Atomos Ltd
(Formerly Tetsuwan Pty Ltd)
ACN 139 730 500
Financial statements

for the year ended
30 June 2018

Directors' Report

The Directors of Atomos Ltd ('Atomos' or 'the Company') present their Report together with the financial statements of the consolidated entity, being Atomos and its Controlled Entities ('the Group') for the year ended 30 June 2018.

Directors

The names of the Directors in office at any time during or since the end of the year are:

Mr Jeromy Michael Young
Sir Hossein Yassaie
Mr Neil Gregory Chatfield
Mr Christopher John Tait

Mr Ian James Overliese (Resigned 12 April 2018)
Mr Robert Song (Resigned 16 October 2018)

The abovenamed Directors held office during and since the end of the financial year unless otherwise stated.

Principal activities

The Group activities are the manufacture and sale of video equipment. There have been no significant changes in the nature of these activities during the year.

Review of Operations

The current financial year marked the completion of a transitional phase for the Company. Co-founder and Director Ian Overliese resigned, and Chris Tait was appointed Chairman. A series of major projects relating to the development of technology for utilisation in the next generation of products were substantially completed during the year, the first of these new products shipped in September 2018. However, substantial delays in the delivery of key elements of the development by a third party have impacted the commercial value which the Company will derive from the technology. Consequently, an impairment charge of $9.7M was recorded against these assets to reflect the reduction in the net recoverable amount. The consolidated loss of the Group for the financial year after providing for income tax amounted to $16.5M (2017: loss $4.9M).

RED.com LLC ("RED") has alleged that the recording and/or playback of two of five video codec standards currently implemented by certain Company products infringe four RED patents. RED has offered the Company a license to rights under those patents with respect to the implementation. The Company denies RED's allegations and the parties have engaged in discussions to attempt to resolve the matter including in respect of the proposed license. If the parties are unable to resolve the matter, RED may initiate litigation against the Company in an effort to enforce its patent rights. Patent claims or litigation against the Company, regardless of their merits, could, amongst other things, be time consuming and expensive to defend, force the Company to remove the prospective format from certain products, delay shipments of Company products and require the Company to pay damages or settlement fees.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the company during the financial year.

Dividends

During or since the end of the financial year, no dividends have been paid or declared.

Directors' Report (continued)

Events arising since the end of the reporting period

On 31 August 2018, the Company issued 7,000,000 convertible notes with a face value of $1.00 each at an aggregated principal amount of $7,000,000. Interest is payable at the rate of 10% per annum. The convertible notes mature on 31 December 2019. In the event that the Company receives written unconditional confirmation from the ASX that it will be admitted to the Official List, the Notes will automatically convert into fully paid ordinary shares.

There are no other matters or circumstances that have arisen since the end of the year that have significantly affected or may significantly affect either:

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

Likely developments, business strategies and prospects

In September 2018, the Company generated the first sales of its new, modular 5" monitor-recorder, the Ninja V. The Ninja V, powered by the new AtomIC platform and the new AtomOS 10 upgraded software operating system, incorporates the core technologies underpinning a new range of monitor-recorders to be released across various screen sizes and price points over the next 12 - 24 months. This will result in a doubling of the current core range from seven to an expected fifteen. Atomos intends to leverage this core technology platform (the Ninja Platform) to drive growth in three key areas:

- Increased adoption within an already growing existing market. Atomos aims to continue building their market presence and sales in their core market of Pro Video and Broadcast.
- New product offerings based on the Ninja Platform. The new Ninja Platform will serve as the core platform underpinning a new range of monitor recorders to be released over the next 12-24 months.
- Expansion into adjacent markets. Driven by the demand from their current customer base, Atomos will aim to further penetrate adjacent high growth market segments including Video on Photo Cameras & Episodic TV and Cinema.

Directors' qualifications, experience and responsibilities

Mr Jeromy Michael Young

Qualifications:	BEng. (Hons)
Experience:	Co-founder and Chief Executive Officer of the Company since establishment in 2009. Previous experience includes Global Business Development Manager for Blackmagic and Global Business Development Director for Canopus (GV) Japan.
Responsibilities:	Executive Director, Chief Executive Officer
Appointed:	29 September 2009

Sir Hossein Yassaie

Qualifications:	BSc., Phd
Experience:	Over 35 years of experience in specialised research and development and semiconductors. Founder of Imagination Technologies Plc holding position of Chief Executive Officer for 18 years. Hossein received a knighthood in 2013 in recognition of his services to technology and innovation in the United Kingdom.
Responsibilities:	Non-Executive Director
Appointed:	1 September 2016

Directors' Report (continued)

Mr Robert Song

Qualifications: BSc., MBA

Experience: Co-founder, over 20 years of experience in broadcast, media and professional video services. Extensive business development experience, previously holding senior positions with responsibility for developing and expanding APAC operations at Canopus, Thompson, Grass Valley.

Responsibilities: Executive Director, President Atomos APAC

Appointed: 19 June 2017 Resigned: 16 October 2018

Mr Neil Gregory Chatfield

Qualifications: MBus., FCPA, FAICD

Experience: Neil is an established Executive and Non-executive Director with extensive experience across all facets of company management, and with specific expertise in financial management, capital markets, mergers and acquisitions, and risk management. Current Chairman of Seek Ltd and Costa Group. Non-executive Director of Aristocrat Leisure Ltd. Neil previously served as Executive Director and Chief Financial Officer of Toll Holdings from 1997 to 2008.

Responsibilities: Non-Executive Director

Appointed: 11 September 2017

Mr Christopher John Tait

Qualifications: BSc. (Econ), Chartered Accountant (ICAEW)

Experience: Co-Founder and Managing Director of Henslow Pty Ltd, an independent advisory firm, Chris has deep experience in advising private and public companies on general strategic advice, mergers and acquisitions and raising capital. He has also held senior executive roles in a major public company, WHSmith PLC where he was initially Director of Strategy and Acquisitions and then Chief Financial Officer of the Asia Pacific operations.

Responsibilities: Non-Executive Director, Chairman

Appointed: 11 September 2017

Mr Ian James Overliese

Qualifications: BEng. (Hons)

Experience: Co-founder and Chief Technology Officer of the Company since establishment in 2009 until retirement in April 2018.

Responsibilities: Executive Director, Chief Technical Officer

Appointed: 29 September 2009 Resigned: 12 April 2018

Company Secretary – Lisa Dadswell

Qualifications: Chartered Secretary (ACIS)

Experience: Lisa has many years of experience as a professional company secretary and advising on corporate governance matters for a wide number of companies.

Directors' Report (continued)

Directors' meetings

The number of Directors' Meetings (including meetings of Committees of Directors) held during the year, and the number of meetings attended by each Director is as follows:

Director	Board meetings		Advisory committee meetings	
	Eligible	Attended	Eligible	Attended
Mr Jeromy Young	12	12	4	4
Mr Ian Overliese (resigned 12/4/2018)	10	10	4	3
Sir Hossein Yassaie	12	12	4	4
Mr Robert Song	12	11	4	4
Mr Neil Chatfield (appointed 11/9/2017)	12	11	1	1
Mr Christopher Tait (appointed 11/9/2017)	12	12	1	1

Unissued shares under option

During the year and to the date of this report, 2,819,715 options were granted over unissued shares to the Directors and selected Key Management Personnel (other than Directors) of the company and were granted to them as part of their remuneration. Details of options granted are as follows:

Option series	Number	Grant date	Vesting date	Expiry date	Exercise Price
Granted: 26 Feb 2018	612,990	26/02/2018	30/06/2018	12/04/2028	$0.4729
Granted: 26 Feb 2018	612,990	26/02/2018	30/06/2019	12/04/2028	$0.4729
Granted: 26 Feb 2018	1,593,735	26/02/2018	30/06/2020	12/04/2028	$0.4729
	2,819,715				

As at the date of this report there were a total of 3,593,770 unissued ordinary shares under option (2017:Nil). Details of options outstanding at the date of this report are as follows:

Option series	Number	Grant date	Vesting date	Expiry date	Exercise price
Granted: 26 Feb 2018	612,990	26/2/2018	30/6/2018	12/04/2028	$0.4729
Granted: 26 Feb 2018	612,990	26/2/2018	30/6/2019	12/04/2028	$0.4729
Granted: 26 Feb 2018	2,367,790	26/2/2018	30/6/2020	12/04/2028	$0.4729
	3,593,770				

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

No options were exercised during or since the end of the financial year. Nil (2017: nil)

Environmental legislation

Atomos's operations are not subject to any particular or significant environmental regulation under a law of the Commonwealth or of any State or Territory in Australia.

