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skyfii

annual report | **2020**

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Skyfii Limited
ABN 20 009 264 699
Financial report for the year ended 30 June 2020

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Chairman's Letter

Dear Shareholders,

I am pleased to present you Skyfii's annual report for the financial year 2020. It has been another year of significant growth for Skyfii as the Company continues to strengthen its position as the world's leading omnidata intelligence Company.

The past six months have posed some unprecedented challenges to physical venues around the world, with the COVID-19 pandemic restricting the operations of many of Skyfii's customers. During these challenging times, Skyfii has truly demonstrated the relevance of its product offering and the agility of its business, where understanding customer movement in real time has become a crucial part of running venues safely. This was achieved by Skyfii promptly developing new solutions such as OccupancyNow™, which addresses the need for monitoring customer numbers and maintaining social distancing in venues. Skyfii has supported its customers throughout the pandemic and, pleasingly no material customer contracts have been lost. In fact, Skyfii has experienced a surge in inbound customer enquiry, with more businesses recognising the benefits of using Skyfii's data intelligence tools to understand venue activity.

Innovation and acquisitions to drive further growth

The acquisition of Beonic Technologies, which was completed at the start of FY20, has proven to be highly value-adding. It has complemented Skyfii's product offering with tools to respond at a time of heightened focus on people counting in physical venues. Furthermore, Skyfii has been successful in upselling its full suite of subscription services to Beonic's client base of blue-chip companies, assisting them in improving visitor experience and making better business critical decisions.

Skyfii will continue to pursue acquisition opportunities that are highly complementary to the company strategy in order to broaden its offering to existing customers, attract new customers and drive further growth through new verticals.

Skyfii strives to be the global leader in omnidata intelligence solutions by continuing to innovate and build on our cutting-edge product offering. Skyfii launched its latest product OccupancyNow™ in April this year and it is already gaining strong traction in several markets. We look to roll out more analytic products to drive new revenue streams across different markets and verticals in FY21.

Our people

Our continued success in creating world leading software-based solutions and providing them to our clients successfully is reliant on Skyfii having a strong and talented team in place. In line with our growth strategy, Skyfii made several key hires over FY20, particularly focusing on international operations in the functions of sales and marketing. We will continue to invest in our team as we expand our global presence, whilst ensuring our team stays healthy and safe during the pandemic with stringent safety measures in place.

Starting the year in a strong position

As we enter the new financial year, a level of uncertainty remains with regards to the COVID-19 pandemic and the way it impacts the operating environment. Fortunately, Skyfii's data capture and analytics tools are now more relevant than ever with increased focus on venue data in all public spaces and physical venues. The Company is starting the year with significant momentum and I am confident that we will benefit from the significant pipeline of growth opportunities ahead.

I would like to thank the entire Skyfii team for their hard work during a challenging period. I would also like to thank our shareholders for your continued support. I look forward to giving you a further update at our Annual General Meeting later in the year.

Yours faithfully,



Andrew Johnson

Chairman and Non-Executive Director



CEO's Letter

Dear Shareholders,

Financial year 2020 was overall another outstanding year for Skyfii and one that has again proven the strength, scalability and sustainable growth of the business. I am pleased to report another year of record topline and recurring revenue growth and more importantly a continued drive towards profitability through delivery of another year of positive operating EBITDA and significant operating EBITDA growth since FY19.

The company paced extremely well against its targets up until the end of Q3 FY20, having delivered new contract wins in all regions, which resulted in strong QoQ growth across all three quarters. Whilst the impact of COVID-19 was evident in our Q4 results, the company proved its agility by promptly responding to challenging market conditions by right sizing our operating expenditure. At the end of the June quarter the company witnessed a stabilisation in revenues and an increase in forward bookings into FY21.

Record financial result and a strong pipeline for future growth

Total operating revenue for FY20 grew 44% YoY to \$13.5m and recurring revenues were up 72% YoY, at \$8.8m. We concluded the year with an annualised recurring revenue run rate of \$10m, further demonstrating the continued demand for our product and services offering.

At the start of FY20, we set several financial targets for Skyfii, one of which was to deliver another year of positive operating EBITDA. We successfully achieved this milestone and more than doubled the result of the prior year by delivering a record operating EBITDA of \$2.1m. This was an extremely strong result and one that showcases the strength of our business model. In addition, the company did not lose any material customers in the 2H FY20, due to the effects of COVID-19.

We continue to invest into our international growth strategy throughout the year and as a result an increasing share of revenue is being generated by our North America, UK and European operations.

Strong financial position and improved flexibility

Skyfii maintained a strong balance sheet throughout the year, finishing with a net cash position of \$2.1m at the end of June. The strong position was in part a result of prudent measures that the company implemented during March 2020, which included:

- 14% reduction in total operating costs
- 20% pay reduction across all employees and Directors from April through July 2020
- Securing government stimulus packages, including JobKeeper in Australia and the SBA Forgivable Loan in the USA

In December 2019, Skyfii completed a \$2.25m placement to institutional investors. Funds from the capital raise has allowed the company to fast-track its growth strategy across regions. This included making key hires to focus on sales and marketing and meet increasing working capital requirements as it continues to deliver on its global growth strategy.

Finally, in addition to its cash at bank position, Skyfii continues to have access to a \$2m loan facility for working capital needs.

New technology and data sources

Our commitment to research and development remains a key priority for the company as we continue to strive to stay abreast of technology advancements. We continued to dedicate time and resources towards data integrations with new and emerging hardware technologies and sources of data in our efforts to further enrich the IO platform and ultimately drive more value into our revenue offering. These efforts help the company remain relevant to our customer, assists in maintaining a competitive advantage and supports our entry into new verticals.

During Financial year 2020, our product and engineering team delivered a total of 48 major product releases. Some of the more notable platform releases include a staff optimisation tool for businesses, a custom metrics feature, category affinity reporting and IO Engage targeting, operations alerting and the major launch of OccupancyNow™ in March which was our response to assisting customers with adjusting their operations brought about COVID-19.

The engineering team successfully integrated with a number of new hardware technologies in our efforts to improve data validity and respond to customer demand for insights. New hardware technology integrations include new people counting technologies, 2D and 3D cameras and Artificial Intelligence video processing cameras. From a software integration perspective we completed integrations with various Building Management and Property Management Systems, ERP/ Accounting platforms and Point of Sale systems. The investment in new hardware and software technology integrations helps Skyfii improve our relevance to a growing number of key customer verticals as well as provides new products and services to sell into our existing customer base.

Further to this, it demonstrates the adaptability and scalability of our proprietary IO platform, further providing competitive advantage.

People counting technology growing substantially

In July 2019, Skyfii completed the acquisition of selected assets and balance sheet items of Beonic Technologies, a leading Australian customer-insights provider, specialising in camera and people counting technology. Integrating Beonic's technology into the IO Platform has further improved our customers' ability to monitor visitor movement in their physical venues in real-time through more accurate and

more granular analytics. The Beonic acquisition extended Skyfii's already market-leading position in the retail property segment in Australia and added further blue-chip customers to the portfolio both domestically and internationally. It has also provided the company with the necessary credibility to further grow our People Counting business into our International markets in FY21.

In April this year, Skyfii launched the OccupancyNow™ toolkit to address the need for an automated occupancy monitoring and social distancing management solution. This toolkit is based upon Skyfii's existing technology with new features specifically designed to assist in safer operation of physical venues. OccupancyNow™ helps venues manage their occupancy and social distancing more effectively, ensuring compliance to any regulatory guidelines while improving the safety of their staff and customers. Skyfii's analytical tools have also played a part in facilitating enhanced contact tracing where a positive case of COVID-19 has been linked to a venue.

New contract wins

Skyfii continued to grow its Enterprise customer footprint in FY20 with several contract wins across regions and verticals. Some notable contract wins during FY20 included:

- Several contract wins within the core retail vertical; including Australian property group, ISPT across its 31 shopping centres and commercial office towers; another currently unnamed major Australian Retail REIT to deploy People Counting Solution across its 21 shopping centers; and a planned deployment across 500+ TJ Morris stores in the UK
- Further wins in the Stadium vertical included Sydney Cricket Ground, HTFC in Switzerland and the iconic Wembley Stadium
- Extended presence in the global airport vertical with a deployment at a large regional US airport which serves as a hub for Amazon and DHL Air
- A first major contract win in the Caribbean with Baha Mar Resort in the Bahamas
- A Contract extension with Italy's leading petrol convenience operator, Autostrade, following a successful initial 1-year contract term
- A new contract with a major quick service retails operator across Puerto Rico to rollout IO Connect, initially into 60 restaurants
- Our first contract within the gambling vertical through a contract with BetFred in the UK

Post balance date, Skyfii secured a partnership with NASDAQ listed wireless and DAS services provider, Boingo, which has resulted in Skyfii's IO Insight product deployed into over 20 airports across Brazil.

The Company also secured a contract with a large multinational grocery chain as its first large customer for OccupancyNow™. This contract will see OccupancyNow™ rolled out across grocery locations in the USA initially.

Finally, the company has experienced a significant increase in inbound customer enquiries over recent months and expects to deliver further contract wins soon in FY21.

Entering FY21 with significant growth momentum

We have commenced the financial year 2021 in a world that looks very different to what it was 12 months ago. Understanding physical venue activity and the movement of people and objects has subsequently become an even more critical component of a venue's operating model. With new contract wins already secured in FY21, and a strong pipeline of new business prospects already in place, I am confident that Skyfii can deliver another year of double digit revenue growth and another positive full year operating EBITDA result.

Key areas of focus for the Skyfii team in FY21 will include:

- Continued investment into marketing activities to drive quality leads across all regions
- Significant focus on key verticals, including Grocery, Corporate Offices, Universities, Schools and Municipalities
- Ongoing development and rollout of new analytic products to complement our offering and drive new revenue streams
- Specific focus on driving growth within our People Counting product and service offering across ANZ, UK and USA
- Focus on cash management and maintaining strong balance sheet position
- Continuing to pursue highly complementary accretive acquisitions to drive further growth and broaden our offering to current and new customers

In closing, I would like to thank our Chairman and Board of Directors for its guidance and stewardship throughout the FY20 year and as always our shareholders for their continued support.

We look forward to delivering our strongest growth year to date, in FY21

Yours faithfully,



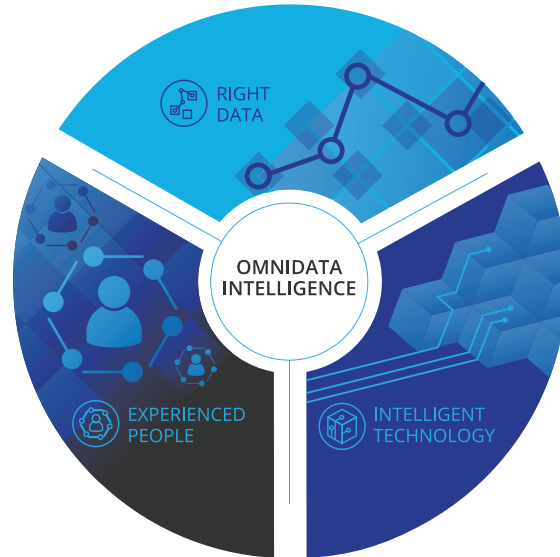
Wayne Arthur
 CEO and Executive Director

Review of Operations

Skyfii Business Overview

Skyfii is a global omnidata intelligence company which is transforming the way organisations collect, analyse and extract value from data. We exist to help physical venues use data to better understand visitor behaviour and improve experiences.

Physical venues need access to data and insights if they are going to operate successfully. However, many businesses don't have the resources or in-house capability to make use of this data. Skyfii's omnidata intelligence approach helps provide actionable insights reliably and securely.



1. RIGHT DATA

Skyfii IO supports data collection and analysis from a growing number of data sources, many of which are already present within physical spaces today. This consolidation of data provides venues the ability to build a holistic view of the visitor experience and the factors that influence it. The scope, scale and integrity of our data allows our customers to maximize their client engagement and satisfaction.

The practice of omnidata intelligence means combining 3 key elements;

1. The right data
2. Intelligent technology
3. Experienced people



Beacons



Survey Responses



Advertising Networks



ERP



CRM & Marketing



Web



Infrared



Cameras



Weather



Mobile



POS



People Counters



Social



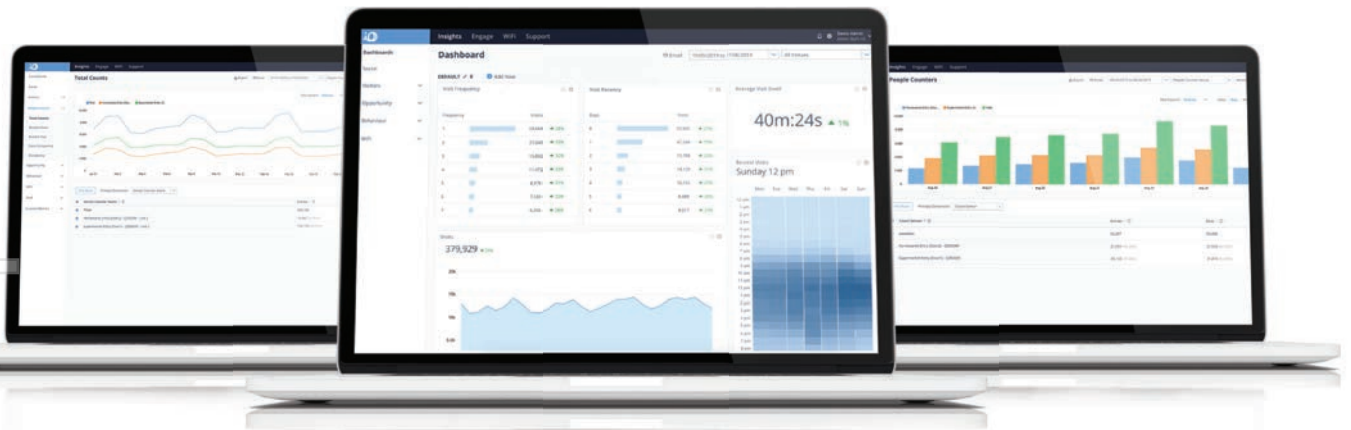
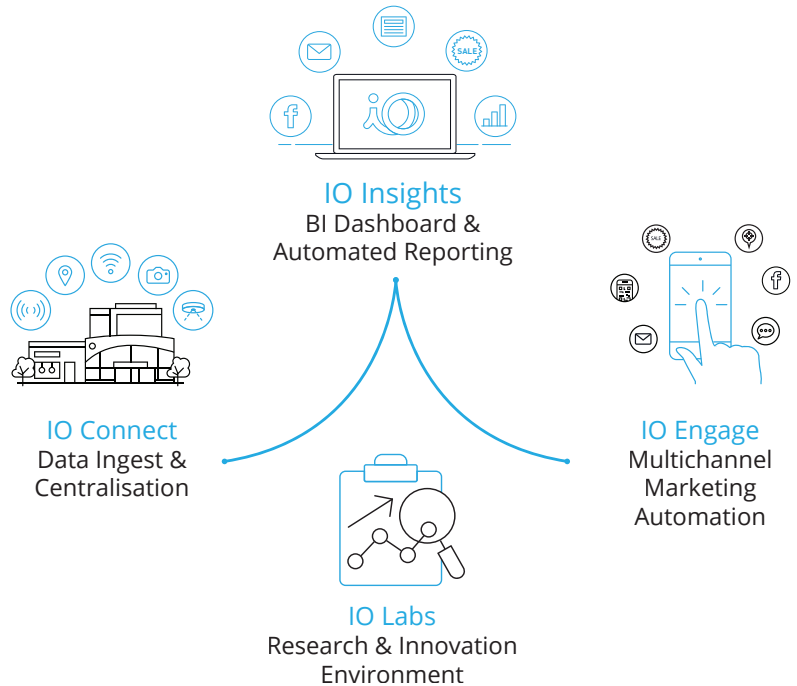
Wi-Fi



2. INTELLIGENT TECHNOLOGY

Our SaaS cloud-based solution, the IO Platform, helps venues gather and visualise data, in order to measure, predict, and influence customer behaviour, thereby creating better experiences for their visitors and customers.

