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Skyfii Limited
ABN 20 009 264 699

Interim Financial Report

For the half-year ended 31 December 2015

Skyfii Limited

ABN 20 009 264 699

Half-year ended 31 December 2015

(Previous corresponding period: Half-year ended 31 December 2014)

Results for announcement to market

| | \$ | % Movement |
|--|-------------|------------|
| Revenue from ordinary activities | 1,505,309 | 127.2% |
| (Loss) after tax from ordinary activities attributable to shareholders | (1,105,330) | (68.6%) |
| Net (loss) attributable to shareholders | (1,105,330) | (68.6%) |

No dividends have been declared for the reporting period.

Other information required by Listing Rule 4.2A

Other information requiring disclosure to comply with Listing Rule 4.2A is contained in the Interim Financial Report (which includes the Directors' report).

Skyfii Limited
ABN 20 009 264 699
Interim financial report for the half-year ended 31 December 2015

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Directors' report

Your Directors present their report on the consolidated entity (referred to hereafter as the Group), consisting of Skyfii Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2015 (1H16).

Directors

The names and particulars of the Directors of the Company who held office at the date of this report are:

- Gary Flowers Independent Non-Executive Chairman
- Wayne Arthur Chief Executive Officer/Executive Director
- Anthony Dunlop Independent Non-Executive Director
- Andrew Johnson Independent Non-Executive Director
- James Scott Independent Non-Executive Director
- Chris Taylor Independent Non-Executive Director

Review of operations

During the half-year ended 31 December 2015, the Group generated revenues of \$1,505,309, up 127% on the prior corresponding period (pcp) (1H15: \$662,478). This result was mainly driven by the successful deployment of major data analytics contracts with major domestic and international retail mall and property groups.

Total operating expenses excluding depreciation, amortisation and finance costs were \$2,444,224 (1H15: \$1,426,225 excluding non-recurring items including acquisition and corporate advisory costs and the impairment of goodwill which arose due to the Company's reverse listing in November 2014) reflecting a 71% increase on pcp due predominantly to growth in headcount and public company overheads not present for the majority of the prior corresponding period.

The Group reported an operating EBITDA loss excluding non-recurring items of \$938,914 (1H15: \$763,747) and net loss after tax of \$1,105,330 (1H15: \$3,520,338).

Operating cash outflows for the half-year ended 31 December 2015 were \$613,377 (1H15: \$666,161 outflow) and net cash outflows from investment activities were \$935,995 (1H15: \$1,257,672 outflow) including an investment of \$820,097 in software development comprising predominantly of research and development employee costs and external developer costs.

During the half-year ended 31 December 2015, the Company successfully completed an equity placement of \$4.1 million to institutional and sophisticated investors, which included continued strong support from existing shareholders.

The Group's cash balance as at 31 December 2015 was \$4,997,582 (1H15: \$1,946,469).

Dividends paid or recommended

In respect of the half-year ended 31 December 2015, there have been no dividends paid or provided for (2014: nil).

Auditor's independence declaration

The auditor's independence declaration is included on page 5 of this report and forms part of the Directors' Report for the half-year ended 31 December 2015.

This report is made in accordance with a resolution of Directors.



Gary Flowers
Chairman

29 February 2016

Auditor's independence declaration

HALL CHADWICK  (NSW)

Chartered Accountants and Business Advisers

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

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

SYDNEY

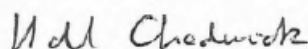
Level 40
2 Park Street
Sydney NSW 2000
Australia

GPO Box 3555
Sydney NSW 2001

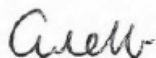
Ph: (612) 9263 2600
Fx: (612) 9263 2800

I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2015 there have been no contraventions of:

