-audit services (2019: \$3,000).

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 22 to the financial statements. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The Directors are of the opinion that the services do not compromise the auditor's independence as all non-audit services have been reviewed to ensure that they do not impact the impartiality 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.

DIRECTORS' REPORT

Auditor's independence declaration

The auditor's independence declaration is included on page 13 of the annual report.

Signed in accordance with a resolution of the directors.



Yakov Temov
Director

Irving, Texas
30 September 2020

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the consolidated financial report of Connected IO Limited for the year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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



Perth, Western Australia
30 September 2020

B G McVeigh
Partner

hlb.com.au

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**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE
INCOME FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

| | Note | Consolidated 2020 \$ | Consolidated 2019 \$ |
|--|------|----------------------------|----------------------------|
| Sales revenue | 3 | 3,817,964 | 2,598,084 |
| Cost of goods sold | | (2,331,466) | (1,172,378) |
| Gross profit | | 1,486,498 | 1,425,706 |
| Interest received | 3 | 869 | 3,253 |
| Other income | 3 | 132,399 | - |
| Director fees, salary and wages expense | | (1,826,867) | (1,788,385) |
| Professional fees | | (227,240) | (526,548) |
| Depreciation and amortisation expense | | (119,554) | (34,260) |
| Administration expense | | (777,869) | (881,248) |
| Interest and facility fee expenses | | (318,524) | (195,574) |
| Impairment of plant and equipment | | - | (2,910) |
| Share based payments | 18 | (742,528) | - |
| Loss before tax | | (2,392,816) | (1,999,966) |
| Income tax expense | 4 | - | - |
| Loss for the year from continuing operations | | (2,392,816) | (1,999,966) |
| Other comprehensive income for the year, net of tax <i>Items that may be reclassified to profit or loss</i> | | - | - |
| Exchange differences on translation of foreign balances | | 38,219 | 31,731 |
| Total comprehensive loss for the year | | (2,354,597) | (1,968,235) |
| Earnings per share for loss attributable to the ordinary equity holders of the company | | Cents | Cents |
| Basic and diluted loss per share from continuing operations | 19 | (1.12) | (1.28) |

The accompanying notes form an integral part of this consolidated statement of profit or loss and other comprehensive income.

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

| | Note | Consolidated 2020 \$ | Consolidated 2019 \$ |
|--------------------------------------|------|----------------------------|----------------------------|
| Current assets | | | |
| Cash and cash equivalents | 5 | 713,079 | 435,524 |
| Trade and other receivables | 6 | 286,770 | 359,856 |
| Inventory | 7 | 615,050 | 265,293 |
| Total current assets | | 1,614,899 | 1,060,673 |
| Non-current assets | | | |
| Plant and equipment | 8 | 18,878 | 21,845 |
| Right-of-use assets | 9 | 136,147 | - |
| Goodwill | 10 | 2,418,610 | 2,418,610 |
| Other intangibles | 11 | 138,198 | 143,300 |
| Other assets | | 10,079 | 23,125 |
| Total non-current assets | | 2,721,912 | 2,606,880 |
| Total Assets | | 4,336,811 | 3,667,553 |
| Current Liabilities | | | |
| Trade and other payables | 12 | 1,072,013 | 740,342 |
| Lease liabilities | 9 | 39,338 | - |
| Borrowings | 13 | 450,000 | 286,706 |
| Convertible Notes | 14 | 1,321,000 | 1,280,345 |
| Total current liabilities | | 2,882,351 | 2,307,393 |
| Non-current Liabilities | | | |
| Lease liabilities | 9 | 102,910 | - |
| Other payables | 15 | 253,533 | - |
| Total non-current liabilities | | 356,443 | - |
| Total Liabilities | | 3,238,794 | 2,307,393 |
| Net assets | | 1,098,017 | 1,360,160 |
| Equity | | | |
| Issued capital | 16 | 70,777,722 | 68,827,796 |
| Reserves | | 1,503,438 | 1,322,691 |
| Accumulated losses | | (71,183,143) | (68,790,327) |
| Total Equity | | 1,098,017 | 1,360,160 |

The accompanying notes form an integral part of this consolidated statement of financial position.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

| Consolidated | Note | Issued Capital \$ | Convertible Notes | Share-Based Payments Reserve \$ | Foreign Currency Translation Reserve \$ | Accumulated Losses \$ | Total \$ |
|---|-------------|----------------------------------|------------------------------|--|--|--------------------------------------|---------------------|
| Balance at 1 July 2018 | | 66,345,419 | - | 968,849 | 113,155 | (66,790,361) | 637,062 |
| Net loss for the year | | - | - | - | - | (1,999,966) | (1,999,966) |
| Other comprehensive income for the year | | - | - | - | 31,731 | - | 31,731 |
| Total comprehensive loss | | - | - | - | 31,731 | (1,999,966) | (1,968,235) |
| Shares issued | 16(a) | 2,775,507 | - | - | - | - | 2,775,507 |
| Share issue costs | 16(a) | (293,130) | - | - | - | - | (293,130) |
| Convertible notes issued | 14 | - | 96,456 | - | - | - | 96,456 |
| Share-based payments | 18(d) | - | - | 112,500 | - | - | 112,500 |
| Balance at 30 June 2019 | | 68,827,796 | 96,456 | 1,081,349 | 144,886 | (68,790,327) | 1,360,160 |
| Balance at 1 July 2019 | | 68,827,796 | 96,456 | 1,081,349 | 144,886 | (68,790,327) | 1,360,160 |
| Net loss for the year | | - | - | - | - | (2,392,816) | (2,392,816) |
| Other comprehensive income for the year | | - | - | - | 38,219 | - | 38,219 |
| Total comprehensive loss | | - | - | - | 38,219 | (2,392,816) | (2,354,597) |
| Shares issued | 16(a) | 2,015,926 | - | - | - | - | 2,015,926 |
| Share issue costs | 16(a) | (66,000) | - | - | - | - | (66,000) |
| Convertible notes issued | 14 | - | - | - | - | - | - |
| Share-based payments | 18(b) | - | - | 142,528 | - | - | 142,528 |
| Balance at 30 June 2020 | | 70,777,722 | 96,456 | 1,223,877 | 183,105 | (71,183,143) | 1,098,017 |

The accompanying notes form an integral part of this consolidated statement of changes in equity.

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

| | Note | Consolidated 2020 \$ | Consolidated 2019 \$ |
|--|-------|----------------------------|----------------------------|
| Cash flows from operating activities | | | |
| Receipts from customers | | 3,514,172 | 2,640,585 |
| Payments to suppliers and employees | | (4,701,391) | (4,811,865) |
| Interest received | | 869 | 3,253 |
| Finance costs | | (116,460) | (33,119) |
| Income tax paid | | (1,856) | (1,578) |
| Net cash used in operating activities | 20(b) | (1,304,666) | (2,202,724) |
| Cash flows from investing activities | | | |
| Payments for plant and equipment | | (3,940) | (25,726) |
| Payments for other intangibles | | (64,721) | (154,998) |
| Net cash used in investing activities | | (68,661) | (180,724) |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares | | 1,250,000 | 2,530,560 |
| Payments for share issue costs | | - | (50,683) |
| Proceeds from borrowings | 13 | 820,000 | 678,101 |
| Repayment of borrowings | 13 | (656,705) | (410,395) |
| US Federal funding assistance | 15 | 253,533 | - |
| Payments of lease liabilities | | (25,415) | - |
| Net cash provided by financing activities | | 1,641,413 | 2,747,583 |
| Net change in cash and cash equivalents held | | 268,086 | 364,135 |
| Cash and cash equivalents at beginning of the financial year | | 435,524 | 69,707 |
| Effect of exchange rate fluctuation on cash held | | 9,469 | 1,682 |
| Cash and cash equivalents at end of financial year | 5 | 713,079 | 435,524 |

The accompanying notes form an integral part of this consolidated statement of cash flows.

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NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and Interpretations and complies with other requirements of the law.

The accounting policies detailed below have been consistently applied to all of the years presented unless otherwise stated. The financial statements are for the Group consisting of Connected IO Limited and its controlled entities. For the purpose of preparing the consolidated financial statements, the Company is a for-profit entity.

The financial report has been prepared on an accruals basis and is based on historical costs.

The financial report is presented in Australian dollars.

Connected IO Limited is incorporated in Australia and its shares are publicly traded on the Australian Securities Exchange. The nature of the operations and principal activities of the Group are marketing and product development.

(b) Adoption of new and revised standards

Standards and Interpretations applicable to 30 June 2020

For the year ended 30 June 2020, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Group and effective for the current reporting periods beginning on or after 1 July 2019.

As a result of this review, the Group has applied AASB 16 from 1 July 2019. The effect of the application is detailed below.

AASB 16 Leases

AASB 16 replaces AASB 117 Leases. AASB 16 removes the classification of leases as either operating leases or finance leases-for the lessee – effectively treating all leases as finance leases. AASB 16 is applicable to annual reporting periods beginning on or after 1 July 2019.

Impact on operating leases

AASB 16 will change how the Group accounts for leases previously classified as operating leases under AASB 117, which were off-balance sheet. On initial application of AASB 16, for all leases (except as noted below), the Group will:

- Recognise right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
- Recognise depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss; and
- Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

Lease incentives (e.g. rent-free period) will be recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under AASB 117 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under AASB 16, right-of-use assets will be tested for impairment in accordance with AASB 136 *Impairment of Assets*. This will replace the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group will opt to recognise a lease expense on a straight-line basis as permitted by AASB 16.

NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Adoption of new and revised standards (continued)

The Group has applied AASB 16 retrospectively with the effect of initially applying this standard recognised at the date of initial application, being 1 July 2019 and has elected not to restate comparative information. Accordingly, the information presented for 30 June 2019 has not been restated.

There is no material impact to profit or loss or net assets on the adoption of this new standard in the current or comparative periods.

Reconciliation of operating lease commitments to lease liabilities

| | 2019 |
|---|-----------------|
| | \$ |
| Operating lease commitments disclosed as at 30 June 2019 | 201,171 |
| Discounted using the lessee's incremental borrowing rate at the date of initial application | <u>(26,766)</u> |
| Lease liability as at 1 July 2019 | <u>174,405</u> |

The Directors have used an incremental borrowing rate of 7% p.a. in calculating the lease liability as at the date of initial application.

Other than the above, the Directors have determined that there is no material impact of other new and revised Standards and Interpretations on the Group and therefore, no material change is necessary to Group accounting policies.

Standards and Interpretations in issue not yet adopted

The Directors have also reviewed all of the new and revised Standards and Interpretations in issue not yet adopted for the year ended 30 June 2020.

As a result of this review the Directors have determined that there are no new and revised Standards and Interpretations that may have a material effect on the application in future periods and therefore, no material change is necessary to Group accounting policies.

(c) Statement of Compliance

The financial report was authorised for issue on 30 September 2020.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

(d) Going Concern

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

For the year ended 30 June 2020 the Group recorded a loss of \$2,392,816 (2019: \$1,999,966) and had net cash outflows from operating and investing activities of \$1,373,327 (2019: \$2,383,448). At 30 June 2020, the Group had a working capital deficit of \$1,267,452 (2019: deficit of \$1,246,720).

NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Going Concern (continued)

Furthermore, the full impact of the COVID-19 pandemic continues to evolve at the date of this report. The Company is therefore uncertain as to the full impact that the pandemic will have on its financial condition, liquidity and future results of operations during 2020. Management continues to actively monitor the global situation and its impact on the Company's financial condition, liquidity, operations, suppliers, industry and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Company is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition or liquidity for the 2020 financial year.

In context of this operating environment, the ability of the Group to continue as a going concern is dependent on securing additional funding through debt or equity to continue to fund its operational activities.

These conditions indicate a material uncertainty that may cast a significant doubt about the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The financial statements have been prepared on the basis that the Group is a going concern, which contemplates the continuity of normal business activity, realisation of assets and settlement of liabilities in the normal course of business for the following reasons:

- The Group believe they can raise additional funding through debt or equity which is actively being pursued;
- The Group has a recent proven history of successfully raising capital; and
- Cash spending can be reduced or slowed below its current rate if required in order to minimise capital raising requirements.

Based on these facts, the Directors consider the going concern basis of preparation to be appropriate for this financial report. Should the Group be unsuccessful in obtaining additional loan financing or raising additional funds through the issue of new equity, there is a material uncertainty which may cast significant doubt on whether the entity will be able to continue as a going concern and therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

The financial statements do not include any adjustments relative to the recoverability and classification of recorded asset amounts or, to the amounts and classification of liabilities that might be necessary should the entity not continue as a going concern.

(e) Basis of consolidation

The consolidated financial statements comprise of the financial statements of Connected IO Limited ("the Company") and its controlled entities ("the Group") as at 30 June 2020.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

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

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Control exists where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing when the Group controls another entity.

NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Basis of consolidation (continued)

Unrealised gains or transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group has directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable Standards). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under AASB 139 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

(f) Revenue recognition

The Group is in the business of providing certain hardware including routers, cellular enabled products and other related hardware products.

The Group generates revenue largely in the United States of America.

The revenue and profits recognised in any period are based on the delivery of performance obligations and an assessment of when control is transferred to the customer.

In determining the amount of revenue and profits to record, and related statement of financial position items (such as contract fulfilment assets, capitalisation of costs to obtain a contract, trade receivables, accrued income and deferred income) to recognise in the period, management is required to form a number of key judgements and assumptions. This includes an assessment of the costs the Group incurs to deliver the contractual commitments and whether such costs should be expensed as incurred or capitalised.

Revenue is recognised either when the performance obligation in the contract has been performed ('point in time' recognition) or 'over time' as control of the performance obligation is transferred to the customer.

At contract inception the total transaction price is estimated, being the amount to which the Group expects to be entitled and has rights to under the present contract.

The transaction price does not include estimates of consideration resulting from change orders for additional goods and services unless these are agreed.

Once the total transaction price is determined, the Group allocates this to the identified performance obligations in proportion to their relative stand-alone selling prices and recognises revenue when (or as) those performance obligations are satisfied.

For each performance obligation, the Group determines if revenue will be recognised over time or at a point in time. Where the Group recognises revenue over time for long term contracts, this is in general due to the Group performing and the customer simultaneously receiving and consuming the benefits provided over the life of the contract.

NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Revenue recognition (continued)

For each performance obligation to be recognised over time, the Group applies a revenue recognition method that faithfully depicts the Group's performance in transferring control of the goods or services to the customer. This decision requires assessment of the real nature of the goods or services that the Group has promised to transfer to the customer. The Group applies the relevant output or input method consistently to similar performance obligations in other contracts.

When using the output method the Group recognises revenue on the basis of direct measurements of the value to the customer of the goods and services transferred to date relative to the remaining goods and services under the contract. Where the output method is used, in particular for long term service contracts where the series guidance is applied, the Group often uses a method of time elapsed which requires minimal estimation. Certain long term contracts use output methods based upon estimation of number of users, level of service activity or fees collected.

If performance obligations in a contract do not meet the over time criteria, the Group recognises revenue at a point in time. This may be at the point of physical delivery of goods and acceptance by a customer or when the customer obtains control of an asset or service in a contract with customer-specified acceptance criteria.

The Group disaggregates revenue from contracts with customers by type of good or service as management believe this best depicts how the nature, amount, timing and uncertainty of the Group's revenue and cash flows.

The nature of contracts or performance obligations categorised within this revenue type includes sales of hardware. The service contracts in this category include contracts with either a single or multiple performance obligations.

The Group considers that the services provided meet the definition of a series of distinct goods and services as they are (i) substantially the same and (ii) have the same pattern of transfer as the series constitutes services provided in distinct time increments and therefore treats the series as one performance obligation.

Sale of goods

The Group's contracts with customers for the sale of hardware generally include one performance obligation. The Group has concluded that revenue from sale of equipment should be recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the equipment. Therefore, the adoption of AASB 15 did not have an impact on the timing of revenue recognition.

Interest income

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

(g) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised where the borrowing cost is added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Cash and cash equivalents

Cash comprises cash at bank and in hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as described above, net of outstanding bank overdrafts.

(i) Trade and other receivables

Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method, less any allowance for expected credit loss. Trade receivables are generally due for settlement within 30 days.

The Group has applied the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance. To measure the expected credit loss, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost less any allowance for expected credit losses.

(j) Foreign currency translation

The presentation currency of the Company and its controlled entities in these financial statements is Australian dollars. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

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

All exchange differences in the consolidated financial report are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss.

Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

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

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

As at the reporting date the assets and liabilities of these subsidiaries are translated into the presentation currency of the Company at the rate of exchange ruling at the balance date and their statements of comprehensive income are translated at the weighted average exchange rate for the year.

The exchange differences arising on the translation are taken directly to a separate component of equity.

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

NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Income Tax

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

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

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

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Other taxes

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

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

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

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

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

(m) Inventories

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

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

- Raw materials – purchase cost on a first-in, first-out basis; and
- Finished goods and work-in-progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

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

(n) Plant and equipment

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

Depreciation is calculated on a diminishing value basis over the estimated useful life of the assets as follows:

Plant and equipment – over 3 to 50 years

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

(i) Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Plant and equipment (continued)

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the Statement of Profit or Loss and Other Comprehensive Income in the cost of sales line item.

(ii) Derecognition and disposal

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

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

(o) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with AASB 8 *Operating Segments*.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period, with any changes in these accounting estimates being accounted for on a prospective basis.

Internally generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period as incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above.

Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

The following useful lives are used in the calculation of amortisation:

- Certifications – 3 years
- Tooling costs – 3 years

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

(q) Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Financial instruments (continued)

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with AASB 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

For the purpose of subsequent measurement, financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortised cost;
- fair value through profit or loss (FVTPL);
- equity instruments at fair value through other comprehensive income (FVOCI); or
- debt instruments at fair value through other comprehensive income (FVOCI).

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

The classification is determined by both:

- the entity's business model for managing the financial asset; and
- the contractual cash flow characteristics of the financial asset.

Subsequent measurement of financial assets

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets to collect its contractual cash flows; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments as well as listed bonds that were previously classified as held-to-maturity under IAS 39.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised at fair value through profit or loss. Further, irrespective of business model, financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

The category also contains an equity investment. The Group accounts for the investment at FVTPL and did not make the irrevocable election to account for the investment in unlisted and listed equity securities at fair value through other comprehensive income (FVOCI). The fair value was determined in line with the requirements of AASB 9, which does not allow for measurement at cost.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Financial instruments (continued)

The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

Equity instruments at fair value through other comprehensive income (Equity FVOCI)

Investments in equity instruments that are not held for trading are eligible for an irrevocable election at inception to be measured at FVOCI.