Indemnities given to, and insurance premiums paid for, officers and auditors

Insurance of officers

During the year, Atomos paid a premium to insure officers of the Group. The officers of the Group covered by the insurance policy include all Directors. The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else to cause detriment to the Group. Details of the amount of the premium paid in respect of insurance policies are not disclosed as such disclosure is prohibited under the terms of the contract.

Directors' Report (continued)

The Group has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify any current or former officer of the Group against a liability incurred as such by an officer.

Indemnity of auditors

The Group has not, during or since the end of the financial year, indemnified or agreed to indemnify its auditors, Deloitte, or any related entity against a liability incurred by the auditor. During the financial year, the Group has not paid a premium in respect of a contract to insure the auditor of the Group or any related entity.

Non-audit services

During the year, the Company's auditors performed certain other services in addition to their statutory audit duties. The Board has considered the non-audit services provided during the year by the auditor and are satisfied that the provision of those non-audit services during the year is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Directors to ensure they do not impact upon the impartiality and objectivity of the auditor; and
- the non-audit services do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditors of the Company and its related practices for audit and non-audit services provided during the year are set out in Note 27 to the financial statements.

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under s307C of the *Corporations Act 2001* is included on page 6 of this financial report and forms part of this Directors' Report.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Directors’ Report (continued)

Rounding of amounts

Atomos is a type of Company referred to in ASIC Corporations (Rounding in Financial/Directors’ Reports) Instrument 2016/191 and therefore the amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable), or in certain cases, to the nearest dollar under the option permitted in the Instrument.

Signed in accordance with a resolution of the Directors, pursuant to section 298(2) of the *Corporations Act 2001*:

Mr Christopher Tait
Director

Melbourne
26th day of November 2018

Deloitte.

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26 November 2018

Board of Directors
Atomos Limited
29 Nott Street
PORT MELBOURNE VIC 3207

Dear Board Members

Auditor's Independence Declaration to Atomos 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 Atomos Limited.

As lead audit partner for the audit of the financial report of Atomos Limited for the year ended 30 June 2018, 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.

Yours faithfully

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Craig Bryan
Partner
Chartered Accountants

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2018

	Notes	2018 $'000	2017 $'000
Revenue	5	35,648	31,091
Cost of sales		(18,828)	(14,909)
Gross profit		16,820	16,182
Other income	5	332	416
Other gains / (losses)	6	(58)	(95)
Impairment of intangible assets	7	(9,729)	-
Employee benefits expense	7	(6,318)	(6,040)
Research and development expense		(3,764)	(4,348)
Advertising and marketing expense		(2,322)	(6,033)
Finance costs	7	(4,066)	(1,475)
Administration and other expense		(2,878)	(2,730)
Distribution expense		(1,233)	(1,076)
Occupancy expense		(674)	(549)
Legal and professional services		(590)	(677)
Depreciation and amortisation	7	(278)	(213)
Loss before income tax	7	**(14,758)**	**(6,638)**
Income tax (expense) benefit	8	(1,755)	1,751
Loss for the year		**(16,513)**	**(4,887)**
Other comprehensive income, net of income tax			
Items that will not be reclassified subsequently to profit or loss:		**-**	**-**
Items that may be reclassified subsequently to profit or loss:			
- Exchange differences on translating foreign operations		157	185
		157	185
Other comprehensive income for the year, net of income tax		**157**	**185**
Total comprehensive loss for the year		**(16,356)**	**(4,702)**

	Notes	2018	2017
Earnings per share			
Basic earnings (loss) per share	20(e)	($0.26)	($0.09)
Diluted earnings (loss) per share	20(e)	($0.26)	($0.09)

Note: This statement should be read in conjunction with the notes to the financial statements.

Consolidated Statement of Financial Position

As at 30 June 2018

	Notes	2018 $'000	2017 $'000	2016 $'000
Assets				
Current assets				
Cash and cash equivalents	9	1,447	1,548	1,080
Trade and other receivables	10	4,848	3,727	6,355
Inventories	11	5,953	3,982	4,638
Other current assets	12	1,746	743	705
Total current assets		**13,994**	**10,000**	**12,778**
Non-current assets				
Property, plant and equipment	13	824	468	618
Trade and other receivables	10	-	47	40
Intangible assets	14	7,671	13,771	11,427
Deferred tax assets	15	-	1,305	-
Total non-current assets		**8,495**	**15,591**	**12,085**
Total assets		**22,489**	**25,591**	**24,863**
Liabilities				
Current liabilities				
Trade and other payables	16	8,461	6,964	8,847
Borrowings	17	2,706	1,110	47
Provisions	18	493	466	848
Other financial liabilities	19	1,496	-	-
Current liabilities		**13,156**	**8,540**	**9,742**
Non-current liabilities				
Deferred tax liabilities	15	-	-	587
Borrowings	17	-	7,406	5,233
Provisions	18	47	53	70
Other financial liabilities	19	-	5,063	-
Total non-current liabilities		**47**	**12,522**	**5,890**
Total liabilities		**13,203**	**21,062**	**15,632**
Net assets		**9,286**	**4,529**	**9,231**
Equity				
Issued capital	20	28,987	8,887	8,887
Reserves	21	1,365	195	10
Accumulated losses		(21,066)	(4,553)	334
Total equity		**9,286**	**4,529**	**9,231**

Note: This statement should be read in conjunction with the notes to the financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2018

	Note	Issued capital (Ordinary shares) $'000	Issued capital (Class A shares) $'000	Retained earnings $'000	Foreign currency translation reserve $'000	Share based payments reserve $,000	Total equity $'000
Balance at 1 July 2016		**8,595**	**292**	**334**	**10**	**-**	**9,231**
Transactions with owners		-	-	-	-	-	-
Total transactions with owners		**-**	**-**	**-**	**-**	**-**	**-**
Comprehensive income							
Loss for the year		-	-	(4,887)	-	-	(4,887)
Other comprehensive income		-	-	-	185	-	185
Total comprehensive income		**-**	**-**	**(4,887)**	**185**	**-**	**(4,702)**
Balance at 30 June 2017		**8,595**	**292**	**(4,553)**	**195**	**-**	**4,529**
Balance at 1 July 2017		8,595	292	(4,553)	195	-	4,529
Transactions with owners							
Share-based payments		-	-	-	-	1,013	1,013
Conversion of Class A shares to ordinary shares	20(a)(b)	292	(292)	-	-	-	-
Conversion of convertible notes	20(a)	13,567	-	-	-	-	13,567
Issue of new share capital	20(a)	7,000	-	-	-	-	7,000
Transaction costs relating to issue of share capital	20(a)	(467)	-	-	-	-	(467)
Income tax benefit relating to transaction costs		-	-	-	-	-	-
Total transactions with owners		**20,392**	**(292)**	**-**	**-**	**1,013**	**21,113**
Comprehensive income							
Loss for the year		-	-	(16,513)	-	-	(16,513)
Other comprehensive income		-	-	-	157	-	157
Total comprehensive income		**-**	**-**	**(16,513)**	**157**	**-**	**(16,356)**
Balance at 30 June 2018		**28,987**	**-**	**(21,066)**	**352**	**1,013**	**9,286**

Note: This statement should be read in conjunction with the notes to the financial statements.

Consolidated Statement of Cash Flows

For the year ended 30 June 2018

	Notes	2018 $'000	2017 $'000
Operating activities			
Receipts from customers		34,944	34,203
Payments to suppliers and employees		(37,846)	(38,528)
Interest received		1	-
Income taxes paid		-	(546)
Net cash used in operating activities	23	**(2,901)**	**(4,871)**
Investing activities			
Payments for property, plant and equipment		(724)	(76)
Payments for intangible assets		(3,629)	(2,330)
Net cash used in investing activities		**(4,353)**	**(2,406)**
Financing activities			
Proceeds from issue of equity instruments in the Company		7,000	-
Proceeds from issue of convertible notes		1,112	-
Interest paid		(432)	(565)
Payment for equity raise costs		(410)	-
Proceeds from borrowings		-	8,339
Repayments of lease liabilities		(110)	(45)
Net cash inflow from financing activities		**7,160**	**7,729**
Net change in cash and cash equivalents		(94)	452
Cash and cash equivalents, beginning of year		1,548	1,080
Exchange differences on cash and cash equivalents		(7)	16
Cash and cash equivalents, end of year	9	**1,447**	**1,548**

Note: This statement should be read in conjunction with the notes to the financial statements.

