

APPENDIX 4E

Reporting period

Current period: Year ended 30 June 2020
 Previous corresponding period: Year ended 30 June 2019

Results for announcement to market

Continuing Operations: Revenue from ordinary activities	up	91%	To	\$1,227,213	from	\$643,579
Continuing Operations: Loss from ordinary activities after tax attributable to members	up	43%	to	(\$9,487,359)	from	(\$6,644,420)
Net loss for the period attributable to members	up	45%	to	(\$9,487,359)	from	(\$6,552,197)

Dividends

	Amount per share	Franked amount per share
Final	\$ nil	n/a
Interim	\$ nil	n/a

Record date for determining entitlements to dividends: n/a

Brief explanation necessary to enable the figures above to be understood

Refer to the Directors' Report included in the attached Financial Statements.

Net tangible assets

30 June 2020 Net tangible asset backing: 2.37 cents per share¹
 30 June 2019 Net tangible asset backing: 1.33cents per share

Notes:

1. This calculation excludes right of use assets and the associated lease liabilities

Other

The Company has no equity interests in any associates or joint ventures.

Accounting standards used in relation to the Company's foreign subsidiaries in compiling this financial report are the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

ADVERTITAS LIMITED

ABN 88 156 377 141

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

A D V E R I T A S L I M I T E D
C O R P O R A T E D I R E C T O R Y

Directors

Non-Executive Chairman	Mr Stephen Belben
Managing Director and Chief Executive Officer	Mr Mathew Ratty
Non-Executive Directors	Mr Renaud Besnard Mr Mark McConnell Mr Andrew Stott

Company Secretary

Ms Susan Hunter

Principal and Registered Office

Suite 10, 16 Brodie Hall Drive
Bentley WA 6102

Telephone: +61 8 9473 2500
Facsimile: +61 8 9473 2501

Share Register

Computershare Investor Services Pty Limited
Level 11, 172 St Georges Terrace
Perth WA 6000
Telephone: +61 8 9323 2000
Facsimile: +61 8 9323 2033

Securities Exchange Listing

Adveritas Limited shares are listed on the Australian Securities Exchange
(ASX: AV1)

Solicitors

Steinepreis Paganin
Level 4, The Read Building
16 Milligan Street
Perth WA 6000

Bankers

Commonwealth Bank of Australia Limited
150 St Georges Terrace
Perth WA 6000

Auditors

Ernst & Young
The EY Building
11 Mounts Bay Road
Perth WA 6000

A D V E R I T A S L I M I T E D
C O N T E N T S

	Page
Directors' Report	2
Auditor's Independence Declaration	26
Consolidated Statement of Profit and Loss and Other Comprehensive Income	27
Consolidated Statement of Financial Position	28
Consolidated Statement of Cash Flows	29
Consolidated Statement of Changes in Equity	30
Notes to the Consolidated Financial Statements	31
Directors' Declaration	74
Independent Auditor's Report	75

ADVERTITAS LIMITED

DIRECTORS' REPORT

The directors present their report together with the consolidated financial report of Adveritas Limited (**Adveritas** or **Company**) and its controlled entities (collectively referred to as the **Group**) for the financial year ended 30 June 2020 and the independent auditor's report thereon.

DIRECTORS

The names and details of the Company's directors in office during the financial year and until the date of this report are set out below. Directors were in office for this entire period unless stated otherwise.

Mr Stephen Belben **Non-Executive Chairman**

Mr Belben has over 20 years' experience in both executive and non-executive director roles, at a number of public and private companies. This experience follows 9 years as a senior partner at Ernst & Young, specialising in corporate and assurance work in Australia. Whilst at Ernst & Young, Mr Belben was appointed the national partner in charge of one of the firm's largest Industry Group's where he was responsible for the development and servicing of a major client base in that sector in Australia.

During the last three years, Mr Belben has not served as a director of any other ASX listed company.

Mr Belben is a Chartered Accountant and holds a Bachelor of Accountancy degree and a Bachelor of Commerce Honours degree.

Mr Mathew Ratty **Managing Director and Chief Executive Officer**

Mr Ratty is an experienced investor focused on Australian and US equity and debt markets. He has extensive experience across capital raising advice, seed investment negotiation, corporate strategy and financial modelling.

He is the co-founder of MC Management Group Pty Ltd, a venture capital firm operating in domestic and international debt and equity markets. At MC Management Group Pty Ltd, which is a substantial shareholder the Company, Mr Ratty holds the position of Head of Investment and is responsible for negotiating deal structures and asset pricing for companies in the healthcare, financial and technology space.

Prior to this, Mr Ratty was a director and analyst at property development and equity company, Gladstone Bridge.

During the last three years Mr Ratty has also served as a Non-Executive Director of medical technology company, Admedus Limited (ASX: AHZ). He resigned from this position on 20 May 2018.

Mr Ratty holds a Bachelor of Commerce (Property and Finance) with first class honours in finance from Curtin University of Technology.

Mr Renaud Besnard **Non-Executive Director**

Mr Besnard is a senior marketing executive currently based in San Francisco. Mr Besnard's roles have included Vice President, Growth lab at PayPal, Senior Director of Global Growth and Product Marketing at Twitter, and Director of Marketing for Asia-Pacific (excl. India) at Uber Technologies Inc. Prior to joining Uber, Mr Besnard was a long-standing Google executive, having spent almost 10 years in senior positions in Europe and Asia.

Mr Besnard is very experienced at developing and executing marketing strategies and leading global growth marketing and global product marketing campaigns across consumer and advertiser audiences.

During the last three years, Mr Besnard has not served as a director of any other ASX listed company.

Mr Besnard holds a Bachelor degree in Commerce from ESSCA Business School (France), a Masters in International Business from the University of Manchester (UK) and an MBA from the University of Oxford (UK).

ADVERTITAS LIMITED

DIRECTORS' REPORT

Mr Mark McConnell Non-Executive Director

Mr McConnell is a successful business developer whose skills cover the areas of business strategy, investor relations, capital raising and innovation. He has extensive experience in both listed and unlisted technology companies in Australia and abroad. He co-founded the Citadel Group Limited (ASX: CGL) in 2007, a leading software and technology company that specialises in secure enterprise information management.

Mr McConnell currently serves as the Chief executive Officer of Citadel Group Limited and is a non-executive director of Viva Leisure Limited (ASX: VVA). Mr McConnell also acts as an advisor to HOF Capital, a global technology investment firm that leverages its extensive networks to help founders build successful businesses.

Mr McConnell has a Bachelor of Science, a Graduate Diploma of Employment Relations, a Graduate Diploma of Logistics Management, and a Masters of Business Administration. He is also a Fellow of the Australian Institute of Company Directors (FAICD).

Mr Andrew Stott Non-Executive Director

Mr Stott has significant experience in global technology mergers and acquisitions for listed and unlisted companies. He is originally from the UK and worked in London and New York before moving to Singapore in 2012 to open the offices of an international tech-focussed law firm. Mr Stott became the Asia managing partner, and regional head of corporate and advised on in excess of US\$20bn in transactions in Asia, Australia, Europe and the USA. Mr Stott established his own advisory firm in early 2018 and has been working as a consultant to Advertitas since August 2018, helping implement its expansion strategy through relationships with internationally based customers and partners.

Until June 2018, Mr Stott was also a Board member of the Asia Video Industry Association (AVIA), an industry lobbying association representing the video industry in Asia. AVIA's 130-member organisations include leading advertising and marketing agencies, media groups, government regulatory bodies, telecom companies, new media service providers and network enablers.

During the last three years, Mr Stott has not served as a director of any other ASX listed company.

Mr Stott holds an LLB Degree in Law and is a solicitor of the courts of England and Wales.

INTERESTS IN THE SECURITIES OF THE COMPANY AND RELATED BODIES CORPORATE

As at 30 June 2020 and as of the date of this report, the interests of the directors in the securities of the Company were as follows:

	As at 30 June 2020			As at the date of this report		
	Ordinary shares	Share options	Performance Rights	Ordinary shares	Share options	Performance Rights
S. Belben	720,000	840,000	-	720,000	840,000	-
M. Ratty	17,780,544	3,999,092	11,250,000	17,780,544	3,999,092	11,250,000
R. Besnard	-	750,000	-	-	750,000	-
M. McConnell	25,032,593	10,282,778	-	25,032,593	10,282,778	-
A. Stott	500,000	1,350,000	-	500,000	1,350,000	-

COMPANY SECRETARY

Ms Susan Hunter has over 23 years' experience in the corporate finance industry and has extensive experience in Company Secretarial and Non-Executive Director roles on ASX, AIM and TSX listed companies.

Ms Hunter holds a Bachelor of Commerce degree from the University of Western Australia majoring in Accounting and Finance, is a Member of the Australian Institute of Chartered Accountants, a Fellow of the Financial Services Institute of Australasia and a Member of the Australian Institute of Company Directors. She is also a Fellow of the Institute of Chartered Secretaries and Administrators and Chartered Secretaries Australia.

DIVIDENDS

The directors do not recommend the payment of a dividend and no amount has been paid or declared by way of a dividend to the date of this report.

PRINCIPAL ACTIVITIES

The Company's principal activity during the year was the provision of comprehensive digital advertising fraud prevention services through its SaaS (software as a service) product, TrafficGuard®.

OPERATING AND FINANCIAL REVIEW

Sales model

During the first half of the financial year, the Group deployed multiple sales strategies to drive revenue growth which resulted in a number of key clients being secured, including Go-Jek and MUV (subsidiary of global agency holding group WPP Plc). Sales and marketing initiatives also resulted in key clients, Rappi and MUV, subsequently upgrading their contracts which not only highlighted client satisfaction but also demonstrated the upsell potential across the Group's client portfolio.

To further optimise the Group's sales strategies and maximise revenue growth, it adopted a "three by three" sales model which was launched on 1 April 2020 and incorporates three pricing models and three routes to market.

The three pricing models are:

- 1. Freemium**
The Freemium offering was launched to create a significantly expanded sales funnel with substantial upsell potential. The offering comprises TrafficGuard's detection only service free-of-charge. The strategy is to make this service widely available with the potential to upsell to TrafficGuard's fraud prevention services.
- 2. Land and expand**
From the Freemium model, clients may elect to upgrade and subscribe to TrafficGuard's fraud prevention service. They will then fall within the "land and expand" model, which involves paying a fixed monthly SaaS fee, with additional charges for excess data usage
- 3. Long-dated contracts**
Once clients fall within the "land and expand" model, there is potential to upgrade their contract to a long-dated contract model which provides benefits to the client on a per data usage cost basis.

The three routes to market include:

- 1. Mass market:** accessed through Freemium offering.
- 2. Direct sales:** through the direct sales force located in Asia Pacific (APAC), the United Kingdom, North America and Latin America (LATAM).
- 3. Third party distribution:** through integrations with Campaign Management Platforms, ad agencies and marketplace services to provide even more options for businesses to find and activate TrafficGuard.

Since launching its three by three model, the Group has been gaining strong traction across all marketing channels and pricing models. In particular, a high level of interest in TrafficGuard's Google Pay-Per-Click anti-fraud offering has been noted. By the end of the financial year, the Group had received over 540 Freemium subscribers and a number of those subscribers had converted to "land and expand" customers.

Impact of COVID-19

The global COVID-19 pandemic impacted the Company's revenue in the following ways:

- temporary suspension of services to clients at their request;
- temporary reduction of monthly licence fees to assist struggling clients;
- potential clients requesting to defer final contract negotiations until they have a better understanding of the impact of COVID-19 on their businesses; and
- opportunities to market TrafficGuard were curtailed due to the cancellation of trade shows and events, the imposition of domestic and international travel restrictions, and the ceasing of face to face meetings.

In response to the global COVID-19 pandemic, the Group delayed (where possible) and curtailed expenditure in a number of areas including, in particular, advertising, marketing and public relations. Most importantly, employees across the Company's global operations voluntarily agreed to a temporary reduction in their salaries from 1 April to 31 July. In addition, Board fees were reduced to nil, the CEO salary was reduced by 50% and the salaries of other members of senior management were reduced by 30%. These reductions were made without there being any obligation on the Company to repay the forgone amounts.

ADVERTITAS LIMITED

DIRECTORS' REPORT

Capital raised

During the year, the Group successfully raised \$13.9 million (before costs) as follows:

- August 2019: Placement at \$0.10 per share to institutional and strategic investors, including directors Mathew Ratty and Mark McConnell, to raise \$2.87 million. The directors' participation in this placement was \$1.3 million.
- December 2019: Placement at \$0.17 per share to institutional and strategic investors, including directors Mathew Ratty and Mark McConnell, to raise \$3.5 million. The directors' participation in this placement was \$0.5 million.
- February 2020: 1.3 million options were exercised to raise \$145k.
- March 2020: In response to COVID-19 concerns, a placement at \$0.055 per share to institutional and strategic investors, including director Mathew Ratty, was completed to raise \$1.87 million. Mr Ratty's participation in this placement was \$150k.
- June 2020: Placement at \$0.075 per share to institutional and strategic investors, including director Mark McConnell, to raise \$4.5 million. Mark McConnell's participation in this placement is \$2 million and is expected to be received by the Group in September once shareholders have approved the issue of shares to Mr McConnell.
- June 2020: A Share Purchase Plan (SPP) was offered to eligible shareholders to raise up to \$2 million at \$0.075 per share, the same price at which shares were placed with institutional and strategic investors. The SPP closed 50% over subscribed to raise \$3.07 million.

Update on Mpire Network Transaction

On 31 July 2018, the Group disposed of 90% of its interest in the performance-marketing business, Mpire Network Inc, to ClearPier Inc. As part of the disposal process, the Group agreed to licence its nxus and TrafficGuard products to Mpire Network Inc for a minimum term of 1 year, commencing on 1 August 2018. The initial term of the licencing agreements came to an end on 31 July 2019, and under the terms of the agreements, they were automatically renewed for a further 12-months unless terminated 30 days before the end of the initial term. Mpire Network Inc did not provide a termination notice to the Group. However, after the second term commenced, Mpire Network Inc disputed the renewal mechanism.

In addition, ClearPier Inc has failed to pay the deferred component of the purchase consideration for Mpire Network Inc in accordance with the terms of the Sale and Purchase Agreement.

The Group has instructed its legal counsel to take the required action prescribed by the underlying agreements to resolve the disputes and recover the balances owing to it. For accounting purposes, the Group has adopted a highly conservative stance in relation to the balances owing and has recognised an expected credit loss of \$848k, being the total of the SaaS licence fees outstanding (\$280k) and the deferred consideration receivable (\$568k). The Group also decided to write down its remaining investment in Mpire Network Inc to nil.

Financial summary

	Note	FY 2020 \$	FY 2019 \$
Revenue from software as a service	1	1,227,213	643,579
Grant income	2	1,287,433	955,868
Profit on disposal of performance marketing business		-	594,698
JobKeeper and Cash Flow Booster stimulus income		305,000	-
Foreign exchange gains		-	160,854
Sundry income		21,429	66,317
Other income		1,613,862	1,777,737
Server hosting costs	3	(2,119,094)	(1,364,491)
Administration, marketing and occupancy costs		(1,262,456)	(1,156,668)
Compliance and consultancy costs		(883,354)	(707,811)
Employment costs	4	(5,506,082)	(5,235,288)
Expected credit loss and bad debts expense		(279,343)	(41,463)
Finance costs		(54,245)	-
Overheads		(10,104,574)	(8,505,721)
Foreign exchange losses		(50,325)	-
Depreciation		(136,342)	(39,191)
Impairment loss		(113,525)	-
Expected credit loss – deferred consideration		(567,869)	-
Share based payments (refer to Note 17 to the financial statements)		(1,343,842)	(503,233)
Other expenses		(2,211,903)	(318,570)
Loss before tax		(9,475,402)	(6,628,829)
Income tax expense		(11,957)	(17,591)
Loss after tax - continuing operations		(9,487,359)	(6,644,420)
Profit after tax - discontinued operations		-	92,223
Loss after tax for the Group		(9,487,359)	(6,552,197)

ADVERTITAS LIMITED
DIRECTORS' REPORT

Notes

1. During the previous financial year, the Company's revenue stream transitioned from performance marketing to software as a service. The revenue earned from performance marketing in FY19 is included in the profit after tax from discontinued operations.
2. Grant income relates to the Group's research and development expenditure incurred in FY19 and FY18 respectively.
3. Server hosting costs increased in FY20 as a result of the increase in enterprise-level clients.
4. As part of the Group's sales and marketing initiatives, a number of personnel were recruited during the year to enable the key areas of North America, Latin America, Asia Pacific and the United Kingdom to be effectively targeted.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the Group's state of affairs during the course of the 2020 financial year.

SIGNIFICANT EVENTS AFTER BALANCE DATE

No event has arisen since 30 June 2020 that would be likely to materially affect the operations of the Group, or its state of affairs which has not otherwise been disclosed in this financial report.