Under Equity FVOCI, subsequent movements in fair value are recognised in other comprehensive income and are never reclassified to profit or loss.

Dividends from these investments continue to be recorded as other income within the profit or loss unless the dividend clearly represents return of capital.

This category includes unlisted equity securities that were previously classified as 'available-for-sale' under AASB 139.

Any gains or losses recognised in other comprehensive income (OCI) are not recycled upon derecognition of the asset.

Debt instruments at fair value through other comprehensive income (Debt FVOCI)

Financial assets with contractual cash flows representing solely payments of principal and interest and held within a business model of collecting the contractual cash flows and selling the assets are accounted for at debt FVOCI.

The Group accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective it is to "hold to collect" the associated cash flows and sell financial assets; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Any gains or losses recognised in other comprehensive income (OCI) will be recycled upon derecognition of the asset.

Impairment of financial assets

AASB 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. This replaced AASB 139's 'incurred loss model'.

Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under AASB 15, loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the Group first identifying a credit loss event. Instead the Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Financial instruments (continued)

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Level 1') and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Level 2').
- 'Level 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Trade and other receivables and contract assets

The Group makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The Group assess impairment of trade receivables on a collective basis and as they possess shared credit risk characteristics they have been grouped based on the days past due.

Classification and measurement of financial liabilities

The Group's financial liabilities include borrowings, trade and other payables and derivative financial instruments.

Financial liabilities are initially measured at fair value, and where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

(r) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Borrowings (continued)

The fair value of the liability portion of a convertible note is determined using a market interest rate for an equivalent non-convertible note. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the note. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholder's equity, net of income tax effects.

Borrowings are removed from the Statement of Financial Position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(s) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of Profit or Loss and Other Comprehensive Income net of any reimbursement.

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

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

Warranties

Provisions for the expected cost of warranty obligations under local sale of goods legislation are recognised at the date of sale of the relevant products, at the Directors' best estimate of the expenditure required to settle the Group's obligation.

(t) Employee leave benefits

Wages, salaries, annual leave and sick leave

Liabilities accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave expected to be settled within 12 months of the balance date are recognised in other payables in respect of employees' services up to the balance date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Employee leave benefits (continued)

Liabilities accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave not expected to be settled within 12 months of the balance date are recognised in non-current other payables in respect of employees' services up to the balance date. They are measured as the present value of the estimated future outflows to be made by the Group.

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the balance date. Consideration is given to expected future wage and salary levels, experience of employee departures, and period of service. Expected future payments are discounted using market yields at the balance date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(u) Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Impairment of intangible assets other than goodwill

The Group assesses at each balance date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each balance date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(w) Leases

The Group assesses at the start of a contract whether or not it contains a lease, by deciding if the contract provides the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group currently uses a single recognition and measurement approach for all leases, except for short-term leases and leases of low value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use underlying assets.

i) *Right-of-use assets*

The Group recognises right-of-use assets at the start of the lease and are measured at costs, less accumulated depreciation and impairment losses and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Leases (continued)

ii) *Lease liabilities*

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives received, variable lease payments that depend on an index or a rate and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g. changes to future payments resulting from a change in an index or rate used to determine such payments) or a change in the assessment of an option to purchase the underlying asset.

iii) *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the lease of low-value assets recognition exemption to leases that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

(x) Trade and other payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. Trade and other payables are presented as current liabilities unless payment is not due within 12 months.

(y) Share-based payment transactions

Equity settled transactions:

The Group provides benefits to employees (including senior executives) of the Group in the form of share-based payments, whereby employees and consultants render services in exchange for shares or rights over shares (equity-settled transactions).

When provided, the cost of these equity-settled transactions with employees and consultants, where the fair value of the services is not readily determinable, is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a binomial model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Connected IO Limited (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Share-based payment transactions (continued)

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The Statement of Profit or Loss and Other Comprehensive Income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

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

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (see Note 19).

(z) Issued capital

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

(aa) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of the Company.

(bb) Parent entity financial information

The financial information for the parent entity, Connected IO Limited, disclosed in Note 27 has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the parent entity's financial statements. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

Share-based payments

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution to that subsidiary undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(cc) Earnings/loss per share

Basic earnings/loss per share is calculated as net profit/loss attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings/loss per share is calculated as net profit/loss attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(dd) Critical Accounting Estimates and Judgments

The application of accounting policies requires the use of judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions are recognised in the period in which the estimate is revised if it effects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Impairment of intangibles with indefinite useful lives and goodwill

The Group determines whether intangibles with indefinite useful lives and goodwill are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating units to which the goodwill and intangibles with indefinite useful lives are allocated.

Impairment

In assessing impairment, management estimates the recoverable amount of each asset or cash-generating unit based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

Inventories

Management estimates the net realisable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realisation of these inventories may be affected by future technology or other market-driven changes that may reduce future selling prices.

Capitalisation of internally developed assets

Distinguishing the research and development phases of new equipment certifications and determining whether the recognition requirements for the capitalisation of development costs are met requires judgement. After capitalisation, management monitors whether the recognition requirements continue to be met and whether there are any indicators that capitalised costs may be impaired.

Useful lives of certifications and tooling costs

Management reviews its estimate of the useful lives of certifications and tooling costs at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utility of certain software and IT equipment.

NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(dd) Critical Accounting Estimates and Judgments (continued)

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees and consultants, where the fair value of the services is not readily determinable, by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a Black-Scholes model, using the assumptions detailed in Note 18.

The Group measures the cost of cash-settled share-based payments at fair value at the grant date using the Black-Scholes model taking into account the terms and conditions upon which the instruments were granted.

2. INVESTMENTS

The consolidated financial statements include financial statements of Connected IO Limited and the following subsidiaries:

| <i>Name</i> | <i>Country of Incorporation</i> | <i>% Equity Interest</i> | |
|----------------------------------|---------------------------------|--------------------------|-------------|
| | | <i>2020</i> | <i>2019</i> |
| Connected IO, Inc ¹ | California, USA | 0% | 100% |
| CIO Technology, Inc ¹ | Texas, USA | 100% | 100% |

Connected IO Limited is the ultimate Australian parent entity and ultimate parent of the Group.

Balances between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and not disclosed in this note.

¹ On 10 October 2018, CIO Technology, Inc. (CIOT) was incorporated in the state of Texas, USA. The business of Connected IO, Inc was transferred to CIOT. On 5 June 2020, the dissolution of Connected IO, Inc. was completed.

3. REVENUE

| | Consolidated 2020 \$ | Consolidated 2019 \$ |
|---------------------------------------|-------------------------------------|-------------------------------------|
| Revenue from contracts with customers | 3,817,964 | 2,598,084 |
| Interest received | 869 | 3,253 |
| Other income | 132,399 | - |
| | 3,951,232 | 2,601,337 |

Disaggregation of Revenue

The Group derives its revenue from the sale of goods at a point in time. This is consistent with the revenue information that is disclosed for each reportable segment under AASB 8, refer Note 24.

| | Consolidated 2020 \$ |
|---------------------------|-------------------------------------|
| <i>At a point in time</i> | |
| Product sales | 3,817,964 |
| Total revenue | 3,817,964 |

NOTES TO THE FINANCIAL STATEMENTS

3. REVENUE (continued)

Reconciliation of revenue from contracts with customers with the amounts disclosed in segment information

| | Consolidated 2020 \$ |
|---|-------------------------------------|
| Segment revenue | 3,817,964 |
| Inter-segment adjustments and eliminations | - |
| Total revenue from contracts with customers | <u><u>3,817,964</u></u> |

- (i) Segment revenues represent revenue generated from external customers. There were no inter-segment revenues in the current period.