Notes to the Consolidated Financial Statements

1. General information

Atomos is a public company limited by shares, incorporated and domiciled in Australia. Atomos is the Group's ultimate holding Company. The Company changed status from a private company to a public company on 8 June 2018 and its name from Tetsuwan Pty Ltd to Tetsuwan Ltd on the same date. Subsequently the Company changed the name from Tetsuwan Ltd to Atomos Ltd on 6 October 2018.

The principal activities of the Group were the manufacture and wholesaling of video equipment. There have been no significant changes in the nature of these activities during the year. The address of its registered office and principal place of business is 29 Nott Street, Port Melbourne, Victoria 3207.

The Consolidated Financial Statements for the year ended 30 June 2018 were approved and authorised for issue by the board of Directors on 26 November 2018.

2. Application of new and revised Accounting Standards

The Group has adopted all new and revised accounting standards issued by the AASB that are relevant to its operations and are effective for the current reporting period. The adoption of these standards and interpretations did not result in a material change on the reported results and position or disclosures of the Group as they did not result in any changes to the Group's existing accounting policies. The new and revised accounting standards are as follows:

- AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107: The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided the information for both the current and the comparative period in note 4.
- AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses: The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The revision has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.
- AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle: The amendments clarify that the disclosure requirements in AASB 12 but had no effect on the Group.

2. Application of new and revised Accounting Standards (continued)

Reference	Title	Application date of Standard	Application date for the Group	Applicability to the Group
AASB 15	*Revenue from Contracts with Customers*	1 January 2018	1 July 2018	Refer below
AASB 2016-5	*Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions*	1 January 2018	1 July 2018	Refer below
AASB 16	*Leases*	1 January 2019	1 July 2019	Refer below
AASB Interpretation 22	*Foreign Currency Transactions and Advance Consideration*	1 January 2018	1 July 2018	Refer below
AASB Interpretation 23	*Uncertainty over Income Tax Treatment*	1 January 2019	1 July 2019	Refer below
AASB 9	*Financial Instruments*	1 January 2018	1 July 2018	Refer below

AASB 15 *Revenue from Contracts with Customers*

AASB 15 was issued in December 2014, and amended in May 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under AASB 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under Australian Accounting Standards. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date, using the modified retrospective approach.

The Group is still in the process of assessing the impact of AASB 15 considering factors such as identification of what comprises each contract, the performance obligations there under, the timing of transfer of control of the sale of goods to the customer, variable revenue (including discounts and rebates) and principal vs agent considerations. The Group initially expects potential changes in the treatment of warranties, settlement discounts and an increase disclosure requirements.

AASB 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions*

The AASB issued amendments to AASB 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group has assessed the potential effect of the amendments on its Consolidated Financial Statements but as the Group has no cash settled or net settled share-based payment arrangements in place, no material impact is expected.

2. Application of new and revised Accounting Standards (continued)

AASB Interpretation 22 *Foreign Currency Transactions and Advance Consideration*

The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis, or a prospective basis under certain circumstances.

The Interpretation is effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed. However, since the Group's current practice is in line with the Interpretation to the extent it is applicable, the Group does not expect any effect on its Consolidated Financial Statements.

AASB Interpretation 23 *Uncertainty over Income Tax Treatments*

The interpretation clarifies the application of the recognition and measurement criteria in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatment by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Group does not expect any effect on its Consolidated Financial Statements from IFRIC 23.

AASB 16 *Leases*

The key features of AASB 16 are as follows:

Lessee Accounting

- Lessees are required to recognise assets and liabilities for all leases on balance sheet with a term of more than 12 months, unless the underlying asset is of low value.
- Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.
- AASB 16 contains disclosure requirements for lessees.

Lessor Accounting

- AASB 16 substantially carries forward the lessor accounting requirements in the current lease standard AASB 117. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.
- AASB 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk.

An assessment of the impact of AASB 16 on the financial performance and position of the Group is ongoing with a view to informing the transition decisions to be made before adoption of the new standard. It is not yet possible to make a reliable estimate of the impact of the standard on the Consolidated Financial Statements.

2. Application of new and revised Accounting Standards (continued)

Although the impact is yet to be quantified, it is expected there will be a material impact with premises operating leases across the Group coming on balance sheet once the standard is implemented. The Group does not expect to early adopt AASB 16.

AASB 9 *Financial Instruments*

AASB 9 *Financial Instruments* replaces AASB 139 *Financial Instruments: Recognition and Measurement* and all previous versions of AASB 9. AASB 9 brings together all three aspects of the accounting for financial instruments – classification and measurement, impairment and hedge accounting. AASB 9 is effective for annual periods beginning on or after 1 January 2018, which Atomos Limited means initial application for the year ended 30 June 2019.

The Group plans to adopt the new standard on the required effective date and is not intending to restate comparative information as allowed by the transitional provisions of AASB 9. A preliminary assessment of the impact has been performed and given the relatively simple nature of the Group's financial instruments, no significant impact is expected.

3. Significant accounting policies

3.1 Statement of compliance

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards.

3.2 Basis of preparation

This is the first year the Group has prepared general-purpose financial statements and, in accordance with AASB 1 First Time Adoption of Australian Accounting Standards, has assessed that this transition has had no impact on the reported financial position, financial performance or cash flows of the Group.

The Consolidated Financial Statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these Consolidated Financial Statements is determined on such a basis, except for share-based payment transactions that are within the scope of AASB 2 'Share-based payment', leasing transactions that are within the scope of AASB 117 'Leases', and measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 102 'Inventories' or value in use in AASB 136 'Impairment of Assets'.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

3.2 Basis of preparation (continued)

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

All amounts are presented in Australian dollars, unless otherwise noted.

The principal accounting policies are set out below.

3.3 Basis of consolidation

The Consolidated Financial Statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Where the company has less than a majority of the voting rights of an investee, it has the power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholder meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

3.4. Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Sale of goods

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3.5 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3.6 Foreign currencies

Functional and presentation currency

The Consolidated Financial Statements are presented in Australian Dollars ($AUD), which is also the functional currency of the Parent Company.

Foreign currency transactions and balances

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for exchange differences on monetary items receivable or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary terms.

For the purposes of presenting these Consolidated Financial Statements, the assets and liabilities of the Group's foreign operations are translated into Currency Units using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

3.7 Employee benefits

Short-term and other long-term employee benefits

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date.

3.8 Share based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 22.

The fair value determined at the grant date of the equity-settled share-based payments is expressed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the

3.8 Share based payments (continued)

cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in the fair value recognised in profit or loss for the year.

3.9 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

<u>Current tax</u>

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from ‘profit before tax’ as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group’s current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

<u>Deferred tax</u>

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Consolidated Financial Statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

3.9 Taxation (continued)

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying mount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3.10 Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is recognised so as to write off the cost or valuation of assets to their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The following depreciation rates are applied:

- Plant & equipment: 10 – 33%
- Motor vehicles: 25%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3.11 Intangible assets

Intangible assets - research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Intangible assets generated internally comprised capitalised product development costs and are recognised when all of the following have been demonstrated:

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

3.11 Intangible assets (continued)

These costs represent intangible assets not yet available for use. The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. When no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period it is incurred. Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

3.12 Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When 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. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets not yet available for use are tested for impairment annually, inclusive of whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

For the purposes of assessing impairment, one CGU, being the Group has been identified.

3.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are valued at weighted average costing. The cost of manufactured products includes direct materials, direct labour and an appropriate proportion of variable and fixed overheads. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

3.14 Provisions

Provisions are recognised when the Group as a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

<u>Warranties</u>

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

3.15 Financial Instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3.16 Financial assets

Financial assets are representative of 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

3.16 Financial assets (continued)

Effective interest rate method

The effective interest rate method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, bank balances and cash) are measured at amortised cost using the effective interest method (except for any short-term receivables where the effect of discounts is immaterial), less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- if becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

3.16 Financial assets (continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

<u>Derecognition of financial assets</u>

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

3.17 Financial liabilities and equity instruments

<u>Equity instruments</u>

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised as the proceeds received, net of direct issue costs.