LIKELY DEVELOPMENTS AND EXPECTED FUTURE RESULTS

The Group is focused on driving revenue in multiple ways:

- by expanding its Freemium pipeline through increased digital marketing across multiple platforms and by deploying strategic partnerships with agencies and domain name registries;
- by driving Freemium subscriber conversions through content marketing, bundled offerings and the introduction of direct sales contact;
- by actively pursuing upgrades of "land and expand" customers to larger and longer-dated contracts; and
- by converting targets in Enterprise-level pipeline into customers.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group is not subject to any particular or specific environmental regulation in any of the jurisdictions in which it operates and therefore is not required to present further details in relation to environmental regulation.

SHARE OPTIONS

Unissued shares

As at 30 June 2020 and the date of this report, there were 62,246,109 unissued ordinary shares under options (30 June 2019: 64,446,334). Refer to the remuneration report and Note 17 for further details of the unissued ordinary shares under options outstanding.

Expiry Date	Exercise Price	Number on issue
25 August 2020	\$0.45	500,000
24 December 2020	\$0.15	2,650,000
25 October 2021	\$0.10	55,496,109
27 March 2022	\$0.20	3,000,000
19 August 2021	\$0.15	400,000
21 November 2021	\$0.20	200,000
		<hr/> 62,246,109

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate.

Shares issued as a result of the exercise of options

During the financial year, 1,300,225 options were exercised to acquire ordinary shares (2019: 4,500).

ADVERTITAS LIMITED
DIRECTORS' REPORT

PERFORMANCE RIGHTS

Unissued shares

As at 30 June 2020 there were 26,600,000 unissued ordinary shares under performance rights (30 June 2019: 8,250,000). Refer to the remuneration report and Note 17 for further details of the performance rights outstanding.

Holders of performance rights do not have any right, by virtue of the performance right, to participate in any share issue of the Company or any related body corporate.

Shares issued as a result of the conversion of performance rights

During the financial year no performance rights were converted into ordinary shares (2019: 33,332).

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company has agreed to indemnify all the directors of the Company for any liabilities to another person (other than the Company or related body corporate) that may arise from their position as directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract insuring the directors and officers of the Company against any liability incurred in the course of their duties to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

INDEMNIFICATION OF AUDITORS

To the extent permitted by law, the Group has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

DIRECTORS' MEETINGS

The number of meetings of directors held by the Company during the year and the number of meetings attended by each director were as follows:

Number of meetings held	11	
	Number of meetings eligible to attend	Number of meetings attended
S. Belben	11	11
M. Ratty	11	11
R. Besnard	11	8
M. McConnell	11	8
A. Stott	11	11

Committee Membership

Due to the Company's relatively small size and board structure, separate Remuneration and Audit Committees have not been constituted. The full board of directors assumes responsibility for any such matters as outlined in the Company's corporate governance plan.

NON-AUDIT SERVICES

The following non-audit services were provided by the Group's auditor, Ernst & Young Australia, during the year and Ernst & Young Australia received or is due to receive the following amounts for the provision of such services:

	\$
Tax compliance services	<u>39,111</u>

The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means the auditor's independence was not compromised.

AUDITOR INDEPENDENCE

Section 307C of the *Corporations Act 2001* requires the Company's auditors, Ernst & Young Australia, to provide the directors of the Company with an Independence Declaration in relation to the audit of the Financial Report. The directors received the Independence Declaration set out on page 26 for the year ended 30 June 2020.

REMUNERATION REPORT (AUDITED)

This remuneration report for the year ended 30 June 2020 outlines the remuneration arrangements of the Group in accordance with the requirements of the *Corporations Act 2001 (Cth)*, as amended (the Act) and its regulations. This information has been audited as required by section 308(3C) of the Act.

The remuneration report is presented under the following sections:

1. Introduction
2. Remuneration governance
3. Remuneration outcomes
4. Executive contracts
5. Additional disclosures relating to performance rights, options and shares
6. Other transactions and balances with key management personnel and their related parties

1. Introduction

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

The list below outlines the KMP of the Group during the financial year ended 30 June 2020. Unless otherwise indicated, the individuals were KMP for the entire financial year.

For the purposes of this report, the term "executive" indicates the executive directors and senior executives of the Group.

Non-Executive Directors (NEDs)

S. Belben	Non-Executive Chairman
R. Besnard	Non-Executive Director
M. McConnell	Non-Executive Director
A. Stott	Non-Executive Director

Executive Directors

M. Ratty	Managing Director and Chief Executive Officer
----------	---

Senior Executives

L. Taylor	Chief Operations Officer
F. Muir	Chief Financial Officer
S. Hunter	Company Secretary
D. Cox	Chief Revenue Officer
E. Rosenberg	Vice President of Sales North America, resigned 2 October 2019
J. Linden	Vice President of Sales North America, appointed 10 January 2020

2. Remuneration governance

2(a) Remuneration Philosophy

The performance of the Group depends upon the quality of the directors and executives. The philosophy of the Group in determining remuneration levels is to:

- set competitive remuneration packages to attract and retain high calibre employees;
- link rewards to shareholder value creation; and
- establish appropriate, demanding performance hurdles for variable executive remuneration.

2(b) Remuneration Committee

The current size of the Group and structure of the board of directors does not warrant a separate remuneration committee. The board of directors as a whole (**Board**) is currently responsible for determining and reviewing compensation arrangements for directors and executives. Directors are excluded from discussions and voting on their own remuneration arrangements.

The Board assesses the appropriateness of the nature and amount of remuneration of directors and executives on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

REMUNERATION REPORT (AUDITED) (continued)

2(c) Remuneration Structure: Non-Executive Director Remuneration

Fixed Remuneration

In accordance with best practice corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

The Board seeks to set aggregate remuneration of non-executive directors at a level that provides the Group with the ability to attract and retain high calibre directors, whilst incurring a cost that is acceptable to shareholders.

The ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The aggregate remuneration set pursuant to Adveritas Limited's constitution is \$500,000 per year, which may be varied by shareholders in general meeting.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board does not currently seek external remuneration advice.

Each director receives a fee for being a director of the Company.

Options

No options were issued to directors in the current year (2019: 750,000 options to each non-executive director).

2(d) Remuneration Structure: Executive Director and Senior Executive Remuneration

(i) Objective

The Group aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities so as to:

- Reward executives;
- Align the interests of executives with those of shareholders;
- Link reward with strategic goals and performance of the Group; and
- Ensure total remuneration is competitive by market standards.

(ii) Principles of Compensation

Compensation levels for employees of the Group are competitively set to attract and retain appropriately qualified and experienced senior executives. Executive remuneration and other terms of employment are reviewed annually by the Board having regard to the performance, relevant comparative information and expert advice if required.

(iii) Structure

Remuneration consists of the following key elements:

- Fixed Remuneration (base salary, superannuation and non-monetary benefits);
- Variable Remuneration
 - Short-term incentives
 - Long-term incentives

The Board establishes the proportion of fixed and variable remuneration for each executive.

Fixed Remuneration

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market. The Board periodically reviews fixed remuneration when extending or otherwise amending the employment contracts of key executives. This review takes into account the overall performance of the executive and of the Group. The Board considers the executive's performance of the specific duties and tasks set out in their employment contracts which were included based on the general nature of the executive's role together with any specific requirements from the Board.

Executives may be given the flexibility to receive their remuneration in a variety of forms including cash and fringe benefits. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Group.

REMUNERATION REPORT (AUDITED) (continued)

Variable Remuneration – short-term incentive

The objective of short-term incentives is to link the achievement of the Group's operational targets with the remuneration received by the executives charged with meeting those targets. Operational targets are set periodically by the Board and include matters such as the funding of the Company, the timing of technological developments and the implementation of sales and marketing strategies.

From time to time cash bonuses (short-term incentives) are paid where an executive has met a short-term objective of the Group. Such bonuses are paid when specific criteria which are set by the Board are met. These criteria are linked to the operational targets set by the Board. In some instances, cash bonuses are paid when the Board determines that an executive has made contributions that are significant and beyond the normal expectations of their role. In making such determinations, the Board will consider a number of factors including the area of the business that has been impacted by the executive's contributions and the alignment of these contributions to the Group's overall strategy.

Variable Remuneration – long-term incentive

Long-term incentives are delivered in the form of options and performance rights.

Performance rights and options are generally issued in accordance with the terms and conditions of the Adveritas Performance Rights and Options Plan (**Plan**) that has been approved by the Company's shareholders.

Pursuant to the listing rules of the Australian Securities Exchange (**Listing Rules**), the Company's shareholders are required to re-approve the Plan and all unallocated securities issuable under it every three years. The Company's current Plan was approved by shareholders at the 2018 AGM.

The key features of the Plan are as follows:

- The Company's board of directors (**Board**) may, from time to time, in its absolute discretion, make a written offer to any eligible participant to apply for options or performance rights (**Awards**), upon the terms set out in the Plan and upon such additional terms and conditions as the Board determines.
- An Award may be made subject to vesting conditions as determined by the Board in its discretion and as specified in the offer for the Awards.
- The Board may in its absolute discretion resolve to waive any of the vesting conditions applying to Awards due to special circumstances arising in relation to the eligible participant; or the Company passing a resolution for voluntary winding up; or an order is made for the compulsory winding up of the Company.
- Where a change of control occurs, vesting conditions are deemed to be automatically waived.
- An Award will lapse upon the earlier of:
 - an unauthorised dealing, or hedging of the Award;
 - a vesting condition in relation to the Award is not satisfied by its due date, or becomes incapable of satisfaction, as determined by the Board in its absolute discretion;
 - in respect of unvested Awards, the recipient of the unvested Awards ceases to be an eligible participant;
 - in respect of vested Awards, the recipient of the vested Awards ceases to be an eligible participant and the Award granted is not exercised within a one (1) month period (or such later date as the Board determines) of the date that person ceases to be an eligible participant;
 - the Board deems that an Award lapses due to fraud, dishonesty or other improper behaviour of the eligible participant;
 - the Company undergoes a change of control or a winding up resolution or order is made and the Board does not exercise its discretion to vest the Award; and
 - the expiry date of the Award.
- The Board may, in its discretion, determine at any time up until exercise of Awards, that a restriction period will apply to some or all of the shares issued to an eligible participant on exercise of those Awards (**Restriction Period**). In addition, the Board may, in its sole discretion, having regard to the circumstances at the time, waive any such Restriction Period.
- There are no participation rights or entitlements inherent in the Awards and eligible participants will not be entitled to participate in new issues of capital offered to shareholders during the currency of the Awards without exercising the Award.

In the event that an offer of an Award to an executive will result in the maximum Awards allowed under the Plan being exceeded, the offer will not be covered by ASIC Class Order 14/1000 and the Company will be required to address the secondary sale requirements of any shares issued upon exercise of the Award. This includes the Company lodging a cleansing notice under Section 708A(5) of the *Corporations Act 2001* (Cth) or a prospectus under Section 708A(11) of the same Act.

A D V E R I T A S L I M I T E D
D I R E C T O R S ' R E P O R T

REMUNERATION REPORT (AUDITED) (continued)

2(d) Remuneration Structure: Executive Director and Senior Executive Remuneration (continued)

During the current year, nil options and 6,750,000 performance rights were granted to executives (2019: 1,750,000 options and 14,850,000 performance rights).

The exercise price and vesting conditions of options awarded to executives and the vesting conditions of performance rights awarded to executives is determined so as to ensure that these options and performance rights only have value if there is an increase in shareholder wealth over time.

2(e) Remuneration Report Approval at 2019 Annual General Meeting

The remuneration report of Adveritas Limited for the year ended 30 June 2019 was approved by shareholders at the 2019 AGM.

For personal use only

ADVERTITAS LIMITED

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (continued)

3. Remuneration outcomes

Remuneration of Key Management Personnel

In response to the global COVID-19 pandemic, with effect from 23 March 2020, Non-Executive Director fees were reduced to nil, the salary of Mr Ratty was reduced by 50% and the salaries of senior executives employed by the Company were reduced by 30%. These reductions were made without there being any obligation on the Group to repay the forgone amounts.

		Short-term benefits				Post-employment	Long-term benefits	Share-based payments		Total \$	Performance related %	
		Salary & fees \$	Commission / Bonus \$	Termination benefits	Non-monetary benefits \$	Super \$	Long service leave \$	Performance Rights \$	Options \$			
Non-Executive Directors	S. Belben ⁹	2020	42,725	-	-	-	4,059	-	-	-	46,784	-
		2019	60,165	-	-	-	5,716	-	-	51,803	117,684	-
	R. Besnard ⁹	2020	28,483	-	-	-	2,706	-	-	-	31,189	-
		2019	40,110	-	-	-	3,810	-	-	51,803	95,723	-
	M. McConnell ^{1 9}	2020	28,483	-	-	-	2,706	-	-	-	31,189	-
		2019	13,824	-	-	-	1,313	-	-	51,803	66,940	-
	A. Stott ^{1, 9}	2020	31,084	-	-	-	-	-	-	-	31,084	-
		2019	14,991	-	-	-	-	-	-	51,803	66,794	-
	Executive Directors											
	M. Ratty ^{2, 7, 9}	2020	227,580	100,000	-	-	20,691	2,733	544,645	-	895,649	72
	2019	235,044	185,000	-	-	22,621	828	5,303	-	448,796	42	
Total Directors	2020	358,355	100,000	-	-	30,162	2,733	544,645	-	1,035,895	62	
	2019	364,134	185,000	-	-	33,460	828	5,303	207,212	795,937	50	

ADVERTITAS LIMITED
DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (continued)

3. Remuneration outcomes (continued)

		Short-term benefits				Post-employment	Long-term benefits	Share-based payments		Total \$	Performance related %
		Salary & fees \$	Commission / Bonus \$	Termination benefits	Non-monetary benefits \$	Super \$	Long service leave \$	Performance Rights \$	Options \$		
Senior Executives											
L. Taylor ^{3, 8, 9}	2020	242,483	25,000	-	-	20,938	8,268	393,641	-	690,151	61
	2019	243,983	25,000	-	-	20,728	4,671	88,316	-	382,698	30
L. Hunter ⁴	2020	-	-	-	-	-	-	-	-	-	-
	2019	11,868	-	40,331	-	2,881	-	-	-	55,080	-
J. Dutton ^{5, 9}	2020	-	-	-	-	-	-	-	-	-	-
	2019	227,783	-	73,455	-	-	-	-	14,922	316,160	5
T. Allison ⁶	2020	-	-	-	-	-	-	-	-	-	-
	2019	5,658	-	-	-	-	-	-	-	5,658	-
F. Muir ⁹	2020	101,970	-	-	-	9,687	-	-	5,957	117,614	5
	2019	105,642	-	-	-	10,036	-	-	14,922	130,600	11
S. Hunter ¹⁰	2020	72,373	-	-	-	-	-	-	-	72,373	-
	2019	58,838	-	-	-	-	-	-	-	58,838	-
D. Cox ⁹	2020	268,497	-	-	-	20,879	1,302	33,845	8,936	333,459	13
	2019	123,978	-	-	-	11,778	246	-	22,383	158,385	14
E. Rosenberg ¹¹	2020	86,644	-	-	-	-	-	-	-	86,644	-
	2019	60,842	-	-	-	-	-	-	-	60,842	-
J. Linden ¹²	2020	103,332	-	-	-	-	-	-	-	103,332	-
	2019	-	-	-	-	-	-	-	-	-	-
Total Senior Executives	2020	875,298	25,000	-	-	51,504	9,570	427,306	14,893	1,403,572	
	2019	838,592	25,000	113,786	-	45,423	4,917	88,316	52,227	1,168,261	14
Total	2020	1,233,654	125,000	-	-	81,666	12,303	971,951	14,893	2,439,467	46
	2019	1,202,726	210,000	113,786	-	78,883	5,745	93,619	259,439	1,964,198	29

ADVERTITAS LIMITED
DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (continued)

3. Remuneration outcomes (continued)

Notes

1. Mr McConnell and Mr Stott were appointed as non-executive directors on 26 February 2019.
2. Mr Ratty was appointed as permanent Chief Executive Officer on 9 November 2018. Mr Ratty had previously served as the interim Chief Executive Officer.
3. Mr Taylor was appointed as Chief Operations Officer on 20 August 2018. Mr Taylor had previously served as the Chief Technology Officer.
4. Mr Hunter resigned as Chief Operating Officer on 18 July 2018.
5. Mr Dutton's employment ceased on 21 May 2019.
6. Mr Allison resigned on 15 June 2018. Salary and fees comprise consultancy fees charged by Mr Allison subsequent to his resignation.
7. The bonuses paid to Mr Ratty in the current year relate successfully raising capital, securing Tier 1 clients, expanding the US sales team and driving the business such that the Company's share price achieved targeted level. In the prior year, the bonuses paid related to the sale of the performance marketing business and the successful completion of a rights issue and placement to raise additional capital.
8. The bonuses paid to Mr Taylor in the current and prior year relate to the successful achievement of key technical milestones.
9. Refer to section 5 below and Note 17 for further information on the vesting conditions attached to the options and performance rights granted.
10. Ms Hunter provides company secretarial services through Hunter Corporate Pty Ltd, an entity controlled by her.
11. Mr Rosenberg resigned on 2 October 2019.
12. Mr Linden commenced employment on 10 January 2020.