- IO Connect automates the collection, storage and processing of data from a wide variety of sources including: WiFi, Cameras, CRM systems, Survey, BLE / Mobile Apps, Weather, POS / Sales, Point of Sale systems, & ERP / Accounting and Finance platforms
- IO Insights automates the reporting of data collected in real time providing tangible insights such as visitor counts, dwell time metrics, traffic flow analysis and sales conversion
- IO Engage provides marketing tools to deliver & automate content across a number of channels including: Email, SMS, Mobile Push, WiFi Captive Portal and OOH Digital Screens
- IO Labs is a research and innovation environment where Skyfii's data science & strategy teams build the products of tomorrow and support more custom client needs
- Our SaaS product offering is modular, thereby allowing our customers the flexibility to 'start small' and grow with us



3. EXPERIENCED PEOPLE

Our business offers more than just data. Skyfii's expert data scientists, strategists, and marketers develop customized solutions designed around your venue's unique needs. We service our customers in the following areas:

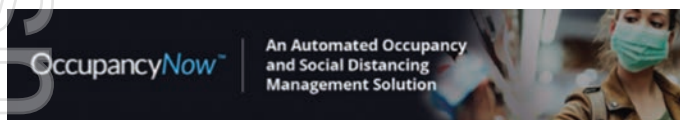
- Data Science
- Campaign Support
- Data Visualisation
- Data Sourcing
- Marketing optimization

Our people and technology ensure that our solutions are customised to allow physical venues to optimise the experience of the venue for their customers.

Review of Operations continued

Key Product Development Initiatives in FY20

Our team of data scientists & digital marketers continue to develop a range of new analytics tools, such as our recent product offering, OccupancyNow™, which serves to help our customers better manage occupancy, monitor social distancing and contact tracing in venues. This is especially critical for essential businesses such as Grocery stores today and will also be critical for all retail and service retail venues as businesses start to re-open safely.



OccupancyNow™ from Skyfii

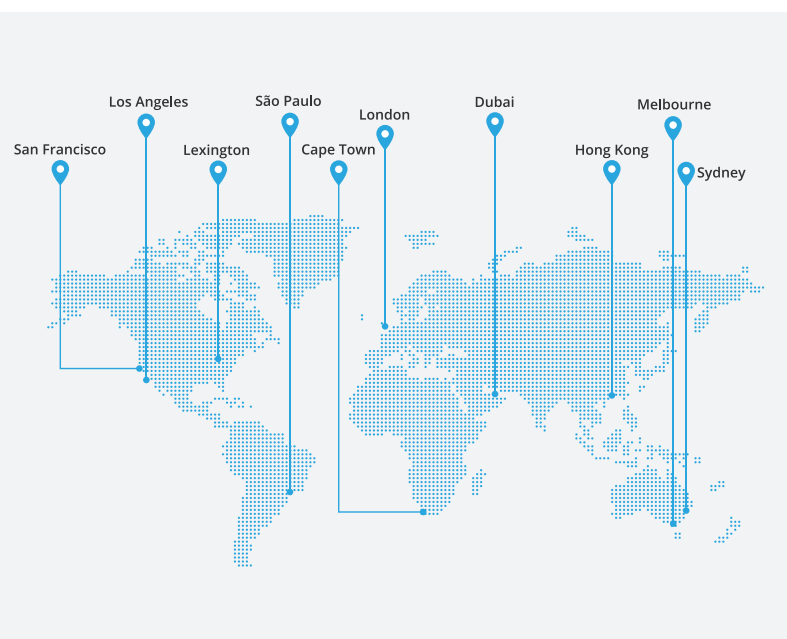
During the last quarter of FY20, Skyfii launched a new product called OccupancyNow™, which is an automated occupancy and social distancing management solution, based upon our existing Skyfii product and service offering with features specifically designed to help our customers to operate their venues safely.

The management solution allows you to:

1. Maintain safe **occupancy** and **social distancing guidelines**
2. Detect when occupancy counts reach a threshold, and automatically **alert staff**
3. Optimize staffing operations such as **cleaning** and **testing**
4. Facilitate **contact tracing** with Skyfii's analytics and communication tools

Business and Operations update

- 35** countries in which SKF operate across 5 continents
- +900** number of customers SKF provide services to across 10,000 physical venues
- 3** year average contract length
- >66** % of revenues generated from recurring revenue streams
- \$10m** % Annualised recurring revenue
- 40** % of revenue generated from international markets



Data Privacy

Skyfii treats data production, privacy and security very seriously. How data is collected, stored and used is of the utmost importance to our business, including supporting our customers' compliance with relevant jurisdictional privacy legislation such as the General Data Protection Regulation (GDPR) within the EU or California Consumer Privacy Act (CCPA within the USA).

Skyfii also takes a number of steps to ensure our data remains secure at every stage. This includes storing data securely in ISO 27001, SOC III, PCI DSS certified data centres. Data is kept within jurisdictional boundaries. Data is transmitted and stored using multiple levels of encryption that enforce the industry's most secure algorithms, such as 256 bit AES.

Customer Base & Business Continuity

COVID-19 had an impact on our operations during the second half of FY20. The Company implemented a strategic response plan to ensure continuity in its business operations while ensuring the safety of our teams, partners, and customers during this period. As a global software company, our already distributed teams are accustomed to operating effectively under a remote working scenario. In addition, our software products can and generally are deployed and managed remotely so we expect a minimal operational impact in continuing to provide current and new services to our customers.

The impact of COVID on our financial position was limited as our revenue mix is heavily skewed to Software-as-a-Service (SaaS) recurring revenue with contracts initially executed on 3 or 5 year terms. The Company's average contract length across the portfolio is approximately 3 years.

During the second half of FY20, Skyfii implemented a number of measures to safeguard its financial position and balance sheet whilst continuing to deliver a range of business and technology development activities. These measures included:

- The company introduced a 20% salary reduction across all regions and all employees (including management and the board of directors) for the period of April- July
- The company applied for a number of government stimulus package programs in Australia and the United States. Under the alternative test criteria, the company was deemed eligible to access JobKeeper payments which were received for the period April to June 2020 and will continue into FY21. The company was also successful in securing the SBA forgivable loan in the United States.

The Company experienced no material changes in customer payment terms during the period and we continue to focus on improving our working capital position. The Company did not lose any material customers and it has begun to see the majority of the temporary suspensions begin to return to the revenue line in 1HFY21

The impact of COVID-19 did, however, result in some temporary customer suspensions of subscription services, as a means of assisting our customers through a period of disrupted operations. The suspensions were in the order of \$0.2m (approximately 9% of Q4 FY20 recurring revenues).

Key Verticals and New Customer Contracts

The company continued to successfully diversify its addressable market during FY20 - accelerating growth in new target verticals whilst extending its penetration in established verticals. This diversification resulted in an extensive number of new contract wins, in new and exciting verticals, announced throughout the financial year.



The type of venues under contract include Healthcare venues, Cultural centres (museums), Hospitals, Retail banking branches, Sporting Stadiums, Smart Cities, Smart Buildings, Universities, Grocery Stores, Quick Service Retail (QSR), Department stores and Specialty Retail. The company continued to extend its dominance in the retail property sector in Australia and made significant headway in this lucrative vertical in the United States, Brazil, United Kingdom and Europe.

The impact of COVID saw an increase in inbound enquiries from verticals such as Grocery, Corporate Offices, Universities, Schools, Health Care and Smart Cities.

A list of notable contract wins during FY20 can be found below, however, this list is non-exhaustive and does not reflect the entirety of contracts secured during FY20.

Notable Contract Wins in FY20

Q1 FY20

Wembley Stadium (UK)

Three year contract signed with Wembley Stadium, one of the leading sporting and entertainment venues in the United Kingdom. The Stadium is a multi-purpose sporting and entertainment venue hosting events including national football matches, premier league football and musical performances. The contract includes the deployment of Skyfii IO Connect (Guest WiFi) and IO insights (Analytics) SaaS platform services to provide a seamless Guest WiFi experience and event day analytics.

Review of Operations continued

Baha Mar Resort (USA)

Three year contract signed with Baha Mar Resort in the Bahamas to deploy Skyfii's IO Connect (Guest WiFi) SaaS platform services. The resort comprises of three hotels, forty dining precincts and a large casino. The contract provides Skyfii with it's first major contract win in the Carribean and highlights the benefits of the Skyfii solution in the lucrative Hotel and Leisure vertical.

Autostrade (ITALY)

Contract extended with Autostrade, Italy's leading petrol convenience operator. Following a successful initial 1 year term, Autostrade agreed to extend the IO Connect (Guest WiFi) and IO Insights (Analytics) SaaS platform services for a further three years.

SARCO (USA)

Three year contract signed with a major Quick Service Retail (QSR) operator across Puerto Rico. The contract will see Skyfii's IO Connect (Guest WiFi) deployed across three restaurant brands: Church's Chicken, Krispy Kreme and Baskin Robbins, in 60 restaurants initially. The contract represents another significant contract win in the lucrative QSR vertical.

Major Outlet Mall Group (USA)

An initial 1 year contract signed with a Major Outlet Shopping Mall Group to deploy IO Connect (Guest WiFi) SaaS platform services to provide a seamless Guest WiFi experience to improve the customer experience and build on their customer database. The provision of the service will be implemented across 35 Outlet Malls.

Regional Airport (USA)

Five year contract signed with a large regional US Airport to deploy Skyfii's IO Connect (Guest WiFi), IO Insight (Analytics) and IO Engage (marketing) SaaS platform services. The Airport is a hub for both Amazon, DHL Air and is one of North America's largest cargo hubs. The engagement extends Skyfii's presence in the global airport vertical.

Q2 FY20

Macerich (USA)

Skyfii successfully concluded a Master Services Agreement with Macerich, one of America's largest operators of retail real estate. Macerich currently owns and operates 47 commercial real estate properties across the USA.

In December 2019, Skyfii deployed its IO Connect (Guest Wifi) services across 15 Macerich shopping centres on an initial 12

month contract term, with the opportunity to extend the services across the balance of the portfolio, with the potential for additional Skyfii services to be added.

TJ Morris (UK)

Skyfii has commenced rolling out its IO Connect (Guest Wifi) services into UK retailer TJ Morris in collaboration with a UK reseller. The contract is for an initial three-year term with a planned deployment across +500 stores.

BetFred (UK)

BetFred is a UK gambling company operating +1500 high street stores across the UK. Skyfii has commenced a roll-out across an initial 100 stores deploying its IO Connect (Guest Wifi) services on an initial three year term and will continue further roll-out during calendar year 2020.

El Dorado Furniture (USA)

Skyfii successfully signed a Master Services Agreement with El Dorado Furniture, a leading large format furniture retailer in the USA. The Company has agreed to an initial 1 year term for its IO Connect (Guest Wifi) & IO Insight (analytics) services across 13 retail furniture outlets.

Q3 FY20

Christchurch Airport (New Zealand)

Three-year Master Services Agreement signed with a leading New Zealand airport. The contract includes the provision of the Skyfii IO Platform services (SaaS) including IO Connect (Guest WiFi) and IO Insights (data analytics). The rollout is inline with the airports owners Smart Airports strategy.

QIC Retail Property Group (Australia)

Australian based shopping centre group QIC has agreed to a further expansion of Skyfii IO platform services to a further 7 shopping centres. The rollout will see the centres deploy Skyfii's IO Connect (Guest WiFi) & IO Connect (People Counting). Upon successful completion, our partnership with QIC will have extended to 16 centres in total.

HCFG Stadium (Europe)

Five-year contract signed to deploy Skyfii's IO Platform services to HCFG Hockey Stadium in Switzerland. The contract includes the provision of Skyfii's IO Connect (Guest WiFi) and IO Insight (Analytics) as a part of the Smart Stadium strategy.



Q4 FY20

A Major (Unnamed) Shopping Centre REIT (Australia)

During the quarter, Skyfii was awarded a competitive tender to deploy its People Counting Solution across 21 shopping centres on a three-year term. The contract includes the deployment of infrastructure and the IO platform services to measure portfolio wide traffic to the centres. The deployment will be carried out during the period of August - November 2020.

A Major (Unnamed) Grocery Outlet Operator (North America)

Post quarter end, Skyfii converted its first large OccupancyNow™ customer, a large multinational grocery chain with locations across the USA and Europe.

Overview of financial performance

In FY20 the company delivered total operating revenues of \$13.5m, representing 44% growth when compared with FY19. Recurring revenues for FY20 were \$8.8m, representing 72% growth when compared with FY19 and the company exited FY20 with an Annualised Recurring Revenue of \$10m. This places the Company in a very strong financial position for FY20.

The growth in revenue is a result of the company's focus on delivering high margin, multi-year, recurring revenue contracts and growth in our services offering to our customer base, both domestically and internationally across a growing number of industry verticals.

The company delivered a positive operating EBITDA of \$2.1m for the full year, our 3rd straight year of positive operating EBITDA. The company's net loss position of \$3.4m, represents a 15.3% improvement when compared with FY19.

Revenue Channel Categories

The categorisations of revenue channels are defined as recurring, non-recurring and services revenues:

- 1. Recurring Revenues** are generated from ongoing subscription fees for access to Skyfii's 'IO' data intelligence platform. Recurring revenues are charged on a fixed fee per venue per month basis and not volume based on traffic. The majority of our recurring revenues are typically contracted on 3-5 year terms with a monthly subscription fee.
- 2. Services Revenues** are generated from the payment of projects undertaken by both Skyfii's Data Consultancy Services (DCS) and Marketing Services (MS) divisions. Revenues generated from Services are received as either recurring or fixed fee projects.
- 3. Non-recurring Revenues** are generated from the deployment of hardware, infrastructure, implementations, and upfront setup fees, which underpin recurring revenues, including: Installation of Wireless Access Points, 2D and 3D cameras, People Counting sensors and Artificial Intelligence cameras that monitor pedestrian, car and bicycle traffic.

Cash position

The Company maintained a very strong balance sheet with a \$2.1m cash balance as at 30th June 2020 with additional access to a \$2m loan facility, of which \$1.9m remains undrawn (cash position at 30 June 2019 was \$1.33m).

In December 2019, Skyfii issued 15m ordinary shares in the company at \$0.15 per new share to institutional investors. The

placement raised gross proceeds of \$2.25m with the funds used to scale up and execute its overseas growth opportunities.

Skyfii's strong net cash position allows the Company to continue with business as usual activities, whilst positioning it to continue to explore new business development opportunities as market conditions stabilise.

The company expects to maintain its cash balance in the coming year, while at the same time continuing to invest in growing revenues.

Outlook for FY21 and beyond

Despite the uncertainties of the impact of COVID-19 on global macroeconomic conditions, Skyfii remains a highly relevant product and technology offering for all public spaces and physical venues as they seek to reopen their operations safely.

Our global data shows a steady increase in customer venue traffic as signs of a gradual return to life in the current climate. With continued caution being applied in all regions due to the recent rise in COVID-19 cases, Skyfii's data capture & analytics are becoming ever more critical in allowing businesses to understand their customers behaviour. This data allows them to make key business operating decisions and provide the public with confidence to return to public spaces in safe, clean and effectively managed environments.