4. INCOME TAX

| | Consolidated 2020 \$ | Consolidated 2019 \$ |
|---|-------------------------------------|-------------------------------------|
| (a) Income tax recognised in profit or loss | | |
| Tax expense comprises: | | |
| Current tax expense | - | - |
| Deferred tax expense | - | - |
| Total tax expense relating to continuing operations | <u>-</u> | <u>-</u> |

The prima face income tax expense on pre-tax accounting loss from operations reconciles to the income tax expense in the financial statements as follows:

| | | |
|--|-------------|-------------|
| Loss from continuing operations | (2,392,816) | (1,999,966) |
| Income tax benefit calculated at 27.5% (2019: 30%) | (658,024) | (599,990) |

Add/(Less):

| | | |
|--|-----------|-----------|
| - Non-deductible items | 245,685 | 17,926 |
| - Unused tax losses and tax offset not recognised as deferred tax assets | (995,087) | 737,656 |
| - Other deferred tax assets and tax liabilities not recognised | 1,551,752 | (395,644) |
| - Difference in tax rate of subsidiaries | 55,412 | 72,703 |
| - Change in tax rate | (199,738) | 167,348 |

| | | |
|--------------------|----------|----------|
| Income Tax Expense | <u>-</u> | <u>-</u> |
|--------------------|----------|----------|

(b) Unrecognised deferred tax balances

The following deferred tax assets and liabilities have not been brought to account:

Deferred tax assets comprise:

| | | |
|---|------------------|------------------|
| Accrued expenses and liabilities | 22,939 | 22,533 |
| Share issue expenses | 39,379 | 136,626 |
| Depreciation timing differences | 15,173 | 15,332 |
| Foreign exchange | - | 6,022 |
| Losses available for offset against future taxable income – revenue | 3,399,261 | 3,592,272 |
| Losses available for offset against future taxable income – capital | - | 971,717 |
| Total deferred tax assets | <u>3,476,752</u> | <u>4,744,502</u> |

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NOTES TO THE FINANCIAL STATEMENTS

4. INCOME TAX (continued)

Deferred tax assets have not been recognised in respect of the above items because it is not considered probable that future taxable profit will be available against which the Group can utilise the benefits thereof. Deferred tax liabilities have not been recognised in respect of these taxable temporary differences as the entity is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

| | Consolidated 2020 | Consolidated 2019 |
|--|----------------------|----------------------|
| (c) Income tax expense not recognised directly in equity during the year: | | |
| Share issue costs | 1,881 | 48,955 |
| | <u>1,881</u> | <u>48,955</u> |

5. CASH AND CASH EQUIVALENTS

| | Consolidated 2020 | Consolidated 2019 |
|-----------------|----------------------|----------------------|
| Cash at bank | \$ 713,079 | \$ 435,524 |
| Closing Balance | <u>713,079</u> | <u>435,524</u> |

6. TRADE AND OTHER RECEIVABLES

| | Consolidated 2020 | Consolidated 2019 |
|-------------------|----------------------|----------------------|
| Current | \$ | \$ |
| Trade receivables | 115,112 | 64,855 |
| Prepaid inventory | 141,058 | 251,296 |
| Other receivables | 30,600 | 43,705 |
| Closing Balance | <u>286,770</u> | <u>359,856</u> |

Trade receivables are non-interest bearing and are generally on 30 day terms. All amounts are short term. The carrying value of trade receivables is considered a reasonable approximation of fair value.

Expected credit losses

The Group applies the AASB 9 simplified model of recognising lifetime expected credit losses for all trade receivables as these items do not have a significant financing component.

In measuring the expected credit losses, the trade receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due.

The current expected loss rates are based on the payment profile for sales over the past 24 months before 30 June 2020 and 30 June 2019 respectively as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forwarding looking factors affecting the customer's ability to settle the amount outstanding. The expected credit loss at 30 June 2020 and 2019 was \$nil.

7. INVENTORY

| | Consolidated 2020 | Consolidated 2019 |
|--------------------------|----------------------|----------------------|
| Finished goods – at cost | \$ 615,050 | \$ 265,293 |
| Closing Balance | <u>615,050</u> | <u>265,293</u> |

NOTES TO THE FINANCIAL STATEMENTS

8. PLANT AND EQUIPMENT

| | Consolidated 2020 \$ | Consolidated 2019 \$ |
|-----------------|-------------------------------------|-------------------------------------|
| Opening Balance | 21,845 | 21,591 |
| Additions | 3,940 | 25,726 |
| Impairment | - | (2,910) |
| Depreciation | (6,907) | (22,562) |
| Closing Balance | 18,878 | 21,845 |

9. LEASES – RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

This note provides information for leases where the Group is a lessee.

(i) *Amounts recognised in the statement of financial position*

The statement of financial position shows the following amounts relating to leases:

| | Consolidated 30 June 2020 \$ | Consolidated 30 June 2019 \$ |
|--|---|---|
| Right-of-use assets | | |
| Premises | 178,039 | - |
| Accumulated amortisation | (41,892) | - |
| Net carrying value of right-of-use assets | 136,147 | - |
| Lease liabilities | | |
| Current | 39,338 | - |
| Non-current | 102,910 | - |
| Total lease liabilities | 142,248 | - |

Reconciliation of right-of-use assets:

| 30 June 2020 | Premises \$ |
|--|------------------------|
| Opening balance | - |
| Initial adoption | 174,405 |
| Foreign currency differences | 4,566 |
| Acquisitions through business combinations | - |
| Disposals | - |
| Disposals – discontinued operation | - |
| Disposals or classified as held for sale | - |
| Impairment expense | - |
| Depreciation expense | (42,824) |
| Closing balance | 136,147 |

AASB 16 has been adopted during the period, refer to Note 1(b) for details.

NOTES TO THE FINANCIAL STATEMENTS

9. LEASES – RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (continued)

Recognition of lease liabilities:

| 30 June 2020 | Premises |
|--|-----------------|
| | \$ |
| Opening balance | - |
| Initial adoption | 174,405 |
| Foreign currency differences | 4,566 |
| Principal repayments | (25,415) |
| Interest expense | (11,308) |
| Disposals | - |
| Disposals – discontinued operation | - |
| Disposals or classified as held for sale | - |
| Closing balance | 142,248 |

(ii) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

| | Consolidated 30 June 2020 | Consolidated 30 June 2019 |
|---|--------------------------------------|--------------------------------------|
| | \$ | \$ |
| Depreciation charge of right-of-use assets | | |
| Buildings | (42,824) | - |
| Total | (42,824) | - |
| Interest expense (included in interest and facility fee expenses) | (11,308) | - |

10. GOODWILL

| | Consolidated 2020 | Consolidated 2019 |
|------------------------|------------------------------|------------------------------|
| | \$ | \$ |
| Opening Balance | 2,418,610 | 2,418,610 |
| Impairment | - | - |
| Closing Balance | 2,418,610 | 2,418,610 |

Goodwill represents an acquisition via a business combination.

During the year ended 30 June 2020, management have conducted an impairment assessment in relation to goodwill. The recoverable amount was based on a net present value calculation and was determined at the cash-generating unit level (CIO Technology, Inc CGU).

The pre-tax discount rate adopted was 8.8% and the net present value calculation was based upon forecast cash flows over a five year period.

The five year forecast used as the basis for the value-in-use model was based on budget and forecast assumptions as approved by the Board of Directors. The assumptions are considered reasonable and supportable and were derived with due consideration to actual CGU performance indicators and existing revenue streams.

Based upon the net present value calculation, no impairment has been recognised.

Impact of possible changes in key assumptions

If the budgeted sales used in the value in use calculation had been 20% lower than management's estimates at 30 June 2020. No impairment would be recognised.

NOTES TO THE FINANCIAL STATEMENTS

10. GOODWILL (continued)

If the budgeted sales used in the value in use calculation had been 50% lower than management's estimates at 30 June 2020, the Group would need to recognise and record an impairment for the entire carrying amount of goodwill.

If the estimated cost of capital used in determining the pre-tax discount rate had been 10% higher than management's estimates, no impairment would be recognised.

11. OTHER INTANGIBLES

| | Consolidated 2020 \$ | Consolidated 2019 \$ |
|--------------------------------|-------------------------------------|-------------------------------------|
| Certifications | | |
| Opening Balance | 143,300 | - |
| Additions | 16,839 | 154,998 |
| Amortisation | (58,999) | (11,698) |
| Closing Balance | 101,140 | 143,300 |
| Tooling costs | | |
| Opening Balance | - | - |
| New tooling costs incurred | 47,882 | - |
| Amortisation | (10,824) | - |
| Closing Balance | 37,058 | - |
| Total other intangibles | 138,198 | 143,300 |

Certifications represent costs incurred in obtaining certification that the Group's products conform to the regulations of the Federal Communications Commission (USA). Costs of obtaining a certification are amortised over the useful life of the certification, which management has assessed as being 3 years.

Tooling costs represent costs incurred by the Company in relation to the mould that is installed within the manufacturers' machines so as to produce routers that are to the Company's specifications. Tooling costs are amortised over the useful life of 3 years based on Management's assessment.

12. TRADE AND OTHER PAYABLES

| | Consolidated 2020 \$ | Consolidated 2019 \$ |
|---|-------------------------------------|-------------------------------------|
| Current | | |
| Payables ¹ | 392,832 | 380,623 |
| Other payables | 202,531 | 38,108 |
| Accruals | 166,467 | 140,608 |
| Accrued interest – borrowings and convertible notes | 310,183 | 181,002 |
| Closing Balance | 1,072,013 | 740,341 |

¹ Payables are non-interest bearing and are normally settled on 30 day terms. All amounts are short term.

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NOTES TO THE FINANCIAL STATEMENTS

13. BORROWINGS

| | Consolidated 2020 \$ | Consolidated 2019 \$ |
|-------------------------------|----------------------------|----------------------------|
| Loan – Australia | 450,000 ¹ | 120,000 ² |
| Loan – United States | - ³ | 166,706 |
| Closing Balance | <u>450,000</u> | <u>286,706</u> |
| Opening Balance | 286,706 | 1,370,000 |
| Repayments | (656,706) | (410,395) |
| Advances | 820,000 | 678,101 |
| Transfer to convertible notes | - | (1,351,000) |
| Closing Balance | <u>450,000</u> | <u>286,706</u> |

¹ During the year ended 30 June 2020, the Company secured a line of credit facility of \$500,000 with Tyche Investments Pty Ltd to drive manufacturing acceleration. This facility was increased to an available limit of \$700,000 on 21 November 2019. The facility is debt-only and does not dilute the existing shareholders. Interest is calculated at 5% on the date that funds are initially drawn down. Additional interest of 1% per month is payable on funds which remain outstanding in excess of 90 days from the date of initial drawdown. Interest of \$71,277 was accrued during the year. Subsequent to year end, the Company announced that it has further extended its line of credit facility to 31 December 2020 to a maximum amount of \$500,000.