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



HALL CHADWICK
Level 40, 2 Park Street
SYDNEY NSW 2000



GRAHAM WEBB
Partner
Dated: 29 February 2016

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Skyfii Limited

Consolidated statement of profit or loss and other comprehensive income

For the half-year ended 31 December 2015

| | Note | 31 Dec 2015 \$ | 31 Dec 2014 \$ |
|--|------|--------------------|--------------------|
| Revenue and other income | | | |
| Revenue | 2 | 1,100,771 | 257,384 |
| Other income | 2 | 404,539 | 405,094 |
| Total revenue | | 1,505,309 | 662,478 |
| Expenses | | | |
| Direct costs and implementation expenses | | (360,712) | (329,479) |
| Employee benefits expense | 3 | (1,130,630) | (509,877) |
| Contractor and consultant expenses | | (80,837) | (3,200) |
| Marketing and promotion expenses | | (71,470) | (10,125) |
| Data hosting expenses | | (133,564) | (41,007) |
| Travel and accommodation expenses | | (104,264) | (120,293) |
| Office and other expenses | | (422,745) | (191,937) |
| Directors' fees | | (140,002) | (220,307) |
| Acquisition costs | | - | (443,931) |
| Corporate advisory services | | - | (150,000) |
| Impairment of goodwill and domain names | | - | (2,157,841) |
| Depreciation and amortisation expenses | 3 | (160,489) | (4,819) |
| Finance costs | 3 | (670) | - |
| Loss before tax | | (1,100,073) | (3,520,338) |
| Income tax expense | | (5,256) | - |
| Loss for the period | | (1,105,330) | (3,520,338) |
| Other comprehensive income | | | |
| Items that will be reclassified to profit or loss when specific conditions are met: | | | |
| Exchange differences on translation of foreign operations | | (880) | - |
| Total comprehensive loss for the period | | (1,106,210) | (3,520,338) |
| Earnings per share | | | |
| | | Cents | Cents |
| Basic earnings per share | 16 | (0.9) | (11.5) |
| Diluted earnings per share | 16 | (0.9) | (11.5) |

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

Skyfii Limited

Consolidated statement of financial position

As at 31 December 2015

| | Note | 31 Dec 2015 \$ | 30 Jun 2015 \$ |
|----------------------------------|------|-------------------|-------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | | 4,997,582 | 2,684,548 |
| Trade and other receivables | 4 | 500,885 | 169,292 |
| Income tax receivable | | 328,848 | 791,729 |
| Inventories | 5 | 26,754 | 43,500 |
| Other assets | 6 | 105,581 | 114,265 |
| Total current assets | | 5,959,650 | 3,803,334 |
| Non-current assets | | | |
| Plant and equipment | 7 | 115,931 | 24,740 |
| Intangible assets | 8 | 2,088,635 | 1,419,984 |
| Total non-current assets | | 2,204,566 | 1,444,724 |
| Total assets | | 8,164,216 | 5,248,058 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 10 | 458,545 | 414,920 |
| Provisions | 11 | 129,407 | 67,465 |
| Deferred revenue | | 143,166 | 88,770 |
| Total current liabilities | | 731,118 | 571,155 |
| Total liabilities | | 731,118 | 571,155 |
| Net assets | | 7,433,098 | 4,676,903 |
| Equity | | | |
| Contributed equity | 12 | 14,953,566 | 11,091,161 |
| Reserves | | (880) | - |
| Accumulated losses | | (7,519,588) | (6,414,258) |
| Total equity | | 7,433,098 | 4,676,903 |

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

Skyfii Limited

Consolidated statement of changes in equity

For the half-year ended 31 December 2015

| | Note | Contributed equity \$ | Foreign currency translation reserve \$ | Retained earnings \$ | Total equity \$ |
|--|------|--------------------------|--|-------------------------|--------------------|
| Balance at 1 July 2014 | | 1,500,600 | - | (1,624,776) | (124,176) |
| Loss for the period | | - | - | (3,520,338) | (3,520,338) |
| Total comprehensive loss for the period | | - | - | (3,520,338) | (3,520,338) |