The increasing demand from businesses to understand venue activity has led to a significant increase in the number of incoming enquiries about Skyfii's product offering. With recent new contract wins, particularly in the US market, a growth in customer enquiries globally and the return of revenues from several of the temporary customer suspensions experienced in the June quarter, the Company has started FY21 with significant momentum.

As business activity continues to normalise post COVID-19, the key areas of focus for Skyfii's management team during FY21 include:

- Increased investment into Marketing activities to continue to drive quality leads across all markets
- Significant focus on key verticals including Grocery, Corporate offices,
- Universities, Schools and Municipalities
- Ongoing development and rollout of new analytic products (such as OccupancyNow™), to drive new revenue streams
- Specific focus on driving growth within our People Counting product and service offering across ANZ, UK and USA
- Focus on cash management and maintaining our strong balance sheet position
- Continuing to pursue highly complementary accretive acquisitions to drive further growth and broaden our offering to current and new customers

In summary, notwithstanding Skyfii's ongoing success in addressing worldwide challenges in recent months caused by the impact of the pandemic and some promising signs looking forward, the Board and senior executive team remain very aware of the risks that still exist.

As such the team are continuing to carefully manage cash and focus on keeping the right balance between taking advantage of the opportunities that continue to be identified and prudent business management.

Directors' Report

Your Directors submit the financial report of Skyfii Limited (**Skyfii** or **the Company**) for the year ended 30 June 2020. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows.

Directors

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

Name, independence status and qualifications

Experience, interests in shares, special responsibilities and other directorships

Andrew Johnson

Independent Non-Executive Chairman from 31 January 2019

Independent Non-Executive Director until 30 January 2019 (appointed November 2014)

BComm., M Sc. FAICD

- Mr Johnson, is a highly successful individual within the telecommunications industry. He is the current Chairman/MD of Delta Systems International (DSI), a designer, builder and operator of telecommunications and defence systems. He has previously held the position of Chairman in both Kumul Telikom Holdings Ltd, a telecommunications company in the South Pacific region and Bmobile-Vodafone, a mobile service provider for Papua New Guinea and the Solomon Islands. Further roles include: part owner and Managing Director of Orion Satellite Systems, Director of Dataco, the PNG national transmission company, Director for Computer Sciences Corporation's Australian and NZ Defence and Communications Division, CEO of Tenix (formerly Transfield) Defence Systems, which grew to become Australia's largest Defence company during his tenure and Managing Director of Telstra's Data and Online Division.
- Member (Chairman) of the Audit and Risk Committee.
- Holds a relevant interest in 5,849,861 shares and 210,000 options over an equivalent number of unissued shares.
- No other listed company directorships.

Lincoln Brown

Independent Non-Executive Director (appointed 27 April 2018)

- Mr Brown, was the founder and chairman of Causley and a sophisticated technology entrepreneur who sold his mobile technology business to Zynga in a very successful exit. He brings expertise in mobile tech, data science and machine learning and a wealth of US based contacts to the Skyfii board and will assist in Skyfii's North America expansion.
- Member of the Remuneration and Nomination Committee.
- Holds a relevant interest in 749,150 shares.
- No other listed company directorships.

Susan O'Malley

Independent Non-Executive Director (appointed 24 September 2018)

BBus, GAICD

- Ms O'Malley, is a former Westfield/Scentre Group executive having held various senior managerial roles. Sue is currently the National Chairperson of Life Education Australia, the largest provider of health education in Australia. Additionally, she is a member of the Advisory Board for Southern Cross Group, one of Australia's leading integrated facility service solutions providers. Sue's consultancy provides general business advice, marketing and public relations services to both small and large businesses and aids Skyfii's drive into the retail property sector, domestically and internationally.
- Member (Chairperson) of the Remuneration and Nomination Committee and a member of the Audit and Risk Committee.
- Holds a relevant interest of 545,068 shares.
- No other listed company directorships.

Name, independence status and qualifications

Experience, interests in shares, special responsibilities and other directorships

Jon Adgemis

Independent Non-Executive Director (appointed 24 September 2018)

- Mr Adgemis, is a former Managing Director of Mergers & Acquisitions at KPMG. Jon will assist Skyfii as it grows and expands its operations globally and builds on its strong top line sales growth trajectory.
- Member of the Remuneration and Nomination Committee and a member of the Auditor and Risk Committee
- Holds a relevant interest of 33,260,006 shares.
- No other listed company directorships

Wayne Arthur

Chief Executive Officer/ Executive Director (appointed 20 November 2014)

BComm.

- Mr Arthur, a co-founder of Skyfii, built a long standing career in the outdoor media sector in senior managerial roles for companies such as Titan Media Group and EYE Corp. His experience in these roles has spanned three international markets. He has been responsible for the delivery of key contracts and partnerships to the Skyfii business to date.
- Holds a relevant interest in 11,626,211 shares, 3,075,000 ESP shares and 9,082,162 EOP Options.
- No other listed company directorships.

Company Secretary

Koreen White

Company Secretary (appointed 4 August 2017)

*CPA Australia
 BBus(Acc)*

- Ms White has 22 years' experience in listed and unlisted, Australian and US-based corporate entities having worked across the technology, media and telecommunications (TMT) sector.
- Holds a relevant interest in 434,166 shares, 1,400,000 ESP shares and 3,495,606 EOP Options.
- No other listed company directorships.

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Directors' Report continued

Meetings of Directors

During the financial year, 12 meetings of Directors were held. Other matters arising during the year were resolved by circulating resolutions. The following persons were Directors of the Company during the financial year, with attendance to meetings of Directors as follows:

	Directors' Meetings		Audit and Risk Committee Meetings		Nomination and Remuneration Committee Meetings	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Andrew Johnson	12	12	2	2	-	-
Lincoln Brown	12	8	-	-	3	3
Susan O'Malley	12	12	2	2	3	3
Jon Adgemis	12	8	2	1	3	1
Wayne Arthur	12	12	-	-	-	-

Principal activities

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

Review of operations

The consolidated entity's loss attributable to equity holders of the Company, after providing for income tax, amounted to \$3,417,000 (2019 loss: \$4,035,527). Refer to the commentary in the Review of Operations.

Dividends paid or recommended

In respect of the financial year ended 30 June 2020, there have been no dividends paid or provided for (2019: nil).

Significant changes in state of affairs

There are no significant changes in the state of affairs of the parent entity occurred during the financial year.

Subsequent events

There are no matters or circumstances that have arisen since 30 June 2020 that have significantly affected, or may significantly affect:

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

Future developments

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

Environmental regulations

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

Indemnification of officers and auditors

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

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

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

Non-audit services

Amounts paid or payable to the auditor for non-audit services provided during the year by the auditor amounted to \$7,000 (FY19: \$6,000).

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

The Directors are of the opinion that the services as disclosed in Note 19 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit and Risk Committee, for the following reasons:

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

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

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

Auditor's Independence Declaration

The auditor's independence declaration is included on page 24 of this report and forms part of the Directors' Report for the year ended 30 June 2020.

Proceedings on behalf of Company

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

Remuneration report

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

Key management personnel (KMP) include:

the following persons who were Directors of Skyfii Limited during the financial year:

- Andrew Johnson – Non-Executive Chairman
- Lincoln Brown – Non-Executive Director
- Susan O'Malley – Non-Executive Director
- Jon Adgemis – Non-Executive Director
- Wayne Arthur – Chief Executive Officer

The following persons also had the authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, during the financial year:

- John Rankin – Managing Director, Australia and Chief Operating Officer
- Koreen White – Finance Director and Company Secretary

During the year the Board reviewed the roles disclosed as KMPs in the prior year and concluded to review the list based on attendance of Board meetings as well as the level of executive decision making in the current year.

Accordingly, Ian Robinson, Jason Martin and Michael Walker are no longer disclosed as KMPs in the 2020 remuneration table and other related party disclosures.

Remuneration policy

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

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

Non-Executive Director remuneration

Fees and payments to Non-Executive Directors reflect the demands which are made of the Directors in fulfilling their responsibilities. Non-Executive Director fees are reviewed annually by the Board. The constitution of the Company provides that the Non-Executive Directors of the Company are entitled to such remuneration, as determined by the Board, which must not exceed in aggregate the maximum amount determined by the Company in a general meeting. The most recent determination was at a general meeting held on 3 December 2012 where the shareholders approved a maximum aggregate remuneration of \$500,000. Annual Non-Executive Directors' fees currently agreed to be paid by the Company are \$240,000 inclusive of superannuation.

Executive and Executive Director remuneration

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

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

Performance based remuneration

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

1. Remuneration of Directors and Executives

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

	Short-term benefits			Post employment benefits	Share based payments		
	Directors' fees	Salary and fees	Other	Superannuation	Shares	Options	Total
	\$	\$	\$	\$	\$	\$	\$
FY 2020							
Directors:							
A. Johnson	27,000 ⁽¹⁾				30,000		57,000
L. Brown	27,000 ⁽¹⁾				30,000		57,000
S. O'Malley	27,000 ⁽¹⁾				30,000		57,000
J. Adgemis	27,000 ⁽¹⁾				30,000		57,000
W. Arthur		338,098		27,256	23,279	342,037	730,670
Other KMP:							
J. Rankin		284,000		26,781	23,517	335,449	669,747
K. White		215,750		21,613	15,220	141,485	394,068
Total	108,000	837,848		75,650	182,016	818,971	2,022,485
FY 2019							
Directors:							
A. Johnson	30,000				30,000	29,655	89,655
L. Brown	30,000				30,000		60,000
S. O'Malley ⁽²⁾	30,000				25,000		55,000
J. Adgemis ⁽²⁾	30,000				20,000		50,000
J. Scott ⁽³⁾	5,000				30,000	55,074	90,074
S. Bonett ⁽⁴⁾	25,000						25,000
W. Arthur		232,500		22,088	36,982	211,544	503,114
Other KMP:							
J. Martin ⁽⁵⁾		211,958	16,667	20,136	29,423	178,777	456,961
J. Rankin		227,500		21,612	40,225	163,640	452,977
I. Robinson ⁽⁵⁾		213,750		20,306	31,988	112,851	378,895
M. Walker ⁽⁵⁾		218,125		20,430	31,988	-	270,543
K. White		197,500		18,763	15,178	108,310	339,751
Total	150,000	1,301,333	16,667	123,335	320,784	859,851	2,771,970

The remuneration of key management personnel in the years ended 30 June 2019 & 2020 was 100% fixed with the exception of Mr Arthur and Mr Rankin issued options. 40% of options issued to Mr Arthur and Mr Rankin are based on share price hurdles.

Notes:

- (1) The Directors' fees reflects a 20% reduction in Q4 FY20.
- (2) Represents the remuneration commencing on the 24 September 2018, being the date upon which the individual commenced to be a KMP.
- (3) Represents the remuneration up until 31 January 2019, being the date upon which the individual ceased to be a KMP.
- (4) Represents the remuneration up until 29 November 2018, being the date upon which the individual ceased to be a KMP.
- (5) Represents the remuneration up until 30 June 2019, being the date upon which the individual ceased to be a KMP.

Remuneration report continued

Ordinary shares

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

	Balance at start of year	Received as part of remuneration	Purchase of shares	Transfer/Sale of shares	Balance at end of year
FY 2020					
Directors:					
A. Johnson	5,183,861	375,000	291,000	-	5,849,861
L. Brown	374,150	375,000	-	-	749,150
S. O'Malley	170,068	375,000	-	-	545,068
J. Adgemis	33,260,006	375,000	-	-	33,635,006
W. Arthur	11,626,211	-	-	-	11,626,211
Other KMP:					
J. Rankin	1,686,103	-	-	-	1,686,103
K. White	428,788	-	5,378	-	434,166
Total	52,729,187	1,500,000	296,378	-	54,525,565
FY 2019					
Directors:					
A. Johnson	3,357,869	374,150	1,451,842	-	5,183,861
L. Brown	-	374,150	-	-	374,150
S. O'Malley ⁽¹⁾	-	170,068	-	-	170,068
J. Adgemis ⁽²⁾	18,589,512	136,054	27,034,440	(12,500,000)	33,260,006
W. Arthur	11,626,211	-	-	-	11,626,211
Other KMP:					
J. Martin ⁽³⁾	649,350	-	-	-	649,350
J. Rankin	1,307,315	-	378,788	-	1,686,103
I. Robinson ⁽⁴⁾	10,911,023	-	-	-	10,911,023
M. Walker ⁽⁵⁾	4,553,710	-	-	-	4,553,710
K. White	50,000	-	378,788	-	428,788
Total	51,044,990	1,054,422	29,243,858	(12,500,000)	68,843,270

Notes:

- (1) Represents the ordinary share movements commencing on the 24 September 2018, being the date upon which the individual commenced to be a KMP.
- (2) Represents the ordinary share movements commencing on the 24 September 2018, being the date upon which the individual commenced to be a KMP.
- (3) Represents the ordinary share movements up until 30 June 2019, being the date upon which the individual ceased to be a KMP.
- (4) Represents the ordinary share movements up until 30 June 2019, being the date upon which the individual ceased to be a KMP.
- (5) Represents the ordinary share movements up until 30 June 2019, being the date upon which the individual ceased to be a KMP.

ESP shares

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

	Balance at start of year	Granted / issued	Released from restrictions	Forfeited / cancelled	Balance at end of year	Balance of vested ESP shares	Balance of unvested ESP shares
FY 2020							
Directors:							
W. Arthur	3,075,000	-	-	-	3,075,000	2,633,000	442,000
Other KMP:							
J. Rankin	3,125,000	-	-	-	3,125,000	2,751,000	374,000
K. White	1,400,000	-	-	-	1,400,000	924,000	476,000
Total	7,600,000	-	-	-	7,600,000	6,308,000	1,292,000

FY 2019

Directors:

W. Arthur	3,075,000	-	-	-	3,075,000	1,787,500	1,287,500
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Other KMP:

J. Martin ⁽¹⁾	2,450,000	-	-	-	2,450,000	1,440,000	1,010,000
J. Rankin	3,125,000	-	-	-	3,125,000	2,116,000	1,009,000
I. Robinson ⁽²⁾	2,675,000	-	-	-	2,675,000	1,588,500	1,086,500
M. Walker ⁽³⁾	2,675,000	-	-	-	2,675,000	1,588,500	1,086,500
K. White	1,400,000	-	-	-	1,400,000	462,000	938,000
Total	15,400,000	-	-	-	15,400,000	8,982,500	6,417,500

Notes:

- (1) Represents the ESP share movements up until 30 June 2019, being the date upon which the individual ceased to be a KMP.
- (2) Represents the ESP share movements up until 30 June 2019, being the date upon which the individual ceased to be a KMP.
- (3) Represents the ESP share movements up until 30 June 2019, being the date upon which the individual ceased to be a KMP.

Remuneration Report continued

Executive option plan (EOP) & Other Options

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

	Balance at start of year	Received as part of remuneration	Exercise of options	Expiry of options	Balance at end of year
FY 2020					
Directors:					
A.Johnson	910,000		-	(700,000)	210,000
W.Arthur	3,739,463	4,675,237	-	-	8,414,700
Other KMP:					
J. Rankin	3,234,564	4,891,219	-	-	8,125,783
K. White	1,792,282	1,703,324	-	-	3,495,606
Total	9,676,309	11,269,780	-	(700,000)	20,246,089
FY 2019					
Directors:					
A.Johnson	1,750,000	525,000	(1,365,000)	-	910,000
W.Arthur	-	3,739,463	-	-	3,739,463
Other KMP:					
J. Martin ⁽¹⁾	-	3,334,564	-	-	3,334,564
J. Rankin	-	3,234,564	-	-	3,234,564
I.Robinson ⁽²⁾	-	1,822,282	-	-	1,822,282
K. White	-	1,792,282	-	-	1,792,282
Total	1,750,000	14,448,154	(1,365,000)	-	14,833,154

Notes:

(1) Represents the EOP share movements up until 30 June 2019, being the date upon which the individual ceased to be a KMP

(2) Represents the EOP share movements up until 30 June 2019, being the date upon which the individual ceased to be a KMP

Loans to Directors and KMP

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

As the ESP and EOP are considered in substance to be an option, the ESP and EOP shares issued and corresponding loan receivable are not recognised by the Group in its financial statements. The ESP shares will not be considered issued to participants until the corresponding loan has been repaid, at which time there will be an increase in the issued capital and increase in cash. Further information relating to the ESP and EOP is set out in Note 22 to the financial statements.

