

APPENDIX 4E: PRELIMINARY FINAL REPORT

Adveritas Limited (ASX: AV1) (“**Adveritas**” or “**Company**”) presents its preliminary final report. This report is based on financial statements which are in the process of being audited.

Reporting period

Current reporting period:	Year ended 30 June 2019
Previous reporting period:	Year ended 30 June 2018

Results for announcement to the market

					\$		\$
Revenue from ordinary activities							
- Continuing operations	Up	100%	to	643,579	from		Nil
- Discontinued operations	down	96%	to	564,386	from		15,483,256
Profit / (Loss) from ordinary activities after tax attributable to members	down	13%	to	(6,522,197)	from		(7,509,395)
Net loss for the period attributable to members	down	12%	to	(6,548,570)	from		(7,429,794)

Dividends

The Company does not propose to pay a dividend and there is no re-investment plan in operation.

Net tangible assets per security

	30 June 2019	30 June 2018
	\$	\$
Net tangible assets	2,110,486	3,731,911
Number of ordinary shares on issue at balance date	158,898,924	88,797,667
Net tangible assets per security	0.01	0.04

Disposal of controlled entity

Refer to Note 9 included in the financial information.

Likely inclusion of an emphasis of matter paragraph in the independent audit report

The Company anticipates that its auditors will, without qualifying their audit opinion, draw attention to Note 16 on Going Concern, which is included in the financial information set out below. This note describes the principal conditions that raise doubt about the Company's ability to continue as a going concern. These conditions along with other matters set forth in Note 16, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern and therefore, the Company may be unable to realise its assets and discharge its liabilities in the normal course of business.

Financial information of Adveritas Limited and its controlled entities (“Group”)

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SUMMARISED OPERATING AND FINANCIAL REVIEW

The 2019 financial year was the Group's first full year of trading since the Board decided to discontinue the Company's performance marketing operations and instead focus the Company's resources on the development and commercialisation of its core advertising technology. The Company commercially launched TrafficGuard® on 1 July 2018. TrafficGuard is the Company's comprehensive digital advertising fraud prevention software as a service.

On 31 July 2018, the Company completed the closure of its performance-marketing division through the sale of 90% of its interest in Mpire Network Inc.

A summary of the operating results achieved by the Group over the last 4 years is set out below. The trading results of the performance marketing division have been classified as a discontinued operation. The 2016 financial year was the Group's first full year of trading since being readmitted to quotation on the Australian Securities Exchange on 7 July 2015.

	Note	FY 2019 \$	FY 2018 \$	FY 2017 \$	FY 2016 \$
Revenue	1	643,579	-	-	-
Grant income	2	955,868	-	-	187,594
Profit on disposal of controlled entity		594,698	-	-	-
Sundry income		66,317	73,311	51,178	151,933
Other income		1,616,883	73,311	51,178	339,527
Server hosting costs	3	(1,364,491)	(760,847)	(368,216)	(166,212)
Administration, marketing and occupancy costs	4	(1,156,668)	(893,904)	(738,200)	(390,401)
Compliance and consultancy costs	5	(707,811)	(551,522)	(365,010)	(309,177)
Employment costs	3	(5,235,288)	(4,777,622)	(3,406,094)	(1,990,483)
Bad and doubtful debts expense		(41,463)	(1,000)	-	(194,514)
Foreign exchange differences		160,854	(127,754)	(112,881)	9,144
Finance costs		-	(23)	(17)	(41,043)
Depreciation		(39,191)	(52,631)	(67,285)	(18,210)
Overheads		(8,384,058)	(7,165,303)	(5,057,703)	(3,100,896)
Share based payments	6	(503,233)	(111,621)	(215,442)	(4,250,454)
Corporate transaction costs		-	-	-	(30,484)
Other expenses		(503,233)	(111,621)	(215,442)	(4,280,938)
Loss before tax		(6,628,829)	(7,203,613)	(5,221,967)	(7,042,307)
Income tax (expense) / benefit		(17,591)	(47,971)	191,148	(258,056)
Loss after tax - continuing operations		(6,644,420)	(7,251,584)	(5,030,819)	(7,300,363)
Profit / (loss) after tax - discontinued operations		92,223	(257,811)	5,448,025	3,653,798
Profit / (loss) after tax for the Group		(6,552,197)	(7,509,395)	417,206	(3,646,565)

Notes

1. In FY19, the Group earned revenue from its SaaS offerings. In the prior years presented, the Group earned revenue from its performance marketing operations which have been classified as discontinued operations.
2. The grant income received in FY19 and FY16 related to the Group's research and development expenditure incurred in FY18 and FY15 respectively. In FY17 and FY18, the Group was eligible for a research and development rebate in the form of an off-set against its income tax liability.
3. Server hosting costs and employment costs increased in FY19 in accordance with the Board's decision to focus on the development of its software as a service offerings.
4. Administration, marketing and occupancy costs have increased in FY 19 largely as a result of marketing costs for TrafficGuard.
5. Compliance and consultancy costs have increased in FY19 largely as a result of legal and advisory fees.
6. Share based payments expense for FY19 increased significantly as options and performance rights were granted to directors and employees as part of their remuneration. In addition, options were issued to consultants in accordance with the terms of their agreements.