Transactions with owners in their capacity as owners:

| | | | | | |
|---|----|------------------|---|--------------------|------------------|
| Issue of ordinary shares | 12 | 7,870,158 | - | - | 7,870,158 |
| Capitalised equity raising costs (net of tax) | 12 | (973,072) | - | - | (973,072) |
| Balance at 31 December 2014 | | 8,397,686 | - | (5,145,114) | 3,252,571 |

| | Note | Contributed equity \$ | Foreign currency translation reserve \$ | Retained earnings \$ | Total equity \$ |
|---|------|--------------------------|--|-------------------------|--------------------|
| Balance at 1 July 2015 | | 11,091,161 | - | (6,414,258) | 4,676,903 |
| Loss for the period | | - | - | (1,105,330) | (1,105,330) |
| Exchange differences on translation of foreign operations | | - | (880) | - | (880) |
| Total comprehensive loss for the period | | - | (880) | (1,105,330) | (1,106,210) |

Transactions with owners in their capacity as owners:

| | | | | | |
|---|----|-------------------|--------------|--------------------|------------------|
| Issue of ordinary shares | 12 | 4,105,000 | - | - | 4,105,000 |
| Capitalised equity raising costs (net of tax) | 12 | (242,595) | - | - | (242,595) |
| Balance at 31 December 2015 | | 14,953,566 | (880) | (7,519,588) | 7,433,098 |

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

Skyfii Limited
Consolidated statement of cash flows
For the half-year ended 31 December 2015

| | 31 Dec 2015 | 31 Dec 2014 |
|---|------------------|--------------------|
| | \$ | \$ |
| Cash flows from operating activities | | |
| Receipts from customers | 786,187 | 264,431 |
| Payments to suppliers and employees | (2,238,419) | (1,436,935) |
| Receipts from other income | 28,000 | 17,260 |
| Receipts from government R&D tax incentive | 791,729 | 480,994 |
| Interest received | 19,797 | 8,087 |
| Interest paid | (670) | - |
| Net cash (outflow) from operating activities | (613,377) | (666,163) |
| Cash flows from investing activities | | |
| Payments for plant and equipment | (100,234) | (25,574) |
| Payments for intangible assets | (820,097) | (757,231) |
| Payments for other assets | (15,664) | (30,935) |
| Payments for acquisition costs | - | (443,931) |
| Net cash (outflow) from investing activities | (935,995) | (1,257,671) |
| Cash flows from financing activities | | |
| Proceeds from issue of shares | 4,105,000 | 1,650,090 |
| Payments for loans to shareholders | - | (71,667) |
| Capitalised capital raising costs | (242,595) | (88,749) |
| (Repayment) / drawdown of borrowings | - | (453,333) |
| Net cash inflow from financing activities | 3,862,405 | 1,036,341 |
| Net increase / (decrease) in cash held | 2,313,033 | (887,493) |
| Cash at the beginning of the financial year | 2,684,548 | 33,175 |
| Cash at acquisition of RKS Consolidated Limited | - | 2,800,787 |
| Cash at the end of the financial year | 4,997,582 | 1,946,469 |

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

Skyfii Limited
Notes to the financial statements
For the half-year ended 31 December 2015

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This Interim Financial Report does not include all the notes normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2015 and any public announcements made by Skyfii Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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Skyfii Limited

Notes to the financial statements

For the half-year ended 31 December 2015

1. Summary of significant accounting policies

(a) Basis of preparation of interim financial report

These general purpose interim financial statements for the half-year reporting period ended 31 December 2015 have been prepared in accordance with requirements of the *Corporations Act 2001* and Australian Accounting Standard AASB 134: *Interim Financial Reporting*. Skyfii Limited is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Skyfii Limited and its controlled entities (referred to as the "consolidated group" or "group"). As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2015, together with any public announcements made during the following half-year.

These interim financial statements were authorised for issue on 29 February 2016.

The accounting policies adopted are consistent with those of the previous financial year, except the following accounting policy which has been adopted in this financial period:

Share based payments

The Group operates an employee share plan. Information relating to this plan is set out in Note 14. The fair value of the effective option over the shares granted under the Company's Employee Share Plan (**ESP**) is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the ESP shares.

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 ESP shares, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the ESP shares, 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 ESP share.

The 2015 ESP shares were granted on 23 December 2015. Accordingly, the Group has assessed the fair value of those ESP share grants from that date to the period ended 31 December 2015 to be immaterial and not brought to account any value for the half-year ended 31 December 2015.