	2020 \$	2019 \$
Directors:		
W. Arthur	283,810	243,183
Other KMP:		
J. Martin ⁽¹⁾	-	197,308
J. Rankin	269,328	220,811
I. Robinson ⁽²⁾	-	215,363
M. Walker ⁽³⁾	-	210,563
K. White	54,732	29,462
Total	607,870	1,116,690

Notes:

- (1) Represents the loans up until 30 June 2019, being the date upon which the individual ceased to be a KMP
 (2) Represents the loans up until 30 June 2019, being the date upon which the individual ceased to be a KMP
 (3) Represents the loans up until 30 June 2019, being the date upon which the individual ceased to be a KMP

Other transactions with KMP and/or their related parties

During the full year ended 30 June 2020, the Company incurred \$90,000 (FY19: \$nil) of expenses relating to the Sydney office lease by the trustee of 5 Ward Avenue, a company associated with Jon Adgemis (Director).

These services were provided under normal commercial terms and conditions. Further information in relation to related parties is disclosed in Note 23 to the financial statements.

Executive service agreements

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

Position	Key terms of service agreements
Chief Executive Officer	<ul style="list-style-type: none"> • Base salary: \$372,500 excluding superannuation. • Term: unspecified. • Base remuneration: Reviewed annually by the Nomination and Remuneration Committee. • Bonus entitlements: Determined annually by the Nomination and Remuneration Committee. • Termination notice period: 12 weeks' notice (or 13 weeks' notice after two years' service and is over the age of 45 at the time the notice is given), or without notice in the event of serious misconduct. • Restraint of trade period: up to 6 months.
Other Executives	<p>Other Executives are employed under individual executive services agreements. These establish amongst other things:</p> <ul style="list-style-type: none"> • total compensation; • bonus entitlements; • variable notice and termination provisions of up to 4 weeks, or by the Group without notice in the event of serious misconduct; and • restraint and confidentiality provisions.

This concludes the Remuneration Report, which has been audited.

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

On behalf of the Directors



Andrew Johnson

Chairman

27 August 2020

Auditor's Independence Declaration

HALL CHADWICK  (NSW)

SKYFII LIMITED
ABN 20 009 264 699
AND ITS CONTROLLED ENTITIES

SYDNEY

Level 40
2 Park Street
Sydney NSW 2000
Australia
Ph: (612) 9263 2600
Fx: (612) 9263 2800

AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF SKYFII LIMITED

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Skyfii Limited. As the lead audit partner for the audit of the financial report of Skyfii 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:

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



Hall Chadwick (NSW)
Level 40, 2 Park Street
Sydney NSW 2000



Graham Webb
Partner
Dated: 27 August 2020

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Corporate Governance Statement

The Company's Board of Directors is responsible for the Corporate Governance of the Company and its controlled entities. The Board guides and monitors the business and affairs of the group on behalf of the shareholders by whom they are elected and to whom they are accountable. The governance practices adopted by the Company are structured with reference to the 4th Edition of the ASX Corporate Governance Council's Principles and Recommendations (ASX CGPR).

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

The Board aims to achieve all of the Principles and Recommendations in stages as the Company grows and its circumstances change over time.

The information provided below summarises how the Company presently complies with the ASX CGPR, and how it intends to comply with each of the current Principles and Recommendations going forward. This statement is current as 30 June 2020 and has been approved by the Board of Directors of the Company.

Principle 1 – Lay solid foundations for management and oversight

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

The key responsibilities of the Board include:

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

(h) approving the Company's half year and full year reports to the shareholders, ASX and ASIC; and

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

The Company has established a Nomination and Remuneration Committee to identify and make recommendations to the Board for the appointment of new Board candidates, having regard to their skills, experience and expertise. The Committee is currently comprised of three independent Directors, Ms O'Malley, Mr Brown and Mr Adgemis. The Board requires this Committee to undertake appropriate checks on potential Board candidates. The number of times the Nomination and Remuneration Committee met, and the attendance at those meetings, is set out in the Directors' Report. The Nomination and Remuneration Committee Charter is available on the Company's website, www.skyfii.io.

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

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

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

A formal Board performance evaluation was not undertaken during the 2020 financial year. The Board will consider conducting a formal performance evaluation during the 2021 financial year.

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

- (a) committee papers;
- (b) ensuring the business at Board and committee meetings is accurately captured in the minutes;
- (c) monitoring and ensuring the Board and committee policy and procedures are followed; and
- (d) advising the Board and its committees on governance matters.

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

Corporate Governance Statement continued

Given the size and nature of the Company, the Board determined not to establish measurable objectives for achieving diversity for the 2020 financial year. Establishing measurable objectives for achieving diversity will be reconsidered on an annual basis.

As at 30 June 2020, the proportion of women employed by the Group was as follows:

- Board of Directors: 20%
- Senior Executive positions: 20%
- Total Group workforce: 11%

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

Principle 2 – Structure the board to add value

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

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

A majority of the Board (comprising the Chairperson of the Board, Mr Johnson, Mr Brown, Ms O'Malley and Mr Adgemis) are considered to be independent Directors. Wayne Arthur, Managing Director and CEO, and a major founding shareholder of the Company, is not considered to be an independent Director.

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

Principle 3 – Instil a culture of acting lawfully, ethically and responsibly

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

Principle 4 – Safeguard integrity in corporate reporting

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

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

The Committee is comprised of three independent Directors, Directors, Mr Johnson, Ms O'Malley and Mr Adgemis. Mr Johnson acts as Chairperson.

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

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

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

Principle 5 – Make timely and balanced disclosure

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

- (a) complying with the continuous disclosure obligations imposed by law;
- (b) ensuring that company announcements are presented in a factual, clear and balanced way;
- (c) ensuring that all shareholders have equal and timely access to material information concerning the Company; and
- (d) communicating effectively with shareholders and making it easy for shareholders to participate in general meetings.

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

Principle 6 – Respect the rights of security holders

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

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

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

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

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

Principle 7 – Recognise and manage risk

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

The Company's Audit and Risk Committee is comprised of three independent Directors, Mr Johnson, Ms O'Malley and Mr Adgemis. Mr Johnson acts as Chairperson.

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

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

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

Principle 8 – Remunerate fairly and responsibly

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

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

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

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

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

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

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

Consolidated statement of profit or loss and other comprehensive income

for the financial year ended 30 June 2020

	Note	2020 \$	2019 \$
Revenue and other income			
Revenue	5	13,497,047	9,360,252
Other income	5	123,818	89,677
Total revenue		13,620,865	9,449,929
Expenses			
Direct costs of services		(2,223,388)	(1,989,683)
Employee benefits expense	6	(6,110,044)	(3,785,448)
Contractor and consultant expenses		(319,399)	(370,685)
Marketing and promotion expenses		(358,267)	(601,584)
Data hosting expenses		(810,700)	(711,103)
Travel and accommodation expenses		(346,912)	(404,397)
Office and other expenses		(2,092,970)	(1,636,231)
Directors' fees		(228,000)	(369,730)
Share option expense		-	(359,034)
Share based payments expense		(2,154,153)	(1,381,607)
Depreciation and amortisation expenses	6	(3,163,692)	(2,755,329)
Finance costs	6	(90,923)	(10,672)
Loss before tax		(4,277,583)	(4,925,574)
Income tax benefit	7	860,583	890,047
Loss for the year		(3,417,000)	(4,035,527)
Other comprehensive income			
Items that will be reclassified to profit or loss when specific conditions are met:			
Exchange differences on translation of foreign operations		(202,891)	(107,239)
Total comprehensive loss for the year		(3,619,891)	(4,142,766)
Earnings per share			
		Cents	Cents
Basic earnings per share	28	(1.03)	(1.32)
Diluted earnings per share	28	(0.92)	(1.25)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statement of financial position

As at 30 June 2020

	Note	2020 \$	2019 \$
Assets			
Current assets			
Cash and cash equivalents	8	2,114,336	1,329,881
Trade and other receivables	9	4,043,993	2,789,475
Inventories		207,132	-
Other assets	10	545,729	411,190
Total current assets		6,911,190	4,530,546
Non-current assets			
Plant and equipment	11	96,545	88,849
Intangible assets	12	7,629,708	6,240,523
Total non-current assets		7,726,253	6,329,372
Total assets		14,637,443	10,859,918
Liabilities			
Current liabilities			
Trade and other payables	13	1,990,121	1,124,138
Borrowings	14	93,625	509,552
Provisions	15	690,072	371,875
Current tax liabilities	7	46,543	144,852
Deferred revenue		2,246,416	1,485,038
Total current liabilities		5,066,777	3,635,455
Non-current liabilities			
Provisions	15	141,297	65,745
Deferred revenue		662,962	380,519
Deferred tax liabilities	7	639,000	-
Total non-current liabilities		1,443,259	446,264
Total liabilities		6,510,036	4,081,719
Net assets		8,127,407	6,778,199
Equity			
Contributed equity	16	30,487,972	27,624,521
Reserves	17	3,829,389	1,940,219
Accumulated losses		(26,189,954)	(22,786,541)
Total equity		8,127,407	6,778,199

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

Consolidated statement of changes in equity

For the financial year ended 30 June 2020

Note	Contributed equity	Share based payments reserve	Share option reserve	Foreign currency translation reserve	Accumulated losses	Total equity
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2018	26,739,453	448,365	60,627	(99,336)	(18,751,016)	8,398,094
Loss for the year	-	-	-	-	(4,035,527)	(4,035,527)
Exchange differences on translation of foreign operations	-	-	-	(107,239)	-	(107,239)
Total comprehensive loss for the year	-	-	-	(107,239)	(4,035,527)	(4,142,766)

Transactions with owners in their capacity as owners:

Issue of ordinary shares	16	776,937	-	-	-	776,937	
Issue of ordinary shares on exercise of options		108,131	-	(108,131)	-	-	
Share based payments reserve	17	-	1,302,170	-	-	1,302,170	
Issue of options	17	-	-	443,763	-	443,763	
Balance at 30 June 2019		27,624,521	1,750,535	396,259	(206,575)	(22,786,541)	6,788,199

Note	Contributed equity	Share based payments reserve	Share option reserve	Foreign currency translation reserve	Accumulated losses	Total equity
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2019	27,624,521	1,750,535	396,259	(206,575)	(22,786,541)	6,788,199
Loss for the year	-	-	-	-	(3,417,000)	(3,417,000)
Exchange differences on translation of foreign operations	-	-	-	(202,892)	-	(202,891)
Total comprehensive loss for the year	-	-	-	(202,892)	(3,417,000)	3,619,891

Transactions with owners in their capacity as owners:

Issue of ordinary shares	16	2,892,143	-	-	-	2,892,143	
Capitalised equity raising cost		(138,343)	-	-	-	(138,343)	
Exercise of ESP Shares		109,651	-	-	-	109,651	
Expiry of Options	17	-	-	(13,587)	13,587	-	
Share based payments reserve	17	-	2,105,649	-	-	2,105,649	
Balance at 30 June 2020		30,487,972	3,856,184	382,672	(409,467)	(26,189,954)	8,127,407

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

Consolidated statement of cash flows

For the financial year ended 30 June 2020

	Note	2020 \$	2019 \$
Cash flows from operating activities			
Receipts from customers		12,562,650	9,430,914
Payments to suppliers and employees		(12,160,271)	(9,212,459)
Receipts from government R&D tax incentive & other government grants		1,157,179	918,742
Interest received		4,275	5,954
Interest paid		(88,779)	(10,673)
Income tax paid		(98,309)	-
Net cash inflow from operating activities	27	1,376,745	1,132,478
Cash flows from investing activities			
Payments for plant and equipment		(42,336)	(75,867)
Payments for intangible assets		(2,182,660)	(2,193,242)
Payment for Beonic acquisition	29	(100,000)	-
Payment for security deposits		(16,764)	(6,312)
Proceeds from disposal of plant and equipment		-	16,667
Net cash (outflow) from investing activities		(2,341,760)	(2,258,754)
Cash flows from financing activities			
Proceeds from issue of shares, net of capital raising costs		2,172,803	487,500
Proceeds from borrowings		541,667	503,750
Repayment of borrowings		(965,000)	-
Net cash inflow from financing activities		1,749,470	991,250
Net increase / (decrease) in cash		784,455	(135,026)
Cash at the beginning of the year		1,329,881	1,464,907
Cash at the end of the year	8	2,114,336	1,329,881

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

Notes to the financial statements

For the financial year ended 30 June 2020

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Notes to the financial statements

For the year ended 30 June 2020

1. Reporting entity

Skyfii Limited (the Company) is a company domiciled in Australia. The address of the Company's registered office and principal place of business is 5 Ward Avenue Potts Point NSW 2011. The consolidated financial statements of the Company as at and for the year ended 30 June 2020 comprise the Company and its subsidiaries (together referred to as the Group and individually as Group entities). The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards. The separate financial statements of the parent entity, Skyfii Limited, have not been presented within this financial report as permitted by the Corporations Act 2001. The financial statements were authorised for issue on 27 August 2020 by the Directors of the Company.

2. Basis of preparation

(a) Compliance with International Financial Reporting Standards

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

(b) Historical cost convention

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

(c) Functional and presentation currency

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

(d) Critical accounting estimates

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

(e) Going concern

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

The Group continues to be in the research, development and commercialisation stage of its data analytics technology and services. During the year ended 30 June 2020 the Group incurred a loss after tax of \$3,417,000. At 30 June 2020, the Group had a surplus in net current assets of \$1,844,413 and net assets of \$8,127,407.

On 14 May 2019, the Company announced it obtained unsecured loan facilities of \$2 million in aggregate from sophisticated investors, including Thorney Technologies LTD (ASX:TEK), Jagafii Pty Ltd a company associated with Skyfii director, Jon Adgemis and BMR Securities Pty Ltd. The initial term of the loan facility is for 2 years and matures on 31 May 2021, with a conditional option to extend for a further 12 months. Interest on the loan facility is payable quarterly, with a total annual interest rate of 8% on funds drawn plus an annual line fee of 2%.

Management have prepared cash flow projections that support the Group's ability to continue as a going concern. This forecast acknowledges that the Group will not require to raise additional capital funding for its daily operations. This forecast also acknowledges the uncertainty in relation to the impact of Covid-19 on FY21 and beyond.

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

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

(f) Impact of Covid-19

COVID-19 had an impact on the Company's operations during Q4 FY20. However, Skyfii was still able to successfully maintain a strong financial position throughout. This was largely due to the Company executing on a strategic response plan, to ensure continuity in its business operations while ensuring the safety of our teams, partners, and customers.

Skyfii enrolled in a number of the government stimulus programs made available in Australia and the United States. The company was successful in securing Job Keeper and the SBA Forgivable Loan in the United States. Additionally, it introduced a 20% salary reduction across all regions and all employees (including management and the board of directors) for the period of April - July 2020 as well as a reduction to operating expenses of \$1.5m on an annualised basis.