ADVERTITAS LIMITED

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (continued)

4. Executive contracts

Remuneration arrangements for executives are formalised in the employment agreements. The following outlines the details of the contracts with executives:

Mathew Ratty, Managing Director and Chief Executive Officer

Mr Ratty's current employment agreement commenced on 9 November 2018 (Mr Ratty held the position of Interim CEO up to this date). The term of Mr Ratty's contract was extended from 30 June 2021 to 30 June 2023 on 3 July 2020.

Details

- **Remuneration:**
Annual base salary of \$265,000 (plus statutory superannuation). With effect from 23 March 2020, Mr Ratty agreed to forego 50% of his base salary until 31 July 2020 as part of the Group's COVID cost-cutting measures. On 3 July 2020, Mr Ratty's contract was varied to increase the annual base salary to \$290,000 (plus statutory superannuation) with effect from 1 August 2020.
- **Performance related bonuses – short term incentive:**
At the Board's discretion, a cash bonus may be paid to Mr Ratty in relation to the successful completion of various milestones periodically set by the Board. The cash bonus is not to exceed 50% of the annual salary in the financial year the bonus is earned.
- **Performance related bonuses – long term incentive:**
The following performance rights have been issued to Mr Ratty

Milestones to be achieved	Date by which milestone is to be achieved	Quantum of performance rights to vest upon achievement of milestone
First 3 Tier 1 clients in USA	30 June 2021	1,000,000
First 3 Tier 1 clients in Latin America (LATAM)	30 June 2021	1,000,000
First 3 Tier 1 clients in Asia Pacific (APAC)	30 June 2021	1,000,000
First 10 clients that sign on using TrafficGuard	30 June 2021	250,000
First 3 "Tier 1" clients who the Board consider to be enterprise level i.e. > 1 billion clicks per month	30 June 2021	500,000
First achievement of revenue producing twelve-month contracts to the amount of \$1m	30 June 2021	500,000
First achievement of revenue producing twelve-month contracts to the amount of \$3m	30 June 2021	1,000,000
First achievement of revenue producing twelve-month contracts to the amount of \$5m	30 June 2021	1,500,000
First achievement of break-even cash flow in a financial year	30 June 2021	1,000,000
First achievement of audited \$1m EBITDA	30 June 2021	1,500,000
First achievement of audited \$3m EBITDA	30 June 2021	2,000,000
		11,250,000

- **Termination:**
The agreement may be terminated:
 - by the Company without cause by giving twelve months' notice, or immediately with payment in lieu of notice;
 - by the Company giving one months' notice if Mr Ratty is unable to perform his duties due to illness, accident or incapacitation, for six consecutive months or a period aggregating more than six months in any twelve-month period; or
 - by the Company immediately without notice following material breach or in the case of misconduct; or
 - by Mr Ratty without cause by giving three months' notice or immediately if the Company commits any serious or persistent breach of the agreement.
- **Other:**
The agreement includes other general industry standard provisions for a senior executive.

ADVERTITAS LIMITED

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (continued)

4. Executive contracts (continued)

Luke Taylor, Chief Operations Officer

Mr Taylor's current employment agreement commenced on 20 August 2018 (Mr Taylor held the position of Chief Technology Officer up to this date) and the term was extended from 30 June 2021 to 30 June 2023 on 5 July 2020.

Details

- **Remuneration:**
The annual base salary of \$250,000 (plus statutory superannuation) was increased to \$275,000 (plus statutory superannuation) on 21 November 2019. With effect from 23 March 2020, Mr Taylor agreed to forego 30% of his base salary until 31 July 2020 as part of the Group's COVID cost-cutting measures.
- **Performance related bonuses – short term incentive:**
A cash bonus may be paid at any time during the term of the agreement conditional upon the achievement of key performance indicators set by the Chief Executive Officer. The cash bonus is not to exceed 25% of the annual salary in the financial year the bonus is earned
- **Performance related bonuses – long term incentive:**
The following performance rights have been issued to Mr Taylor

Milestones to be achieved	Date by which milestone is to be achieved	Quantum of performance rights to vest upon achievement of milestone
First 3 Tier 1 clients in USA	30 June 2021	1,000,000
First 3 Tier 1 clients in Latin America (LATAM)	30 June 2021	1,000,000
First 3 Tier 1 clients in Asia Pacific (APAC)	30 June 2021	1,000,000
First 10 clients that sign on using TrafficGuard	30 June 2021	200,000
First 3 "Tier 1" clients who the board consider to be enterprise level i.e. > 1 billion clicks per month	30 June 2021	400,000
First achievement of revenue producing twelve month contracts to the amount of \$1m	30 June 2021	400,000
First achievement of revenue producing twelve month contracts to the amount of \$3m	30 June 2021	800,000
First achievement of revenue producing twelve month contracts to the amount of \$5m	30 June 2021	1,200,000
First achievement of break-even cash flow in a financial year	30 June 2021	800,000
First achievement of audited \$1m EBITDA	30 June 2021	1,200,000
First achievement of audited \$3m EBITDA	30 June 2021	1,600,000
		9,600,000

- **Termination:**
The agreement may be terminated:
 - by the Company without cause by giving six months' notice, or immediately with payment in lieu of notice;
 - by the Company giving one months' notice if Mr Taylor is unable to perform his duties due to illness, accident or incapacitation, for six consecutive months or a period aggregating more than six months in any twelve-month period; or
 - by the Company immediately without notice following material breach or in the case of misconduct; or
 - by Mr Taylor without cause by giving three months' notice or immediately if the Company commits any serious or persistent breach of the agreement.
- **Other:**
The agreement includes other general industry standard provisions for a senior executive.

ADVERTITAS LIMITED

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (continued)

4. Executive contracts (continued)

David Cox, Chief Revenue Officer

Mr Cox's current employment agreement commenced on 26 April 2019 and has no fixed term. Mr Cox held the position of Managing Director, APAC Sales from 19 November 2018 to 25 April 2019.

Details

- Remuneration:
 - Annual base salary of \$250,000 plus statutory superannuation. With effect from 23 March 2020, Mr Cox agreed to forego 30% of his base salary until 31 July 2020 as part of the Group's COVID cost-cutting measures.
 - A maximum override commission of 1.5% of revenue received from TrafficGuard SaaS that is attributable to the sales efforts of the Mr Cox's subordinates; and
 - a maximum commission of 7.5% of the total value received from every new client agreement that is attributable to Mr Cox's sales efforts.
- Long term incentives:

On 26 February 2020, Mr Cox was awarded 750,000 performance rights which will vest 2 years from date of issue provided Mr Cox remains a full-time employee of the Group.

In addition, if Mr Cox achieves the milestones listed below within 24 months of commencement of his employment agreement, he will be offered the following options:

Milestones	Quantum of unlisted options upon achievement of milestone
Upon achievement of annualised contract revenue of US\$3 million	1,000,000
Upon achievement of annualised contract revenue of US\$5 million	1,000,000
Upon achievement of annualised contract revenue of US\$7 million	1,000,000
Upon achievement of annualised contract revenue of US\$10 million	1,000,000
Upon achievement of annualised contract revenue of US\$15 million	1,000,000
	5,000,000

The exercise price of the options will be based on the 5-day VWAP at the time the offer is made.

- Termination:

The agreement may be terminated:

 - by either party without cause by giving one months' notice, or in the case of the Company, immediately with payment in lieu of notice;
 - by the Company by giving one months' notice if Mr Cox is unable to perform his duties due to illness, accident or incapacitation, for two consecutive months or a period aggregating more than two months in any twelve-month period; or
 - by the Company by giving one months' notice if Mr Cox commits any serious breach under the agreement that is not remedied within fourteen days; or
 - by the Company immediately without notice following material breach or in the case of misconduct; or
 - by Mr Cox if at any time the Company commits any serious or persistent beach which is not remedied within twenty eight days.
- Other:

The agreement includes other general industry standard provisions for a senior executive.

James Linden, Vice President of Sales North America (appointed 10 January 2020)

Mr Linden's employment agreement commenced on 10 January 2020 and has no fixed term.

Details

- Remuneration:
 - Annual base salary of US\$150,000 plus social security and medical insurance. With effect from 1 April 2020, Mr Linden agreed to forego 5% of his base salary until 31 July 2020 as part of the Group's COVID cost-cutting measures.
 - Commission of 7.5% of sales primarily introduced by Mr Linden.
- Termination:

The agreement may be terminated at any time by either party with or without cause and with or without notice.
- Other:

The agreement includes other general industry standard provisions for a senior executive.

ADVERTITAS LIMITED
DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (continued)

4. Executive contracts (continued)

Fiona Muir, Chief Financial Officer

Ms Muir's employment agreement commenced on 25 June 2018 and has no fixed term.

Details

- Remuneration:
Ms Muir fulfils the role of Chief Financial Officer on a part time basis and is remunerated pro-rata based on an annual base salary of \$230,000 plus statutory superannuation. With effect from 1 April 2020, Ms Muir agreed to forego 30% of her base salary until 31 July 2020 as part of the Group's COVID cost-cutting measures.
- Termination:
The agreement may be terminated:
 - by Ms Muir with one months' notice, unless the Company is in breach of a material term of the agreement, in which case Ms Muir may terminate it immediately;
 - by the Company with one months' notice or payment in lieu of notice;
 - by the Company immediately without notice following material breach or in the case of misconduct
- Other:
The agreement includes other general industry standard provisions for a senior executive.

Susan Hunter, Company Secretary

Ms Hunter provides company secretarial services through Hunter Corporate Pty Ltd. The agreement with Hunter Corporate Pty Ltd commenced on 24 September 2017 and has no fixed term.

Details

- The Company pays a monthly fee together with any out of pocket expenses. The monthly retainer is based on standard market rates. In the event assistance is required outside of the normal company secretarial role, the Company is charged an additional fee based on the hours worked by Ms Hunter.
- The agreement may be terminated by the Company of Hunter Corporate by giving two months' notice.

Eric Rosenberg, Vice President of Sales North America (resigned 2 October 2019)

Mr Rosenberg's employment agreement commenced on 29 April 2019 and had no fixed term. Mr Rosenberg resigned on 2 October 2019. Mr Rosenberg's annual base salary was US\$250,000 plus social security and medical insurance. In addition, Mr Rosenberg was entitled to commission of 7.5% of sales primarily introduced by him.

The agreement with Mr Rosenberg was capable of being terminated at any time by either party with or without cause and with or without notice.

James Dutton, Managing Director, Asia Pacific (employment ceased on 21 May 2019)

Mr Dutton's employment agreement commenced on 5 December 2017 and had no fixed term. Mr Dutton's employment agreement was terminated on 21 May 2019. Mr Dutton's annual base salary was SGD250,000 and he was entitled to two performance-based bonuses of up to SGD35,000 and SGD100,000 upon the achievement of pre-determined key performance indicators.

The agreement with Mr Dutton was capable of being terminated:

- by either party without cause by giving three months' notice, or in the case of the Company, immediately with payment in lieu of notice;
- by the Company by giving one months' notice if Mr Dutton was unable to perform his duties due to illness, accident or incapacitation, for two consecutive months or a period aggregating more than two months in any twelve-month period;
- by the Company by giving one months' notice if Mr Dutton committed any serious breach under the agreement that was not remedied within fourteen days; or
- by the Company summarily without notice following material breach of the agreement or in the case of misconduct; or
- by Mr Dutton if at any time the Company committed any serious or persistent beach which was not remedied within twenty eight days.

ADVERTITAS LIMITED

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (continued)

4. Executive contracts (continued)

Lee Hunter, Chief Operations Officer (resigned on 18 July 2018)

Mr Hunter's employment agreement commenced on 20 March 2018 (Mr Hunter held the position of CEO up to this date) and had no fixed term. Mr Hunter resigned from the Company on 18 July 2018. Mr Hunter's annual base salary was \$240,000 plus statutory superannuation. A performance-based incentive relating to the sale and leaseback of the Company's TrafficGuard SaaS product was not realised at the time of Mr Hunter's resignation.

The agreement with Mr Hunter was capable of being terminated:

- by the Company without cause by giving six months' notice, or immediately with payment in lieu of notice;
- by the Company giving one months' notice if Mr Hunter is unable to perform his duties due to illness, accident or incapacitation, for two consecutive months or a period aggregating more than two months in any twelve month period; or
- by the Company by giving one months' notice following any serious or persistent breach of this agreement; or
- by Mr Hunter without cause by giving six months' notice or immediately if the Company commits any serious breach of the agreement.

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

5. Additional disclosures relating to performance rights, options and shares

Performance Rights

Performance rights do not carry any voting or dividend rights and can only be converted until their expiry date once the vesting conditions have been met.

The tables below disclose the movement in performance rights held by key management personnel during the current and prior year.

	Number of performance rights				
	Opening balance	Granted during the year	Vested during the year	Converted into ordinary shares during the year	Closing balance
2020					
Executive directors					
M. Ratty	8,250,000	3,000,000	1,250,000	-	11,250,000
Executives					
L. Taylor	6,600,000	3,000,000	1,000,000	-	9,600,000
D. Cox	-	750,000	-	-	750,000

	Number of performance rights				
	Opening balance	Granted during the year	Vested during the year	Converted into ordinary shares during the year	Closing balance
2019					
Executive directors					
M. Ratty	-	8,250,000	-	-	8,250,000
Executives					
L. Taylor	-	6,600,000	-	-	6,600,000

ADVERTITAS LIMITED
DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (continued)

5. Additional disclosures relating to performance rights, options and shares (continued)

Performance Rights (continued)

The tables below disclose the fair values of performance rights granted to key management personnel during the current and prior year.

2020

	M. Ratty			L. Taylor			D. Cox		
	Grant date	Number granted	Fair value per performance right at grant date (cents)	Grant date	Number granted	Fair value per performance right at grant date (cents)	Grant date	Number granted	Fair value per performance right at grant date (cents)
Class P	13/11/2019	1,000,000	17.49	20/11/2019	1,000,000	20.99			
Class Q	13/11/2019	1,000,000	17.49	20/11/2019	1,000,000	20.99			
Class R	13/11/2019	1,000,000	17.49	20/11/2019	1,000,000	20.99			
Class S							23/01/2020	750,000	21.99
		<u>3,000,000</u>			<u>3,000,000</u>			<u>750,000</u>	

ADVERTITAS LIMITED
DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (continued)

5. Additional disclosures relating to performance rights, options and shares (continued)

Performance Rights (continued)

2019

	M. Ratty			L. Taylor		
	Grant date	Number granted	Fair value per performance right at grant date (cents)	Grant date	Number granted	Fair value per performance right at grant date (cents)
Class H	26/06/2019	250,000	12.49	25/01/2019	200,000	9.99
Class I	26/06/2019	500,000	12.49	25/01/2019	400,000	9.99
Class J	26/06/2019	500,000	12.49	25/01/2019	400,000	9.99
Class K	26/06/2019	1,000,000	12.49	25/01/2019	800,000	9.99
Class L	26/06/2019	1,500,000	12.49	25/01/2019	1,200,000	9.99
Class M	26/06/2019	1,000,000	9.37	25/01/2019	800,000	7.49
Class N	26/06/2019	1,500,000	6.25	25/01/2019	1,200,000	5.00
Class O	26/06/2019	2,000,000	6.25	25/01/2019	1,600,000	5.00
		<u>8,250,000</u>			<u>6,600,000</u>	

ADVERTITAS LIMITED
DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (continued)

5. Additional disclosures relating to performance rights, options and shares (continued)

Performance Rights (continued)

Details of the vesting conditions, expiry dates and status of the performance rights held by key management personnel on 30 June 2020 are set out below:

Tranche	Vesting Condition	Number	Expiry date	Status at 30 June 2020
Class H	First 10 clients that sign on using TrafficGuard	450,000	30 June 2021	Vested, not yet converted into ordinary shares
Class I	First 3 Tier 1 Clients who the Board consider to be enterprise level i.e. > 1 billion clicks per month	900,000	30 June 2021	Vested, not yet converted into ordinary shares
Class J	First achievement of revenue producing twelve-month contracts to the amount of \$1m	900,000	30 June 2021	Vested, not yet converted into ordinary shares
Class K	First achievement of revenue producing twelve-month contracts to the amount of \$3m	1,800,000	30 June 2021	Not yet vested
Class L	First achievement of revenue producing twelve-month contracts to the amount of \$5m	2,700,000	30 June 2021	Not yet vested
Class M	First achievement of break-even cash flow in a financial year	1,800,000	30 June 2021	Not yet vested
Class N	First achievement of audited \$1m earnings before interest tax, depreciation and amortization (EBITDA)	2,700,000	30 June 2021	Not yet vested
Class O	First achievement of audited \$3m EBITDA	3,600,000	30 June 2021	Not yet vested
Class P	First 3 Tier 1 clients in USA	2,000,000	30 June 2021	Not yet vested
Class Q	First 3 Tier 1 clients in LATAM	2,000,000	30 June 2021	Not yet vested
Class R	First 3 Tier 1 clients in APAC	2,000,000	30 June 2021	Not yet vested
Class S	Executive continues to be a full-time employee of the Group at 26 February 2022.	750,000	25 April 2022	Not yet vested

ADVERTITAS LIMITED

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (continued)

5. Additional disclosures relating to performance rights, options and shares (continued)

Options awarded, vested and lapsed during the year

Share options do not carry any voting or dividend rights, and can only be exercised once the vesting conditions, if any, have been met, and only until the expiry date.