(b) 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 interim financial report, are disclosed in the 2015 Annual Report.

(c) Segment reporting

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

(d) Accounting standards issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for the current reporting period. The Group has assessed the impact of these new standards and interpretations, and does not expect that initial application will affect any of the amounts recognised in the financial report, but may change the disclosures presently made in relation to the Group. For further details refer to the 2015 Annual Report.

(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.

Skyfii Limited

Notes to the financial statements

For the half-year ended 31 December 2015

The Group is in the research, development and commercialisation stage of its data analytics technology and services. During the half-year ended 31 December 2015 the Group incurred a loss after tax of \$1,105,330 and incurred cash outflows from operating activities of \$613,377 for the period. At 31 December 2015, the Group had a surplus in net current assets of \$5,228,533 and a surplus in net assets of \$7,443,099.

The Group has to date been successful in raising equity capital since the Company's re-listing in November 2014, having undertaken a private placement to new and existing investors of \$2,800,000 in May 2015 and \$4,105,000 in November 2015. In addition, in February 2016 the Group entered into a conditional subscription agreement to raise an additional \$2,000,000 in equity capital and option agreements which would result in a further \$2,850,000 in equity funding if all options are exercised.

Management have prepared cash flow projections that support the Group's ability to continue as a going concern. The Directors of the Company consider that the cash flow projections and assumptions are achievable, and in the longer term, significant revenues will be generated from the commercialisation of intellectual property, and accordingly, the Group will be able to continue as a going concern.

(f) Comparatives

Comparative balances have been restated to conform to changes in presentation for the current period.

2. Revenue

| | 31 Dec 2015 | 31 Dec 2014 |
|--------------------------------|------------------|----------------|
| | \$ | \$ |
| Revenue from operations | 1,100,771 | 257,384 |
| Other income | | |
| R&D tax incentive | 356,742 | 379,747 |
| Government grants | 28,000 | 17,260 |
| Interest income | 19,797 | 8,087 |
| Total other income | 404,539 | 405,094 |
| Total revenue | 1,505,309 | 662,478 |

3. Expenses

Loss before income tax expense includes the following expenses:

| | Note | 31 Dec 2015 | 31 Dec 2014 |
|--|------|------------------|----------------|
| | | \$ | \$ |
| Employee benefits expense | | | |
| Salaries and related expenses (including superannuation) | | 1,048,601 | 475,176 |
| Other employment costs | | 82,029 | 34,701 |
| Total employee benefits expense | | 1,130,630 | 509,877 |
| Depreciation and amortisation expenses | | | |
| Plant and equipment | 7 | 9,043 | 4,819 |
| Software development amortisation | 8 | 151,446 | - |
| Total depreciation and amortisation expenses | | 160,489 | 4,819 |
| Net foreign exchange losses | | 9,628 | 5,128 |
| Rental expense on operating leases | | 33,185 | 40,083 |
| Finance costs | | | |
| Interest expense | | 670 | - |

Skyfii Limited

Notes to the financial statements

For the half-year ended 31 December 2015

4. Trade and other receivables

| | 31 Dec 2015 | 30 Jun 2015 |
|--|----------------|----------------|
| | \$ | \$ |
| Current | | |
| Trade receivables | 477,070 | 110,339 |
| Other debtors | 23,815 | 58,953 |
| Total current trade and other receivables | 500,885 | 169,292 |

5. Inventories

| | 31 Dec 2015 | 30 Jun 2015 |
|--------------------------|---------------|---------------|
| | \$ | \$ |
| Current | | |
| Equipment – at cost | 26,754 | 43,500 |
| Total inventories | 26,754 | 43,500 |

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

6. Other assets

| | 31 Dec 2015 | 30 Jun 2015 |
|-----------------------------------|----------------|----------------|
| | \$ | \$ |
| Current | | |
| Prepayments | 92,642 | 104,598 |
| Security deposits | 9,667 | 9,667 |
| Other | 3,272 | - |
| Total current other assets | 105,581 | 114,265 |