The Company experienced minimal changes in customer payment terms during the period and the Company will continue to focus on improving our working capital position. Furthermore, given the long-term nature of its revenue mix, it did not lose any material customers. However, it did result in some temporary customer revenue suspensions with the majority of the temporary suspensions expected to return in FY21.

Given the uncertainties surrounding the impact of COVID-19 on global macroeconomic conditions, the Board has taken a conservative approach in projecting future cash flows. Focusing on only the first half of FY21 until market conditions settle, these projections reflect zero top line revenue growth and future projections are expected to be revised in November 2020 as the Board continues to watch developments in Australia and globally closely.

Notes to the financial statements continued

For the year ended 30 June 2020

3. Significant accounting policies

(a) Principles of consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of Skyfii Limited and all subsidiaries. Subsidiaries are all entities over which the Group has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. A list of the subsidiaries is provided in Note 25.

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

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

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

(b) Business combinations

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

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

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

change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

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

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

(c) Income tax

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

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

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

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

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

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

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each

reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

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

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

(d) Inventories

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

(e) Plant and equipment

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

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

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

- Office and computer equipment: 3 – 10 years.

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

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

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

(f) Intangibles

Software development

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

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

Customer contracts

Customer contracts acquired are carried at their fair value at date of acquisition, less accumulated amortisation. They are amortised on a straight-line basis over the period of their expected benefit, being their finite useful life between two and six years.

Brand Names

Brand Names acquired are carried at their fair value at date of acquisition, less accumulated amortisation. They are amortised on a straight-line basis over the period of their expected benefit, being their finite useful life of five years.

Software

Software acquired are carried at their fair value at date of acquisition, less accumulated amortisation. They are amortised on a straight-line basis over the period of their expected benefit, being their finite useful life of four years.

Customer relationships

Customer relationships acquired are carried at their fair value at date of acquisition, less accumulated amortisation. They are amortised on a straight line basis over the period of their expected benefit, being their finite useful life of ten years.

(g) Employee benefits

Short-term obligations

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

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

Short term incentive plans

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

Notes to the financial statements continued

For the year ended 30 June 2020

performance levels, or where there is a past practice that has created a constructive obligation.

Other long-term employee benefit obligations

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

(h) Borrowing costs

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

(i) Provisions

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

(j) Cash and cash equivalents

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

(k) Trade and other payables

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

(l) Revenue recognition

The Group recognises revenue in accordance with AASB 15: Revenue from Contracts with Customers. Revenue is recognised when (or as) the control of goods or services is transferred to the customer for the amount expected to be entitled.

Recurring SaaS revenue is recognised over time, for the duration of the contracted term. The transaction price is determined in the contract and revenue is recognised to the extent that each performance obligation has been satisfied.

Non-recurring revenue including hardware, installation and setup costs is recognised at a point in time when control of the goods or services is transferred to the customer. This is also the case for project-based revenue.

In the case where products and services are sold as a package, such as a design and build, separate revenue elements are identified, unbundled and recognised as each performance obligation is satisfied.

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

(m) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to the ATO is included with other receivables or payables in the statement of financial position.

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

(n) Foreign currency transactions and balances

Functional and presentation currency

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

Transactions and balances

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

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

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

Group companies

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

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

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

(o) Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing:

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

Diluted earnings per share

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

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

(p) Financial instruments

Initial recognition and measurement

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

Financial instruments (except for trade receivables) are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Trade receivables are initially measured at the transaction price if the trade receivables do not contain a significant financing component or if the practical expedient was applied as specified in AASB 15.63.

Classification and subsequent measurement

Financial liabilities

Financial instruments are subsequently measured at:

- amortised cost; or
- fair value through profit or loss.

A financial liability is measured at fair value through profit and loss if the financial liability is:

- a contingent consideration of an acquirer in a business combination to which AASB 3:Business Combinations applies;
- held for trading; or
- initially designated as at fair value through profit or loss.

All other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest expense in profit or loss over the relevant period. The effective interest rate is the internal rate of return of the financial asset or liability. That is, it is the rate that exactly discounts the estimated future cash flows through the expected life of the instrument to the net carrying amount at initial recognition.

A financial liability is held for trading if:

- it is incurred for the purpose of repurchasing or repaying in the near term;
- part of a portfolio where there is an actual pattern of short-term profit taking; or
- a derivative financial instrument (except for a derivative that is in a financial guarantee contract or a derivative that is in an effective hedging relationships).

Any gains or losses arising on changes in fair value are recognised in profit or loss to the extent that they are not part of a designated hedging relationship.

The change in fair value of the financial liability attributable to changes in the issuer's credit risk is taken to other comprehensive income and are not subsequently reclassified to profit or loss. Instead, they are transferred to retained earnings upon derecognition of the financial liability. If taking the change in credit risk in other comprehensive income enlarges or creates an accounting mismatch, then these gains or losses should be taken to profit or loss rather than other comprehensive income.

A financial liability cannot be reclassified.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts are initially measured at fair value (and if not designated as at fair value through profit or loss and do not arise from a transfer of a financial asset) and subsequently measured at the higher of:

- the amount of loss allowance determined in accordance with AASB 9.3.25.3; and
- the amount initially recognised less the accumulative amount of income recognised in accordance with the revenue recognition policies.

Notes to the financial statements continued

For the year ended 30 June 2020

Financial assets

Financial assets are subsequently measured at:

- amortised cost;
- fair value through other comprehensive income; or
- fair value through profit or loss.

Measurement is on the basis of two primary criteria:

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

A financial asset that meets the following conditions is subsequently measured at amortised cost:

- the financial asset is managed solely to collect contractual cash flows; and
- the contractual terms within the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates.

A financial asset that meets the following conditions is subsequently measured at fair value through other comprehensive income:

- the contractual terms within the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates;
- the business model for managing the financial assets comprises both contractual cash flows collection and the selling of the financial asset.

By default, all other financial assets that do not meet the measurement conditions of amortised cost and fair value through other comprehensive income are subsequently measured at fair value through profit or loss.

The Group initially designates a financial instrument as measured at fair value through profit or loss if:

- it eliminates or significantly reduces a measurement or recognition inconsistency (often referred to as "accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases;
- it is in accordance with the documented risk management or investment strategy, and information about the groupings was documented appropriately, so that the performance of the financial liability that was part of a group of financial liabilities or financial assets can be managed and evaluated consistently on a fair value basis;
- it is a hybrid contract that contains an embedded derivative that significantly modifies the cash flows otherwise required by the contract.

The initial designation of the financial instruments to measure at fair value through profit or loss is a one-time option on initial classification and is irrevocable until the financial asset is derecognised.

Equity instruments

At initial recognition, as long as the equity instrument is not held for trading and not a contingent consideration recognised by an acquirer in a business combination to which AASB 3: Business Combinations applies, the Group made an irrevocable election to measure any subsequent changes in fair value of the equity instruments in other comprehensive income, while the dividend revenue received on underlying equity instruments investment will

still be recognised in profit or loss.

Regular way purchases and sales of financial assets are recognised and derecognised at settlement date in accordance with the Group's accounting policy.

Derecognition

Derecognition refers to the removal of a previously recognised financial asset or financial liability from the statement of financial position.

Derecognition of financial liabilities

A liability is derecognised when it is extinguished (ie when the obligation in the contract is discharged, cancelled or expires). An exchange of an existing financial liability for a new one with substantially modified terms, or a substantial modification to the terms of a financial liability is treated as an extinguishment of the existing liability and recognition of a new financial liability.

The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Derecognition of financial assets

A financial asset is derecognised when the holder's contractual rights to its cash flows expires, or the asset is transferred in such a way that all the risks and rewards of ownership are substantially transferred.

All of the following criteria need to be satisfied for derecognition of financial asset:

- the right to receive cash flows from the asset has expired or been transferred;
- all risk and rewards of ownership of the asset have been substantially transferred; and
- the Group no longer controls the asset (i.e. the Group has no practical ability to make a unilateral decision to sell the asset to a third party).

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of a debt instrument classified as at fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

On derecognition of an investment in equity which was elected to be classified under fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the investment revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Impairment

The Group recognises a loss allowance for expected credit losses on:

- financial assets that are measured at amortised cost or fair value through other comprehensive income;
- lease receivables;
- contract assets (eg amounts due from customers under construction contracts);
- loan commitments that are not measured at fair value through profit or loss; and
- financial guarantee contracts that are not measured at fair value through profit or loss.

Loss allowance is not recognised for:

- financial assets measured at fair value through profit or loss; or
- equity instruments measured at fair value through other comprehensive income.

Expected credit losses are the probability-weighted estimate of credit losses over the expected life of a financial instrument. A credit loss is the difference between all contractual cash flows that are due and all cash flows expected to be received, all discounted at the original effective interest rate of the financial instrument.

The Group uses the following approaches to impairment, as applicable under AASB 9: Financial Instruments:

- the general approach, and
- the simplified approach

General approach

Under the general approach, at each reporting period, the Group assesses whether the financial instruments are credit-impaired, and if:

- the credit risk of the financial instrument has increased significantly since initial recognition, the Group measures the loss allowance of the financial instruments at an amount equal to the lifetime expected credit losses; or
- there is no significant increase in credit risk since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

Simplified approach

The simplified approach does not require tracking of changes in credit risk at every reporting period, but instead requires the recognition of lifetime expected credit loss at all times. This approach is applicable to:

- trade receivables or contract assets that result from transactions within the scope of AASB 15: Revenue from Contracts with Customers and which do not contain a significant financing component; and
- lease receivables.

In measuring the expected credit loss, a provision matrix for trade receivables was used taking into consideration various data to get to an expected credit loss (ie diversity of customer base, appropriate groupings of historical loss experience, etc).

Recognition of expected credit losses in financial statements

At each reporting date, the Group recognises the movement in the loss allowance as an impairment gain or loss in the statement of profit or loss and other comprehensive income.

The carrying amount of financial assets measured at amortised cost includes the loss allowance relating to that asset.

Assets measured through other comprehensive income are recognised at fair value, with changes in fair value recognised in other comprehensive income. Amounts in relation to change in credit risk are transferred from other comprehensive income to profit or loss at every reporting period.

For financial assets that are unrecognised (eg loan commitments yet to be drawn, financial guarantees), a provision for loss allowance is created in the statement of financial position to recognise the loss allowance.

(q) Impairment of assets

At the end of each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is recognised immediately in the profit and loss.

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

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

(r) Leases

The Group as lessee

At inception of a contract, the Group assesses if the contract contains or is a lease. If there is a lease present, a right-of-use asset and a corresponding lease liability is recognised by the Group where the Group is a lessee. However, all contracts that are classified as short-term leases (lease with remaining lease term of 12 months or less) and leases of low value assets are recognised as an operating expense on a straight-line basis over the term of the lease.

Initially the lease liability is measured at the present value of the lease payments still to be paid at commencement date. The lease payments are discounted at the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses the incremental borrowing rate.

Notes to the financial statements continued

For the year ended 30 June 2020

Lease payments included in the measurement of the lease liability are as follows:

- fixed lease payments less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options;
- lease payments under extension options if lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The right-of-use assets comprise the initial measurement of the corresponding lease liability as mentioned above, any lease payments made at or before the commencement date as well as any initial direct costs. The subsequent measurement of the right-of-use assets is at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the lease term or useful life of the underlying asset whichever is the shortest.

Where a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group anticipates to exercise a purchase option, the specific asset is depreciated over the useful life of the underlying asset.

(s) Comparative figures

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

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

(t) Contributed equity

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

(u) Segment reporting

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

(v) Government Grants

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met. Grants relating to expense items are recognised against the expense over the periods necessary to match the grant to the costs to the compensating expense. This includes the JobKeeper wage subsidy in Australia as well as the SBA forgivable loan in the United States.

(w) Critical accounting estimates and judgments

The directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of intangible assets

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

Should the software development expenditure not meet the requirements set out in Note 3(f), an impairment loss would be recognised up to the maximum carrying value of intangible assets at 30 June 2020 of \$7,943,552.

R&D tax incentive

The Group has established a precedent for entitlement to the R&D tax incentive in prior periods. This experience supports the assumption that eligibility for the tax incentive will continue on the same basis, and accordingly, it is appropriate to recognise entitlement to the receivable in the current period. The value of the R&D tax incentive entitlement is determined by notional deductions based on eligible R&D expenditures.

Provision for Impairment of Trade Receivables

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

(x) New and Amended Accounting Policies Adopted by the Group Initial application of AASB 16

The Group has adopted AASB 16 Leases retrospectively with the cumulative effect of initially applying AASB 16 recognised at 1 July 2019. In accordance with AASB 16, the comparatives for the 2019 reporting period have not been restated.

The Group has recognised a lease liability and right-of-use asset for all leases (with the exception for short term and low value leases) recognised as operating leases under AASB 117 Leases where the Group is the lessee.

There has been no significant change from prior year treatment for leases where the Group is a lessor.

The lease liabilities are measured at the present value of the remaining lease payments. The Group's incremental borrowing rate as at 1 July 2019 was used to discount the lease payments.

The right of use assets for a manufacturing equipment was measured at its carrying amount as if AASB 16: Leases had been applied since the commencement date, but discounted using the Group's weighted average incremental borrowing rate on 1 July 2019.

The right of use assets for the remaining leases were measured and recognised in the statement of financial position as at 1 July 2019 by taking into consideration the lease liability, prepaid- and accrued lease payments previously recognised as at 1 July 2019 (that are related to the lease).

The following practical expedients have been used by the Group in applying AASB 16 for the first time

- for a portfolio of leases that have reasonably similar characteristics, a single discount rate has been applied.
- leases that have remaining lease term of less than 12 months as at 1 July 2019 have been accounted for in the same way as short-term leases
- The use of hindsight to determine lease terms on contracts that have options to extend or terminate
- applying AASB 16 to leases previously identified as leases under AASB 117: Leases and Interpretation 4: Determining whether an arrangement contains a lease without reassessing whether they are, or contain, a lease at the date of initial application
- not applying AASB 16 to leases previously not identified as containing a lease under AASB 117 and Interpretation 4.

The Group currently has a seven month lease for the Sydney office and month to month leasing arrangements for all other Skyfii offices. These leases are therefore classified as short-term leases. Accordingly, as at the year ended 30 June 2020 in accordance with AASB 16, the Group will recognise rental expenses in profit or loss on a straight-line basis.

Notes to the financial statements continued

For the year ended 30 June 2020

4. Operating segments

The Group operates predominantly in four geographical segments, being the development and commercialisation of data analytics, marketing and advertising services to its customers in Australia, North America, UK & Europe and Internationally. The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

FY20	Australia	North America	UK & Europe	Other International	Total
Revenue	8,089,835	2,100,096	1,608,136	1,698,980	13,497,047
Other income	123,818	-	-	-	123,818
Total revenue	8,213,653	2,100,096	1,608,136	1,698,980	13,620,865
Segment net profit	6,395,087	1,628,002	1,246,633	1,317,056	10,586,778
Employee benefits expense					(6,110,044)
Depreciation and amortisation expenses					(3,163,692)
Other Expenses					(5,499,702)
Finance Costs					(90,923)
Loss before tax					(4,277,583)
Income tax benefit					860,583
Loss for the year					(3,417,000)
FY19	Australia	International	Total		
Revenue	4,906,588	4,453,664	9,360,252		
Other income	89,677	-	89,677		
Total revenue	4,996,265	4,453,664	9,499,929		
Segment net profit	3,537,861	3,211,283	6,749,144		
Employee benefits expense					(3,785,448)
Depreciation and amortisation expenses					(2,755,329)
Other Expenses					(5,123,268)
Finance Costs					(10,673)
Loss before tax					(4,925,574)
Income tax benefit					890,047
Loss for the year					(4,035,527)

FY19 revenue segments were based on internal reports reviewed and used by the Board of Directors during the 2019 financial year being for two geographical segments Australia and International.