² In May 2019 the Company obtained further short-term funding through a loan of \$120,000. The loan incurred interest at a rate of \$3,000 per month (30% p.a.) whilst the balance was outstanding. The loan, along with \$9,000 in interest was repaid in full on 5 July 2019.

³ During the year ended 30 June 2019, the Company had arranged a further short term funding facility of USD\$123,500 of which the Company was required to make weekly repayments of USD\$3,399 until a total of USD\$176,605 was repaid. The short term funding facility, including interest of USD\$46,003 (AUD\$68,523) was subsequently repaid in full during the year ended 30 June 2020.

14. CONVERTIBLE NOTES

At the 2018 Annual General Meeting, shareholders approved the conversion of the Company's \$1,370,000 loan facility with Gorilla Pit Pty Ltd into convertible notes. On 28 February 2019 the Company issued convertible notes with a face value of \$1,351,000. Each note entitles the holder to convert to ordinary shares at a cost of \$0.03 per share (post consolidation).

During the year ended 30 June 2020, convertible notes with a face value of \$30,000 plus accrued interest of \$4,185 were converted into ordinary shares. Refer to Note 16(a).

Conversion may occur at any time between the date of issue and maturity date at the election of the holder. Interest of 9% will accrue daily on the face value from the issue date until the maturity date and be paid six monthly on the anniversary of the Issue date. Holders may elect to convert their interest to shares at the same issue price (\$0.03 per share).

Noteholders are entitled to secure the loan by registration on the Personal Property Securities Register (PPSR).

The net proceeds received from the issue of the convertible notes have been split between the financial liability and an equity component, representing the residual attributable to the option to convert the financial liability into equity of the Company. The convertible notes had an original maturity date of 30 June 2019, however on 8 July 2019 the Company announced that it had successfully extended the maturity date of the convertible notes to 30 June 2020. Subsequent to the end of the financial year, the Company has further extended all existing convertible note facilities with a total face value of \$1,321,000 for a further 12 months to 30 June 2021. The allocation between financial liability and equity has been undertaken by the Company in relation to both the issue of the convertible notes and their subsequent extension as follows.

NOTES TO THE FINANCIAL STATEMENTS

14. CONVERTIBLE NOTES (continued)

| | Consolidated 2020 \$ | Consolidated 2019 \$ |
|---|-------------------------------------|-------------------------------------|
| <i>28 February 2019 issue of convertible notes</i> | | |
| Proceeds of issue | 1,351,000 | 1,351,000 |
| Liability component at date of issue | 1,325,199 | 1,325,199 |
| Unwinding – interest expense | 25,801 | 25,801 |
| Liability component at repayment date of 30 June 2019 | 1,351,000 | 1,351,000 |
| Equity component at date of issue | 25,801 | 25,801 |
| <i>Extension of repayment date to 30 June 2020</i> | | |
| Liability at date of extension | 1,351,000 | 1,351,000 |
| Liability component at date of extension | 1,280,345 | 1,280,345 |
| Equity component at date of extension | 70,655 | 70,655 |
| Total equity component at balance date | 96,456 | 96,456 |
| <i>Extension of repayment date to 30 June 2021</i> | | |
| Liability at date of extension | 1,321,000 | - |
| Liability component at date of extension | 1,321,000 | - |
| Equity component at date of extension | - | - |

As at 30 June 2020, the fair value of the outstanding convertible notes was the equivalent to its face value of \$1,321,000. Therefore there were no adjustments to the equity component of \$96,456 that was credited to equity during the year ended 30 June 2019. Total interest accrued on the convertible notes as at 30 June 2020 was \$238,907.

15. OTHER PAYABLES

| | 2020 \$ | 2019 \$ |
|----------------|--------------------|--------------------|
| Other payables | 253,533 | - |
| | 253,533 | - |

As at 30 June 2020, the other payables of USD\$174,000 (AUD\$253,533) represents funding assistance provided by the US Department of Treasury to CIO Technology, Inc. as a result of COVID-19 to assist with meeting employee wages, rent and general costs associated with the Company. The funding assistance provided to the Company is in the form of a promissory note (i.e. short term loan) of which there is an initial interest free period of 6 months before interest is charged at a fixed rate of 1% p.a. on any unpaid principal balance. The promissory note has a term of 2 years from the date that funding was provided before full repayment is required. At 30 June 2020, some uncertainty exists regarding whether a portion or all of the loan may be forgiven by the US Department of Treasury.

NOTES TO THE FINANCIAL STATEMENTS

16. ISSUED CAPITAL

| | Consolidated 2020 \$ | Consolidated 2019 \$ |
|-----------------------------------|-------------------------------------|-------------------------------------|
| Issued and paid up capital | | |
| Ordinary shares fully paid (a) | 70,777,722 | 68,827,796 |
| | 70,777,722 | 68,827,796 |

Movements in issued and paid up capital

| | Number | Consolidated \$ |
|--|----------------------|----------------------------|
| (a) Ordinary shares fully paid | | |
| Balance as at 1 July 2018 | 887,916,052 | 66,345,419 |
| Placement (4 Sep 2018, \$0.003 per share) | 133,187,333 | 399,562 |
| Rights Issue – Application shares (28 Sep 2018, \$0.003 per share) | 131,594,009 | 394,782 |
| Rights Issue – Shortfall shares (11 Oct 2018, \$0.003 per share) | 578,738,659 | 1,736,216 |
| Placement fee shares (20 Dec 2018, \$0.003 per share) | 6,682,030 | 20,046 |
| Underwriting fee shares (20 Dec 2018, \$0.003 per share) | 36,633,643 | 109,901 |
| Loan agreement shares (20 Dec 2018, \$0.003 per share) | 5,000,000 | 15,000 |
| Director shares – in lieu of fees (20 Dec 2018, \$0.003 per share) | 33,333,333 | 100,000 |
| Costs directly attributable to issue of share capital | - | (293,130) |
| Balance as at 30 June 2019 | 1,813,085,059 | 68,827,796 |
| Balance as at 1 July 2019 | 1,813,085,059 | 68,827,796 |
| Conversion of convertible notes (20 Sep 2019, \$0.003 per share) | 11,394,998 | 34,185 |
| Director shares – in lieu of fees (20 Dec 2019, \$0.004 per share) | 16,435,333 | 65,741 |
| Director shares – reward compensation (20 Dec 2019, \$0.004 per share) (refer to Note 18(a)) | 150,000,000 | 600,000 |
| Placement of fully paid ordinary shares (20 Dec 2019, \$0.003 per share) | 416,666,667 | 1,250,000 |
| Consolidation on a 1:10 basis (23 Apr 2020) | (2,166,824,839) | - |
| Placement broker fee shares (5 May 2020, \$0.03 per share) | 2,200,000 | 66,000 |
| Costs directly attributable to issue of share capital | - | (66,000) |
| Balance as at 30 June 2020 | 242,957,218 | 70,777,722 |

| | Number | Consolidated \$ |
|-----------------------------------|--------------------|----------------------------|
| (b) Performance Shares | | |
| Balance as at 1 July 2018 | 150,000,000 | - |
| Movements during the year | - | - |
| Balance as at 30 June 2019 | 150,000,000 | - |
| Balance as at 1 July 2019 | 150,000,000 | - |
| Movements during the year | (150,000,000) | - |
| Balance as at 30 June 2020 | - | - |

NOTES TO THE FINANCIAL STATEMENTS

16. ISSUED CAPITAL (continued)

¹ On 29 February 2016, 100,000,000 Class A Performance Shares and 50,000,000 Class B Performance Shares were issued. Class A Performance Shares were to convert on a 1:1 basis on the Company achieving aggregated gross revenue of \$15,000,000 in any of the financial years ending on 31 December 2016, 2017 or 2018, following re-compliance with Chapters 1 and 2 of the Listing Rules. Class B Performance Shares were to convert on a 1:1 basis on the Company achieving aggregated gross revenue of \$25,000,000 in any of the financial years ending on 31 December 2016, 2017 or 2018, following re-compliance with Chapters 1 and 2 of the Listing Rules. No value was attributed to the Performance Shares in prior years as it was considered unlikely that the milestones would be achieved and as at 31 December 2018, the performance shares remained unconverted. As the milestones were not satisfied, the performance shares were cancelled on 15 March 2020, being the date 4 years from being readmitted to quotation.

(c) Options

As at 30 June 2020, 7,500,000 unlisted options were on issue. The options are exercisable at 1 cent and expire on 20 December 2022. Refer to Note 18(d) for further details on the issue.

(d) Performance Rights

| | Number | Consolidated \$ |
|-----------------------------------|-------------------|--------------------|
| Balance as at 1 July 2019 | - | - |
| Additions during the year | 200,000,000 | 142,528 |
| Consolidation on a 1:10 basis | (180,000,000) | - |
| Balance as at 30 June 2020 | 20,000,000 | 142,528 |

As at 30 June 2020, 10,000,000 Class A Performance Rights and 10,000,000 Class B Performance Rights were on issue, which were granted to Mr Temov as an incentive to provide ongoing dedicated services to the Company. Refer to Note 18(b) for further details on the issue.