Repurchase of the Company’s own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company’s own equity instruments.

3.17 Financial liabilities and equity instruments (continued)

Compound and Derivative Financial Instruments

The component parts of compound instruments (convertible notes) issued by the Group are classified separately as a financial liability and derivative in accordance with the substance of the contractual arrangements and the definitions of a financial liability and derivatives.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. The amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

Derivatives

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL.

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration that may be paid by an acquirer as part of a business combination, (ii) held for trading, or (iii) it is designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in note 30.

Other financial liabilities

Other financial liabilities representing trade and other payables 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 financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3.18 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks and investments in money market instruments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

3.19 Comparative Figures

Where required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current period.

3.20 Goods and Services Tax (GST)

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

(i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of the asset or as part of an item of the expense; or

(ii) for receivables and payables in the statement of financial position which are shown inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables. Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

3.21 Rounding of amounts

The Parent Entity has applied the relief available to it under ASIC Corporations (Rounding in Financial/Directors' Reports) Instruments 2016/191 and accordingly, amounts in the financial statements and Directors' report have been rounded off to the nearest $1,000, or in certain cases, the nearest dollar.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the Directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

4.1 Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimates (see note 4.2 below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect of the amounts recognised in the Consolidated Financial Statements.

4.1 Critical judgements in applying accounting policies (continued)

Recognition of deferred tax assets

The extent to which deferred tax assets can be recognised is based on an assessment of the probability of the Group's future taxable income against which the deferred tax assets can be utilised. In addition, significant judgement is required in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions (refer note 3.9). As the Group has incurred losses in recent years the entity will only recognise a deferred tax asset arising from unused tax losses or tax credits to the extent that the entity has sufficient taxable temporary differences. The Group has determined that its deferred tax assets will cease to be recognised until such time as it is probable that the Group will be able to generate sufficient taxable profit in the future for the deferred tax asset to meet the criteria for recognition.

4.2 Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimation uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

Impairment of intangible assets

In assessing impairment, management estimates the recoverable amount of each asset or cash-generating unit based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (refer note 3.12). Management have applied judgment to the value-in-use model when assessing for impairment. In assessing the recoverable amount, the Group applied a long-term growth rate of 2% and a pre-tax discount rate of 44%.

Useful lives of depreciable assets

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

Trade receivables

Management estimates the recoverable amount of any outstanding trade receivable balances at reporting date and recognises an allowance for impairment if required.

Inventories

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

Warranties

Management estimates the expected cost of warranty obligations under local sale of goods legislation are recognised at the date of sale of the relevant products. The estimate has been made on the basis of historical warranty trends and may vary as a result of new materials, altered manufacturing processes or other events affecting product quality.

4.3 Going Concern

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

For the year ended 30 June 2018, the consolidated entity incurred a loss after tax of $16.5m including non-cash asset impairments of $9.7m (2017: $4.8m including impairments of $nil) and reported negative net cash flows from operating and investing activities of $7.2m (2017: $7.3m).

Atomos continues to market and distribute exciting video equipment and invest in the development of next generation video technology. At this stage of the business's lifecycle it is essential that it has sufficient capital to fund the research and development required to successfully launch the next generation product range and achieve sustainable profitability. Where existing cash reserves are insufficient to fund the consolidated entity's forecast research and development plan, capital expenditure plan and corporate operating costs, to continue as a going concern the consolidated entity is reliant upon:

(i) Continued sales of existing product ranges and the successful launch of more recently developed next generation products
(ii) Reducing its investment in operations, marketing and research and development to lower growth options
(iii) Conversion or extension of existing convertible notes
(iv) Raising additional equity capital and/or debt finance; or
(v) A combination of the above

The directors have prepared detailed cash flow forecasts for the next 12 months and based on budgeted revenue and expenditure and the research and development and capital expenditure plans, depending on the pace of growth in operations, the consolidated entity may be required to raise additional funds (through the methods set out above). The cash flow forecast, based on projected growth, assumes capital raising of no less than $5m over the forecast period in the event additional debt finance facilities are not utilised. The cash flow forecast also includes certain levels of spend to drive current initiatives the consolidated entity is targeting. It is the opinion of the directors, that should the levels of planned growth not eventuate, the entity has the ability to reduce its spend on such initiatives to manage its cash flows, for at least a period of 12 months from the date of signing this report.

During and since the end of the financial period the consolidated entity has made significant progress towards raising the requisite level of new capital including raising a further $7m from the issue of 7 million convertible notes in August 2018.

In the event that the consolidated entity is unsuccessful in achieving its growth profile or adequately reducing the investment in growth options and/or the matters set out above, there is a material uncertainty as to whether it will continue as a going concern and therefore whether it will realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report.

The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

5. Revenue

	2018 $'000	2017 $'000
Revenue		
Sales of goods	34,258	30,907
Other revenue	1,390	184
Total revenue	35,648	31,091
Other income		
Interest income	1	1
Other income	331	415
Total other income	332	416
Total revenue and other income	35,980	31,507

6. Other gains and losses

	2018 $'000	2017 $'000
Net gain arising on financial liabilities designated as FVTPL	377	-
Net foreign exchange loss	(411)	(95)
Loss on disposal of property plant and equipment	(24)	-
	(58)	**(95)**

7. Loss for the year

Loss for the year from operations has been arrived at after charging (crediting):

	2018 $'000	2017 $'000
Impairment		
Impairment of capitalised product development costs	9,729	-
Total impairment	9,729	-
Depreciation		
Plant and equipment	268	166
Motor vehicles	10	47
Total depreciation	278	213
Finance costs		
Interest on convertible note and borrowing facilities	3,962	1,317
Total interest expense for financial liabilities not at FVTPL	**3,962**	**1,317**
Other financial items – amortisation of capitalised borrowing costs	104	158
Total other financial items	104	158
Total finance costs	4,066	1,475
Employee benefits expense		
Post-employment benefits	470	599
Share based payments – equity settled	314	-
Other employee benefits	9,041	8,814
Total employee benefits expense	9,825	9,413
Less amount included within Research and Development expense on the Statement of Profit or Loss	(3,507)	(3,373)
Employee benefits expense per Statement of Profit or Loss	6,318	6,040

8. Income tax expense

The major components of tax expense and the reconciliation of the expected tax expense based on the domestic effective tax rate of Atomos at 30% (2017: 30%) and the reported tax expense in profit or loss are as follows:

	2018 $'000	2017 $'000
Loss before tax	(14,758)	(6,638)
Domestic tax rate for Atomos Ltd - 30%		
Expected tax benefit	**4,427**	**1,991**
Adjustments:		
• Effect of income that is not assessable in determining taxable profit	212	-
• Effect of expenses that are not deductible in determining taxable profit	(2,140)	(157)
• Effect of Research and Development tax offset	475	-
• Effect of different tax rates of subsidiaries operating in other jurisdictions	89	82
• Adjustments recognised in the current year in relation to tax of prior years	5	(165)
• Non-recognition of current year and de-recognition of prior year of deferred tax asset balances	(4,823)	-
Actual tax (expense) benefit	**(1,755)**	**1,751**
Tax expense comprises:		
• current tax (expense) / benefit	(1,730)	1,916
• deferred tax expense	(25)	(165)
Actual tax expense benefit	**(1,755)**	**1,751**

Information on deferred tax assets and liabilities is provided in Note 15.

9. Cash and cash equivalents

	2018 $'000	2017 $'000
Cash at bank and in hand	1,012	1,548
Cash at bank on deposit	435	-
Cash and cash equivalents	**1,447**	**1,548**

10. Trade and other receivables

	2018 $'000	2017 $'000
Current		
Trade receivables, gross	4,823	3,841
Less: provision for doubtful debts	(77)	(114)
Trade receivables, net	4,746	3,727
Other receivables	102	-
	4,848	**3,727**
Non-current		
Amount receivable from related party	-	47
	-	**47**

All amounts are short-term. All of the Group's trade and other receivables have been reviewed for indicators of impairment. An allowance for doubtful debts of $77,000 (2017: $114,000) has been recorded accordingly within other expenses.