No options were granted to key management personnel during the current year. 1,000,000 options held by key management personnel expired during the current year. The options had an exercise price of \$0.45.

The table below discloses the number of share options granted, vested or lapsed during the prior year and includes only options granted as part of remuneration to key management personnel.

2019	Options granted during the year	Grant date	Fair value per option at grant date	Vesting date	Exercise price	Expiry date	Number vested during year	Number lapsed during year	Value of options granted during year	Value of options exercised during year
	#		\$		\$		#	#	\$	\$
Non-Executive Directors										
S. Belben	750,000	26/06/19	0.07	26/06/19	0.20	27/03/22	750,000	-	51,803	-
R. Besnard	750,000	26/06/19	0.07	26/06/19	0.20	27/03/22	750,000	-	51,803	-
M. McConnell	750,000	26/06/19	0.07	26/06/19	0.20	27/03/22	750,000	-	51,803	-
A. Stott	750,000	26/06/19	0.07	26/06/19	0.20	27/03/22	750,000	-	51,803	-
Senior Executive										
D. Cox ¹	750,000	17/12/18	0.06	24/12/19	0.15	24/12/20	-	-	41,682	-
J. Dutton ¹	500,000	17/12/18	0.06	24/12/19	0.15	24/12/20	-	500,000	27,788	-
F. Muir ¹	500,000	17/12/18	0.06	24/12/19	0.15	24/12/20	-	-	27,788	-

Notes

- The value of options granted during the prior year shown above is the value at grant date of all the options granted to those executives. The options vest if the executives continue to be employed by the Group on 24 December 2019. The value of these options that has been included in the executives' remuneration at section 3 above is the value attributable to the relevant financial year.

ADVERTITAS LIMITED
DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (continued)

5. Additional disclosures relating to performance rights, options and shares (continued)

Option holdings of KMP

The table below discloses all options held directly, indirectly and beneficially by key management personnel.

	Balance at 1 July 2019	Granted as remuneration	Lapsed	Net change other	Balance at 30 June 2020	Exercisable	Not exercisable
Non-Executive Directors							
S. Belben	1,340,000	-	(500,000)	-	840,000	840,000	-
R. Besnard	1,250,000	-	-	-	1,250,000	1,250,000	-
M. McConnell ¹	10,277,778	-	-	5,000	10,282,778	10,282,778	-
A. Stott	1,350,000	-	-	-	1,350,000	1,350,000	-
Executive Directors							
M. Ratty ¹	3,946,242	-	(500,000)	552,850	3,999,092	3,999,092	-
Senior Executives							
F. Muir	500,000	-	-	-	500,000	500,000	-
D. Cox	750,000	-	-	-	750,000	750,000	-
Total	19,414,020	-	(1,000,000)	557,850	18,971,870	18,971,870	-

Notes

- During the year, Mr McConnell and Mr Ratty purchased listed options on market.

Share holdings of KMP

The table below discloses the shares held directly, indirectly and beneficially by key management personnel.

	Balance at 1 July 2019	Granted as remuneration	On conversion of performance rights	Net change other	Balance at 30 June 2020
Non-Executive Directors					
S. Belben ¹	320,000	-	-	400,000	720,000
M. McConnell ²	11,777,779	-	-	13,254,814	25,032,593
A. Stott	500,000	-	-	-	500,000
Executive Directors					
M. Ratty ³	10,482,682	-	-	7,297,862	17,780,544
Senior Executives					
L. Taylor	5,203,782	-	-	-	5,203,782
Total	28,284,243	-	-	20,952,676	49,236,919

Notes

- Mr Belben acquired 400,000 shares pursuant to the Company's Share Purchase Plan which closed in June 2020.
- Mr McConnell acquired 10,000,000 shares as part of a share placement carried out in August 2019 and he acquired a further 1,470,589 shares as part of a share placement carried out in December 2019. Mr McConnell also acquired 1,784,225 shares on market.
- Mr Ratty acquired 3,000,000 shares as part of a share placement carried out in October 2019, 1,470,589 shares as part of a share placement carried out in December 2019 and 2,727,273 shares as part of a share placement carried out in March 2020. Mr Ratty also acquired 100,000 shares on market.

ADVERTITAS LIMITED
DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (continued)

6. Other transactions and balances with key management personnel and their related parties

During the current year, Adveritas Limited continued its consultancy agreement with 13811 Advisory Pte Ltd, a company of which Mr Stott is the CEO and founder. The consultancy services include the provision of promotion and marketing services. Under the agreement, Mr Stott was entitled to consultancy fees of SGD 3,000 per month for the period 1 Jul 2019 to 31 December 2019, and \$5,000 per month for the period 1 January 2020 to 30 June 2020.

Signed in accordance with a resolution of the directors:



Stephen Belben
Non-Executive Chairman
Perth, Western Australia
Dated this 28th day of August 2020



Building a better
working world

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

Auditor's independence declaration to the directors of Adveritas Limited

As lead auditor for the audit of the financial report of Adveritas Limited for the financial year ended 30 June 2020, I declare to the best of my knowledge and belief, there have been:

- a. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b. no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Adveritas Limited and the entities it controlled during the financial year.

Ernst & Young

Mark P Cunningham
Partner
28 August 2020

ADVERTITAS LIMITED
CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER
COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020 \$	2019 \$
Continuing Operations			
Revenue from contracts with customers	4	1,227,213	643,579
Other income	5(a)	1,613,862	1,777,737
Overheads			
Server hosting costs		(2,119,094)	(1,364,491)
Administration costs	5(b)	(448,140)	(486,317)
Compliance costs	5(c)	(322,646)	(276,479)
Consultancy costs	5(d)	(560,708)	(431,332)
Employment costs	5(e)	(5,506,082)	(5,235,288)
Occupancy costs		(70,086)	(278,327)
Marketing costs	5(f)	(744,230)	(392,024)
Expected credit losses and bad debts expense	5(g)	(279,343)	(41,463)
Finance costs	5(h)	(54,245)	-
		<u>(10,104,574)</u>	<u>(8,505,721)</u>
Other Expenses			
Foreign exchange losses		(50,325)	-
Depreciation	5(i)	(136,342)	(39,191)
Impairment loss	11	(113,525)	-
Expected credit loss: deferred consideration		(567,869)	-
Share based payments	17	(1,343,842)	(503,233)
		<u>(2,211,903)</u>	<u>(542,424)</u>
Loss before income tax		<u>(9,475,402)</u>	<u>(6,626,829)</u>
Income tax expense	6	(11,957)	(17,591)
Loss for the year from continuing operations attributable to the members of Adveritas Limited		<u>(9,487,359)</u>	<u>(6,644,420)</u>
Discontinued Operations			
Profit after tax for the year from discontinued operations	14	-	92,223
Loss for the year attributable to the members of Adveritas Limited		<u>(9,487,359)</u>	<u>(6,552,197)</u>
Other comprehensive income net of tax			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations		24,564	3,627
Total comprehensive loss for the year attributable to the members of Adveritas Limited		<u>(9,462,795)</u>	<u>(6,548,570)</u>
Loss per share attributable to members of Adveritas Limited			
		Cents	Cents
Basic loss per share – total operations	24	(4.68)	(5.03)
Basic loss per share – continuing operations	24	(4.68)	(5.10)
Diluted loss per share – total operations	24	(4.68)	(5.03)
Diluted loss per share – continuing operations	24	(4.68)	(5.10)

The Consolidated Statement of Profit and Loss and Other Comprehensive Income is to be read in conjunction with the notes to the consolidated financial statements.

ADVERTITAS LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020

	Note	2020 \$	2019 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	7	8,351,840	2,046,991
Trade and other receivables	8	401,058	545,163
Prepayments		163,487	146,248
TOTAL CURRENT ASSETS		8,916,385	2,738,402
NON-CURRENT ASSETS			
Trade and other receivables	8	-	255,607
Plant and equipment	9	38,104	59,957
Right-of-use assets	10	606,322	-
Investments	11	-	113,525
Goodwill		34,000	34,000
TOTAL NON-CURRENT ASSETS		678,426	463,089
TOTAL ASSETS		9,594,811	3,201,491
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	12	769,873	696,799
Provisions	13	550,862	326,254
Lease liabilities	10	90,597	-
TOTAL CURRENT LIABILITIES		1,411,332	1,023,053
NON-CURRENT LIABILITIES			
Lease liabilities	10	557,678	-
Provisions	13	46,664	33,952
TOTAL NON-CURRENT LIABILITIES		604,342	33,952
TOTAL LIABILITIES		2,015,674	1,057,005
NET ASSETS		7,579,137	2,144,486
EQUITY			
Contributed equity	15	39,941,684	26,305,580
Accumulated losses	18	(37,569,619)	(28,082,260)
Share based payment reserve	16	5,166,535	3,905,193
Foreign currency translation reserve	16	40,537	15,973
TOTAL EQUITY		7,579,137	2,144,486

The Consolidated Statement of Financial Position is to be read in conjunction with the notes to the consolidated financial statements.

ADVERTITAS LTD
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020 \$	2019 \$
Cash flows from operating activities			
Receipts from customers		877,422	1,080,608
Payments to suppliers and employees		(9,536,248)	(9,003,613)
Research and development grant income received	5(a)	1,287,433	955,868
Other income received		177,187	41,981
Interest received		15,676	22,613
Interest expense on lease liabilities	10	(54,245)	(943)
Income tax refund received		-	20,378
Income tax paid		-	(43,501)
Net cash flows used in operating activities	7	<u>(7,232,775)</u>	<u>(6,926,609)</u>
Cash flows from investing activities			
Purchase of plant and equipment		(14,969)	(28,362)
Proceeds on disposal of plant and equipment		-	904
Proceeds on disposal of controlled entity	14	29,458	557,201
Payment of withholding tax		-	(38,669)
Cash disposed of on sale of controlled entity	14	-	(348,192)
Net cash flows generated by / (used in) investing activities		<u>14,489</u>	<u>142,882</u>
Cash flows from financing activities			
Proceeds from issue of shares		13,974,428	4,725,826
Share issue costs paid		(387,310)	(263,247)
Advances received under debtor financing facility		-	61,398
Lease liability payments	10	(59,101)	-
Net cash flows provided by financing activities		<u>13,528,017</u>	<u>4,523,977</u>
Net increase in cash and cash equivalents		6,309,731	(2,259,750)
Cash and cash equivalents at the beginning of the year		2,046,991	4,231,884
Effects of exchange rate changes on cash and cash equivalents		(4,882)	74,857
Cash and cash equivalents at the end of the year	7	<u>8,351,840</u>	<u>2,046,991</u>

The Consolidated Statement of Cash Flows is to be read in conjunction with the notes to the consolidated financial statements.

ADVERTITAS LTD

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

	Contributed equity	Accumulated losses	Share based payments reserve	Foreign currency translation reserve	Total equity
	\$	\$	\$	\$	\$
Balance at 1 July 2019	26,305,580	(28,082,260)	3,905,193	15,973	2,144,486
Loss for the year	-	(9,487,359)	-	-	(9,487,359)
<i>Other comprehensive income</i>					
Foreign exchange differences arising on translation of foreign operations	-	-	-	24,564	24,564
Total comprehensive income / (expenditure) for the year	-	(9,487,359)	-	24,564	(9,462,795)
Transactions with equity holders in their capacity as owners					
Ordinary shares issued	14,136,089	-	-	-	14,136,089
Share issue costs	(499,985)	-	-	-	(499,985)
Share based payments expense	-	-	1,261,342	-	1,261,342
	13,636,104	-	1,261,342	-	14,897,446
Balance at 30 June 2020	39,941,684	(37,569,619)	5,166,535	40,537	7,579,137
Balance at 1 July 2018	22,586,507	(21,491,395)	2,658,453	12,346	3,765,911
Loss for the year	-	(6,552,197)	-	-	(6,552,197)
<i>Other comprehensive income</i>					
Foreign exchange differences arising on translation of foreign operations	-	-	-	3,627	3,627
Total comprehensive income / (expenditure) for the year	-	(6,552,197)	-	3,627	(6,548,570)
Transactions with equity holders in their capacity as owners					
Ordinary shares issued	4,797,082	-	-	-	4,797,082
Share issue costs	(1,091,339)	-	-	-	(1,091,339)
Share based payments expense	-	-	1,260,070	-	1,260,070
Shares issued on vesting of performance rights	13,330	-	(13,330)	-	-
Withholding tax on dividends paid	-	(38,668)	-	-	(38,669)
	3,719,073	(38,668)	1,246,740	-	4,927,144
Balance at 30 June 2019	26,305,580	(28,082,260)	3,905,193	15,973	2,144,486

The Consolidated Statement of Changes in Equity is to be read in conjunction with the notes to the consolidated financial statements.

ADVERTITAS LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

1. CORPORATE INFORMATION

The consolidated financial report of Adveritas Limited (**Adveritas** or **Company**) and its controlled entities (collectively referred to as the **Group**) for the year ended 30 June 2020 was authorised for issue in accordance with a resolution of the directors on 27 August 2020.

Adveritas is a for-profit company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange. The Group's registered office is in Bentley, Western Australia.

The nature of operations and principal activities of the Group are the creation of innovative software solutions that leverage big data to drive business performance. TrafficGuard, is the Group's first commercially available software as a service.

Information on the Group's corporate structure and related party relationships is provided in Note 21.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a summary of the significant accounting policies adopted in the preparation of this consolidated financial report. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of Preparation

The consolidated financial report has been prepared on a historical cost basis and is presented in Australian dollars.

(b) Statement of Compliance

The consolidated financial statements have been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements issued by the Australian Accounting Standards Board and comply with the International Financial Reporting Standards (**IFRS**) as issued by the International Accounting Standards Board (**IASB**).

(c) Changes in accounting policies, disclosures, standards and interpretations

i. Accounting Standards and Interpretations issued but not yet adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ended 30 June 2020 are outlined below.

Amendments to AASB 3: Definition of a Business

In October 2018, the AASB issued amendments to the definition of a business in AASB 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Application date of standard: 1 January 2020 **Application date for the Group:** 1 July 2020

Impact on the Consolidated Financial Statements: The Group does not anticipate any impact on its consolidated financial statements.

ADVERTITAS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies, disclosures, standards and interpretations (continued)

i. Accounting Standards and Interpretations issued but not yet adopted (continued)

Amendments to AASB 101 and AASB 108: Definition of Material

In October 2018, the AASB issued amendments to AASB 101 Presentation of Financial Statements and AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

Application date of standard: 1 January 2020 **Application date for the Group:** 1 July 2020

Impact on the Consolidated Financial Statements: The Group does not anticipate any impact on its consolidated financial statements.

ii. New standards, interpretation and amendments adopted by the Group

The new standards, interpretations and amendments adopted by the Group in the current year are set out below.

The Group has not early adopted any of the accounting standards that have been issued but are not yet effective as of balance date.

(a) AASB 16 Leases

The Group applies, for the first time, AASB16 Leases.

AASB 16 supersedes AASB 117 Leases and AASB Interpretation 4 Determining whether and Arrangement contains a Lease. AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of the leases and requires leases to account for all leases under a single on-balance sheet model.

The Group adopted AASB 16 using the modified retrospective method of adoption with the date of initial application of 1 July 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application.

The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases at the date of initial application (1 July 2019).

The Group also elected to use the practical expedient for lease contracts that, at the commencement date of applying AASB 16, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

ADVERTITAS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies, disclosures, standards and interpretations (continued)

ii. New standards, interpretation and amendments adopted by the Group (continued)

(a) AASB 16 Leases (continued)

The effect of adopting AASB 16 as at 1 July 2019 was as follows:

	Increase / (Decrease) \$
Assets	
Right-of-use assets	707,376
Total assets	707,376
Liabilities	
Interest bearing liabilities	707,376
Total liabilities	707,376
Total equity adjustment	
Retained earnings	-
	-

Nature of the effect of adoption of AASB 16

The Group has lease contracts for office premises and various items of office equipment. Before the adoption of AASB 16, the Group, as the lessee, classified each of its leases at inception as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group, otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments.

For leases classified as finance leases, lease payments were apportioned between interest (recognised as finance costs) and a reduction of the lease liability. For leases classified as operating leases, the leased property was not capitalised and the lease payments were recognised as an expense in profit or loss on a straight-line basis over the lease term.