17. RESERVES

Nature and purpose of reserves

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. It is also used to record the effect of hedging net investments in foreign operation.

Share-based payments reserve

This reserve is used to record the value of equity benefits provided to employees and Directors as part of their remuneration. Refer to Note 18 for further details of these plans.

Equity component of convertible note

The option premium on convertible notes represents the equity component (conversion rights) of the \$1,351,000 of convertible notes issued during the year ended 30 June 2019.

NOTES TO THE FINANCIAL STATEMENTS

18. SHARE-BASED PAYMENTS

During the year ended 30 June 2020, the following shares and rights were issued for services provided to the Group:

| | Value per share | Number | Value |
|---|-----------------|------------|---------|
| | \$ | | \$ |
| Reward compensation (Note 18(a)) | 0.04 | 15,000,000 | 600,000 |
| Performance incentive (Note 18(b)) | 0.04 | 20,000,000 | 142,528 |
| Outstanding directors fees (Note 21(a)) | 0.04 | 1,643,533 | 65,741 |
| Placement broker fees (Note 18(c)) | 0.03 | 2,200,000 | 66,000 |

- (a) In December 2019, following shareholder approval granted at the Company's 2019 Annual General Meeting, 15,000,000 ordinary shares (post consolidation) were issued to Mr Temov in recognition of his efforts to date and compensation for discounting his salary to preserve the Company's cash reserve during the 2019 financial year.

The total fair value of the shares granted to Mr Temov was \$600,000 based on the Company's closing share price of \$0.04 as at the date of the Company's 2019 Annual General Meeting.

- (b) In December 2019, following shareholder approval granted at the Company's 2019 Annual General Meeting, 10,000,000 Class A Performance Rights and 10,000,000 Class B Performance Rights (post consolidation) were granted to Mr Temov as an incentive to provide ongoing dedicated services to the Company.

The Performance Rights were granted at nil consideration, do not have an exercise price and will expire on 31 December 2023.

Each Performance Right will vest and convert to one fully paid ordinary share subject to the satisfaction of certain Performance Milestones, completion of a vesting period of 12 months and Mr Temov's continued engagement as Managing Director.

The Performance Milestones are:

1. Class A Performance Rights – The Company and its subsidiaries achieve aggregate gross revenue of greater than AUD \$4 million during any calendar year ending on or before 31 December 2022.
2. Class B Performance Rights – The Company and its subsidiaries achieve aggregate gross revenue of greater than AUD \$8 million during any calendar year ending on or before 31 December 2022.

The total fair value of the rights granted to Mr Temov was \$800,000 based on the Company's closing share price of \$0.04 (post consolidation) as at the date of the Company's 2019 Annual General Meeting. Based on the vesting conditions of the rights, \$142,528 has been recognised as a share based payment for the period of 27 November 2019, being the date that the rights were granted, to 30 June 2020.

| | Class A | Class B | Total |
|---|--------------------|--------------------|-----------|
| | Performance Rights | Performance Rights | |
| Number Issued | 10,000,000 | 10,000,000 | |
| Grant Date | 27 November 2019 | 27 November 2019 | |
| Expected Vesting Date | 31 December 2022 | 31 December 2023 | |
| Vesting Period (days) | 1,130 | 1,495 | |
| Value per Right | \$0.04 | \$0.04 | |
| Total Value of Rights | \$400,000 | \$400,000 | \$800,000 |
| Amount Expensed in Current Year | \$81,173 | \$61,355 | \$142,528 |
| Amount to be Expensed in Future Years if Vesting Conditions are Met | \$318,827 | \$338,645 | \$657,472 |

NOTES TO THE FINANCIAL STATEMENTS

18. SHARE-BASED PAYMENTS (continued)

- (c) During the year ended 30 June 2020, 2,200,000 shares valued at \$66,000 were issued in consideration for payment of fees associated with the Company's share placement and charged to share issue costs.
- (d) In December 2018, 7,500,000 unlisted options (post consolidation) were issued for corporate advisory and underwriting services in relation to a capital raising to unrelated parties. During the year ended 30 June 2019, \$112,500 was charged to share issue costs.

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

| | |
|---|------------------|
| Weighted average exercise price (cents) | 1 cent |
| Weighted average life of the options (years) | 4.06 |
| Weighted average underlying share price (cents) | 0.3 cents |
| Expected share price volatility | 100% |
| Risk-free interest rate | 1.68% |
| Grant date | 28 November 2018 |
| Expiry date | 20 December 2022 |
| Value per option | \$0.015 |
| Total value granted | \$112,500 |

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

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

| | Number | Grant date | Expiry date | Exercise price \$ | Fair value at grant date \$ | Vesting date |
|----------------|-----------|------------|-------------|----------------------|-----------------------------------|--------------|
| Options 1 cent | 7,500,000 | 28-11-2018 | 20-12-2022 | \$0.10 | \$0.015 | 28-11-2018 |

There has been no alteration of the terms and conditions of the above share-based payment arrangement since grant date.

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

| | 2020 | | 2019 | |
|--|--------------|---------------------------------------|------------|---------------------------------------|
| | Number | Weighted average exercise price \$ | Number | Weighted average exercise price \$ |
| Outstanding at the beginning of the year | 75,000,000 | 0.01 | - | - |
| Granted during the year | - | - | 75,000,000 | 0.01 |
| Forfeited during the year | - | - | - | - |
| Exercised during the year | - | - | - | - |
| Expired during the year | - | - | - | - |
| Consolidation on a 1:10 basis | (67,500,000) | 0.09 | - | - |
| Outstanding at the end of the period | 7,500,000 | 0.10 | 75,000,000 | 0.01 |
| Exercisable at the end of the period | 7,500,000 | 0.10 | 75,000,000 | 0.01 |

The share options outstanding at the end of the year had an exercise price of \$0.10 (2019: \$0.01) and a weighted average remaining contractual life of 2.5 years (2019: 3.5 years).

The weighted average fair value of options granted during the year was \$nil (2019: \$0.015).

No options were exercised during the year (2019: nil).

NOTES TO THE FINANCIAL STATEMENTS

19. EARNINGS/LOSS PER SHARE (EPS)

| | Consolidated 2020 cents | Consolidated 2019 cents |
|----------------------------------|--|--|
| Basic and diluted loss per share | (1.12) | (1.28) ¹ |

The loss and weighted average number of ordinary shares used in the calculation of basic and diluted loss per share is as follows:

| | Consolidated 2020 \$ | Consolidated 2019 \$ |
|--|-------------------------------------|-------------------------------------|
| Loss for the year | (2,392,816) | (1,999,966) |
| | Number | Number |
| Weighted average number of ordinary shares | 213,445,049 | 155,706,418 ¹ |

¹ The loss per share and weighted average number of ordinary shares used in calculating the EPS have both been restated to reflect the consolidation of the Company's shares on a 1:10 basis in April 2020.

20. NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of cash and cash equivalents

For the purpose of the cash flow statement, cash includes cash on hand and in banks and deposits at call, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the balance sheet as follows:

| | Consolidated 2020 \$ | Consolidated 2019 \$ |
|--------------------|-------------------------------------|-------------------------------------|
| Cash at bank | 713,079 | 435,524 |
| Balance at 30 June | 713,079 | 435,524 |

(b) Reconciliation of loss for the period to net cash flows from operating activities

| | Consolidated 2020 \$ | Consolidated 2019 \$ |
|--|-------------------------------------|-------------------------------------|
| Loss after income tax | (2,392,816) | (1,999,966) |
| Non-Cash Items: | | |
| Depreciation and amortisation | 119,554 | 34,260 |
| Impairment of plant and equipment | - | 2,910 |
| Share based payments (Refer Note 18) | 874,269 | 115,000 |
| Changes in Assets and Liabilities | | |
| (Increase)/decrease in trade and other receivables | 93,224 | (204,570) |
| (Increase)/decrease in inventory | (349,757) | 574,705 |
| (Decrease)/increase in trade and other payables | 337,815 | (742,267) |
| (Increase)/decrease in other assets | 13,045 | (8,597) |
| Increase/(decrease) in convertible note value | - | 25,801 |
| Net cash used in operating activities | (1,304,666) | (2,202,724) |

NOTES TO THE FINANCIAL STATEMENTS

20. NOTES TO THE CASH FLOW STATEMENT (continued)

(c) Non-cash financing and investing activities

Year ended 30 June 2020

During the year the Group engaged in the following non-cash financing and investing activities:

- On 20 September 2019, 1,139,499 ordinary shares (post consolidation) were issued upon the conversion of convertible notes with a face value of \$30,000 plus accrued interest of \$4,185 at a conversion price of \$0.03 per share.
- On 5 May 2020, broker fees of \$66,000 associated with the Company's share placement were satisfied via the issue of 2,200,000 ordinary shares at an issue price of \$0.03 per share.

Year ended 30 June 2019

During the year the Group engaged in the following non-cash financing and investing activities:

- On 28 November 2018, the Company obtained shareholder approval to convert its loan facility into convertible notes. On 28 February 2019 the balance outstanding of \$1,351,000 was converted to convertible notes.