10. Trade and other receivables (continued)

The movement in the allowance for doubtful debts can be reconciled as follows:

	2018 $'000	2017 $'000
Balance at beginning of year	114	114
Impairment loss recognised	120	-
Amounts written off	(157)	-
Balance 30 June	**77**	**114**

An analysis of trade receivables that are past due is given in note 29.3.

11. Inventories

	2018 $'000	2017 $'000
Stock on hand – raw materials, at cost	4,027	3,704
Stock on hand - finished goods, at net realisable value	1,926	278
	5,953	**3,982**

12. Other current assets

	2018 $'000	2017 $'000
Prepayments	1,627	560
Security deposits	119	183
	1,746	**743**

13. Property, plant and equipment

	2018 $'000	2017 $'000
Carrying amounts of:		
Leasehold improvements	18	-
Plant and equipment	786	308
Motor vehicles	20	160
Written down value	**824**	**468**

Movements in carrying amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

	Leasehold improvements $'000	Plant & equipment $'000	Motor vehicles $'000	Total $'000
Cost				
Balance 1 July 2017	-	644	283	927
Additions	18	706	-	724
Disposals	-	(1)	(253)	(254)
Balance 30 June 2018	18	1,349	30	1,397
Accumulated depreciation & impairment				
Balance 1 July 2017	-	(336)	(123)	(459)
Depreciation	-	(228)	(10)	(238)
Disposals	-	1	123	124
Balance 30 June 2018	-	(563)	(10)	(573)
Carrying amount 30 June 2018	**18**	**786**	**20**	**824**

13. Property, plant and equipment (continued)

	Plant & equipment $'000	Motor vehicles $'000	Total $'000
Cost			
Balance 1 July 2016	640	298	938
Additions	76	-	76
Disposals	(72)	(15)	(87)
Balance 30 June 2017	644	283	927
Accumulated depreciation & impairment			
Balance 1 July 2016	(242)	(78)	(320)
Depreciation	(166)	(47)	(213)
Disposals	72	2	74
Balance 30 June 2017	(336)	(123)	(459)
Carrying amount 30 June 2017	**308**	**160**	**468**

All depreciation and impairment charges are included within depreciation, amortisation and impairment of non-financial assets. There were no material contractual commitments to acquire property, plant and equipment at 30 June 2018 (2017: None).

14. Intangible assets

	2018 $'000	2017 $'000
Capitalised product development costs	7,671	13,771

The movements in the net carrying amount of intangible assets are as follows:

	2018 $'000	2017 $'000
Capitalised product development costs		
Cost		
Balance 1 July	13,771	11,427
Additions	3,629	2,344
Balance 30 June	17,400	13,771
Accumulated impairment		
Balance 1 July	-	-
Impairment loss recognised in profit or loss	9,729	-
Balance 30 June	9,729	-
Carrying amount at 30 June	**7,671**	**13,771**

Allocation of intangibles to cash-generating units: Intangible assets have been allocated for impairment testing purposes to a single cash-generating unit being, Atomos. Significant assumptions used within the value in use model include:

- Pre-tax discount rate of 44%
- Long term growth rate in the terminal value of 2%
- Revenue growth rates of between 5-10%
- 5-year forecast adopted in the model

Capitalised development costs were impaired during the year due to management's determined uncertainty of future sales opportunities of the product line where the technology being developed was to be utilised.

15. Deferred tax assets and liabilities

	2018 $'000	2017 $'000
Non-current asset:		
Deferred tax assets	-	**3,932**
Non-current liability:		
Deferred tax liability	-	**(2,627)**
Net deferred taxes	-	**1,305**

Deferred taxes arising from temporary differences and recognised in the statement of financial position can be summarised as follows:

Deferred tax (liabilities) / assets	**1 Jul 2017 $'000**	**Recognised in other comprehensive income $'000**	**Recognised in profit and loss $'000**	**30 June 2018 $'000**
Doubtful debts	34	-	(11)	23
Inventories	43	-	14	57
Warranty provision	40	-	(40)	-
Employee provisions	116	-	(14)	102
Intangible assets	(2,509)	-	2,509	-
Accrued expenses	85	-	136	221
Unrealised FX (gains) losses	(39)	-	(54)	(93)
Borrowing costs	(53)	-	241	188
Financial assets	(11)	-	11	-
Unused tax losses	3,579	-	746	4,325
Equity-raising costs	20	-	(20)	-
Net deferred taxes asset	1,305	**-**	**3,518**	**4,823**
Net Deferred taxes derecognised	**-**	**-**	**-**	**(4,823)**
Net deferred taxes asset	**1,305**	**-**	**3,518**	**-**

Deferred tax (liabilities) / assets	**1 Jul 2016 $'000**	**Recognised in other comprehensive income $'000**	**Recognised in profit and loss $'000**	**30 June 2017 $'000**
Doubtful debts	34	-	-	34
Inventories	114	-	(71)	43
Warranty provision	180	-	(140)	40
Employee provisions	78	-	38	116
Intangible assets	(2,509)	-	-	(2,509)
Accrued expenses	2	-	83	85
Unrealised FX (gains) losses	(9)	-	(30)	(39)
Borrowing costs	(182)	-	129	(53)
Financial assets	(11)	-	-	(11)
Unused tax losses	1,560	-	2,019	3,579
Equity-raising costs	25	-	(5)	20
Other financial liabilities	131	-	(131)	-
	(587)	**-**	**1,892**	**1,305**

Net deferred tax assets relating to losses and timing differences were de-recognised in the statement of financial position due to uncertainty as to the timing of their recoupment from sufficient future taxable income. Deferred tax assets available to the Group at 30 June 2018 relating to unused tax losses not recognised in the statement of financial position at 30% tax rate were$6,132,464.

16. Trade and other payables

	2018 $'000	2017 $'000
Current:		
Trade payables	6,370	5,232
Sundry payables and accrued expenses	2,091	1,732
Total trade and other payables	**8,461**	**6,964**

All amounts are short-term. The carrying values of trade payables and other payables are considered to be a reasonable approximation of fair value.

17. Borrowings

	2018 $'000	2017 $'000
Current:		
Convertible notes (Note 19.1)	2,706	-
Lease liability	-	110
Short-term loan - unsecured	-	1,000
Total current borrowings	**2,706**	**1,110**
Non-current:		
Convertible notes	-	7,406
Total non-current borrowings	**-**	**7,406**

Refer to Note 33 for information on financial instruments.

Total secured liabilities

The total secured liabilities (current and non-current) are as follows:

	2018 $'000	2017 $'000
Convertible notes (i)	2,976	7,876
Less capitalised borrowing costs	(270)	(470)
Lease liability (ii)	-	110
Less deferred interest charges	-	-
Short-term loan (iii)	-	1,000
	2,706	**8,516**

Assets pledged as security

(i) Convertible notes are secured by first ranking general security agreements in relation to the current and future assets of Atomos Ltd and each wholly-owned subsidiary.

(ii)The lease liabilities are effectively secured as the rights to the leased assets, recognised in the statements of financial position, revert to the lessor in the event of default.

Financing arrangements

Unrestricted assess was available at the reporting date to the following lines of credit:

	2018 $'000	2017 $'000
Total facilities		
Financial institution – credit card facility	450	750
	450	**750**
Used at reporting date		
Financial institution – credit card facility	428	548
	428	**548**
Unused at reporting date		
Financial institution – credit card facility	22	202
	22	**202**

18. Provisions

	2018 $'000	2017 $'000
Current:		
Warranty (i)	198	133
Employee benefits (ii)	295	333
	493	**466**
Non-current:		
Employee benefits (ii)	**47**	**53**

(i) Warranty claims

The provision for warranty claims represents the present value of the Directors' best estimate of the future outflow of economic benefits that will be required under the Group's obligations for warranties under local sale of goods legislation. The estimate has been made on the basis of historical warranty trends and may vary as a result of new materials, altered manufacturing processes or other events affecting product quality.

(ii) Employee benefits

The provision for employee benefits relates to the group's liability for accumulated long service and annual leave entitlements.