Upon adoption of AASB 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets (assets with value less than \$5,000). The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

Leases previously classified as finance leases

As at the date of application of AASB 16, the Group did not have any leases classified as finance leases.

Leases previously classified as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The Group has elected to present the right of use assets separately and the lease liabilities as part of interest-bearing liabilities in the Consolidated Statement of Financial Position. The right-of-use assets were recognised based on the amount equal to the lease liabilities. Lease liabilities were recognised based on the present value of the remaining lease payments over the lease term, discounted using the incremental borrowing interest rate at the date of initial application.

ADVERTITAS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies, disclosures, standards and interpretations (continued)

(ii) New standards, interpretation and amendments adopted by the Group (continued)

(a) AASB 16 Leases (continued)

Nature of the effect of adoption of AASB 16 (continued)

The Group also applied the available practical expedients wherein it:

- Applied the short-term leases exemptions to leases with a lease term that ends within 12 months at the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Elected not to separate non-lease components from lease components, and instead account for the lease component and any associated non-lease components as a single lease component

The lease liabilities recognised at 1 July 2019 can be reconciled to the operating lease commitments as of 30 June 2019 as follows:

	\$
Operating lease commitments as at 30 June 2019	554,726
Less:	
Impact of discounting lease commitments at the incremental borrowing rate of 8.03%	(67,582)
Commitments relating to short-term and low value leases	(4,545)
Add:	
In substance fixed lease payments	224,777
Lease liabilities as at 1 July 2019	707,376

Summary of new accounting policies upon adoption of AASB 16

Set out below are the new accounting policies of the Group upon adoption of AASB 16:

• ***Right-of-use assets***

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, estimates of costs to be incurred by the group in restoring the underlying asset to the condition required by the terms and conditions of the lease, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

• ***Lease Liabilities***

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

ADVERTITAS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies, disclosures, standards and interpretations (continued)

(ii) New standards, interpretation and amendments adopted by the Group (continued)

(a) AASB 16 Leases (continued)

Summary of new accounting policies upon adoption of AASB 16 (continued)

• **Lease Liabilities (continued)**

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease agreement is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the substance fixed lease payments or a change in the assessment to purchase the underlying asset.

• **Short-term leases and leases of low-value assets**

The Group applies the short-term lease recognition exemption to its short-term leases of property, plant and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below \$5,000). Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

• **Significant judgement in determining the lease term of contracts with renewal options**

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under its lease to lease the assets for additional terms of five years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

The Group included the renewal period as part of the lease term for its lease of property due to the significance of this asset to its operations. The lease has a short non-cancellable period (i.e., three to five years) and there will be a significant negative effect on the Company's operations if a replacement is not readily available.

For month-by-month leases, the Group has determined it is not reasonably certain that extension options will be exercised. These have been considered short-term leases and the short-term lease exemption has been applied.

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use asset	Lease Liability
	Property	Property
	\$	\$
As at 1 July 2019	707,376	707,376
Depreciation expense	(101,054)	-
Interest expense	-	54,245
Lease payments	-	(113,346)
As at 30 June 2020	606,322	648,275

ADVERTITAS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies, disclosures, standards and interpretations (continued)

(ii) New standards, interpretation and amendments adopted by the Group (continued)

(a) AASB 16 Leases (continued)

Summary of new accounting policies upon adoption of AASB 16 (continued)

Set out below, are the amounts recognised in profit and loss:

	Consolidated	
	30 June	30 June
	2020	2019
	\$	\$
Depreciation expense of right-of-use assets	101,054	-
Interest expense on lease liabilities	54,245	-
Rent expense – short-term assets	34,672	-
Rent expense – lease of low-value assets	1,500	-
Total amounts recognised in profit and loss	191,471	-

Set below is the impact on the Consolidated Statement of Cash Flows:

	Consolidated	
	30 June	30 June
	2020	2019
	\$	\$
Operating lease payments – decreased	(59,101)	-
Net cash flows from operating activities	(59,101)	-
Payment of lease liability - increased	59,101	-
Net cash flows from financing activities	59,101	-
Net cash flow impact	-	-

(b) AASB Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain 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 treatments 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

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed. The Group applies significant judgement in identifying uncertainties over income tax treatments. Since the Group operates in a multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements.

Upon adoption of the Interpretation, the Group considered whether it had any uncertain tax positions, particularly those relating to transfer pricing. The Company's and the subsidiaries' tax filings in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Group determined, based on its tax compliance and transfer pricing study that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. Consequently, the interpretation did not have an impact on the consolidated financial statements of the Group.

ADVERTITAS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Basis of Consolidation

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption, and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses 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. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (**OCI**) are attributed to the equity holders of the parent of the Group 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 intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

(e) Segment Reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision makers to make decisions about resources to be allocated to the segments and assess their performance and for which discrete financial information is available. This includes start-up operations which are yet to earn revenues.

Operating segments have been identified based on the information presented to the chief operating decision makers, being the executive management team.

Information about other business activities are combined and disclosed in a separate category called "other".

(f) Foreign Currency Translation

i. Functional and presentation currency

Items included in the financial statements of each Group company are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is the parent's functional and presentation currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

ADVERTITAS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Foreign Currency Translation (continued)

ii. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are recognised in profit or loss.

iii. Group companies

On consolidation, the assets and liabilities of foreign operations are translated into Australian dollars at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation purposes are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

(g) Plant and Equipment

All plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the profit or loss during the reporting period in which they are incurred.

Depreciation is calculated over the estimated useful life of the asset as follows:

	Method	Useful Lives
Plant and equipment	Straight Line	1.5 – 2.5 years
Leasehold improvements	Straight Line	the term of the lease
Office equipment	Straight Line	2 – 10 years
Computer software and hardware	Straight Line	1.5 – 4 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

(h) Impairment of non-financial assets

Non-financial assets comprise of plant and equipment and goodwill. Non-financial assets other than goodwill are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Goodwill is tested for impairment annually. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value (less costs of disposal) and value in use. For the purposes of assessing impairment, assets are grouped together at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Impairment losses relating to goodwill cannot be reversed in future periods.

ADVERTITAS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Cash and Cash Equivalents

Cash and short-term deposits in the Consolidated Statement of Financial Position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For the purpose of the Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

(j) Provisions

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

Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the consolidated statement of profit and loss and other comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(k) Revenue from contracts with customers

The Group has been in the business of providing its fraud mitigation software as a service to its customers. Revenue from contracts with customers is recognised over time as the service is delivered to the customer, at an amount that reflects the consideration to which the Group is entitled under the terms of the contract for that service. The Group has concluded that it is the principal in its revenue arrangements because it controls the service before delivering it to the customer.

The Group's performance obligation is the delivery of its software as a service to the customer over the period of time that was agreed upon with the customer. The customer is required to pay the consideration agreed upon in the service contract. The normal credit term is 30 to 60 days upon delivery of the service.

Contracts with customers may include a variable consideration in addition to the fixed monthly fee. The variable consideration comprises a fee for each block of transactions that exceeds the transaction allowance included in the fixed monthly fee. The variable consideration is recognised at the point in time when it can be reliably estimated and the constraint applied.

Taxes collected from customers and remitted to government authorities are excluded from revenue.

Contract balances

Contract assets

A contract asset is the right to consideration in exchange for services transferred to the customer. If the Group performs by transferring services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Trade receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e. only the passage of time is required before payment of the consideration is due). Refer further to the accounting policy on financial assets (Note 2(t)) for details on initial recognition, subsequent measurement and impairment.

Contract liabilities

A contract liability is the obligation to transfer services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

ADVERTITAS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Revenue from contracts with customers (continued)

Cost to obtain a contract

The Group pays sales commission to its employees for pre-determined milestones in relation to sales of its software services. The Group has elected to apply the optional practical expedient for costs to obtain a contract which allows the Group to immediately expense sales commissions because the amortisation period of the asset that the Group otherwise would have used is one year or less.

(l) Government grants

Government grants are recognised as other income where there is reasonable assurance that the grant will be received and all attached conditions will be complied with.

(m) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

(n) Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition.

Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the consolidated statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations; and
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss.

ADVERTITAS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Employee Benefits

Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

Long service leave

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

(q) Income Tax

Current Tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred Tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these 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.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date.

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 reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company / Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the consolidated statement of profit and loss and other comprehensive income except when it relates to items credited or debited directly to equity, in which case the current and deferred tax is also recognised directly in equity.

ADVERTITAS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Contributed Equity

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

(s) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the consolidated statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(t) Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(u) Financial Assets

Initial recognition and measurement

Financial assets within the scope of AASB 9 are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

The classification of financial assets that are debt instruments at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under AASB 15. Refer to the accounting policy on revenue at Note 2(k).

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

Financial assets at amortised cost

This category is the most relevant category to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost include trade and other receivables.

ADVERTITAS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Financial Assets (continued)

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under AASB 132 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Listed equity instruments that are designated at fair value through OCI are not subject to impairment assessment.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

ADVERTITAS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Financial Assets (continued)

Financial assets at amortised cost

For contract assets, trade and other receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

(v) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, or as loans and borrowings, or as payables or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification. The Group's only financial liabilities are trade and other payables.

Trade and other payables represent liabilities for goods or services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are subsequently measured at amortised cost using the effective interest method and are presented as current liabilities unless payment is not due within 12 months after the reporting period.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of profit and loss and other comprehensive income.

ADVERTITAS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Share-based payments

Consultants and employees (including senior executives) of the Group receive payment or remuneration in the form of share-based payments, whereby the consultants or the employees render services as consideration for equity instruments (equity-settled transactions).

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given in Note 17.

The cost of is recognised in the share based payments expense (Note 17), together with a corresponding increase in equity, over the period in which the performance and / or service conditions are fulfilled.

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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

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

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted loss per share (further details are given in Note 24).

(x) Earnings / loss per share

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

Diluted loss per share is calculated as net profit or loss attributable to members of the Company, adjusted for:

- costs of servicing equity (other than dividends);
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

ADVERTITAS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Significant accounting judgements, estimates and assumptions

The directors made estimates and judgements during the preparation of these consolidated financial statements regarding assumptions about current and future events affecting transactions and balances.

These estimates and judgements are based on the best information available at the time of preparing the consolidated financial statements, however as additional information is known then the actual results may differ from the estimates.

The significant estimates and assumptions made have been described below:

Revenue from contracts with customers

The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

- The Group determined that revenue from its fraud mitigation software service is to be recognised over time because the customer simultaneously receives and consumes the benefits provided by the Group.
- The Group has determined that it is the principal in its agreements with its customers because it has control over the service before delivering it to the customer, it is primarily responsible for fulfilling the promise to deliver the service, and it is responsible for establishing the price for the service to be delivered.
- Certain contracts with customers contain a variable consideration in relation to each block of transactions that exceeds the transaction allowance included in the fixed monthly fee. The Group is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled. The Group has determined that the most likely amount method is appropriate.

Share-based payments

The Group measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. The estimate also requires making assumptions about the most appropriate inputs to the valuation model, including the expected life of the share option, volatility and dividend yield. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 17.

Income Taxes

Judgement is required in assessing whether deferred tax assets are recognised in the consolidated statement of financial position. Deferred tax assets are recognised only when it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. Judgements are also required about the application of income tax legislation.

The Group estimates that it has \$22,105,103 (2019: 12,755,519) of tax losses carried forward. Although these losses do not expire, they may not be capable of being used to offset taxable income elsewhere in the Group. The Group has neither taxable temporary differences nor tax planning opportunities available that could partly support the recognition of these losses as deferred tax assets. On this basis, the Group has determined that it cannot recognise deferred tax assets in respect of the tax losses carried forward.

Further details on taxes are disclosed in Note 6.

ADVERTITAS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Significant accounting judgements, estimates and assumptions (continued)

Impairment of non-financial assets

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated at Note 2(h). Impairment tests for other non-financial assets are performed only when impairment indicators have been identified.

Impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next two years. The assumptions used in the budget, such as growth rates, and the discount rate used are subject to judgement and estimates.

The Group has assessed the goodwill recognised in relation to its FY 2016 acquisition of its Croatian subsidiary, Appenture d.o.o, has concluded that this goodwill has not suffered any impairment. The Group has also assessed the right-of-use asset it recognised as a consequence of adopting AASB 16: Leases in the current year and has concluded that the right-of-use asset has not suffered any impairment. Consequently, no impairment losses have been recognised in the current year (2019: Nil).

Provision for expected credit losses of trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade and other receivables and contract assets. The provision rates are based on days past due and adjusted for forward looking expectations.

(z) Going Concern

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

During the year ended 30 June 2020, the Group incurred a net loss after tax of \$9,487,359 and a net cash outflow from operating activities of \$7,232,775. The cash and cash equivalents balance at 30 June 2020 was \$8,351,840. The Group's net current asset position at 30 June 2020 was \$7,505,053.

The ability of the Group to pay its trade creditors, continue its planned activities and maintain its going concern status is dependent on the Group generating sufficient revenues and raising additional funds, as required. As at the date of this report, the directors are satisfied that there are reasonable grounds to believe that the Group will be able to operate as a going concern by raising further funds as required. In forming this view, the directors have considered the ability of the Company to raise funds by way of a capital raising.

There are inherent uncertainties associated with the successful completion of a capital raising. Should the directors not be able to manage these inherent uncertainties and successfully secure funding, there would be significant uncertainty as to whether the Group would be able to meet its debts as and when they fall due and therefore continue as a going concern.

These consolidated financial statements do not include any adjustments relating to the recoverability or classification of recorded asset amounts nor to the amounts or classifications of liabilities that might be necessary should the Group not be able to continue as a going concern.

(aa) Impact of COVID-19 pandemic

In preparing the consolidated financial statements, the Group has considered the impact of COVID-19 pandemic. Amounts received from the Federal Government in the form of JobKeeper and Cash Flow Booster payments have been recognised as other income in the consolidated statement of profit and loss and other comprehensive income, and have been separately disclosed in Note 5(a) to the consolidated financial statements. The impact of COVID-19 was considered and assessed as not having a material impact in determining expected credit losses, provisions for employee entitlements and other provisions, including impairment assessments.

ADVERTITAS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

3. SEGMENT INFORMATION

The Group disposed of its performance marketing business on 31 July 2018. Consequently, the performance marketing operations were designated as a discontinued operation in the financial information reported for the prior period.

The Group's operating segments comprise:

- Technology: responsible for the development and maintenance of the Group's proprietary software offerings. These activities are conducted primarily at the Group's Australian head office and at its office in Croatia; and
- Sales and marketing: responsible for deploying the Group's sales and marketing initiatives and for providing ongoing customer service. These activities are carried out by sales and marketing personnel and consultants located in Australia, Singapore, England, Latin America and the United States,

Costs allocated to the "other" segment include:

- Occupancy costs and general office administration costs for the Perth head office; and
- Employment costs relating to corporate and management team located in Perth.

In the prior year, the sales and marketing segment was not presented separately, it was included in the "other" segment. Due to the increase in the Group's sales and marketing initiatives in the current year, the sales and marketing segment has been separately presented. In addition, the prior year segment results, assets and liabilities have been restated to present the sales and marketing segment separately from the "other" segment.

The board of directors review internal management reports on a monthly basis that are consistent with the information provided in the Consolidated Statement of Profit and Loss and Other Comprehensive Income, Consolidated Statement of Financial Position and Consolidated Statement of Cash Flows. As a result, no reconciliation is required because, in aggregate, the information as presented is what is used by the board to make strategic decisions. No operating segments have been aggregated.