5. Revenue and other income

	2020 \$	2019 \$
Revenue at a point in time (non-recurring)	4,654,312	4,209,772
Revenue over a period of time (recurring)	8,842,735	5,150,480
Revenue from contracts with customers ⁽¹⁾	13,497,047	9,360,252
(1) Disaggregation of revenue by geographical markets is disclosed in Note 4 to the financial statements.		
Export market development grant	119,543	67,057
Gain on sale of plant and equipment	-	16,667
Interest income	4,275	5,954
Total other income	123,818	89,677
Total revenue	13,620,865	9,449,930

6. Expenses

	Note	2020 \$	2019 \$
Employee			
Salaries and related expenses (including superannuation)		4,225,824	2,797,522
Other employment costs		1,884,220	987,926
Total employee benefits expense		6,110,044	3,785,448
Depreciation and amortisation			
Plant and equipment	11	47,217	124,842
Software development amortisation	12	3,116,475	2,630,487
Total depreciation and amortisation expenses		3,163,692	2,755,329
Rental expense relating to operating leases			
Minimum lease payments		390,793	307,264
Rent recovery from sub-lease agreements		(3,317)	(23,109)
Net rental expense relating to operating leases		387,476	284,155
Net foreign exchange losses		49,967	83,966
Provision for doubtful debts		47,575	-
Finance costs			
Interest expense		90,923	10,673

Notes to the financial statements continued

For the year ended 30 June 2020

7. Income tax

	Note	2020 \$	2019 \$
(a) Income tax			
Current tax		(860,583)	(947,583)
Over provision in respect of prior years		-	57,534
Income tax (benefit)		(860,583)	(890,047)
(b) Numerical reconciliation of income tax benefit to prima facie income tax payable			
Loss from ordinary activities before income tax expense		(4,277,583)	(4,925,574)
Tax at the Australian rate of 27.5%		(1,176,335)	(1,354,533)
Tax effect amounts which are not deductible / (taxable) in calculating taxable income:			
R&D tax incentive		(981,646)	(1,117,750)
Over provision in respect of prior years		-	57,534
Difference in tax rates		9,827	17,941
Accounting for R&D expenditure		620,581	655,835
Benefit of tax losses/ timing difference not recognised		5,350	286,173
Other non-allowable items		661,640	584,752
Income tax (benefit)		(860,583)	(890,047)
(c) Current tax liabilities			
Income tax payable in overseas jurisdictions		46,543	144,852
(d) Deferred tax liabilities			
Deferred tax liabilities	29	639,000	-
Franking credits			
Franking credits available at the reporting date based on a tax rate of 27.5%		-	-

The amount of deductible temporary differences and unused tax losses for which no deferred tax assets have been brought to account in the period are as follows:

- temporary differences: \$2,781,500 (2019: \$3,113,282)
- tax losses: operating losses \$12,634,756 (2019: \$12,092,623)
- tax losses: capital losses \$16,911 (2019: \$16,911)

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

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

8. Cash and cash equivalents

	2020 \$	2019 \$
Current		
Cash at bank and on hand	2,114,336	1,329,881
Total cash and cash equivalents	2,114,336	1,329,881

9. Trade and other receivables

	2020 \$	2019 \$
Current		
Trade receivables	2,722,783	1,600,684
Provision for expected credit losses	(47,575)	-
Net trade receivables	2,675,208	1,600,684
R&D tax incentive receivable	981,646	1,037,412
Other debtors	387,139	151,379
Total current trade and other receivables	4,043,993	2,789,475

(a) Expected credit losses

The Group applies the simplified approach to providing for expected credit losses prescribed by AASB 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The loss allowance provision as at 30 June 2020 has been determined as follows; the expected credit losses also incorporates forward looking information.

2020	Current	>30 days	>60 days	>90 days	Total
Expected loss rate	0%	0%	4%	4%	2%
Gross carrying amount	1,379,683	115,973	721,559	505,568	2,722,783
Loss allowing provision	\$0	\$0	\$28,507	\$19,068	\$47,575
2019	Current	>30 days	>60 days	>90 days	Total
Expected loss rate	0%	0%	0%	0%	0%
Gross carrying amount	1,211,976	243,144	48,665	96,898	1,600,684
Loss allowing provision	\$0	\$0	\$0	\$0	\$0

Trade receivables balance includes some customers with extended payment terms of over 90 days as well as a few customers with a history of paying late. In both cases the company expects to receive all payments in full.

10. Other assets

	2020 \$	2019 \$
Current		
Prepayments	450,480	386,137
Security Deposits	23,077	6,311
Other	72,172	18,742
Total current other assets	545,729	411,190

Notes to the financial statements continued

For the year ended 30 June 2020

11. Plant and equipment

	2020 \$	2019 \$
Non-current		
Office and computer equipment – at cost	396,455	341,542
Accumulated depreciation	(299,910)	(252,693)
Carrying value of office and computer equipment	96,545	88,849
Total carrying value of plant and equipment	96,545	88,849
	Office and Computer Equipment	Total \$
Balance at 1 July 2018	137,824	137,824
Additions	75,867	75,867
Depreciation	(124,842)	(124,842)
Balance at 30 June 2019	88,849	88,849
Balance at 1 July 2019	88,849	88,849
Additions	54,913	54,913
Depreciation	(47,217)	(47,217)
Balance at 30 June 2020	96,545	96,545

12. Intangible assets

	2020 \$	2019 \$
Non-current		
Software development – at cost	10,818,038	8,635,378
Accumulated amortisation	(6,501,228)	(4,708,620)
Carrying value of software development	4,316,810	3,926,758
Customer Contracts – at cost	853,000	853,000
Accumulated amortisation	(705,869)	(422,302)
Carrying value of customer contracts	147,131	430,698
Brand Names – at cost	795,000	198,000
Accumulated amortisation	(195,200)	(56,100)
Carrying value of brand names	599,800	141,900
Software – at cost	3,515,000	2,696,000
Accumulated amortisation	(1,765,333)	(954,833)
Carrying value of software	1,749,667	1,741,167
Customer relationships – at cost	907,000	-
Accumulated amortisation	(90,700)	-
Carrying value of customer relationships	816,300	-
Total carrying value of intangible assets	7,629,708	6,240,523

Notes to the financial statements continued

For the year ended 30 June 2020

	Software development	Customer contracts	Brand names	Software	Customer relationships	Total
Balance as at 1 July 2018	3,366,837	714,264	181,500	2,415,167	-	6,677,768
Additions	2,193,242	-	-	-	-	2,193,242
Amortisation	(1,633,321)	(283,566)	(39,600)	(674,000)	-	(2,630,487)
Balance at June 30 2019	3,926,758	430,698	141,900	1,741,167	-	6,420,523
Balance as at 1 July 2019	3,926,758	430,698	141,900	1,741,167	-	6,420,523
Additions	2,182,660	-	597,000	819,000	907,000	4,505,660
Amortisation	(1,792,609)	(283,566)	(139,100)	(810,500)	(90,700)	(3,116,475)
Balance at June 30 2020	4,316,809	147,132	599,800	1,749,667	816,300	7,629,708

The group's intangible assets have been assessed as one cash generating unit due to the interconnected way the company's products and services are sold and supplied to its customers. Services are commonly bundled and sold together as an all-inclusive package. Accordingly, these assets are not deemed to generate individually separate cash inflows and outflows.

The recoverable amount of the intangible assets is determined based on value-in-use calculations. Value-in-use is calculated based on the present value of cash flow projections over a five year period with the period extending beyond five years extrapolated using an estimated growth rate. The cash flows are discounted using the yield of five year weighted average cost of capital (WACC) at the beginning of the budget period.

Management has based the value-in-use calculations on cashflow projections. These cashflow projections have been assessed in light of the impact of COVID19.

The following key assumptions were used in the value-in-use calculations:

	Growth Rate	Discount Rate
Revenue: Year 1	15% ⁽¹⁾	27.5%
Revenue: Years 2-5	40%	27.5%

(1) Year 1 assumes no growth in 1st half of FY21.

These cashflow projections use historical weighted average growth rates to project revenue. Costs are calculated taking into account historical gross margins as well as estimated weighted average inflation rates over the period, which are consistent with inflation rates applicable to the group. Discount rates are pre-tax and are adjusted to incorporate risks associated with a particular segment.

Sensitivity analysis

The following tables illustrates sensitivities to the Group's exposures to changes in key assumptions used in the cash flow projections:

Lower case	Growth Rate	Discount Rate
Revenue: Year 1	10%	27.5%
Revenue: Years 2-5	30%	27.5%

Upper case	Growth Rate	Discount Rate
Revenue: Year 1	20%	27.5%
Revenue: Years 2-5	50%	27.5%

The sensitivity analysis conducted by the management indicates that under the lower case scenario there is headroom between the present value of future cash flows and the carrying value of the intangible assets.

13. Trade and other payables

	2020 \$	2019 \$
Current		
Trade payables	1,505,136	1,062,653
Sundry payables	484,985	61,485
Total trade and other payables	1,990,121	1,124,138

14. Borrowings

	2020 \$	2019 \$
Current		
Borrowings	93,625	509,552
Total borrowings	93,625	509,552

On 14 May 2019, the Company announced it obtained unsecured loan facilities of \$2 million in aggregate from sophisticated investors, Thorney Technologies LTD (ASX:TEK), Jagafii Pty Ltd a company associated with Skyfii director, Jon Adgemis and BMR Securities Pty Ltd. The initial term of the loan facility is for 2 years and matures on 31 May 2021, with a conditional option to extend for a further 12 months. Interest on the loan facility is payable quarterly, with a total annual interest rate of 8% on funds drawn plus an annual line fee of 2%. During the year a further \$541,000 was drawn down and \$965,000 plus interest and line fees was repaid. Remaining amounts drawn down at balance date amount to \$80,417 with line fee and interest accrued of \$13,208.

15. Provisions

	2020 \$	2019 \$
Current		
Employee benefits	690,072	371,875
Non-current		
Employee benefits	141,297	65,745
Total provisions	831,369	437,620

Notes to the financial statements continued

For the year ended 30 June 2020

16. Contributed equity

(a) Share capital

	30-Jun-20 Number	30-Jun-19 Number	30-Jun-20 \$	30-Jun-19 \$
Ordinary shares	343,776,412	314,463,017	30,487,972	27,624,521
Total share capital				
	Date	Number	Unit price	\$
Reconciliation to 30 June 2019:				
Balance at 1 July 2018		300,924,789		26,739,454
Equity raising costs (net of tax)				
Movements in ordinary shares:				
Issued in settlement of various liabilities	25-Jul-18	335,730	\$0.133	44,652
Issue of ESP shares	5-Sep-18	200,000	\$0.194	-
Issued in settlement of various liabilities	12-Sep-18	98,926	\$0.200	19,785
Issued in settlement of various liabilities	10-Oct-18	75,000	\$0.200	15,000
Issue of ESP shares	28-Dec-18	7,500,000	\$0.149	-
Issued in settlement of Directors Fees	28-Dec-18	1,428,572	\$0.147	210,000
Exercise of Directors Options	3-Apr-19	1,365,000	\$0.153	208,470
Exercise of Directors Options	18-Apr-19	2,535,000	\$0.153	387,160
Balance at 30 June 2019		314,463,017		27,624,521
Reconciliation to 30 June 2019:				
Balance at 1 July 2019		314,463,017		27,624,521
Equity raising costs (net of tax)				(138,343)
Movements in ordinary shares:				
Issued for purchase of Beonic Acquisition	9-Jul-19	2,500,000	\$0.16	400,000
Conversion of ESP shares to ordinary shares	18-Sep-19	200,000	\$0.10	19,840
Conversion of ESP shares to ordinary shares	18-Sep-19	(200,000)		
Conversion of ESP shares to ordinary shares	18-Sep-19	75,000	\$0.22	16,830
Conversion of ESP shares to ordinary shares	18-Sep-19	(75,000)		
Issue of Director Shares	25-Nov-19	1,500,000	\$0.16	240,000
Issue of ESP shares	25-Nov-19	8,500,000	\$0.16	
Conversion of ESP shares to ordinary shares	4-Dec-19	350,000	\$0.10	34,720
Conversion of ESP shares to ordinary shares	4-Dec-19	(350,000)		
Placement of ordinary shares	13-Dec-19	15,000,000	\$0.15	2,250,000
Conversion of ESP shares to ordinary shares	20-Dec-19	66,000	\$0.22	14,779
Conversion of ESP shares to ordinary shares	20-Dec-19	(66,000)		
Conversion of ESP shares to ordinary shares	20-Dec-19	99,000	\$0.24	23,482
Conversion of ESP shares to ordinary shares	20-Dec-19	(99,000)		
Issue of Shares in lieu of interest on loan payable	13-Feb-20	13,395	\$0.16	2,143
Issue of ESP shares	20-May-20	1,800,000	\$0.16	-
Balance at 30 June 2020		343,776,412		30,487,972

(b) Ordinary shares

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

(c) Employee Share Plan (ESP)

Information relating to the Employee Share Plan, including details of shares issued under the plan, is set out in Note 22.

(d) Options over unissued ordinary shares

The Company granted the following options to Directors, convertible into the same number of ordinary shares in the Company, on the basis of shareholder approval granted on 30 November 2016 and 29 November 2018 of which a portion has been exercised:

Number of options	Option consideration	Expiry date	Exercise price per option
1,000,000	\$0.00	Fully Exercised	\$0.100
1,000,000	\$0.00	Fully Exercised	\$0.125
1,000,000	\$0.00	Fully Exercised	\$0.150
1,000,000	\$0.00	Expired	\$0.200
1,000,000	\$0.00	Expired	\$0.300
300,000	\$0.00	Fully Exercised	\$0.100
300,000	\$0.00	Fully Exercised	\$0.125
300,000	\$0.00	Fully Exercised	\$0.150
300,000	\$0.00	29 November 2021	\$0.200
300,000	\$0.00	29 November 2021	\$0.300

The fair value of the options over the shares is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured and recognised at grant date, being 30 November 2016 and 29 November 2018.

The fair value at grant date is determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the options, the impact of dilution, the non-tradeable nature of the options, the share price at grant date and expected price volatility of the underlying shares, the expected dividend yield and the risk-free interest rate for the term of the options.

The Company also granted the following options to senior executives, convertible into the same number of ordinary shares in the Company. The Executive Option Plan (EOP) was approved by shareholders on 28 November 2018 with a ten-year expiry date from date of issue. The fair value of the options over the shares is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured and recognised at the respective grant dates. Options granted under the EOP in the half year are as follows:

Number of options	Grant date	Option consideration	Expiry date	Exercise price per option
20,712,421	25 November 2019	\$0.00	25 November 2029	\$0.01
1,892,282	21 January 2019	\$0.00	21 January 2029	\$0.01
16,943,289	28 December 2018	\$0.00	28 December 2028	\$0.01

The fair value at grant date is determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the options, the impact of dilution, the non-tradeable nature of the options, the share price at grant date, expected price volatility of the underlying shares, the expected dividend yield and the risk-free interest rate for the term of the options.

Notes to the financial statements continued

For the year ended 30 June 2020

17. Equity – reserves

(a) Movements

	2020 \$	2019 \$
Share based payment reserve movements		
Balance at the beginning of the year	1,750,535	448,365
Share based payment expense	2,105,649	1,302,170
Balance at the end of the year	3,856,184	1,750,535
Share option reserve movements		
Balance at the beginning of the year	396,259	60,627
Share option expense	(13,587)	335,632
Balance at the end of the year	382,672	396,259
Foreign currency translation reserve movements		
Balance at the beginning of the year	(206,575)	(99,336)
Currency translation differences arising during the year	(202,892)	(107,239)
Balance at the end of the year	(409,467)	(206,575)
Total reserves	3,829,389	1,940,219

(b) Nature and purpose of reserves

Share based payments reserve

The share based payments reserve represents the value of the ESP & EOP share grants to employees under the Company's Share Plans.