7. Plant and equipment

| | 31 Dec 2015 | 30 Jun 2015 |
|--|----------------|---------------|
| | \$ | \$ |
| Non-current | | |
| Office and computer equipment – at cost | 136,708 | 36,474 |
| Accumulated depreciation | (20,777) | (11,734) |
| Carrying value of office and computer equipment | 115,931 | 24,740 |
| Total carrying value of plant and equipment | 115,931 | 24,740 |

8. Intangible assets

| | 31 Dec 2015 | 30 Jun 2015 |
|--|------------------|------------------|
| | \$ | \$ |
| Non-current | | |
| Software development – at cost | 2,240,081 | 1,419,984 |
| Accumulated amortisation | (151,446) | - |
| Carrying value of software development | 2,088,635 | 1,419,984 |
| Total carrying value of intangible assets | 2,088,635 | 1,419,984 |

Skyfii Limited

Notes to the financial statements

For the half-year ended 31 December 2015

Reconciliations

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

| | Software development \$ |
|------------------------------------|-------------------------------|
| Balance at 1 January 2015 | 757,231 |
| Additions | 662,753 |
| Amortisation | - |
| Balance at 30 June 2015 | 1,419,984 |
| Balance at 1 July 2015 | 1,419,984 |
| Additions | 820,097 |
| Amortisation | (151,446) |
| Balance at 31 December 2015 | 2,088,635 |

9. Net tangible asset backing

| | 31 Dec 2015 Cents per share | 30 Jun 2015 Cents per share |
|--------------------------------------|--------------------------------|--------------------------------|
| Net tangible asset backing per share | 3.67 | 2.86 |
| Net assets per share | 5.10 | 4.11 |

10. Trade and other payables

| | 31 Dec 2015 \$ | 30 Jun 2015 \$ |
|---------------------------------------|-------------------|-------------------|
| Current | | |
| Trade payables | 416,827 | 395,937 |
| Sundry payables | 41,718 | 18,983 |
| Total trade and other payables | 458,545 | 414,920 |

11. Provisions

| | 31 Dec 2015 \$ | 30 Jun 2015 \$ |
|-------------------------|-------------------|-------------------|
| Current | | |
| Employee benefits | 129,407 | 67,465 |
| Total provisions | 129,407 | 67,465 |

Skyfii Limited

Notes to the financial statements

For the half-year ended 31 December 2015

12. Contributed equity

(a) Share capital

| | 31 Dec 2015 Number | 30 Jun 2015 Number | 31 Dec 2015 \$ | 30 Jun 2015 \$ |
|----------------------------|-----------------------|-----------------------|-------------------|-------------------|
| Ordinary shares | 145,790,189 | 113,768,522 | 14,953,566 | 11,091,161 |
| Total share capital | | | 14,953,566 | 11,091,161 |

(b) Movements in ordinary share capital

| | Date | Number | Unit price | \$ |
|---|-----------|--------------------|------------|-------------------|
| Reconciliation to 30 June 2015: | | | | |
| Balance at 1 January 2015 | | 100,850,337 | | 8,397,685 |
| Capitalised equity raising costs (net of tax) | | | | (146,524) |
| Movements in ordinary shares: | | | | |
| Issued in settlement of a liability | 16-Feb-15 | 100,000 | \$0.200 | 20,000 |
| Share placement | 19-May-15 | 12,727,276 | \$0.220 | 2,800,000 |
| Issued in settlement of a liability | 04-Jun-15 | 90,909 | \$0.220 | 20,000 |
| Balance at 30 June 2015 | | 113,768,522 | | 11,091,161 |
| Reconciliation to 31 December 2015: | | | | |
| Balance at 1 July 2015 | | 113,768,522 | | 11,091,161 |
| Capitalised equity raising costs (net of tax) | | | | (242,595) |
| Movements in ordinary shares: | | | | |
| Share placement | 09-Nov-15 | 27,366,667 | \$0.150 | 4,105,000 |
| Issue of ESP shares ¹ | 23-Dec-15 | 4,655,000 | \$0.148 | - |
| Balance at 31 December 2015 | | 145,790,189 | | 14,953,566 |

(c) Ordinary shares

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

(d) Employee Share Plan (ESP)

Information relating to the Employee Share Plan, including details of shares issued under the plan, is set out in Note 14.