Segment results for the year ended 30 June 2020

	Technology	Sales and marketing	Other	Consolidated
	\$	\$	\$	\$
Revenue	-	1,227,213	-	1,227,213
Other income	1,287,433	-	312,187	1,599,620
Overheads	(5,041,781)	(2,603,690)	(2,404,858)	(10,050,329)
Other expenses	-	-	(2,075,561)	(2,075,561)
EBITDA	(3,754,348)	(1,376,477)	(4,168,232)	(9,299,057)
Reconciliation of reportable segment loss				
EBITDA	(3,754,348)	(1,376,477)	(4,168,232)	(9,299,057)
Interest income	-	-	14,242	14,242
Interest expense	(33,115)	-	(21,130)	(54,245)
Depreciation	(92,502)	(1,855)	(41,985)	(136,342)
Income tax expense	(11,957)	-	-	(11,957)
Loss after income tax	(3,891,922)	(1,378,332)	(4,217,105)	(9,487,359)

ADVERTITAS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

3. SEGMENT INFORMATION (continued)

Segment results for the year ended 30 June 2019

	Technology	Sales and marketing	Other	Consolidated
	\$	\$	\$	\$
Revenue	-	643,579	-	643,579
Other income	962,617	23,121	606,809	1,592,547
Foreign exchange gains	-	-	160,854	160,854
Overheads	(4,164,105)	(1,617,756)	(2,723,860)	(8,505,721)
Other expenses	-	-	(503,233)	(503,233)
EBITDA	(3,201,488)	(951,056)	(2,459,430)	(6,611,974)
Reconciliation of reportable segment loss				
EBITDA	(3,201,488)	(951,056)	(2,459,430)	(6,611,974)
Interest income	-	-	24,336	24,336
Interest expense	-	-	-	-
Depreciation	(33,452)	(3,085)	(2,654)	(39,191)
Income tax expense	(17,591)	-	-	(17,591)
Loss after income tax	(3,252,531)	(954,141)	(2,437,748)	(6,644,420)

Segment assets and liabilities at 30 June 2020

	Technology	Sales and marketing	Other	Consolidated
	\$	\$	\$	\$
Assets	888,392	329,573	8,376,846	9,594,811
Liabilities	1,111,046	172,592	732,035	2,015,673

Segment assets and liabilities at 30 June 2019

	Technology	Sales and marketing	Other	Consolidated
	\$	\$	\$	\$
Assets	508,774	203,667	2,489,050	3,201,491
Liabilities	701,334	81,835	273,836	1,057,005

Geographic information

	Consolidated 2020 \$	Consolidated 2019 \$
Revenue from external customers by customer location:		
Australia	2,193	-
Foreign countries (refer to note 4.1. for further details)	1,225,020	643,579
Total	1,227,213	643,579

Included in revenue from foreign countries is revenue arising from sales shown in the sales and marketing segment from one customer which amounted to \$408,613 (2019: \$572,560).

	Consolidated 2020 \$	Consolidated 2019 \$
Non-current operating assets by location		
Australia	69,387	87,695
United States	1,417	1,969
Asia Pacific	10	2,506
Other	1,290	1,787
Total	72,104	93,957

Non-current assets for this purpose consist of property, plant and equipment and goodwill.

ADVERTITAS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

4. REVENUE FROM CONTRACTS WITH CUSTOMERS

4.1 Disaggregated revenue information

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	Consolidated	
	2020	2019
	\$	\$
Revenue by type of goods or services		
Revenue from the sale of software as a service	1,227,213	643,579
Total revenue from contracts with customers	1,227,213	643,579
Revenue by timing of revenue recognition		
Services transferred over time	1,227,213	643,579
Total revenue from contracts with customers	1,227,213	643,579
Revenue by geographical region		
North America	337,352	572,560
Latin America	542,033	53,633
Asia Pacific	344,679	9,214
Middle East	344	8,171
Other	2,805	-
Total revenue from contracts with customers	1,227,213	643,579

5. OTHER INCOME, OVERHEADS AND OTHER EXPENSES

This note provides a breakdown of the significant items included in 'other income', 'overheads' and 'other expenses' shown in the Consolidated Statement of Profit and Loss and Other Comprehensive Income.

	Consolidated	
	2020	2019
	\$	\$
(a) Other income		
Research and development grant ¹	1,287,433	955,868
Profit on disposal of controlled entity (refer to Note 14)	-	594,698
Interest income	14,242	24,336
JobKeeper and Cash Flow Booster stimulus income	305,000	-
Foreign exchange gains	-	160,854
Miscellaneous income	7,187	41,981
	1,613,862	1,777,737
(b) Administration costs		
IT costs	223,353	247,009
Office and general administration costs	151,533	148,761
Corporate travel	73,254	90,547
	448,140	486,317
(c) Compliance costs		
Accounting fees	10,579	11,160
ASX compliance fees	183,652	137,992
Audit and tax compliance fees	121,989	116,737
Regulatory body fees	6,426	10,590
	322,646	276,479

ADVERTITAS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

5. OTHER INCOME, OVERHEADS AND OTHER EXPENSES (continued)

(d) Consultancy costs		
Legal	426,149	184,770
Investor relations	83,926	137,167
Other	50,633	109,395
	560,708	431,332
(e) Employment costs		
Salaries and wages ²	4,537,449	4,136,461
Ancillary employment costs	914,654	797,717
Other	53,979	301,110
	5,506,082	5,235,288
(f) Marketing costs		
Advertising and marketing materials	236,393	184,976
Travel, entertainment, trade shows and events	254,209	108,011
Public relations	253,628	99,037
	744,230	392,024
(g) Expected credit losses and bad debt expense		
Trade receivables written off as a bad debt	35,312	5,860
Trade receivables: expected credit loss allowance recognised	279,343	35,603
Trade receivables: expected credit loss allowance reversed	(35,312)	-
	279,343	41,463
(h) Finance costs		
Interest expense on lease liabilities (refer to Note 10)	54,245	-
	54,245	-
(i) Depreciation		
Depreciation of property, plant and equipment	35,288	39,191
Depreciation of right-of-use asset	101,054	-
	136,342	39,191

1. The research and development grant income has been received from the Australian government as the Group has undertaken qualifying research and development activities within Australia. Grant income is recognised when the funds are received whilst research and development expenses are recognised when incurred. The grant income recognised in the current year relates to FY19 research and development activities and was received in January 2020.

2. Refer to Note 25 for further detail on director and executive remuneration.

6. INCOME TAX EXPENSE

	Consolidated	
	2020	2019
	\$	\$
Major components of income tax expense for the year are:		
Income statement		
<i>Current income tax</i>		
Current income tax charge	11,957	6,138
Adjustments in respect of previous years:		
- Under provision for income tax in previous years	-	11,453
<i>Deferred income tax</i>		
Deferred income tax charge relating to origination and reversal of temporary differences	-	-
Income tax expense reported in income statement	11,957	17,591

ADVERTITAS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

6. INCOME TAX EXPENSE (continued)

Reconciliation

A reconciliation of income tax expense / (benefit) applicable to accounting loss before income tax at the statutory income tax rate to income tax expense at the Company's effective income tax rate for the year is as follows:

	Consolidated	
	2020	2019
	\$	\$
Accounting loss before tax from continuing operations	(9,475,402)	(6,626,829)
Accounting profit before tax from discontinued operations	-	25,970
	(9,475,402)	(6,600,859)
Income tax benefit at the statutory income tax rate of 27.5% (2019: 27.5%)	(2,605,736)	(1,815,236)
Adjusted for:		
Under / (over) provision for income tax in previous years	-	(54,802)
Non-deductible share-based payment expenses	369,557	138,389
Non-deductible entertainment expenses	3,324	3,088
Non-deductible impairment loss	31,219	-
Non-deductible expected credit loss (deferred consideration)	156,164	-
Other non-deductible expenses	13,561	10,209
Profit on disposal of controlled entity	-	(163,542)
Non-assessable grant income	(354,044)	(269,222)
Other non-assessable amounts	(83,875)	-
Difference between the Australian statutory income tax rate and the statutory income tax rate applicable to foreign operations	(4,824)	(2,483)
Tax losses and temporary differences not recognised as a deferred tax asset (Australian tax: \$2,242,875 (FY19: \$1,930,464, Canadian tax: Nil (FY19: \$19,653), Singapore tax: \$33,974 (FY19: \$130,998) USA tax: \$209,763 (FY19: \$23,821))	2,486,611	2,104,936
	11,957	(48,663)
Income tax expense reported in income statement	11,957	17,591
Income tax benefit attributable to discontinued operation	-	(66,254)
	11,957	(48,663)

Tax Consolidation

The Company and its 100% owned Australian incorporated subsidiaries formed a tax consolidated group with effect from 1 July 2015.

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	Consolidated	
	2020	2019
	\$	\$
Revenue losses	17,378,719	11,993,184
Capital losses	339,111	762,336
Temporary differences	4,387,273	2,157,326
	22,105,103	14,912,845
Unrecognised tax losses at 27.5% (2019: 27.5%)	6,078,903	3,507,768

Tax losses do not expire under current Australian legislation. Tax losses relating to foreign jurisdictions amount to \$1,881,122 (2019: \$1,019,717).

Deferred tax assets have not been recognised in respect of tax losses or temporary differences because it is not certain that future taxable profit will be available in the near term against which the Group can utilise the benefits.

ADVERTITAS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

6. INCOME TAX EXPENSE (continued)

Availability of Tax Losses

The availability of the Group's tax losses for future periods is uncertain and will be dependent on strict requirements being satisfied with respect to continuity of ownership and the same business test imposed by income tax legislation.

The recoupment of tax losses as at 30 June 2020 is contingent upon the following:

- entities in the Group deriving future assessable income of a nature and of an amount sufficient to enable the benefit from the losses to be realised;
- the conditions for deductibility imposed by income tax legislation continuing to be complied with; and
- there being no changes in income tax legislation which would adversely affect the entities from realising the benefit from the losses.

7. CASH AND CASH EQUIVALENTS

For the purpose of the Consolidated Statement of Financial Position and the Consolidated Statement of Cash Flows, cash and cash equivalents comprise the following at 30 June:

	Consolidated	
	2020	2019
	\$	\$
Cash at bank and on hand	8,351,840	2,046,991

The Group's cash is mainly held with a banking institution in Australia with a AA credit rating. Cash at bank earns interest at floating rates based on daily at call bank deposit and savings rates.

Reconciliation from the loss after tax to the net cash flows from operations

	Consolidated	
	2020	2019
	\$	\$
Net loss	(9,487,359)	(6,552,197)
<i>Adjustments for non-cash items:</i>		
Depreciation	136,342	39,191
Profit on disposal of controlled entity	-	(594,697)
Loss / (profit) on disposal of plant and equipment	1,572	(904)
Share based payments	1,343,842	503,233
Unrealised foreign exchange differences	29,693	(154,711)
Impairment loss	113,525	-
Expected credit loss: trade receivables	244,030	35,603
Expected credit loss: deferred consideration	567,869	-
<i>Changes in assets and liabilities:</i>		
Increase in trade receivables ¹	(314,478)	(133,794)
(Increase) / decrease in other receivables	(127,450)	1,559
Increase in prepayments	(17,239)	(73,513)
Increase / (decrease) in trade and other payables ¹	39,559	(21,564)
Increase in provision for employee entitlements	237,319	96,971
Decrease in provision for income tax	-	(71,786)
Net cash generated by operating activities	(7,232,775)	(6,926,609)

1. Movement is stated after adjusting for the effects of movements in foreign exchange rates from the beginning of the financial year to the end of the financial year.

ADVERTITAS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

8. TRADE AND OTHER RECEIVABLES

	Consolidated 2020 \$	2019 \$
CURRENT		
Trade receivables (a)	465,934	151,457
Allowance for expected credit losses (b)	(279,633)	(35,603)
Net trade receivables	186,301	115,854
Deferred consideration receivable	567,869	341,720
Allowance for expected credit losses (b)	(567,869)	-
Net deferred consideration receivable (refer to Note 14)	-	341,720
Income tax refund receivable	21,358	33,580
JobKeeper and Cash Flow Booster funding receivable	135,000	-
Sundry receivables	2,013	2,802
Deposits	35,966	35,984
GST receivables	20,420	15,223
Other receivables	214,757	87,589
	401,058	545,163
NON-CURRENT		
Deferred consideration receivable	-	255,607
	-	255,607

(a) Trade receivables

Trade receivables are amounts due from customers for the sale of the Group's software as a service. Trade receivables are generally due for settlement within 30-60 days and are therefore classified as current assets. The Group's accounting policies for trade receivables are outlined in Notes 2(k) and 2(u).

(b) Allowance for expected credit losses

The movement in the allowance for expected credit losses is set out below:

	Consolidated 2020 \$	2019 \$
Allowance for expected credit losses: trade receivables		
Balance at 1 July	35,603	-
Allowance for expected credit losses recognised	279,633	35,603
Trade receivables written off as bad debts	(35,603)	-
Balance at 30 June	279,633	35,603
Allowance for expected credit losses: deferred consideration		
Balance at 1 July	-	-
Allowance for expected credit losses recognised	567,869	-
Balance at 30 June	567,869	-

The current year allowance for expected credit losses on trade receivables relates to amounts owing by Mpire Network Inc, and the current year allowance for expected credit losses on the deferred consideration receivable relates to amounts owing by ClearPier Inc.

ADVERTITAS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

8. TRADE AND OTHER RECEIVABLES (continued)

(b) Allowance for expected credit losses (continued)

As part of the process whereby the Group disposed of 90% of Mpire Network Inc to ClearPier Inc, the Group agreed to licence its nxus and TrafficGuard products to Mpire network Inc for a minimum term of 1 year, commencing on 1 August 2018. The initial term of the licencing agreements came to an end on 31 July 2019, and under the terms of the agreements, they automatically renewed for a further 12-months unless terminated 30 days before the end of the initial term. Mpire Network Inc did not provide a termination notice to the Group. However, after the second term commenced, Mpire Network Inc disputed the renewal mechanism and failed to pay a number of invoices relating to the second term of the licencing agreements. In addition, ClearPier Inc has defaulted on settling the deferred consideration in accordance with the Sale and Purchase Agreement.

The Group instructed its legal counsel to take the required action prescribed by the underlying agreements to recover the amounts owing to the Group and it has conservatively recognised expected credit losses of 100% of the balances owing to it.

(c) Fair values of trade and other receivables

The fair value of trade and other receivables is assumed to approximate their carrying amounts due to their relatively short-term in nature.

(d) Impairment and risk exposure

Information about the impairment of trade and other receivables, their credit quality and the Group's exposure to credit risk, foreign currency risk and interest rate risk can be found in Note 19.

9. PLANT AND EQUIPMENT

	Consolidated: 2020			
	Leasehold improvements	Computer Equipment	Office Equipment	Total
	\$	\$	\$	\$
Cost	80,393	127,350	84,967	292,710
Accumulated depreciation	(62,033)	(111,696)	(80,877)	(254,606)
Carrying amount at 30 June 2020	18,360	15,654	4,090	38,104
Reconciliation				
Carrying amount at 1 July 2019	34,439	16,446	9,072	59,957
Additions	-	13,395	2,804	16,199
Disposals	-	-	(2,842)	(2,842)
Impact of foreign exchange	-	-	78	78
Depreciation	(16,079)	(14,187)	(5,022)	(35,288)
Carrying amount at 30 June 2020	18,360	15,654	4,090	38,104

ADVERTITAS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

9. PLANT AND EQUIPMENT (continued)

	Consolidated: 2019			
	Leasehold improvements \$	Computer Equipment \$	Office Equipment \$	Total \$
Cost	80,393	113,954	85,409	279,756
Accumulated depreciation	(45,954)	(97,508)	(76,337)	(219,799)
Carrying amount at 30 June 2019	34,439	16,446	9,072	59,957
Reconciliation				
Carrying amount at 1 July 2018	50,517	12,350	7,837	70,704
Additions	-	19,482	8,881	28,363
Impact of foreign exchange	-	-	81	81
Depreciation	(16,078)	(15,386)	(7,727)	(39,191)
Carrying amount at 30 June 2019	34,439	16,446	9,072	59,957

Refer to Note 2(g) for further details on the Group's accounting policies for plant and equipment.

10. RIGHT OF USE ASSETS

The Group is the lessee in lease contracts for office premises and various items of office equipment. Leases of office premises generally have lease terms of between 1 and 10 years, while office equipment generally has a lease term between 1 and 2 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets.

In the case of leases of office premises and low value office equipment with lease terms of 12 months or less, the Group has applied the 'short-term lease' and 'lease of low-value assets' recognition exemptions under AAS16 on leases. In the case of leases of office premises with lease terms over 12 months, the Group has recognised a right-of-use asset and an associated lease liability.

Set out below are the carrying amounts of right-of-use assets recognised on adoption of AASB 16 on 1 July 2019, and the movements during the year:

	Office Premises \$
As at 1 July 2019	707,376
Depreciation expense	(101,054)
At 30 June 2020	606,322

Set out below are the carrying amounts of lease liabilities recognised on adoption of AASB 16 on 1 July 2019, and the movements during the year:

	\$
As at 1 July 2019	707,376
Interest expense	54,245
Lease payments	(113,346)
At 30 June 2020	648,275
Current lease liabilities	90,597
Non-current lease liabilities	557,678
	648,275

ADVERTITAS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

10. RIGHT OF USE ASSETS (continued)

The following are the amounts recognised in profit or loss in relation to leased assets:

	Consolidated	
	2020	2019
	\$	\$
Right-of-use-assets		
Depreciation of right-of-use-assets	101,054	-
Interest expense on lease liabilities associated with right-of-use-assets	54,245	
Short term or low value asset leases		
<i>Included in occupancy costs</i>		
Rent expense - short-term lease	34,672	-
<i>Included in administration costs</i>		
Rent expense - low-value assets	1,500	
Total amount recognised in profit or loss	191,471	-

The Group had total cash outflows for leases of \$113,346 in the current year (2019: nil).

The Group has a lease contract that includes extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised (Note 2(c)(ii)(a)).