Amounts not expected to be settled within the next 12 months

The current portion of this liability includes all accrued annual leave, the unconditional entitlements to long service leave where employees have completed the required period of service and also those employees who are entitled to pro-rata payments in certain circumstances. The entire amount of the provision of $295,000 (2017: $333,000) is presented as a current liability since the group does not have an unconditional right to defer settlement for any of these obligations. However, based upon past experience, the group does not expect all employees to take the full amount of accrued leave or require payment within the next twelve months. The group does not expect $220,000 (2017: $218,000) of this liability to be taken or paid within the next 12 months.

19. Other financial liabilities

	2018 $'000	2017 $'000
Current		
Designated at fair value through profit and loss		
Derivative financial liability (Note 19.2)	1,496	-
Total current other financial liabilities	**1,496**	**-**
Non-current		
Designated at fair value through profit and loss		
Derivative financial liability (Note 19.2)	-	5,063
Total no-current other financial liabilities	**-**	**5,063**

19.1 Convertible notes

(a) During the financial year the Company issued 3,777,633 (2017: 12,939,509) notes with a face value of $1.00 each and an aggregated principal amount of $3,777,633 (2017: $12,939,509). Interest is payable six monthly in arrears at the rate of 10% per annum. At the Company's option, the interest can be paid in cash or by the issue of additional convertible notes. The convertible notes expire 24 months from the issue date but this date may be extended by 12 months provided prior noteholder approval is obtained.

The net proceeds received from the issue of the convertible notes have been split between the financial liability element valued at amortised cost and the derivative liability valued at fair value through profit and loss.

19.1 Convertible notes (continued)

The convertible noteholder can at their option be repaid the principal amount or convert the principal amount into shares in the Company and may elect to convert at any time prior to their expiry.

(b) The derivative liability within the convertible notes reflects the fact that the convertible notes do not convert to a fixed number of ordinary shares in the Parent Company. The derivative liability is calculated based upon the present value utilising level 3 inputs of the fair value hierarchy based on available information.

19.2 Derivative liability

	2018 $'000	2017 $'000
Balance at the beginning of the year	5,063	-
Derivative component of convertible notes issued	1,353	5,063
Net (gain) / loss arising on financial liabilities designated as FVTPL	(377)	-
Derecognise derivative component of convertible notes converted	(4,543)	-
Derivative liability at 30 June	**1,496**	**5,063**

20. Issued capital

	2018 $'000	2017 $'000
Ordinary shares – fully paid (a)	28,987	8,595
Class A shares – fully paid (b)	-	292
	28,987	**8,887**

(a) Ordinary shares

	2018 Shares	2017 Shares	2018 $'000	2017 $'000
Shares issued and fully paid:				
• beginning of the year	16,958	16,958	8,595	8,595
• 28/11/2017 – additional shares issued @ $977.62 per share.	715	-	-	-
• 18/1/2018 – additional shares issued to existing shareholders as part of 1:3,000 share split.	53,001,327	-	-	-
• 18/1/2018 – Class A shares reclassified to ordinary shares.	3,747,000	-	150	-
• 10/5/2018 – Class A shares reclassified to ordinary shares.	4,533,000	-	142	-
• 6/6/2018 - share issued at $0.41 cents per share.	17,165,301	-	7,000	-
• 29/6/2018 - Conversion of convertibles notes to ordinary shares at $0.465 per share.	27,258,564	-	13,567	-
• equity-raising costs, net of income tax.	-	-	(467)	-
Total share capital at 30 June	**105,722,865**	**16,958**	**28,987**	**8,595**

All shares are equally eligible to receive dividends and the repayment of capital and represent one vote at a shareholders' meeting of the Company.

20. Issued capital (continued)

(b) Class A shares

	2018 Shares	2017 Shares	2018 $'000	2017 $'000
Shares issued and fully paid:				
• beginning of the year	2,760	2,760	292	292
• 18/1/2018 – additional shares issued as part of 1:3,000 share split.	8,277,240	-	-	-
• 18/1/2018 – shares reclassified to ordinary shares.	(3,747,000)	-	(150)	-
• 10/5/2018 – shares reclassified to ordinary shares.	(4,533,000)	-	(142)	-
Total share capital at 30 June	**-**	**2,760**	**-**	**292**

All shares are equally eligible to receive dividends and the repayment of capital however Class A shares do not carry voting rights.

(c) Dividends

There were no dividends paid or declared to equity holders during or since the year ended 30 June 2018. There were no dividends paid during the comparative period.

(d) Share options granted under the Company's employee share option plan

At 30 June 2018, Directors, executives and senior employees held options over 3,593,770 ordinary shares of the Company. At 30 June 2017, no share options were held. Share options granted under the Company's employee option plan carry no rights to dividends and no voting rights. Further details of the employee share option plan are provided in Note 22.

(e) Earnings per share

Both the basic and diluted earnings per share have been calculated using the loss attributable to shareholders of the Parent Company (Atomos Ltd) as the numerator. The reconciliation of the weighted average number of shares for the purposes of diluted earnings per share to the weighted average number of ordinary shares used in the calculation of basic earnings per share is as follows:

	2018 $'000.	2017 $'000.
Loss attributable to the owners of the Company	(16,513)	(4,887)

	2018 No.	2017 No.
• weighted average number of shares used in basic earnings per share	56,016,171	53,021,045
• weighted average number of shares used in diluted earnings per share	56,016,171	53,021,045

21. Reserves

Details of reserves are as follows:

	Foreign currency translation reserve $'000	Share based payments Reserve $'000	Total $'000
Balance at 1 July 2016	10	-	10
Exchange differences arising on translating the foreign operations	185	-	185
Balance at 30 June 2017	195	**-**	**195**
Balance at 1 July 2017	195	-	195
Share based payments for services provided	-	699	699
Employee share based payments	-	314	314
Exchange differences arising on translating the foreign operations	157	-	157
Balance at 30 June 2018	**352**	**1,013**	**1,365**

22. Employee share-based payments

Details of the employee share option plan of the Company

The Company has a share option scheme for Directors, executives and senior employees of the Company and its subsidiaries. As approved by shareholders and in accordance with the terms of the plan, Directors, executives and senior employees may be granted options to purchase ordinary shares.

Each employee share option converts into one ordinary share of the Company on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The number of options granted is calculated in accordance with a performance based criteria approved by the Company and is subject to approval by the remuneration committee. The formula rewards executives and senior employees to the extent of the Group's and the individual's achievement judged against both qualitative and quantitative criteria from the following financial service measures:

- improvement in revenue
- improvement in EBITDA
- service to the company

Employee shares options issued

The following share-based payment arrangements were in existence during the current year.

Option series	Number	Grant date	Vesting date	Expiry date	Exercise price	Fair value at grant date
Granted: 26 Feb 2018	612,990	26/02/2018	30/06/2018	12/04/2028	$0.4729	$0.3263
Granted: 26 Feb 2018	612,990	26/02/2018	30/06/2019	12/04/2028	$0.4729	$0.3263
Granted: 26 Feb 2018	2,367,790	26/02/2018	30/06/2020	12/04/2028	$0.4729	$0.3263

There were no share-based payment arrangements in existence during the prior year.

22. Employee share-based payments (continued)

Fair value of share options granted during in the year

The fair value of the share options granted during the financial year is $0.3263 (2017:Nil). Options were valued using a binomial option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioural considerations.

Inputs into the model:

Grant date share price:	$0.3263	Exercise price:	$0.4729
Expected volatility:	78%	Options life:	10 years
Dividend yield:	Nil	Risk-free interest rate:	2.775%

Movements in share options during in the year

The following reconciles the share options outstanding at the beginning and end of the year.

	2018 Number of options	2018 Weighted average exercise price	2017 Number of options	2017 Weighted Average Exercise Price
Balance at the beginning of the year	-	-	-	-
Granted during the year	3,593,770	$0.4729	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Balance at the end of the year	**3,593,770**	**$0.4729**	**-**	**-**

612,990 options have vested and are exercisable as at the end of the 2018 reporting year. The remaining options issued have not yet vested.

Share options exercised during the year

There were no share options exercised during the year or the prior year.