21. RELATED PARTY TRANSACTIONS

Transactions with key management personnel

Key management personnel compensation

The aggregate compensation made to key management personnel of the Company is set out below:

| | Consolidated 2020 \$ | Consolidated 2019 \$ |
|---|-------------------------------------|-------------------------------------|
| Short term employee benefits | 267,179 | 370,326 |
| Post-employment benefits | - | - |
| Share based payments (Note 18(a) & 18(b)) | 742,528 | - |
| | 1,009,707 | 370,326 |

Transactions with key management personnel and related parties

- a) On 20 December 2019, following shareholder approval granted at the 2019 Annual General Meeting held on 27 November 2019, Mr Sierakowski and Mr Bosio's outstanding director fees up to 30 September 2019 of \$29,806 and \$19,500 respectively were satisfied via the issue of 993,533 and 650,000 fully paid ordinary shares (post consolidation) respectively at an issue price of \$0.03 per share. For accounting purposes, the shares issued have been valued at \$39,741 and \$26,000 respectively, being the Company's closing share price of \$0.04 (post consolidation) as at the date of the Annual General Meeting, with the difference recognised as an expense.

NOTES TO THE FINANCIAL STATEMENTS

21. RELATED PARTY TRANSACTIONS (continued)

- (b) Transactions with key management personnel related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

| | Consolidated 2020 \$ | Consolidated 2019 \$ |
|---|-------------------------------------|-------------------------------------|
| (i) Payments to Trident Management Services Pty Ltd, a company of which Adam Sierakowski is a Director and shareholder, for accounting and company secretarial services provided. | 61,580 | 28,000 |
| (ii) Payments to Price Sierakowski Pty Ltd, a company of which Adam Sierakowski is a Director and shareholder, for legal services provided. | 11,769 | 12,792 |
| <i>Amounts outstanding at reporting date</i> | | |
| Aggregates amount payable to key management personnel and their related entities at reporting date. | | |
| (i) Director remuneration | 37,000 | 51,864 |
| (ii) Other transactions | 49,255 | 35,914 |
| | <u>86,255</u> | <u>87,778</u> |

22. AUDITORS' REMUNERATION

| | Consolidated 2020 \$ | Consolidated 2019 \$ |
|---|-------------------------------------|-------------------------------------|
| Remuneration of the auditor of the Company (HLB Mann Judd) for: | | |
| - auditing or reviewing the financial report | 112,942 | 86,767 |
| - taxation compliance | 2,750 | 3,000 |
| - ASIC industry funding levy | 1,373 | - |
| | <u>117,065</u> | <u>89,767</u> |

23. FINANCIAL INSTRUMENTS

(a) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2019.

The capital structure of the Group consists of cash and cash equivalents, borrowings and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

None of the Group's entities are subject to externally imposed capital requirements.

Operating cash flows are used to maintain and expand operations, as well as to make routine expenditures such as tax, dividends and general administrative outgoings.

Gearing levels are reviewed by the Board on a regular basis in line with its target gearing ratio, the cost of capital and the risks associated with each class of capital.

(b) Financial risk management policies

The Group is exposed to market risk (which includes interest rate risk and foreign currency risk) credit risk and liquidity risk. The main purpose of these financial instruments is to manage the working capital needs of the Group's operations. It is the Group's policy that no trading in financial instruments shall be undertaken. The board reviews and agrees policies for managing this risk is summarised below.

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NOTES TO THE FINANCIAL STATEMENTS

23. FINANCIAL INSTRUMENTS (continued)

(i) Credit risk management

Credit risk is the risk that a counterparty fails to discharge an obligation to the Group. The group is exposed to credit risk from financial assets including cash and cash equivalents held at banks and trade and other receivables.

The credit risk is managed on a group basis based on the Group's credit risk management policies and procedures.

The credit risk in respect of cash balances held with banks and deposits with banks are managed via diversification of bank deposits and are only with major reputable financial institutions.

The Group continuously monitors the credit quality of customers. Where available, external credit ratings and/or reports on customers are obtained and used. The group's policy is to deal only with credit worthy counterparties. The credit terms range between 30 and 90 days. The credit terms for customers as negotiated with customers are subject to an internal approval process. The ongoing credit risk is managed through regular review of ageing analysis, together with credit limits per customer.

Trade receivables consist of multiple customers in the technology industry, primarily in the United States of America.

(ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

| | Interest Rate | 1 year or less \$ | 1 to 5 years \$ | Total \$ |
|------------------------------------|------------------|-------------------------|--------------------|--------------------|
| Consolidated | | | | |
| 30 June 2020 | | | | |
| <i>Financial assets</i> | | | | |
| Cash and cash equivalents | 0.07% | 713,079 | - | 713,079 |
| Trade and other receivables | | 286,770 | - | 286,770 |
| Total financial assets | | 999,849 | - | 999,849 |
| <i>Financial liabilities</i> | | | | |
| Trade and other payables | | (1,072,012) | - | (1,072,012) |
| Borrowings | 35.80% | (450,000) | - | (450,000) |
| Convertible notes | 9.0% | (1,321,000) | - | (1,321,000) |
| Total financial liabilities | | (2,843,012) | - | (2,843,012) |
| Consolidated | | | | |
| 30 June 2019 | | | | |
| <i>Financial assets</i> | | | | |
| Cash and cash equivalents | 0.02% | 435,524 | - | 435,524 |
| Trade and other receivables | | 359,856 | - | 359,856 |
| Total financial assets | | 795,380 | - | 759,380 |

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NOTES TO THE FINANCIAL STATEMENTS

23. FINANCIAL INSTRUMENTS (continued)

| | Interest Rate | 1 year or less \$ | 1 to 5 years \$ | Total \$ |
|------------------------------------|------------------|-------------------------|--------------------|--------------------|
| <i>Financial liabilities</i> | | | | |
| Trade and other payables | | (740,341) | - | (740,341) |
| Borrowings | 56.40% | (352,302) | - | (352,302) |
| Convertible notes | 9.0% | (1,351,000) | - | (1,351,000) |
| Total financial liabilities | | (2,443,643) | - | (2,443,643) |

(iii) Interest rate risk

The financial instruments which primarily expose the Company to interest rate risk are cash and cash equivalents, borrowings and convertible notes. The Company's exposure to interest rate risk and the effective interest rate for classes of financial assets and financial liabilities are detailed in the table above.

Sensitivity Analysis

The Group does not consider this to be material to the Group, as interest rates on financial liabilities are subject to fixed interest rates, and have therefore not undertaken any further analysis.

(iv) Foreign currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from exposures to the US dollar. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency.

Sensitivity Analysis

The sensitivity analyses below detail the Group's sensitivity to an increase/decrease in the Australian dollar against the United States dollar. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation balance date for a 25 basis point change in foreign currency rates.

At balance date, if foreign exchange rates had been 25 basis points higher or lower and all other variables were held constant, the Group's:

- Profit or loss would increase/decrease by \$1,082 (2019: \$571); and
- Equity reserves would increase/decrease by \$1,082 (2019: \$571).

(v) Fair value of financial instruments

AASB 7 *Financial Instruments* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The fair value of financial assets and liabilities must be estimated for recognition and measurement or for disclosure purposes.

The carrying value less impairment allowance of trade receivables and payables are assumed to approximate their fair values due to their short term nature.

The Group's principal financial instruments consist of cash and deposits with banks (Level 1), accounts receivable, trade payables and loans payable (Level 2). The main purpose of these non-derivative financial instruments is to finance the Group's operations.

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NOTES TO THE FINANCIAL STATEMENTS

24. OPERATING SEGMENTS

AASB 8 *Operating Segments* requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Group's operating segments have been determined with reference to the monthly management accounts used by the Chief Operating Decision Maker to make decisions regarding the Company's operations and allocation of working capital. Due to the size and nature of the Group, the Board as a whole has been determined as the Chief Operating Decision Maker.

Based on the quantitative thresholds included in AASB 8, there is only one reportable segment, being the development and manufacture of wireless technologies in the United States of America.

The revenues and results of this segment are those of the Group as a whole and are set out in the consolidated statement of profit and loss and other comprehensive income. The segment assets and liabilities of this segment are those of the Group and are set out in the consolidated statement of financial position.

Revenues from major customers which each account for 10% or more of total revenues as reported in the financial statements:

| | Consolidated 2020 \$ | Consolidated 2019 \$ |
|---------------------|-------------------------------------|-------------------------------------|
| <i>US Customers</i> | | |
| Customer A | 1,191,565 | 1,232,591 |
| Customer B | - | 571,548 |
| Customer C | 1,229,868 | - |
| Customer D | 546,868 | - |
| | 2,968,301 | 1,804,139 |

25. CONTINGENT LIABILITIES

The Directors of the Group are not aware of any contingent liabilities which require disclosure in the financial year ended 30 June 2020.

26. SUBSEQUENT EVENTS

Subsequent to the end of the financial year, the Company has further extended its line of credit facility of \$500,000 with Tyche Investments Pty Ltd to 31 December 2020. Interest of 5% is payable on funds drawn down and payable quarterly. Additional interest of 1% per month is further payable on any amount that is outstanding beyond 90 days from initial drawdown.

On 31 July 2020, the Company announced that it had issued 4,986,811 shares on the conversion of convertible note interest accrued to 30 June 2020 at a conversion price of \$0.03 per share.

On 16 September 2020, the Company announced that the maturity date for all existing convertible notes with a total face value of \$1,321,000 have been extended for a further 12 months to 30 June 2021.