(e) Earn Out Shares

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

¹ All eligible employees who accepted an offer of ESP shares were given an interest free loan from the Company to finance the whole of the purchase of the ESP shares they were invited to apply for (**ESP Loan**). The ESP Loans are provided to participants on a non-recourse basis and upon vesting must be repaid in order to remove trading restrictions on vested ESP shares. The term of the ESP Loan is five years however participants may forfeit their ESP shares if they do not repay the ESP Loan or leave the Company under certain scenarios. As the ESP removes the risk to participants from decreases in the share price by limiting the maximum loan amount repayable to the value of the ESP shares disposed and waiving the ESP Loan should the participant forfeit their ESP shares, whilst still allowing participants the rewards of any increase in share price, the Company has effectively granted the participants an option to the ESP shares due to the ESP Loans being non-recourse. As such, this arrangement is accounted for under AASB 2.

Skyfii Limited

Notes to the financial statements

For the half-year ended 31 December 2015

number of Earn Out Shares which may have been issued pursuant to the Acquisition Agreement is nil, and the maximum number is 82,500,000 (**Earn Out Mechanism**).

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

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

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

As at the date of this report, twenty-two (22) of the twenty-five (25) Skyfii Vendor Shareholders had entered into an Earn Out Variation Deed as it related to their rights and entitlements under the Acquisition Agreement, representing 99.3% of the Proposed Earn Out Shares and New Escrow Shares. As a result, on 26 February 2016 22,342,028 shares were issued in accordance with the Earn Out Variation Deeds, whilst a maximum of 579,230 Earn Out Shares may be issued in accordance with the original Earn Out Mechanism.

13. Contingent liabilities

(a) Earn Out Shares

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

For the half-year period ended 31 December 2015, no value has been attributed to the Earn Out Shares, however given the events that arose in relation to the Earn Out Shares subsequent to 31 December 2015 as disclosed in Notes 12(e) and 15, the Group will recognise an expense in relation to the issuance of shares.

(b) Other contingent liabilities

There are no other contingent liabilities as at 31 December 2015.

14. Share based payments

(a) Employee Share Plan (ESP)

During the half-year ended 31 December 2015, the Company established a share based payment plan, the Employee Share Plan (**ESP**) to assist the Company in retaining and attracting current and future employees by providing them with the opportunity to own shares in the Company.

The key terms of the ESP are as follows:

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

Skyfii Limited

Notes to the financial statements

For the half-year ended 31 December 2015

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

Skyfii Limited

Notes to the financial statements

For the half-year ended 31 December 2015

(b) 2015 ESP share grants

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

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

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

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

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

Note that as the grant and issue date for the 2015 ESP share grants occurred on 23 December 2015, the Group has assessed the fair value of those ESP share grants from that date to the period ended 31 December 2015 to be immaterial and have not been brought to account for the half-year ended 31 December 2015.

15. Events occurring after the reporting date

Earn Out Shares

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

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

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

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

As at the date of this report, twenty-two (22) of the twenty-five (25) Skyfii Vendor Shareholders had entered into an Earn Out Variation Deed as it related to their rights and entitlements under the Acquisition Agreement, representing 99.3% of the Proposed Earn Out Shares and New Escrow Shares. As a result, on 26 February 2016 22,342,028 shares were issued in accordance with the Earn Out Variation Deeds at an issue price of \$0.15 per share, whilst a maximum of 579,230 Earn Out Shares may be issued in accordance with the original Earn Out Mechanism.

Skyfii Limited

Notes to the financial statements

For the half-year ended 31 December 2015

Conditional Subscription Agreement

On 25 February 2016, the Company and Chapmans Opportunities Limited (**COL**) entered into a subscription agreement (**Agreement**) that, subject to certain conditions, will result in the issue of 16,000,000 ordinary shares and 5,000,000 options over the same number of ordinary shares in the Company to COL (**Transaction**).