23. Reconciliation of cash flows from operating activities

(a) Reconciliation of cash flows from operating activities	2018 $'000	2017 $'000
Cash flows from operating activities		
Loss for the year	(16,513)	(4,887)
Adjustments for:		
• depreciation expense	278	213
• doubtful debt expense	120	-
• obsolete stock provision	47	-
• loss on disposal of property plant and equipment	24	-
• share benefits expense	1,013	-
• impairment of intangible assets	9,729	-
• interest expense settled through issue of equity	3,508	104
• Interest expense included in financing	432	565
• unrealised foreign currency expense	157	94
• Gain arising on financial liabilities designated as FVTPL	(377)	-
	(1,582)	(3,911)
Movements in working capital:		
• (Increase)/decrease in inventories	(2,018)	656
• (Increase)/decrease in trade and other receivables	(1,194)	2,629
• (Increase)/decrease in other assets	(1,003)	(34)
• (Increase)/decrease in deferred tax assets	3,932	(2,096)
• Increase/(decrease) in trade and other payables	1,570	(1,843)
• Increase/(decrease) in current tax liabilities	-	(544)
• Increase/(decrease) in deferred tax liabilities	(2,627)	204
• Increase/(decrease) in provisions	21	68
Net cash used in operating activities	**(2,901)**	**(4,871)**

(b) Non- cash financing transactions

During the financial year, there were no non-cash financing activities (2017: $Nil).

24. Interests in subsidiaries

Set out below details of the subsidiaries held directly by the Group:

Name of the Subsidiary	Country of incorporation and principal place of business	Principal activity	Group proportion of ownership interests 30 June 2018	Group proportion of ownership interests 30 June 2017
Atomos AU Pty Ltd (formerly Atomos Global Pty Ltd) *	Australia	Executive, marketing & finance	100%	100%
Atomos Engineering Pty Ltd	Australia	Engineering	100%	100%
Atomos GmbH	Germany	Global trading & service	100%	100%
ACN 617 470 729 (formerly Atomos Pty Ltd)*	Australia	Sales	100%	100%
Atomos Global Pty Ltd (formerly Atomos Production Pty Ltd)*	Australia	Procurement & production	100%	-
Atomos IP Pty Ltd	Australia	Intellectual property	100%	-
Atomos China	China	Trading (China) & services	100%	100%
Atomos Design kk	Japan	Engineering & business development	100%	100%
Atomos Japan Co. kk	Japan	Dormant	100%	100%
Atomos Inc	United States	Services	100%	100%
Atomos Global (UK) Ltd	England	Engineering & services	100%	100%

* Change of name effective 6 September 2018.

25. Related party transactions

The Group's related parties include key management, post-employment benefit plans for the Group's employees and others as described below. Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

Transactions with key management personnel

Key management of the Group are the executive members of Atomos's Board of Directors and members of the Executive Team. Key management personnel remuneration includes the following expenses:

	2018 $'000	2017 $'000
Short-term employee benefits:		
• salaries including bonuses	1,221	654
• non-monetary benefits	3	47
Total short-term employee benefits	**1,224**	**701**
Long- term employee benefits:		
Total long-term employee benefits	**61**	**46**
Post-employment benefits:		
• superannuation	73	57
Total post-employment benefits	**73**	**57**
Share-based payments	**426**	**-**
Total remuneration	**1,784**	**804**

Other transactions with key management personnel

There were no other transactions with key management personnel during the year.

26. Contingent liabilities

RED.com LLC ("RED") has alleged that the recording and/or playback of two of five video codec standards currently implemented by certain Company products infringe four RED patents. RED has offered the Company a license to rights under those patents with respect to the implementation. The Company denies RED's allegations and the parties have engaged in discussions to attempt to resolve the matter including in respect of the proposed license. If the parties are unable to resolve the matter, RED may initiate litigation against the Company in an effort to enforce its patent rights. Patent claims or litigation against the Company, regardless of their merits, could, amongst other things, be time consuming and expensive to defend, force the Company to remove the prospective format from certain products, delay shipments of Company products and require the Company to pay damages or settlement fees.

27. Auditor remuneration

	2018 $'000	2017 $'000
Audit services – Deloitte	65	50
Remuneration for audit or review of financial statements	65	50
Other services – Deloitte		
• taxation services	27	22
• other	66	57
Total other services remuneration	93	79
Total auditor's remuneration	**158**	**129**

28. Leases

28.1 Finance leases as lessee

As of 30 June 2018, the net carrying amount of the motor vehicles held under finance lease arrangements (included as part of motor vehicles) is $Nil (2017: $107); and the net carrying amount of the plant and equipment held under finance lease arrangements (included as part of plant and equipment) is $Nil (2017: $Nil) (see Note 13).

The Group's finance lease liabilities, which are secured by the related assets held under finance leases, are classified as follows:

	2018 $'000	2017 $'000
Current:		
• finance lease liabilities	-	110
Non-current:		
• finance lease liabilities	-	-

Future minimum finance lease payments at the end of each reporting period under review were as follows:

	Minimum lease payments due			
	Within 1 year $'000	1-5 years $'000	After 5 years $'000	Total $'000
30 June 2018				
Lease payments	-	-	-	-
Finance charges	-	-	-	-
Net present values	**-**	**-**	**-**	**-**
30 June 2017				
Lease payments	111	-	-	111
Finance charges	(1)	-	-	(1)
Net present values	**110**	**-**	**-**	**110**

28.2 Operating leases as lessee

The Group leases an office at various locations under operating leases. The future minimum lease payments are as follows:

	Minimum lease payments due			
	Within 1 year $'000	1-5 years $'000	After 5 years $'000	Total $'000
30 June 2018	170	-	-	170
30 June 2017	165	170	-	335

Lease expense during the period amounted to $165,000 (2017: $160,000) representing the minimum lease payments.

29. Financial instrument risk

29.1 Risk management objectives and policies

The Group is exposed to various risks in relation to financial instruments. The Group's financial assets and liabilities by category are summarised in Note 33. The main types of risks are market risk, credit risk and liquidity risk.

The Group's risk management is coordinated at its headquarters, in close cooperation with the Board of Directors, and focuses on actively securing the Group's short to medium-term cash flows by minimising the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed are described below.

29.2 Market risk analysis

The Group is not exposed to significant market risk through its use of financial instruments and specifically to interest rate risk, which result from both its operating and investing activities. The Group's borrowings consist of convertible notes whereby interest is paid at the fixed rate of 10% paid twice yearly.

29.3 Credit risk analysis

Credit risk is the risk that a counterparty fails to discharge an obligation to the Group. The Group is exposed to this risk for various financial instruments, for example by trade receivables. The Group's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date, as summarised below:

	2018 $'000	2017 $'000
Classes of financial assets		
Carrying amounts:		
• cash and cash equivalents	1,447	1,548
• trade and other receivables	4,848	3,727
	6,295	**5,275**

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties. The Group's management considers that all of the above financial assets that are not impaired or past due for each of the 30 June reporting dates under review are of good credit quality. At 30 June, the Group has certain trade receivables that have not been settled by the contractual due date but are not considered to be impaired. The amounts at 30 June analysed by the length of time past due, are:

	2018 $'000	2017 $'000
Past due under 30 days	896	241
Past due 30 days to under 60 days	111	93
Past due 60 days and over	8	9
Total	**1,015**	**343**

29.3 Credit risk analysis

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Trade receivables consist of a large number of customers in various industries and geographical areas. Based on historical information about customer default rates management consider the credit quality of trade receivables that are not past due or impaired to be good.

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

29.4 Liquidity risk analysis

Liquidity risk is the risk that the Group might be unable to meet its obligations. The Group manages its liquidity needs by monitoring scheduled debt servicing payments for long-term financial liabilities as well as forecast cash inflows and outflows due in day-to-day business. The data used for analysing these cash flows is consistent with that used in the contractual maturity analysis below. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 180-day and a 360-day lookout period are identified monthly. Net cash requirements are compared to available borrowing facilities in order to determine headroom or any shortfalls. This analysis shows that available borrowing facilities are expected to be sufficient over the lookout period.

The Group's objective is to maintain cash and marketable securities to meet its liquidity requirements for 30-day periods at a minimum. This objective was met for the reporting periods. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

The Group considers expected cash flows from financial assets in assessing and managing liquidity risk, in particular its cash resources and trade receivables. The Group's existing cash resources and trade receivables significantly exceed the current cash outflow requirements. Cash flows from trade and other receivables are all contractually due within one (1) month.