Share option reserve

The share option reserve represents the fair value of options granted over unissued ordinary shares in the Company.

Foreign currency translation reserve

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

18. Financial risk management

Financial risk management objectives

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

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

The Group holds the following financial instruments:

	Note	2020 \$	2019 \$
Financial Assets			
Cash and cash equivalents	8	2,114,336	1,329,881
Trade and other receivables	9	4,043,993	2,789,475
Total financial assets		6,158,329	4,119,356
Financial Liabilities			
Trade and other payables	13	1,990,120	1,124,138
Borrowings	14	93,625	509,552
Total financial liabilities		2,083,745	1,633,690

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

(a) Market risk

Foreign currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign currency is translated using the average exchange rates at the dates of transactions each month and at the end of each month the balance sheet is restated using the end of month spot rate. To minimise risk the Group's policy is, when available, to hold a natural hedge on any foreign currency, being that any receipts paid to the Group will be held in the same foreign currency and then later used to settle any expenditure in those foreign entities.

Interest rate risk

The Group is not exposed to any significant interest rate risk, given the level of borrowings drawn down at balance date.

(b) Credit risk

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

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

The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The Group does not hold any collateral.

Credit risk is managed by a risk assessment process for all customers and counterparties, which takes into account past experience. A doubtful debt provision of \$47,575 has been recognised during the financial year (2019: nil).

Notes to the financial statements continued

For the year ended 30 June 2020

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, where possible, that it will always have sufficient liquidity to meet its liabilities when due.

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

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

Financing arrangements

On 14 May 2019, the Company announced it obtained unsecured loan facilities of \$2 million in aggregate from sophisticated investors, Thorney Technologies LTD (ASX:TEK), Jagafii Pty Ltd a company associated with Skyfii director, Jon Adgemis and BMR Securities Pty Ltd. The initial term of the loan facility is for 2 years and matures on 31 May 2021, with a conditional option to extend for a further 12 months. Interest on the loan facility is payable quarterly, with a total annual interest rate of 8% on funds drawn plus an annual line fee of 2%. During the year a further \$541,000 was drawn down and then \$965,000 plus interest and line fees was repaid. Remaining amounts drawn down at balance date amount to \$80,417 with line fee and interest accrued of \$13,208.

Maturities of financial liabilities

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

	1 year or less \$	1 to 2 years \$	2 to 5 years \$	Over 5 years \$
FY 2020				
Non-derivatives				
Trade and other payables	1,990,121	-	-	-
Borrowings	93,625	-	-	-
Total	2,083,746			
FY 2019				
Non-derivatives				
Trade and other payables	1,124,138	-	-	-
Borrowings	509,552	-	-	-
Total	1,633,690			

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

(d) Capital management

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

19. Remuneration of auditors

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

	2020 \$	2019 \$
Hall Chadwick		
Audit and review of financial reports	79,500	75,104
Tax compliance services	7,000	6,000
Total	86,500	81,104

20. Contingent liabilities

There are no other contingent liabilities as at 30 June 2020.

21. Commitments for expenditure

(a) Non-cancellable operating leases

The Group has entered into a commercial lease for office property. Rentals paid under operating leases are charged to the income statement on a straight line basis over the period of the lease. Future minimum rentals payable under non-cancellable operating leases as at 30 June 2020 are as follows:

	2020 \$	2019 \$
Not later than one year	-	77,500
Later than one year	-	-
Total operating lease commitments	-	77,500

22. Share based payments

(a) Employee Share Plan (ESP)

During the year ended 30 June 2016, the Company established a share based payment plan, the Employee Share Plan (ESP) to assist the Company in retaining and attracting current and future employees by providing them with the opportunity to own shares in the Company. This was refreshed at the 2018 AGM on 29 November 2018.

The key terms of the ESP are as follows:

- the Board may invite a person who is employed or engaged by or holds an office with the Group (whether on a full or part-time basis) and who is declared by the Board to be eligible to participate in the ESP from time to time (Eligible Employee) to apply for fully paid ordinary shares under the plan from time to time (ESP Shares);
- invitations to apply for ESP Shares are to be made on the basis of the market price per share defined as the volume weighted average price at which the Company's shares have traded during the 30 days immediately preceding the date of the invitation;
- invitations to apply for ESP Shares under the ESP will be made on a basis determined by the Board (including as to the conditionality on the achievement of any key performance indicators) and notified to Eligible Employees in the invitation, or if no such determination is made by the Board, on the basis that ESP Shares will be subject to a 3 year vesting period, with:
 - 33% of ESP Shares applied for vesting on the date that is the first anniversary of the issue date of the ESP Shares;
 - 33% of ESP Shares applied for vesting on the date that is the second anniversary of the issue date of the ESP Shares; and
 - 34% of ESP Shares applied for vesting on the date that is the third anniversary of the issue date of the ESP Shares.

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

(b) ESP share grants

Set out below are summaries of ESP shares granted and issued under the plan:

Grant date	Issue price	Balance at start of year	Granted/ issued	Converted to ordinary shares	Forfeited / cancelled	Balance at end of year	Balance of vested ESP shares	Balance of unvested ESP shares
FY 2020								
11-May-20	\$0.131	-	1,800,000	-	(200,000)	1,600,000	-	1,600,000
25-Nov-19	\$0.160	-	8,500,000	-	(800,000)	7,700,000	-	7,700,000
28-Dec-18	\$0.149	6,700,000	-	(99,000)	(2,501,000)	4,100,000	1,353,000	2,747,000
8-Jun-18	\$0.147	1,000,000	-	(66,000)	(134,000)	800,000	528,000	272,000
1-Feb-18	\$0.156	700,000	-	-	(300,000)	400,000	264,000	136,000
13-Dec-17	\$0.073	6,000,000	-	-	-	6,000,000	3,960,000	2,040,000
1-Oct-17	\$0.058	800,000	-	-	-	800,000	528,000	272,000
22-Dec-16	\$0.065	9,750,000	-	(550,000)	(350,000)	8,850,000	8,850,000	-
21-Sep-16	\$0.077	800,000	-	-	-	800,000	800,000	-
23-Dec-15	\$0.148	3,495,000	-	(75,000)	(300,000)	3,120,000	3,120,000	-
Total		29,245,000	10,300,000	(790,000)	(4,585,000)	34,170,000	19,403,000	14,767,000
FY 2019								
28-Dec-18	\$0.149	-	7,500,000	-	(800,000)	6,700,000	-	6,700,000
5-Sep-18	\$0.194	-	1,800,000	-	(1,800,000)	-	-	-
8-Jun-18	\$0.147	1,000,000	-	-	-	1,000,000	330,000	670,000
1-Feb-18	\$0.156	1,000,000	-	-	(300,000)	700,000	231,000	469,000
13-Dec-17	\$0.073	6,000,000	-	-	-	6,000,000	1,980,000	4,020,000
1-Oct-17	\$0.058	800,000	-	-	-	800,000	264,000	536,000
22-Dec-16	\$0.065	11,803,000	-	-	(2,053,000)	9,750,000	6,435,000	3,315,000
21-Sep-16	\$0.077	1,525,000	-	-	(725,000)	800,000	528,000	272,000
23-Dec-15	\$0.148	3,555,000	-	-	(60,000)	3,495,000	3,495,000	-
Total		25,683,000	9,300,000	-	(5,738,000)	29,245,000	13,263,000	15,982,000

Notes to the financial statements continued

For the year ended 30 June 2020

(c) Executive Option Plan (EOP)

During the financial year ended 30 June 2019, the Company established a share based option plan, the Executive Option Plan (EOP) seeks to closely align the interest of eligible senior executives participating in the EOP (**Executive Participants**) with those of investors and to ensure that the EOP Participants are motivated and rewarded for performance, shareholder return and compensated for remuneration in lieu of cash payments in line with the economic value created.

The options under the EOP (**EOP Options**) will entitle their holder to receive ordinary shares in the capital of the Company (**EOP Shares**) upon satisfaction of certain vesting conditions as determined by the Board from time to time. The key terms of the EOP are as follows: EOP Options provide an opportunity to acquire EOP Shares subject to the payment of the exercise price set at the time of the grant of the EOP Options (Exercise Price) and EOP Participants can continue to hold the EOP Options after they have vested. EOP Options will vest upon notification by the Company that the EOP Options have vested.

EOP Options enable the participant to gain the benefit of any excess of the Share price over the Exercise Price paid. In the event the Share price is equal to or below the Exercise Price, the EOP Options would be of no value.

In order for the EOP Options to vest, the Vesting Conditions set out in the invitation, or otherwise determined by the Board, for the grant of the EOP Options must have been satisfied. In addition, at the time of vesting, a participant must not have engaged in serious and wilful misconduct, wilful disobedience, gross negligence or incompetence, insubordination, disqualification under Part 2D.6 of the Corporations Act 2001 (Cth), a serious breach of an employment agreement and behaviour which damages the business or reputation of the Company (**Proscribed Conduct**)

If the participant engages in Proscribed Conduct, then the EOP Options will be forfeited.

The EOP Options will not be quoted nor will they carry an entitlement to dividends or a right to vote at General Meetings of the Company.

The invitation to participate in the EOP will specify the number of EOP Options to be granted. If Vesting Conditions are not met, then unvested EOP Options will be forfeited. If the relevant targets are achieved the EOP Options will vest and may be exercised, by payment of the Exercise Price. This can be done at any time up to ten years after the grant of the EOP Options.

(d) EOP share grants

Set out below are summaries of EOP shares granted and issued under the plan:

Grant date	Issue price	Balance at start of year	Granted/ issued	Released from restrictions	Forfeited / cancelled	Balance at end of year	Balance of vested EOP shares	Balance of unvested EOP shares
FY 2020								
25-Nov-19	\$0.147	0	20,712,421	0	0	20,712,421	6,835,099	13,877,322
21-Jan-19	\$0.149	1,892,282	0	0	0	1,892,282	1,435,906	456,376
28-Dec-18	\$0.149	16,943,289	0	0	0	16,943,289	11,915,571	5,027,718
Total		18,835,571	20,712,421	0	0	39,547,992	20,186,576	19,361,416
FY 2019								
21-Jan-19	\$0.149	0	1,892,282	0	0	1,892,282	0	1,892,282
28-Dec-18	\$0.149	0	16,943,289	0	0	16,943,289	2,950,000	13,993,289
Total		0	18,835,571	0	0	18,835,571	2,950,000	15,885,571

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

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

The assessed weighted average fair value at grant date of the effective share options granted during the financial year is \$0.16 per option (2019: \$0.13). Options were priced using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. The expected volatility of the Company's shares is based on the historical volatility of the Company's shares and other ASX listed companies considered to be comparable to Skyfii Limited.

The model inputs for the share option grants outstanding during the year ended 30 June 2020 include:

- Weighted average exercise price: various 30 day VWAP at time of issue
- Weighted average life of the option: 5 years
- Expected share price volatility: 61-80%
- Risk-free interest rate: 0.24-0.74%

(e) Other share based payments

Issue Date	Creditor	Purpose	Valuation	No. of shares	Value per share	Total \$
FY 2020						
Directors:						
25-Nov-19	A.Johnson	Director's fees	Value of services	375,000	\$0.160	60,000
25-Nov-19	L.Brown	Director's fees	Value of services	375,000	\$0.160	60,000
25-Nov-19	S.O'Malley	Director's fees	Value of services	375,000	\$0.160	60,000
25-Nov-19	J.Adgemis	Director's fees	Value of services	375,000	\$0.160	60,000
Total				1,500,000		240,000
FY 2019						
Directors:						
29-Nov-18	J. Scott	Director's fees	Value of services	374,150	\$0.147	55,000
29-Nov-18	A.Johnson	Director's fees	Value of services	374,150	\$0.147	55,000
29-Nov-18	L.Brown	Director's fees	Value of services	374,150	\$0.147	55,000
29-Nov-18	S.O'Malley	Director's fees	Value of services	170,068	\$0.147	25,000
29-Nov-18	J.Adgemis	Director's fees	Value of services	136,054	\$0.147	20,000
Total				1,428,572		210,000

Notes to the financial statements continued

For the year ended 30 June 2020

23. Related parties

(a) Parent and ultimate controlling party

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

(b) Subsidiaries

Interests in subsidiaries are set out in Note 25.

(c) Key management personnel compensation

	2020 \$	2019 \$
Short-term employee benefits, including contractor fees	945,848	1,468,000
Share based employee benefits	1,000,987	1,180,635
Other long term benefits	75,650	123,335
Total benefits	2,022,485	2,771,970

Short-term employee benefits

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

Share based employee benefits

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

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

(d) Payable transactions with directors and key management personnel

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

KMP	Related party entity	Transaction	Transaction value		Balance outstanding	
			2020 \$	2019 \$	2020 \$	2019 \$
Jon Adgemis	Trustee of 5 Ward Ave	Lease of Sydney Office	90,000	-	-	-

Other payable transactions with directors and key management personnel

At 30 June 2019 the payable balance outstanding with directors and key management personnel relating to expense reimbursements for supplier payments and business expenses was \$nil (2019: \$nil).

Other receivable transactions with directors and key management personnel

At 30 June 2020, the net receivable balance outstanding with directors and key management personnel relating to employee debit and credit card advances utilised for the sole purpose of supplier payments and business expenses was \$30,280 (2019: \$5,456).

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

24. Parent entity information

Set out below is information about the legal parent entity, Skyfii Limited

	2020 \$	2019 \$
Statement of comprehensive income		
Loss after tax	(2,628,554)	(1,462,596)
Total comprehensive income	(2,628,554)	(1,462,596)
Statement of financial position		
Current assets	20,848,339	18,884,891
Non-current assets	17,312,899	16,313,765
Total assets	38,161,238	35,198,656
Current liabilities	(739,565)	756,529
Non-current liabilities	(639,000)	-
Total liabilities	(1,378,565)	756,529
Net assets	36,782,673	34,442,127
Contributed equity	74,274,560	71,411,109
Reserves	4,486,443	2,380,794
Accumulated losses	(41,978,330)	(39,349,776)
Total equity	36,782,673	34,442,127

Notes to the financial statements continued

For the year ended 30 June 2020

Contingent liabilities

The parent entity had no contingent liabilities at 30 June 2020 and 30 June 2019.

Capital commitments – plant and equipment

The parent entity had no capital commitments for plant and equipment as at 30 June 2020 and 30 June 2019.