The Transaction is subject to the fulfilment of various conditions precedent, including:

- COL confirming that it has raised \$7,000,000 from the public; and
- the Company having received shareholder approval of the Transaction.

Subject to the fulfilment of the conditions precedent, the Transaction will provide additional funding of \$2,000,000 which will be used by the Group to continue to execute on its current and future growth opportunities and for general working capital requirements. In addition, the options if exercised in full by COL, provides an opportunity for an additional \$2,850,000 in funding for the Group.

Other than the above matters there are no other matters or circumstances that have arisen since 31 December 2015 that have significantly affected, or may significantly affect:

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

16. Earnings per share (EPS)

| | 31 Dec 2015 | 31 Dec 2014 |
|---|-----------------|-----------------|
| | Cents per share | Cents per share |
| (a) Basic earnings per share | | |
| Basic EPS attributable to ordinary equity holders of the Company | (0.9) | (11.5) |
| (b) Diluted earnings per share | | |
| Diluted EPS attributable to ordinary equity holders of the Company | (0.9) | (11.5) |
| (c) Weighted average number of shares used as the denominator | | |
| | Number | Number |
| Weighted average number of ordinary shares used in calculating basic EPS | 121,704,971 | 30,666,773 |
| Weighted average number of ordinary shares used in calculating diluted EPS | 121,704,971 | 30,666,773 |
| (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 | (1,105,330) | (3,520,338) |

Directors' declaration

In the Directors' opinion:

- (a) the financial statements and notes, as set out on pages 6 to 19, are in accordance with the *Corporations Act 2001*, including:
 - i. complying with Accounting Standard AASB 134: *Interim Financial Reporting*; and
 - ii. giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date.
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.

On behalf of the Directors



Gary Flowers
Chairman

29 February 2016

Independent auditor's review report

HALL CHADWICK  (NSW)

Chartered Accountants and Business Advisers

SKYFII LIMITED
ACN 009 264 699
AND CONTROLLED ENTITIES

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SKYFII LIMITED

SYDNEY

Level 40
2 Park Street
Sydney NSW 2000
Australia

GPO Box 3555
Sydney NSW 2001

Ph: (612) 9263 2600
Fx: (612) 9263 2800

Report on the Half-year Financial Report

We have reviewed the accompanying half-year financial report of Skyfii Limited, which comprises the consolidated statement of financial position as at 31 December 2015, 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 half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' Responsibility for the Half-year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Standard on Review Engagements ASRE 2410: *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of Skyfii Limited's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Skyfii Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the review of the half-year financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Skyfii Limited is not in accordance with the *Corporations Act 2001*, including:

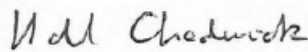
- i. giving a true and fair view of Skyfii Limited's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and
- ii. complying with AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*.

SYDNEY

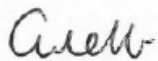
Level 40
2 Park Street
Sydney NSW 2000
Australia

GPO Box 3555
Sydney NSW 2001

Ph: (612) 9263 2600
Fx : (612) 9263 2800



HALL CHADWICK
Level 40, 2 Park Street
Sydney NSW 2000



GRAHAM WEBB

Partner

Dated: 29 February 2016

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Corporate directory

Company Directors

| | |
|-------------------|----------------------------------|
| Mr Gary Flowers | Chairman, Non-Executive Director |
| Mr Wayne Arthur | Managing Director |
| Mr Anthony Dunlop | Non-Executive Director |
| Mr Andrew Johnson | Non-Executive Director |
| Mr James Scott | Non-Executive Director |
| Mr Chris Taylor | Non-Executive Director |

Company Secretary

Mr Heath Roberts

Registered Office

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

Share Registry

Boardroom Limited
Level 7
207 Kent Street
Sydney NSW 2000

Auditors

Hall Chadwick
Level 40
2 Park Street
Sydney NSW 2000

Securities exchange listing

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

Former Name

RKS Consolidated Limited changed its name to Skyfii Limited on 17 November 2014.

Website

www.skyfii.io