11. INVESTMENTS

	Consolidated	
	2020	2019
	\$	\$
Unlisted equity investment	-	113,525
	-	113,525

Pursuant to the sale of its performance marketing business on 31 July 2018, the Group retains a 10% equity interest in Mpire Network Inc. During the current year, the Group considered a number of factors relating to its investment in Mpire Network Inc which resulted in the value of this investment being estimated to be nil.

12. TRADE AND OTHER PAYABLES

	Consolidated	
	2020	2019
	\$	\$
Trade payables	503,735	372,637
Statutory liabilities	119,693	165,689
Other payables	146,445	158,473
	769,873	696,799

Trade and other payables are non-interest bearing and are unsecured. Balances are usually settled within 30 days of recognition.

The carrying amounts of trade and other payables are assumed to be the same as their fair values, due to their short-term nature.

ADVERTITAS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

13. PROVISIONS

	Consolidated 2020 \$	2019 \$
CURRENT		
Employee benefits	478,229	326,254
Other provisions	72,633	-
	<u>550,862</u>	<u>326,254</u>
NON-CURRENT		
Employee benefits	<u>46,664</u>	33,952

The current provision for employee benefits relates to the Group's liability for annual leave and long service leave. The non-current provision for employee benefits relates only to the Group's liability for long service leave.

Movement in the provisions for employee benefits for continuing operations is as follows:

	Consolidated			
	2020		2019	
	Annual leave \$	Long service leave \$	Annual leave \$	Long service leave \$
Balance at 1 July	227,838	132,368	155,365	103,873
Amounts provided for during the year	294,658	48,041	313,010	28,495
Unused leave balances paid during the year	(9,331)	-	(57,684)	-
Leave taken during the year	(161,541)	(7,140)	(182,853)	-
Balance at 30 June	<u>351,624</u>	<u>173,269</u>	<u>227,838</u>	<u>132,368</u>
<i>The balance is split as follows:</i>				
Current portion	351,624	126,605	227,838	98,416
Non-current portion	-	46,664	-	33,952

14. DISCONTINUED OPERATION

On 31 July 2018, the Group disposed of 90% of its equity interest in Mpire Network Inc, to ClearPier Inc for a cash consideration of US\$666,817, of which US\$370,454 was received upfront and US\$296,363 was deferred. The purchase consideration also included a maximum of US\$4,445,442) under a 3 year profit share agreement. In addition, under the terms of the Sale and Purchase Agreement, the Group is due to receive a working capital adjustment amount of US\$163,158.

A pre-tax profit of \$594,698 was recognised in the FY19 consolidated statement of profit or loss and other comprehensive income.

The deferred consideration and working capital adjustment amounts owing have been classified as follows:

	Consolidated 2020 \$	2019 \$
Current trade and other receivables (net of expected credit losses)	-	341,719
Non-current trade and other receivables	-	255,607
	<u>-</u>	<u>597,326</u>

ADVERTITAS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

14. DISCONTINUED OPERATION (continued)

The results of the discontinued operation are presented below:

	2020	2019
	\$	\$
Revenue	-	564,386
Cost of services rendered	-	(339,079)
Gross Profit	-	225,307
Administration costs	-	(21,689)
Compliance costs	-	(12,931)
Consultancy costs	-	(6,446)
Employment costs	-	(99,656)
Occupancy costs	-	(6,444)
Marketing costs	-	(1,905)
Bad and doubtful debts expense	-	13,524
Foreign exchange differences	-	(62,848)
Finance costs	-	(943)
Depreciation	-	-
Overheads	-	(199,338)
Profit before income tax	-	25,969
Income tax benefit	-	66,254
Profit for the year	-	92,223

The net cash flows generated from the sale of Mpire Network Inc were as follows:

	2020	2019
	\$	\$
Cash proceeds received: upfront purchase consideration	-	500,000
Cash proceeds received: deferred purchase consideration	29,458	57,201
Cash sold as part of the disposal of Mpire Network	-	(348,192)
	29,458	209,009

The net cash flows incurred by Mpire Network Inc were as follows:

	2020	2019
	\$	\$
Operating activities	-	(102,509)
Investing activities	-	-
Financing activities	-	274,053
Net cash (outflow) / inflow	-	171,544

ADVERTITAS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

15. CONTRIBUTED EQUITY

(a) Issued capital

	Consolidated	
	2020	2019
	\$	\$
Ordinary shares, fully paid	39,941,684	26,305,580

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held and in proportion to the amount paid up on the shares held. At shareholder meetings, each ordinary share is entitled to one vote in proportion to the paid-up amount of the share when a poll is called, otherwise each shareholder has one vote on a show of hands.

(b) Movements in share capital

	2020		2019	
	Number	\$	Number	\$
Shares on issue at 1 July	158,898,924	26,305,580	88,797,667	22,586,507
Shares issued on conversion of Class D Performance Rights	-	-	33,332	13,330
Shares issued on exercise of options	1,300,225	145,023	4,500	450
Shares issued pursuant to an Entitlements Issue	-	-	53,278,600	2,397,537
Shares issued pursuant to a placement at \$0.055 per share ¹	33,975,543	1,868,655	-	-
Shares issued pursuant to a placement at \$0.075 per share ¹	33,333,333	2,500,000	3,333,334	250,000
Shares issued pursuant to a placement at \$0.075 per share ¹	28,710,000	2,871,000	-	-
Shares issued pursuant to a placement at \$0.165 per share ¹	-	-	12,592,968	2,077,840
Shares issued pursuant to a placement at \$0.17 per share ¹	20,706,759	3,520,149	-	-
Shares issued pursuant to a Share Purchase Plan	40,928,222	3,069,601	-	-
Shares issued as consideration for placement services	1,439,286	79,161	858,523	71,256
Shares issued as consideration for investor relations services	1,094,116	82,500	-	-
Share issue costs ¹	-	(499,985)	-	(1,091,340)
Shares on issue at 30 June	320,386,408	39,941,684	158,898,924	26,305,580

1. Placements were made to sophisticated and professional investors.

2. Share issue costs is made up as follows:

	Consolidated	
	2020	2019
	\$	\$
Share issue costs paid during the year	(387,310)	(263,247)
Share issue costs included in trade and other payables at balance date	(33,514)	-
Fair value of options issued as consideration for underwriting services	-	(756,837)
Fair value of shares issued as consideration for placement services	(79,161)	(71,256)
	(499,985)	(1,091,340)

ADVERTITAS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

15. CONTRIBUTED EQUITY (continued)

(c) Capital Risk Management

The Group's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

No changes were made in the objectives, policies or processes for managing capital during the years ended 30 June 2020 and 30 June 2019.

	Consolidated 2020	2019 \$
Trade and other payables (Note 12)	769,873	696,799
Lease liabilities (Note 10)	648,275	-
	1,418,148	696,799
Less: cash and cash equivalents (Note 7)	(8,351,840)	(2,046,991)
Net (Debt) / Capital	(6,933,692)	(1,350,192)
Equity	39,941,684	26,305,580
Total Capital	39,941,684	26,305,580
Capital and net debt	33,007,992	24,955,388
Gearing ratio	(21%)	(5%)

ADVERTITAS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

16. RESERVES

	Consolidated 2020 \$	2019 \$
Foreign currency translation reserve	<u>40,537</u>	<u>15,973</u>
Share based payments reserve	<u>5,166,535</u>	<u>3,905,193</u>
Foreign currency translation reserve		
Balance at beginning of year	15,973	12,346
Foreign exchange differences arising on translation of foreign operations	24,564	3,627
Balance at end of year	<u>40,537</u>	<u>15,973</u>
Share based payments reserve		
Balance at beginning of year	3,905,193	2,658,453
Fair value of options issued to directors	-	207,214
Fair value of options issued as consideration for underwriting services	-	756,837
Fair value of options issued as consideration for investor relations services	-	65,004
Fair value of options issued as consideration for consultancy services	-	33,345
Fair value of options issued to staff	28,625	-
Fair value of Class D Performance Rights converted into ordinary shares	-	(13,330)
Fair value of Class H Performance Rights recognised	47,461	3,745
Fair value of Class I Performance Rights recognised	94,924	7,489
Fair value of Class J Performance Rights recognised	94,924	7,489
Fair value of Class K Performance Rights recognised	95,054	14,980
Fair value of Class L Performance Rights recognised	101,317	22,469
Fair value of Class M Performance Rights recognised	32,779	11,234
Fair value of Class N Performance Rights recognised	21,776	11,234
Fair value of Class O Performance Rights recognised	7,027	14,980
Fair value of Class P Performance Rights recognised	147,615	-
Fair value of Class Q Performance Rights recognised	147,615	-
Fair value of Class R Performance Rights recognised	147,615	-
Fair value of Class S Performance Rights recognised	226,586	-
Employee share scheme expense	7,554	18,996
Employee option scheme expense	60,470	85,054
Balance at end of year	<u>5,166,535</u>	<u>3,905,193</u>

Nature and purpose of reserves

Foreign currency reserve

The foreign currency translation reserve is used to recognise foreign currency exchange differences arising on translation of functional currency to presentation currency for foreign operations.

Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of equity-settled share-based payments provided to employees, consultants and other third parties.

ADVERTITAS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

17. SHARE BASED PAYMENTS

The share-based payments expense recognised during the year is comprised as follows:

	2020		2019	
	Number granted	\$	Number granted	\$
Options granted to non-executive directors	-	-	3,000,000	207,214
Options granted as consideration for investor relations services	-	-	1,000,000	65,004
Options granted as consideration for consultancy services	-	-	600,000	33,345
Options granted under employee option plan ¹	-	60,470	2,850,000	85,054
Options granted under employee option plan ¹	600,000	28,624	-	-
Shares issued as consideration for investor relations services	1,094,116	82,500	-	-
Performance rights granted (classes H – O) ¹	-	495,258	14,850,000	93,620
Performance rights granted (classes P – R) ¹	6,000,000	442,847	-	-
Performance rights granted (classes S) ¹	5,750,000	226,590	-	-
Shares issued under employee share plan ¹	-	7,553	-	18,996
		<u>1,343,842</u>		<u>503,233</u>

Notes

- There are vesting conditions attached to these securities. The fair value at grant date is recognised over the vesting period.

(a) Options

The movement in options during the year is set out below:

	2020		2019	
	Number	Fair value per option at grant date (cents)	Number	Fair value per option at grant date (cents)
Opening balance	64,446,334		2,000,000	
free attaching options granted with an entitlements issue ¹	-	-	39,958,961	-
options granted via underwriting service agreement ²	-	-	15,541,873	4.87
options granted pursuant to investor relations agreement	-	-	1,000,000	6.50
options granted pursuant to consultancy agreement	-	-	600,000	5.56
options granted to non-executive directors	-	-	3,000,000	6.91
options granted under employee option plan	-	-	2,850,000	5.56
options granted under employee option plan	400,000	4.76	-	-
options granted under employee option plan	200,000	7.78	-	-
Exercised during the year	(1,300,225)		(4,500)	
Lapsed during the year	-		(500,000)	
Expired during the year	(1,500,000)		-	-
Closing balance	<u>62,246,109</u>		<u>64,446,334</u>	

Notes

- These options have been allocated a nil fair value given they were free attaching options which were issued in conjunction with ordinary share as part of an entitlements issue.
- The fair value of these options has been recognised as a share issue cost and allocated against contributed equity.

ADVERTITAS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

17. SHARE BASED PAYMENTS (continued)

(a) Options (continued)

The fair value of options granted during the year was \$34,607 (2019: \$1,220,791, excluding free attaching options).

The options were valued at grant date using the Black-Scholes model and took into account the following assumptions:

	Tranche 1	Tranche 2
Number granted	400,000	200,000
Exercise price	\$0.15	\$0.20
Expiry date	19/08/2021	21/11/2021
Dividend yield	0.00%	0.00%
Expected volatility	107.99%	101.02%
Risk-free interest rate	0.87%	0.79%

The weighted average remaining contractual life for the share-based payment options outstanding as at 30 June 2020 was 1.23 years (30 June 2019: 2.24 years).

The exercise price for share based payment options outstanding as at the end of the period was a range of \$0.10 to \$0.45 (30 June 2019: \$0.10 to \$0.45).

Holders of options do not have any voting or dividend rights in relation to the options.

(b) Performance Rights

The following table illustrates the movement in performance rights during the year:

	Opening balance at 1 July 2019 Number	Granted during the year Number	Converted into ordinary shares during the year Number	Lapsed during the year Number	Closing balance at 30 June 2020 Number
Class H	450,000	-	-	-	450,000
Class I	900,000	-	-	-	900,000
Class J	900,000	-	-	-	900,000
Class K	1,800,000	-	-	-	1,800,000
Class L	2,700,000	-	-	-	2,700,000
Class M	1,800,000	-	-	-	1,800,000
Class N	2,700,000	-	-	-	2,700,000
Class O	3,600,000	-	-	-	3,600,000
Class P	-	2,000,000	-	-	2,000,000
Class Q	-	2,000,000	-	-	2,000,000
Class R	-	2,000,000	-	-	2,000,000
Class S	-	5,750,000	-	-	5,750,000
	14,850,000	11,750,000	-	-	26,600,000

ADVERTITAS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

17. SHARE BASED PAYMENTS (continued)

(b) Performance Rights (continued)

The vesting conditions, performance milestones and expiry dates attached to the performance rights granted during the year are set out below:

Tranche	Vesting Condition	Expiry date
Class P	These performance rights vest on achievement of the first 3 Tier 1 clients in USA	30 June 2021
Class Q	These performance rights vest on achievement of the first 3 Tier 1 clients in Latin America	30 June 2021
Class R	These performance rights vest on achievement of the first 3 Tier 1 clients in APAC	30 June 2021
Class S	These performance rights vest provided the employee remains a full-time employee of the Group 2 years from date of issue	25 April 2022

Tier 1 client means any client which is considered an enterprise level client generating revenue of at least \$5,000 per month over the course of a contract which has a minimum 12 month term.

The fair value of performance rights granted during the year was \$2,218,844 (2019: \$1,280,158).

The performance rights were valued at grant date using the Black-Scholes model and took into account the following assumptions:

	Classes P-R	Classes P-R	Class S	Cass S	Cass S	Cass S	Cass S
Number granted	3,000,000	3,000,000	1,500,000	1,000,000	1,500,000	1,000,000	750,000
Exercise price	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Expiry date	30/06/2021	30/06/2021	25/04/2022	25/04/2022	25/04/2022	25/04/2022	25/04/2022
Dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Expected volatility	97.55%	96.24%	92.34%	92.18%	91.78%	91.26%	91.18%
Risk-free interest rate	0.75%	0.84%	0.88%	0.89%	0.80%	0.77%	0.74%

Holders of performance rights do not have any voting or dividend rights in relation to the performance rights.

(c) Employee Incentive Share Plan

Under the Employee Incentive Share Plan, eligible employees may be granted up to \$1,000 of fully paid ordinary shares in the Company annually for no cash consideration. The number of shares issued to participants in the scheme is calculated at \$1,000 divided by the weighted average closing price of the Company's share price based on the closing ASX market prices over the five trading days before, but not including, the issue date, rounded down to the nearest whole number.

There were no shares issued under the plan in the current year (2019: nil).

(d) Employee Incentive Option Plan

Under the Employee Incentive Option Plan, eligible employees may be granted options in the Company to recognise work undertaken by the employees and to incentivise them further. The exercise price of options issued under the plan is calculated so as to ensure that the options only have value if there is an increase in shareholder wealth over time.

During the current year, 600,000 options were granted to employees under the plan (2019: 2,850,000).

ADVERTITAS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

18. ACCUMULATED LOSSES

	Consolidated 2020	2019
	\$	\$
Accumulated losses at the beginning of financial year	(28,082,260)	(21,491,395)
Net loss for the year	(9,487,359)	(6,552,197)
Withholding tax on intragroup dividend payment	-	(38,668)
Accumulated losses at the end of financial year	<u>(37,569,619)</u>	<u>(28,082,260)</u>

19. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(a) Financial assets (other than cash and cash equivalents)

	Consolidated 2020	2019
	\$	\$
Financial assets at amortised cost		
Trade and other receivables (Note 8)	773,966	800,770
Financial asset at fair value through other comprehensive income		
Unlisted investments (Note 11)	-	113,525
Total financial assets (other than cash and cash equivalents)	<u>773,966</u>	<u>914,295</u>
Total current	773,966	545,163
Total non-current	-	369,132
	<u>773,966</u>	<u>914,295</u>

(b) Financial liabilities

	Consolidated 2020	2019
	\$	\$
Financial liabilities at amortised cost		
Trade and other payables (Note 12)	503,735	372,637
Interest bearing liabilities		
Lease liabilities (Note 10)	648,275	-
Total financial liabilities	<u>1,152,010</u>	<u>372,637</u>
Total current	594,332	372,637
Total non-current	557,678	-
	<u>1,152,010</u>	<u>372,637</u>

(c) Financial instruments risk management objectives and policies

The Group's principal financial assets include trade and other receivables, and cash and short-term deposits derived directly from its operations. The Group also holds a minority 10% equity investment in an unlisted entity in respect of which an impairment loss of \$113,525 was recognised in the current year. The Group's principal financial liabilities comprise trade and other payables and interest-bearing lease liabilities. The main purpose of these financial liabilities is to finance the Group's operations.