The Group's non-derivative financial liabilities have contractual maturities (including interest payments where applicable) as summarised below:

	Current		Non-current	
	Within 6 months $'000	6 - 12 months $'000	1 - 5 years $'000	5+ years $'000
At 30 June 2018				
Convertible notes	-	2,706	-	-
Trade and other payables	8,461	-	-	-
Total	**8,461**	**2,706**	**-**	**-**
At 30 June 2017				
Convertible notes	-	-	7,406	-
Short-term loan	-	1,000	-	-
Lease liabilities	110		-	-
Trade and other payables	6,964	-	-	-
Total	**7,074**	**1,000**	**7,406**	**-**

The above amounts reflect the contractual undiscounted cash flows, which may differ to the carrying values of the liabilities at the reporting date.

30. Fair value measurement of financial instruments

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three (3) levels of a fair value hierarchy. The three (3) levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: unobservable inputs for the asset or liability

The following table shows the levels within the hierarchy of financial assets and liabilities measured at fair value on a recurring basis at 30 June 2018 and 30 June 2017:

30 June 2018	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial liabilities				
Derivative financial liability	-	-	1,496	1,496
Total liabilities	**-**	**-**	**1,496**	**1,496**
Net fair value	**-**	**-**	**1,496**	**1,496**

30 June 2017	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial liabilities				
Derivative financial liability	-	-	5,063	5,063
Total liabilities	**-**	**-**	**5,063**	**5,063**
Net fair value	**-**	**-**	**5,063**	**5,063**

Measurement of fair value of financial instruments

The Group's finance team performs valuations of financial items for financial reporting purposes, including Level 3 fair values, in consultation with third party valuation specialists for complex valuations. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information. The finance team reports directly to the Chief Financial Officer (CFO) and to the Board of Directors. Valuation processes and fair value changes are discussed among the Board of Directors and the valuation team at least every year, in line with the Group's reporting dates.

31. Capital management policies and procedures

The Group's capital management objectives are:

- to ensure the Group's ability to continue as a going concern, and
- to provide an adequate return to shareholders;

by pricing products commensurately with the level of risk.

The Group monitors capital on the basis of the carrying amount of equity less cash and cash equivalents as presented on the face of the statement of financial position. Management assesses the Group's capital requirements in order to maintain an efficient overall financing structure while avoiding excessive leverage. This takes into account the subordination levels of the Group's various classes of debt. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to

31. Capital management policies and procedures (continued)

maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The amounts managed as capital by the Group for the reporting periods under review are summarised as follows:

	2018 $'000	2017 $'000
Total equity	9,286	4,529
Cash and cash equivalents	1,447	1,548
Capital	**10,733**	**6,077**
Total equity	9,286	4,529
Borrowings and other financial liabilities	4,202	13,579
Overall financing	**13,488**	**18,108**
Capital-to-overall financing ratio	**80%**	**34%**

32. Parent entity

Information relating to Atomos Limited ('the Parent Entity'):

	2018 $'000	2017 $'000
Statement of financial position		
Current assets	67	-
Total assets	118	12,595
Current liabilities	(3)	(2,903)
Total liabilities	(4,204)	(5,784)
Net assets (deficiency)	(4,086)	6,811
Issued capital	28,987	8,887
Accumulated losses	(34,088)	(2,076)
Reserves	1,015	-
Total equity (deficiency)	(4,086)	6,811
Statement of profit or loss and other comprehensive income		
Profit / (loss) for the year	(32,013)	46
Other comprehensive income	2	-
Total comprehensive income	(32,011)	46

The Parent Entity has no capital commitments at 30 June 2018 (2017: $Nil).
The Parent Entity had no contingent liabilities at 30 June 2018 (2017: $Nil).

33. Financial assets and liabilities

33.1 Categories of financial assets and liabilities

Notes 3.16 and 3.17 provide a description of each category of financial assets and financial liabilities and the related accounting policies. A description of the Group's financial instrument risks, including risk management objectives and policies is given in Note 29. The methods used to measure financial assets and liabilities reported at fair value are described in Note 30.

The carrying amounts of financial assets and financial liabilities in each category are as follows:

30 June 2018	Notes	Financial assets $'000	Total $'000
Financial assets			
Cash and cash equivalents	9	1,447	1,447
Trade and other receivables [(a)]	10	4,848	4,848
		6,295	**6,295**

(a) These amounts only represent trade receivables that are financial assets. See Note 10.

33.1 Categories of financial assets and liabilities (continued)

	Notes	Other liabilities $'000	Total $'000
30 June 2018			
Financial liabilities			
Current borrowings	17	2,706	1,027
Trade and other payables	16	8,461	8,461
		11,167	**9488**

	Notes	Financial assets $'000	Total $'000
30 June 2017			
Financial assets			
Cash and cash equivalents	9	1,548	1,548
Trade and other receivables [(a)]	10	3,727	3,727
		5,275	**5,275**

(a) These amounts only represent trade receivables that are financial assets. See Note 10.

	Notes	Other liabilities $'000	Total $'000
30 June 2017			
Financial liabilities			
Non-current borrowings	17	7,406	7,406
Current borrowings	17	1,110	1,110
Trade and other payables	16	6,964	6,964
		15,480	**15,480**

33.2 Borrowings

Borrowings include the following financial liabilities:

Financial liabilities	**Current**		**Non-current**	
	2018 $'000	**2017 $'000**	**2018 $'000**	**2017 $'000**
Carrying amount at amortised cost:				
• convertible notes (Note 17)	2,706	-	-	7,406
• short-term loan (Note 17)	-	1,000	-	-
• finance lease liabilities (Note 17)	-	110	-	-
	2,706	**1,110**	**-**	**7,406**

All borrowings are denominated in $AUD.

Borrowings at amortised cost

Convertible notes are secured by first ranking general security agreements in relation to the current and future assets of Atomos Limited and each wholly owned subsidiary. Current interest rates are fixed at 10.0% (2017: 10%). The carrying amount of convertible notes is considered to be a reasonable approximation of the fair value.

33.3 Other financial instruments

The carrying amount of the following financial assets and liabilities is considered a reasonable approximation of fair value:

- trade and other receivables
- cash and cash equivalents; and
- trade and other payables

34. Subsequent events

On 31 August 2018, the Company issued 7,000,000 convertible notes with a face value of $1.00 each and an aggregated principal amount of $7,000,000. Interest is payable at the rate of 10% per annum. The convertible notes mature on 31 December 2019. In the event that the Company receives written unconditional confirmation from the ASX that it will be admitted to the Official List, the Notes will automatically convert into fully paid ordinary shares.

There are no other matters or circumstances that have arisen since the end of the year that have significantly affected or may significantly affect either:

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

35. Segment reporting

The Group operates in one segment being the manufacture and sale of video equipment. No operating segments have been aggregated in arriving at the reportable segment of the Group.

The Company reports revenues from external customers attributable to the following geographic regions:

- North America
- Europe, the Middle East and Africa (EMEA)
- Asia Pacific (APAC)
- Other

Directors' Declaration

The Directors of Atomos Limited declare that:

1. The Consolidated Financial Statements and notes of Atomos Limited are in accordance with the Corporations Act 2001, and:

    a. give a true and fair view of its financial position as at 30 June 2018 and of its performance for the financial year ended on that date of the consolidated group; and
    b. comply with Australian Accounting Standards, which, as stated in accounting policy Note 3.1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS).

2. There are reasonable grounds to believe that Atomos Limited will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors:

Mr Christopher Tait
Director

Melbourne
26th day of November 2018

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Independent Auditor's Report to the members of Atomos Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Atomos Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2018, 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, and notes to the 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 Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended; and
(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

We 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 as at the 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.

Material Uncertainty Related to Going Concern

Without modifying our opinion, we draw attention to Note 4.3 in the financial report, which indicates that the Group incurred a net loss after tax of $16.5 million and net cash outflows from operating and investing activities of $7.2 million during the year ended 30 June 2018. These conditions, along with those matters set forth in Note 4.3, indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

Other Information

The directors are responsible for the other information. The other information comprises the directors' report included in the Group's annual report for the year ended 30 June 2018, 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 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 the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has 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 the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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Auditor's Responsibilities for the Audit of the Financial Report (continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- 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's audit. We remain solely responsible for our audit opinion.

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Craig Bryan
Partner
Chartered Accountants
Melbourne, 26 November 2018