Significant accounting policies

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

25. Interests in controlled entities

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

Parent entity	Country of incorporation	Ownership interest	
		2020	2019
Skyfii Limited	Australia		
Subsidiaries:			
Skyfii Group Pty Ltd	Australia	100%	100%
Skyfii International Pty Ltd	Australia	100%	100%
Skyfii Brasil Inteligência, Mídia e Tecnologia Mobile Ltda.	Brazil	100%	100%
Skyfii South Africa (Pty) Ltd	Republic of South Africa	100%	100%
Skyfii UK Operations Limited	United Kingdom	100%	100%
Skyfii US Operations, LLC.	United States of America	100%	100%

26. Events occurring after the reporting date

There are no matters or circumstances that have arisen since 30 June 2020 that have significantly affected, or may significantly affect:

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

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

	2020 \$	2019 \$
Loss for the year	(3,417,000)	(4,035,527)
Investment cash flows included in profit & loss:		
Non-cash items in operating loss:		
Depreciation and amortisation	3,163,692	2,755,329
Share based payments	2,154,153	1,381,607
Share option expense	-	359,034
Directors fees	228,000	294,729
Accrued interest	7,405	5,802
Gain from disposal of fixed assets	-	(16,667)
Interest expense paid by issue of shares	2,144	-
Bad debt provision	47,575	-
Changes in operating assets and liabilities:		
Decrease / (increase) in trade and other receivables	(1,302,092)	(739,459)
Decrease / (increase) in prepayments and other assets	(101,388)	(27,428)
Decrease / (increase) in inventories	(200,832)	-
Increase / (decrease) in trade and other payables	104,070	194,482
Increase / (decrease) in provisions and employee benefits	365,865	214,421
Increase / (decrease) in deferred revenue	423,462	601,302
Increase / (decrease) in tax liabilities	(98,309)	144,852
Net cash used in operating activities	1,376,745	1,132,478

28. Earnings per share (EPS)

	2020 Cents per share	2019 Cents per share
(a) Basic earnings per share		
Basic EPS attributable to ordinary equity holders of the Company	(1.03)	(1.32)
(b) Diluted earnings per share		
Diluted EPS attributable to ordinary equity holders of the Company	(0.92)	(1.25)
(c) Weighted average number of shares used as the denominator	Number	Number
Weighted average number of ordinary shares used in calculating basic EPS	331,307,003	306,870,797
Weighted average number of dilutive options outstanding	38,829,629	15,126,932
Weighted average number of ordinary shares used in calculating diluted EPS	370,136,632	321,997,729
(d) Reconciliation of earnings used in calculating earnings per share	\$	\$
Loss attributable to the ordinary equity holders of the Company used in calculating basic EPS	(3,417,000)	(4,035,527)

Notes to the financial statements continued

For the year ended 30 June 2020

29. Acquisition of Beonic

On 9 July 2019, the Company announced the acquisition of Beonic Technologies (Beonic). Beonic is a leading Australian customer insights provider specialising in camera and people counting technology.

The acquisition is part of the Group's overall strategy to diversify Skyfii's product and service offering and position itself as a true omnidata intelligence company.

This transaction possesses an attractive valuation multiple of ~1.05x annual Recurring Revenue contract value. The consideration comprises of \$0.1m cash and \$0.4m in Skyfii scrip upon completion, with up to \$1.167m in deferred scrip consideration based on successful contract renewals in the first year post completion.

This acquisition is highly complementary to the Company's offering and thus, will provide a significant opportunity to upsell Skyfii's full suite of SaaS services to Beonic's existing portfolio of customers. Additionally, this knowledge transfer will allow the Group to accelerate growth and consolidate its competitive advantage in the marketplace. No amount of goodwill is deductible for tax purposes.

The acquired brands, software and customer relationships have been determined to have useful lives of 6 years, 6 years and 10 years respectively.

The below fair values are recognised in the financial statements in respect of the Beonic acquisition

	Fair Value \$
Purchase consideration	
Cash	100,000
Equity Issued	400,000
Deferred Consideration*	464,156
Total Consideration	964,156
Identifiable assets acquired and liabilities assumed	
Intangible Assets - Brand names	597,000
Intangible Assets - Software	819,000
Intangible Assets - Customer relationships	907,000
Inventories	6,300
Prepayments	16,385
Property, plant and equipment	12,577
Accrued Expenses	(106,864)
Deferred Revenue	(620,359)
Provision of Employee Benefits	(27,883)
Deferred tax liability	(639,000)
Net assets acquired and liabilities assumed	964,156

*At 30 June 2020 a write down of the Goodwill value of \$313,844 occurred, previously disclosed at the half year ended 31 December 2019. The Company has adjusted the deferred consideration by this value based on a working capital adjustment stated in the sale contract and further claims that are yet to be finalised. Any further claims will be taken directly to the P&L in the following year.

Directors' Declaration

In the Directors' opinion

- the attached financial statements and notes thereto comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 2 to the financial statements;
- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its performance for the year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

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

On behalf of the Directors



Andrew Johnson
Chairman

27 August 2020

Independent Auditor's report

HALL CHADWICK  (NSW)

SKYFII LIMITED
ABN 20 009 264 699
AND ITS CONTROLLED ENTITIES

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
SKYFII LIMITED

SYDNEY

Level 40
2 Park Street
Sydney NSW 2000
Australia
Ph: (612) 9263 2600
Fx: (612) 9263 2800

Opinion

We have audited the financial report of Skyfii Limited 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 other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes to the consolidated financial statements including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion the accompanying financial report of the Skyfii Limited and Controlled Entities is in accordance with the *Corporations Act 2001*, including:

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

Basis of Opinion

We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the 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 confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors at the same time of this auditor's report.

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

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Independent Auditor's report continued

HALL CHADWICK  (NSW)

SKYFII LIMITED
ABN 20 009 264 699
AND ITS CONTROLLED ENTITIES

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SKYFII LIMITED

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 for the year ended 30 June 2020. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter

How Our Audit Addressed the Key Audit Matter

Acquisition of Beonic Technologies business (Beonic)

Refer to Note 29

During the year, the company acquired the Beonic business for a consideration of \$964,156 comprising \$100,000 in cash, \$400,000 in shares and \$464,156 in deferred consideration.

Accounting for this transaction required management to determine the fair value of all identifiable assets acquired and liabilities assumed and to determine the purchase price allocation for the purpose of accounting for the acquisition.

Due to the significance of the acquisition and the estimation processed involved in particular in assessing the fair value of identifiable intangibles assets acquired, this acquisition was considered to be a key audit matter.

- We obtained the business sale agreements to understand the key terms and conditions of the acquisition;
- We obtained an independent valuation report of the assets acquired including the fair value of identifiable intangible assets acquired, the liabilities assumed and the deferred consideration and assessed the purchase price allocation;
- We assessed management's accounting treatment of the acquisition for compliance with applicable accounting standards;
- We assessed the adequacy of the Group's disclosures in respect to the acquisition in accordance with AASB 3 "Business Combination".

Independent Auditor's report continued

HALL CHADWICK  (NSW)

SKYFII LIMITED
 ABN 20 009 264 699
 AND ITS CONTROLLED ENTITIES

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SKYFII LIMITED

Key Audit Matter

How Our Audit Addressed the Key Audit Matter

Revenue recognition

Refer to Accounting policy Note 3(l) and Note 5

The Group has the following revenue streams:

- Recurring SaaS revenue recognised over time for the duration of the contracted term
- Non-recurring revenue including hardware, installation and setup recognised at a point in time

Revenue recognition is a key audit matter as significant judgement is required by the Group in applying the AASB 15 "Revenue from Contracts with Customers" requirements, such as interpreting the contractual terms including performance obligations and assessing the allocation of revenue over time.

- We developed an understanding of relevant internal controls and processes in the revenue transaction cycle;
- We obtained and reviewed a sample of contracts, considering the terms and conditions, performance obligations of these arrangements and assessing the accounting treatment in accordance with AASB 15;
- We verified management's calculation for deferred revenue;
- We assessed the adequacy of the Group's disclosures in respect to revenue recognition in accordance with AASB 15.

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Independent Auditor's report continued

HALL CHADWICK  (NSW)

SKYFII LIMITED
ABN 20 009 264 699
AND ITS CONTROLLED ENTITIES

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SKYFII LIMITED

Key Audit Matter	How Our Audit Addressed the Key Audit Matter
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Carrying Value of Intangible Assets

Refer to Note 12 '*Intangible Assets*' \$7,629,708; Accounting Policy Note 3(f) and Note 3(w) '*Critical Accounting Estimates and Judgements*'

The carrying value of intangible assets is a key audit matter as:

- Carrying value of intangible assets represent 52% of the Group's total assets.
- There is a significant level of judgement when considering management's assessment of the carrying value of intangible assets.

Our procedures included, amongst others, the following:

- We assessed management's determination of the Group's capitalisation of software development expenditure based on our understanding of the nature of the Group's operations and consideration of the factors in AASB 138 "Intangible Assets".
- We verified a sample of software development expenditure capitalised during the year to supporting documentation.
- We assessed the fair value of intangible assets arising from Beonic acquisition;
- We checked the amortisation calculation for all intangible assets and verified that the calculation was in accordance with the company's accounting policy.
- We assessed whether there were any impairment indicators for intangible assets with a finite useful life.
- With the assistance of Hall Chadwick's valuation specialists, we assessed the recoverability of the carrying value of all intangible assets by reviewing the client's discounted cash flow model and challenged the key inputs including forecasted revenues, forecasted costs, the discount rate applied and the impact of Covid-19 on the discounted cashflow model.

Independent Auditor's report continued

HALL CHADWICK  (NSW)

SKYFII LIMITED ABN
20 009 264 699
AND ITS CONTROLLED ENTITIES

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SKYFII LIMITED

Key Audit Matter

How Our Audit Addressed the Key Audit Matter

Going Concern

Refer to Note 2(e) "Going Concern"

The consolidated financial statements have been prepared on a going concern basis, which contemplates continuity of normal trading activities and realisation of assets and settlement of liabilities in the normal course of business.

The Company incurred a net loss of \$3,417,000 for the year ended 30 June 2020 and has historically incurred losses in prior years.

The Directors of the Company consider that as a result, the cash flow projections and assumptions provided support the ability of the company to pay its debts as and when they fall due and that there is no requirement to raise additional capital to fund the company's working capital requirements.

Our procedures included amongst others the following:

- We obtained the cash flow forecast prepared by management for the period up until 30 June 2022.
- We assessed the underlying assumptions and inputs to the cash flow forecast including the impact of Covid-19.
- We discussed the key assumptions used in the cash flow forecast with management.
- We reviewed the appropriateness of the going concern disclosures in the financial statements.

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Independent Auditor's report continued

HALL CHADWICK  (NSW)

SKYFII LIMITED ABN
20 009 264 699
AND ITS CONTROLLED ENTITIES

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SKYFII LIMITED

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. 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 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 Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the 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 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.

Independent Auditor's report continued

HALL CHADWICK  (NSW)

SKYFII LIMITED ABN
20 009 264 699
AND ITS CONTROLLED ENTITIES

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SKYFII LIMITED

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

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

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore 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.

Independent Auditor's report continued

HALL CHADWICK  (NSW)

SKYFII LIMITED ABN
20 009 264 699
AND ITS CONTROLLED ENTITIES

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
SKYFII LIMITED

Report on the Remuneration Report

We have audited the remuneration report included in page 18 to 23 of the directors' report for the year ended 30 June 2020.

In our opinion, the remuneration report of Skyfii Limited for the year ended 30 June 2020, complies with s 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 s 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit concluded in accordance with Australian Auditing Standards.



Hall Chadwick (NSW)
Level 40, 2 Park Street
Sydney NSW 2000



Graham Webb
Partner

Dated: 27 August 2020

Additional ASX information

Use of cash & cash equivalents

In accordance with ASX Listing Rule 4.10.19, the Board has determined that the Company has used the cash and equivalents that it had at the time of its re-admission to the ASX in a way consistent with its business objectives during the financial year ended 30 June 2020.

Shareholder information

Additional information required by the Australian Securities Exchange Limited Listing Rules and not disclosed elsewhere in this report. This additional information was applicable as at 03 August 2020.

Substantial shareholders

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

Substantial shareholder	Date of Notice	Number of shares
Jagafii Pty Ltd	06-Jun-19	33,260,006
Thorney Technologies	04-Jun-19	26,135,555
Birketu Pty Ltd	12-Feb-18	23,268,756
Precision Management Corporation Pty Ltd	23-Nov-17	22,015,874
The Elsie Cameron Foundation Pty Ltd	14-Feb-17	17,009,380
Jencay Capital Pty Ltd	06-Mar-20	15,007,467

Top 20 shareholders as at 03 August 2020

Rank	Name	Number of ordinary shares held	% of ordinary shares held
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	29,621,016	9.92%
2	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	25,126,963	8.42%
3	BIRKETU PTY LTD	18,027,835	6.04%
4	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	17,368,897	5.82%
5	THE ELSIE CAMERON FOUNDATION PTY LTD <ELSIE CAMERON FOUNDATION A/C>	17,009,380	5.70%
6	NATIONAL NOMINEES LIMITED	14,733,334	4.93%
7	UBS NOMINEES PTY LTD	13,333,333	4.47%
8	KARIBU PTY LTD <WAYNE ARTHUR FAMILY A/C>	11,496,211	3.85%
9	BONDUFFMEX PTY LTD <IAN ROBINSON FAMILY A/C>	10,911,023	3.65%
10	MONTELLA INVESTMENTS PTY LTD <R WHITE DISC A/C>	10,081,715	3.38%
11	JAGAFII PTY LTD <SKYFII UNIT A/C>	8,824,956	2.96%
12	INVIA CUSTODIAN PTY LIMITED <PRECISION MNGMT CO PL A/C>	8,015,874	2.69%
13	WILDWOOD CAPITAL PTY LTD	6,949,108	2.33%
14	BOLLINGER INVESTMENTS LIMITED <BRIGHT SIDE A/C>	5,285,713	1.77%
15	BIRKETU PTY LTD	5,240,921	1.76%
16	DEVERO HOLDINGS PTY LTD	4,553,710	1.53%
17	SHANDERLAY INVESTMENTS PTY LTD <SHANDERLAY DISC A/C>	4,435,972	1.49%
18	ALTERAC PTY LTD <ALTERAC A/C>	4,096,372	1.37%
19	MR ANDREW RODNEY JOHNSON	3,409,346	1.14%
20	AUSTER CAPITAL PARTNERS LLC	3,377,779	1.13%
Total top 20 holders		221,899,458	74.35%
Total remaining holders		76,683,954	25.65%

Additional ASX information continued

Distribution of ordinary shareholders as at 03 August 2020

Name	Number of Shareholders	Number of shares
1-1,000	644	8,073
1,001-5,000	99	358,694
5,001-10,000	95	755,157
10,001-100,000	333	13,582,225
100,001-9,999,999,999	176	283,879,263
Total	1,347	298,583,412

At the closing market price of \$0.165 per share on 3 August 2020, there were 699 shareholders with less than a marketable parcel of shares (\$500).

Option holders as at 03 August 2019

Rank	Name	Number of options held	% of options held
1	Thorney Technologies	5,714,285	84%
2	BMR Securities	476,190	7%
3	Mr James Scott	390,000	6%
4	Mr Andrew Johnson	210,000	3%
Total		6,790,475	

Restricted securities as at 03 August 2020

There are no restricted securities on issue for the purpose of the ASX Listing Rules. There are ordinary shares on issue that are subject to escrow in accordance with voluntary escrow arrangements, as set out in the table below:

Class of restricted securities	Nature of restriction	Number of shares
ESP shares	Various dates ending no later than 11-May-23	34,170,000
Unquoted EOP shares	Various dates ending no later than 30-Jun-22	39,547,992
Total shares subject to escrow		73,717,992

28. Voting Rights

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

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

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

29. On-market Buy Back

There is no current on-market buy back.

Corporate directory

Company Directors

Mr Andrew Johnson	Chairman, Non-Executive Director
Mr Wayne Arthur	Executive Director
Mr Lincoln Brown	Non-Executive Director
Ms Susan O'Malley	Non-Executive Director
Mr Jon Adgemis	Non-Executive Director

Company Secretary

Ms Koreen White

Registered Office

5 Ward Avenue
Potts Point NSW 2011
Telephone: +61 2 8188 1188

Share Registry

Boardroom Limited
Level 7
207 Kent Street
Sydney NSW 2000

Auditors

Hall Chadwick
Level 40
2 Park Street
Sydney NSW 2000

Securities exchange listing

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

Website

www.skyfii.io

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