No other matters or circumstance has arisen since 30 June 2020 that has affected, or may significantly affect the Group's operations, the result of those operations, or the Group's state of affairs in future financial years.

NOTES TO THE FINANCIAL STATEMENTS

27. PARENT ENTITY INFORMATION

The following detailed information is related to the parent entity, Connected IO Limited, as at 30 June 2019 and 30 June 2020.

| | 2020 | 2019 |
|--|--------------------|--------------------|
| | \$ | \$ |
| Current assets | 32,074 | 15,611 |
| Non-current assets | 3,373,868 | 3,197,744 |
| Total assets | 3,405,942 | 3,213,355 |
| Current liabilities | 2,307,925 | 1,853,195 |
| Non-current liabilities | - | - |
| Total liabilities | 2,307,925 | 1,853,195 |
| Contributed equity | 70,777,722 | 68,827,796 |
| Reserves | 1,327,996 | 1,177,805 |
| Accumulated losses | (71,007,701) | (68,645,441) |
| Total equity | 1,098,017 | 1,360,160 |
| Loss for the year | (2,362,260) | (1,968,235) |
| Other comprehensive loss for the year | - | - |
| Total comprehensive loss for the year | (2,362,260) | (1,968,235) |

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DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. in the Directors' opinion, the financial statements and accompanying notes are in accordance with the *Corporations Act 2001* and:
 - (a) comply with Accounting Standards and the *Corporations Regulations 2001*; and
 - (b) give a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the year ended on that date;
2. Note 1 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board;
3. in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
4. the remuneration disclosures included in the directors' report (as part of the audited Remuneration Report), for the year ended 30 June 2020, comply with section 300A of the *Corporations Act 2001*; and

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



Yakov Temov
Director

Irving, Texas
30 September 2020

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INDEPENDENT AUDITOR'S REPORT

To the members of Connected IO Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Connected IO Limited ("the Company") and its controlled entities ("the Group"), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

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

Basis for opinion

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

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

Material uncertainty related to going concern

We draw attention to Note 1(d) in the financial report, which indicates that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material uncertainty related to going concern*, we have determined the matters described below to be the key audit matters to be communicated in our report.

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| Key Audit Matter | How our audit addressed the key audit matter |
|--|--|
| <p>Goodwill Refer to note 10 in the financial statements</p> <p>As at 30 June 2020, the Group has a balance of \$2,418,610 relating to goodwill acquired as part of a business combination.</p> <p>The Group is required to conduct an impairment assessment in relation to goodwill annually.</p> <p>We consider this to be a key audit matter due to its importance to users' understanding of the financial statements, the degree of estimation involved in future cash flows, discount rates and other inputs to the value-in-use model and the degree of audit effort directed towards this area.</p> | <p>Our audit procedures included but were not limited to the following:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the key controls associated with the preparation of the model used to assess the recoverable amount of the asset; • Critically evaluating management's methodology in the model and the basis for key assumptions; • Assessing the value-in-use model for consistency with the requirements of Australian Accounting Standards; • Comparing forecast cash flows to the latest Board approved forecasts; • Considering the appropriateness of the discount rate used; • Considering whether the assets comprising the cash-generating unit had been correctly allocated; • Comparing value-in-use to the carrying amount of assets comprising the cash-generating unit; • Performing sensitivity analyses around the key inputs used in the cash flow forecasts and the headroom impact on the model; • Reviewing the mathematical accuracy of the model; and • Assessing the appropriateness of the disclosures included in the relevant notes to the financial report. |

Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on the Remuneration Report

Opinion on the Remuneration Report

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

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

Responsibilities

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

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

Perth, Western Australia
30 September 2020



B G McVeigh
Partner

ASX ADDITIONAL INFORMATION

Pursuant to the Listing Rules of the Australian Securities Exchange, the shareholder information set out below was applicable as at 21 September 2020.

A. Distribution of Equity Securities

Analysis of numbers of shareholders by size of holding:

| Distribution | Number of Shareholders | Number of Shares | % Units |
|-------------------|------------------------|--------------------|---------------|
| 1 to 1,000 | 3,110 | 118,269 | 0.05 |
| 1,001 to 5,000 | 246 | 717,678 | 0.29 |
| 5,001 to 10,000 | 133 | 1,116,172 | 0.45 |
| 10,001 to 100,000 | 533 | 21,695,849 | 8.75 |
| 100,001 and Over | 307 | 224,296,061 | 90.46 |
| | 4,329 | 247,944,029 | 100.00 |

There were 3,661 shareholders holding less than a marketable parcel of ordinary shares.

B. Substantial Shareholders

An extract of the Company's Register of Substantial Shareholders (who hold 5% or more of the issued capital) is set out below:

| Shareholder Name | Issued Ordinary Shares | |
|------------------|------------------------|------|
| | Number | % |
| 1 Yakov Temov | 23,668,333 | 9.54 |

C. Twenty Largest Shareholders

The names of the twenty largest holders of quoted shares are listed below:

| Shareholder Name | Issued Ordinary Shares | |
|---|------------------------|--------------|
| | Number | % |
| 1 Yakov Temov | 19,600,000 | 7.91 |
| 2 J P Morgan Nominees Australia Pty Limited | 6,957,348 | 2.81 |
| 3 King George V Nominees Ltd | 6,000,000 | 2.42 |
| 3 5114 Pty Ltd | 5,752,630 | 2.32 |
| 5 White Light Communications Ltd | 4,600,000 | 1.86 |
| 6 Mr Robert Leslie Nelson | 4,370,000 | 1.76 |
| 7 Mr Mark Skinner | 4,308,669 | 1.74 |
| 8 Mr Bahram Rezaei | 3,609,899 | 1.46 |
| 9 924 Pty Ltd | 3,600,821 | 1.45 |
| 10 Mr Bart Rensen + Mrs Suzanne Rensen | 3,550,000 | 1.43 |
| 11 Doric Wealth Pty Ltd <Pivot Trading A/C> | 3,412,786 | 1.38 |
| 12 Yakov Temov | 3,333,333 | 1.34 |
| 13 IML Holdings Pty Ltd | 3,170,160 | 1.28 |
| 14 Ice Cold Investments Pty Ltd | 3,000,000 | 1.21 |
| 15 2428 Pty Ltd | 2,800,000 | 1.13 |
| 16 Botsis Holdings Pty Ltd | 2,400,246 | 0.97 |
| 17 Aegean Capital Pty Ltd <The Spartacus A/C> | 2,266,666 | 0.91 |
| 18 Mrs Georgina Orchard | 2,183,379 | 0.88 |
| 19 Tyche Investments Pty Ltd | 2,100,821 | 0.85 |
| 20 SDMO Australia Pty Ltd <The Botica Super Fund A/C> | 2,077,546 | 0.84 |
| TOTAL | 89,094,304 | 35.95 |

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ASX ADDITIONAL INFORMATION (CONTINUED)

D. Listed Options

As at the date of this report there were nil listed options on issue in the Company.

E. Voting Rights

In accordance with the Company's Constitution, voting rights in respect of ordinary shares are on a show of hands whereby each member present in person or by proxy shall have one vote and upon a poll, each share will have one vote.

F. Unquoted Securities

Class A Performance Rights

| | |
|--------------------------------------|--------------------|
| Number of Class A Performance Rights | 10,000,000 |
| Number of Holders | 1 |
| Holders with more than 20% | Yakov Temov – 100% |

Class B Performance Rights

| | |
|--------------------------------------|--------------------|
| Number of Class B Performance Rights | 10,000,000 |
| Number of Holders | 1 |
| Holders with more than 20% | Yakov Temov – 100% |

Unlisted Options (\$0.10; 20 Dec 2022)

| | |
|----------------------------|---------------------|
| Number of Unlisted Options | 7,500,000 |
| Number of Holders | 1 |
| Holders with more than 20% | 708 Capital Pty Ltd |

Convertible Notes

| | |
|---|--|
| Convertible Notes | Face Value of \$1,321,000 (convertible on the basis of \$0.03 per share) |
| Number of Holders and Convertible Notes | 23 |

G. On Market Buy-Back

There is no current on market buy-back for any of the Company's securities.

H. Restricted Securities

Shares

| | |
|--|-------------------|
| Voluntarily Escrowed for 12 months to 20 December 2020 | 15,000,000 |
| Total | 15,000,000 |

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ASX ADDITIONAL INFORMATION (CONTINUED)

I. Details of Performance Rights

In December 2019, following shareholder approval granted at the Company's 2019 Annual General Meeting, 10,000,000 Class A Performance Rights and 10,000,000 Class B Performance Rights (post consolidation) were granted to Mr Temov as an incentive to provide ongoing dedicated services to the Company. The Performance Rights were granted at nil consideration, do not have an exercise price and will expire on 31 December 2023. Each Performance Right will vest and convert to one fully paid ordinary share subject to the satisfaction of certain Performance Milestones, completion of a vesting period of 12 months and Mr Temov's continued engagement as Managing Director.

The Performance Milestones are:

- (i) Class A Performance Rights – The Company and its subsidiaries achieve aggregate gross revenue of greater than AUD \$4 million during any calendar year ending on or before 31 December 2022.
- (ii) Class B Performance Rights – The Company and its subsidiaries achieve aggregate gross revenue of greater than AUD \$8 million during any calendar year ending on or before 31 December 2022.

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