ADVERTITAS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

19. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(c) Financial instruments risk management objectives and policies (continued)

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks and are responsible for ensuring that financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk. Financial instruments affected by market risk include trade and other receivables, unlisted equity investments, trade and other payables and interest-bearing lease liabilities.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates is negligible given that the terms of lease liability that has been recognised have been agreed upfront and are in place until 30 June 2021.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a foreign currency) and the Group's net investments in foreign subsidiaries.

The only material financial instruments denominated in a foreign currency held by the Group are cash amounts denominated in United States Dollars (USD), certain trade and other receivables denominated in USD and certain trade payables denominated in USD.

A summary of the AUD equivalent of the Group's USD denominated financial instruments at the reporting date is as follows:

	Consolidated	
	2020	2019
	\$	\$
Cash and cash equivalents	313,783	251,433
Trade and other receivables	184,279	713,181
Trade payables	(356,200)	(339,714)
Net exposure	141,862	624,900

The sensitivity analysis below relates to the foreign currency risk exposures in existence at the reporting date. The following table demonstrates the sensitivity to a reasonably possible change in AUD / USD exchange rates, with all other variables held constant.

	Effect on loss before tax (Higher)/Lower		Effect on pre-tax equity Higher/(Lower)	
	2020	2019	2020	2019
	\$	\$	\$	\$
+11%	15,605	68,739	15,605	68,739
-11%	(15,605)	(68,739)	(15,605)	(68,739)

ADVERTITAS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

19. FINANCIAL ASSETS AND LIABILITIES (continued)

(c) Financial instruments risk management objectives and policies (continued)

Translation risk

All USD denominated balance sheet accounts are converted to AUD at spot rate at year end. Group net assets are therefore sensitive to the exchange rate at year end. The following table demonstrates the sensitivity to a reasonably possible change in AUD / USD exchange rates, with all other variables held constant.

	Effect on net group assets before Australian group tax		Effect on equity before Australian group tax	
	(Higher) / Lower		Higher / (Lower)	
	2020	2019	2020	2019
	\$	\$	\$	\$
+11%	833,705	235,893	833,705	235,893
-11%	(833,705)	(235,893)	(833,705)	(235,893)

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily in relation to trade and other receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

i. Trade receivables and contract assets

Customer credit risk is managed by the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of the customer is assessed based on the customer's financial position, past working experience with the customer (if any) and any other applicable factors. Individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored and followed up accordingly. At 30 June 2020, the Group had 11 customers (2019: 6) of whom 3 owed more than \$428,000 and accounted for 91% of all trade receivables outstanding.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are generally based on days past due after considering any other relevant forward-looking information. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 8. The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables as low, as its customers are located in different jurisdictions and operate in largely independent markets.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

30 June 2020	Days past due					
	Total	Current	30 days	30-60 days	61-90 days	> 90 days
	\$		\$	\$	\$	\$
Total gross carrying amount	465,934	184,122	-	2,179	-	279,633
Expected credit loss rate		0%	0%	0%	0%	100%
Expected credit loss	(279,633)	-	-	-	-	(279,633)
Net carrying amount	186,301	184,122	-	2,179	-	-

ADVERTITAS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

19. FINANCIAL ASSETS AND LIABILITIES (continued)

(c) Financial instruments risk management objectives and policies (continued)

Credit risk (continued)

i. Trade receivables and contract assets (continued)

30 June 2019	Total \$	Current	30 days \$	Days past due			> 90 days \$
				30-60 days \$	61-90 days \$		
Total gross carrying amount	151,457	79,353	22,326	19,655	26,626		3,497
Expected credit loss rate		0%	0%	46%	100%		0%
Expected credit loss	(35,603)	-	-	(8,977)	(26,626)		-
Net carrying amount	115,854	79,353	22,326	10,678	-		3,497

The credit risk associated with the deferred consideration receivable (Note 8) is assessed in the same manner as trade receivables.

Impairment of the deferred consideration receivable is assessed regularly. Management analyse the probability of default on the obligation to determine whether any expected credit loss is to be recognised. During the current year, an expected credit loss of \$567,869 was recognised.

At 30 June, the exposure to credit risk for trade receivables and contract assets by geographic region was as follows:

	Consolidated	
	2020	2019
	\$	\$
North America	99,942	49,834
Latin America	119,117	53,394
Asia Pacific	52,295	5,496
Middle East	-	3,497
Other	3,921	3,633
	275,275	115,854

At 30 June, the exposure to credit risk for trade receivables and contract assets by type of counterparty was as follows:

	Consolidated	
	2020	2019
End-user customers	275,275	115,854
	275,275	115,854

ii. Cash and cash equivalents

The Group held cash and cash equivalents of \$8,351,840 at 30 June 2020 (2019: \$2,046,991). All cash and cash equivalents are held with banks which the Group considers to be low risk.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and funding to ensure that the Group can meet its obligations when due. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group holds the majority of its financial assets (excluding cash) as trade receivables with reputable customers who have had no significant payment issues in the past and hence, does not have any material liquidity risk at the reporting date.

The Group monitors rolling forecasts of liquidity reserves on the basis of expected cash flow.

ADVERTITAS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

19. FINANCIAL ASSETS AND LIABILITIES (continued)

(c) Financial instruments risk management objectives and policies (continued)

Liquidity (continued)

Exposure to liquidity risk

The following tables compare the carrying amounts at balance date to the remaining contractual liabilities at various maturities at balance date. The contractual amounts are gross, undiscounted, include any contractual interest payments and exclude the impact of netting arrangements:

		Contractual cash flows				
30 June 2020	Carrying amount	Total	12 months or less	1-2 years	2-5 years	5-10 years
	\$	\$	\$	\$	\$	\$
Non-derivative financial liabilities						
Trade payables	503,735	503,735	503,735	-	-	-
Lease liabilities	648,275	808,837	127,474	263,485	417,878	-
	1,152,010	1,312,572	631,209	263,485	417,878	-

		Contractual cash flows				
30 June 2019	Carrying amount	Total	12 months or less	1-2 years	2-5 years	5-10 years
	\$	\$	\$	\$	\$	\$
Non-derivative financial liabilities						
Trade payables	372,637	372,637	372,637	-	-	-
Lease liabilities	-	-	-	-	-	-
	372,637	372,637	372,637	-	-	-

Fair values

Fair values of financial assets and liabilities have been assessed as being equivalent to their carrying values.

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.

The carrying amount of financial assets and financial liabilities recorded in the financial statements approximate their fair values. The carrying amount of lease liabilities recorded in the financial statements approximate their fair values and are all classified as level 3 instruments per the below valuation methodology.

For financial instruments carried at fair value, the Group uses various methods in estimating fair value. The methods comprise:

- Level 1 – the fair value is calculated using quoted prices in an active market.
- Level 2 – the fair value is estimated using inputs other than quoted prices included in the Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
- Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

ADVERTITAS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

20. COMMITMENTS AND CONTINGENCIES

(a) Lease Commitments – Group as lessee

Future minimum rentals payable under non-cancellable operating leases are as follows:

	Consolidated	
	2020	2019
	\$	\$
Within one year	2,845	85,439
After one year but not more than five years	-	315,871
More than five years	-	153,416
	2,845	554,726

(b) Property, Plant and Equipment Commitments

At balance date the Group had no contractual obligations to purchase plant and equipment (2019: nil).

(c) Contingent Liabilities

At balance date the Group had no pending legal claims or other contingent liabilities (2019: nil).

21. GROUP STRUCTURE AND RELATED PARTY DISCLOSURES

a) Group structure

The consolidated financial statements include the financial statements of Adveritas Limited (the parent entity) and the entities listed in the following table.

	Country of incorporation	% Equity interest	
		2020	2019
Livelynk Group Pty Ltd ¹	Australia	100	100
TrafficGuard Pty Ltd ²	Australia	100	100
TrafficGuard APAC Pte Ltd ²	Singapore	100	100
TrafficGuard US Inc ²	United States	100	100
Mpire Network Inc. ²	Canada	10	10
Appenture d.o.o. ²	Croatia	100	100

¹ equity interest is held directly by Adveritas Limited.

² equity interest is held directly by Livelynk Group Pty Ltd.

b) Transactions with related parties

During the current year, Adveritas Limited continued its consultancy agreement with 13811 Advisory Pte Ltd, a company of which Mr Stott is the CEO and founder. The consultancy services include the provision of promotion and marketing services. Under the agreement, Mr Stott was entitled to consultancy fees of SGD 3,000 per month for the period 1 Jul 2019 to 31 December 2019, and \$5,000 per month for the period 1 January 2020 to 30 June 2020. At 30 June 2020, an amount of \$5,000 was owing to 13811 Advisory Pte Ltd (2019: \$6,807).

c) Guarantees

None of the entities within the Group are guarantors.

22. EVENTS AFTER BALANCE SHEET DATE

No event has arisen since 30 June 2020 that would be likely to materially affect the operations of the Group, or its state of affairs which has not otherwise been disclosed in this financial report.

ADVERTITAS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

23. AUDITORS' REMUNERATION

Remuneration of the Group's auditor, Ernst and Young, was as follows:

	Consolidated	
	2020	2019
	\$	\$
Audit or review of the consolidated financial report	98,186	63,228
Tax compliance services provided	39,111	48,282
	137,297	111,510

24. LOSS PER SHARE

Basic loss per share is calculated by dividing the loss for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares on issue during the year.

Diluted loss per share is calculated by dividing the loss attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares on issue during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

The following table reflects the data used in the calculation of the basic and diluted loss per share:

	2020	2019
	Number	Number
Weighted average number of ordinary shares used in the calculation of basic loss per share	202,864,250	130,226,820
Weighted average number of ordinary shares used in the calculation of diluted loss per share	202,864,250	130,226,820
	\$	\$
Profit / (loss) attributable to ordinary equity holders of Adveritas Limited		
Continuing operations	(9,487,359)	(6,644,420)
Discontinued operations	-	92,233
Loss attributable to ordinary equity holders of Adveritas Limited for basic and diluted loss	(9,487,359)	(6,552,197)
	Cents	Cents
Basic earnings loss per share	(4.68)	(5.03)
Basic loss per share – continuing operations	(4.68)	(5.10)
Basic earnings per share – discontinued operations	-	0.07
Diluted loss per share	(4.68)	(5.03)
Diluted loss per share – continuing operations	(4.68)	(5.10)
Diluted earnings per share – discontinued operations	-	0.07

Classification of securities as ordinary shares

The Company has only one category of ordinary shares included in basic loss per share.

Classification of securities as potential ordinary shares

No securities have been classified as dilutive potential ordinary shares on issue in the current year because the options and performance rights on issue are considered anti-dilutive on the basis that their inclusion in the calculation would reduce the loss per share.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these consolidated financial statements.

ADVERTITAS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

25. DIRECTORS AND EXECUTIVE DISCLOSURE

Compensation of Key Management Personnel

	Consolidated	
	2020	2019
	\$	\$
Short-term employee benefits	1,358,654	1,526,512
Post-employment benefits	81,666	78,833
Other long-term benefits	12,303	5,745
Share based payments	986,844	353,058
	2,439,467	1,964,198

26. PARENT ENTITY INFORMATION

The following information relates to the legal parent entity of the Group, being Adveritas Limited. The information presented has been prepared using consistent accounting policies as presented in Note 2.

	As at 30 June 2020	As at 30 June 2019
	\$	\$
Financial Position		
Assets		
Current assets	8,001,957	1,770,386
Non-current assets	2,538	10,212,756
Total assets	8,004,495	11,983,142
Liabilities		
Current liabilities	471,463	217,817
Non-current liabilities	5,874	56,374
Total liabilities	477,337	274,191
Net assets	7,527,158	11,708,951
Equity		
Contributed equity	36,709,582	23,073,478
Share based payment reserve	3,852,389	2,591,047
Accumulated losses	(33,034,813)	(13,955,574)
Total equity	7,527,158	11,708,951
Financial Performance		
Loss for the year	(19,079,239)	(2,447,350)
Other comprehensive income	-	-
Total comprehensive loss	(19,079,239)	(2,447,350)

ADVERTITAS LIMITED
DIRECTORS' DECLARATION

In the directors' opinion:

- (a) The consolidated financial statements and notes of Adveritas Limited set out on pages 27 to 73 are in accordance with the *Corporations Act 2001*, including:
- (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the Group's consolidated financial position as at 30 June 2020 and its performance for the financial year ended on that date, and
- (b) Note 2(b) confirms that the consolidated financial statements also comply with the International Financial Reporting Standards as issued by the International Accounting Standards Board.
- (c) Subject to Note 2(z), there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made to the directors by the chief executive officer and chief financial officer in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2020.

On behalf of the board



Stephen Belben
Non-Executive Chairman

Perth, Western Australia
Dated this 28th day of August 2020



Building a better
working world

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

Independent auditor's report to the members of Adveritas Limited

Report on the audit of the financial report

Opinion

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

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

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

Basis for opinion

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

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

Material uncertainty related to going concern

We draw attention to Note 2(z) in the financial report, which describes the principal conditions that raise doubt about the consolidated entity's ability to continue as a going concern. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.



Building a better
working world

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

1. Share-based payment expense

Why significant

As disclosed in Notes 16 and 17 to the financial report, the Group has awarded share-based payments to employees, directors and consultants during the year, contributing to a total share-based payment expense of \$1,343,842.

Due to the complex and judgmental estimates such as volatility, used in determining the valuation of the share-based payments, we considered the Group's calculation of the share-based payment expense to be a key audit matter.

How our audit addressed the key audit matter

As part of our audit procedures, we assessed the Group's share based-payment expense calculations to determine whether the balances were calculated in accordance with Australian Accounting Standards.

We involved our valuation specialists to assess the Group's calculation of the fair value of share-based payment issued during the year, including the key assumptions used.

We also assessed the adequacy of the presentation and disclosures in Notes 16 and 17 of the financial report.

2. Allowance for expected credit losses

Why significant

As disclosed in Note 14 to the financial report, the Group completed the sale of 90% of the shares in Mpire Network Inc. ("MPN") to ClearPier Inc. ("CPI") on 31 July 2018. As part of the disposal process, the Group agreed to licence its nxus and TrafficGuard products to MPN for a minimum term of 1 year, commencing on 1 August 2018. The contracts automatically renewed on 1 August 2019 in accordance with the terms of the contract.

Subsequent to the commencement of the second year of the contracts, MPN disputed the renewal mechanism and has failed to pay a number of invoices relating to the second year of the contracts.

In addition, CPI has failed to pay the deferred component of the purchase consideration for MPN in accordance with the terms of the share sale agreement.

As disclosed in note 8, the Group has recognised an allowance for expected credit loss of \$279,633 in respect of the trade receivable outstanding from MPN at 30 June 2020, and an allowance for expected credit loss of \$567,869 in respect of the deferred consideration receivable from CPI.

Due to the significant judgement required in determining the allowance for expected credit losses, we considered the allowance for expected credit loss to be a key audit matter.

How our audit addressed the key audit matter

As part of our audit procedures, we read the share sale agreement and the revenue agreements entered into by the Group.

We assessed whether the allowance for expected credit losses were calculated in accordance with the requirements of AASB 9 *Financial Instruments*.

We also assessed the adequacy of the disclosure in the financial report.



Building a better
working world

3. Revenue from contracts with customers

Why significant

Revenue is a key metric by which the performance of the Group is assessed. Australian Accounting Standard AASB 15 *Revenue from Contracts with Customers* ("AASB 15") applied to the Group for the first time from 1 July 2018.

The Group is in the business of providing its fraud mitigation software, namely TrafficGuard, as a service to its customers on monthly fee basis.

The Group's disclosures relating to revenue recognition are included in the summary of accounting policies in Note 2(k) of the financial report.

This was considered a key audit matter given the significance of revenue to the financial report.

How our audit addressed the key audit matter

As part of our audit procedures, we selected a sample of revenue transactions and agreed the revenue recognised to signed agreements and cash receipts.

On a sample basis we assessed whether performance obligations were met where revenue was recognised with reference to the contract.

We assessed when those same performance obligations were met, to determine whether revenue was recognised in the correct period.

We also considered the adequacy of the associated disclosures set out in the financial report for compliance with AASB 15.



Building a better
working world

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

The directors are responsible for the other information. The other information comprises the information included in the Company's 2020 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

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 on the other information obtained prior to the date of this auditor's report, 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 Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 judgment and maintain professional scepticism throughout the audit. We also:



**Building a better
working world**

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

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

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

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



Building a better
working world

Report on the audit of the remuneration report

Opinion on the remuneration report

We have audited the Remuneration Report included in pages 8 to 25 of the directors' report for the year ended 30 June 2020.

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

Responsibilities

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

Ernst & Young

Mark P Cunningham
Partner
Perth
28 August 2020