SIGNIFICANT EVENTS AFTER BALANCE DATE

As announced on 14 August 2019, the Company has received firm commitments to raise over \$2.8 million (before costs) through a placement to new and existing institutional and sophisticated investors at an issue price of 10c per share.

The firm commitments include a total of \$1.3 million from directors of the Company. The issue of shares to the directors will be subject to shareholder approval at the Company's next General Meeting which will be held as soon as possible.

Settlement of the placement (excluding the \$1.3 million from the directors) is scheduled to take place on 16 August 2019, with quotation of the new shares to occur on 19 August 2019.

**CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER
COMPREHENSIVE INCOME**

FOR THE YEAR ENDED 30 JUNE 2019

	Note	2019 \$	2018 \$
Continuing Operations			
Revenue from contracts with customers	2	643,579	-
Other income	3(a)	1,616,883	73,311
Overheads			
Server hosting costs		(1,364,491)	(760,847)
Administration costs	3(b)	(486,317)	(621,614)
Compliance costs	3(c)	(276,479)	(331,720)
Consultancy costs	3(f)	(431,332)	(219,802)
Employment costs	3(d)	(5,235,288)	(4,777,622)
Occupancy costs		(278,327)	(202,391)
Marketing costs		(392,024)	(69,899)
Bad and doubtful debts expense		(41,463)	(1,000)
Foreign exchange differences		160,854	(127,754)
Finance costs	3(e)	-	(23)
Depreciation		(39,191)	(52,631)
		<u>(8,384,058)</u>	<u>(7,165,303)</u>
Other Expenses			
Share based payments	12	(503,233)	(111,621)
		<u>(503,233)</u>	<u>(111,621)</u>
Loss before income tax		<u>(6,626,829)</u>	<u>(7,203,613)</u>
Income tax benefit / (expense)	4	(17,591)	(47,971)
Loss for the year from continuing operations attributable to the members of Adveritas Limited		<u>(6,644,420)</u>	<u>(7,251,584)</u>
Discontinued Operations			
Profit / (Loss) after tax for the year from discontinued operations	9	92,223	(257,811)
Profit / (loss) for the year attributable to the members of Adveritas Limited		<u>(6,552,197)</u>	<u>(7,509,395)</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		3,627	79,601
Total comprehensive loss for the year attributable to the members of Adveritas Limited		<u>(6,548,570)</u>	<u>(7,429,794)</u>
Loss per share attributable to members of Adveritas Limited		Cents	Cents
Basic earnings / (loss) per share – total operations	14	(5.03)	(9.35)
Basic earnings / (loss) per share – continuing operations	14	(5.10)	(9.03)
Diluted earnings / (loss) per share – total operations	14	(5.03)	(9.35)
Diluted earnings / (loss) per share – continuing operations	14	(5.10)	(9.03)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019

	Note	2019 \$	2018 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	5	2,046,991	4,054,816
Trade and other receivables	6	545,163	76,597
Prepayments		146,248	71,521
Assets held for sale	9	-	1,154,520
TOTAL CURRENT ASSETS		2,738,402	5,357,454
NON-CURRENT ASSETS			
Trade and other receivables	6	255,607	-
Plant and equipment		59,957	70,704
Investments		113,525	-
Goodwill		34,000	34,000
TOTAL NON-CURRENT ASSETS		463,089	104,704
TOTAL ASSETS		3,201,491	5,462,158
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	7	696,799	691,122
Provisions	8	326,254	241,109
Income tax payable		-	29,970
Liabilities directly associated with the assets held for Sale	9	-	715,917
TOTAL CURRENT LIABILITIES		1,023,053	1,678,118
NON-CURRENT LIABILITIES			
Provisions	8	33,952	18,129
TOTAL NON-CURRENT LIABILITIES		33,952	18,129
TOTAL LIABILITIES		1,057,005	1,696,247
NET ASSETS		2,144,486	3,765,911
EQUITY			
Contributed equity	10	26,305,580	22,586,507
Accumulated losses	13	(28,082,260)	(21,491,395)
Share based payment reserve	11	3,905,193	2,658,453
Foreign currency translation reserve	11	15,973	12,346
TOTAL EQUITY		2,144,486	3,765,911

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2019

	Note	2019 \$	2018 \$
Cash flows from operating activities			
Receipts from customers		1,080,608	17,990,379
Payments to suppliers and employees		(9,003,613)	(23,667,373)
Research and development grant income received		955,868	-
Other income received		41,981	120,201
Interest received		22,613	42,470
Interest paid		(943)	(78,916)
Income tax refund received		20,378	-
Income tax paid		(43,501)	(188,685)
Net cash flows used in operating activities	5	<u>(6,926,609)</u>	<u>(5,781,924)</u>
Cash flows from investing activities			
Purchase of plant and equipment		(28,362)	(26,030)
Proceeds on disposal of plant and equipment		904	
Proceeds on disposal of controlled entity	9	557,201	
Payment of withholding tax		(38,669)	-
Cash disposed of on sale of controlled entity	9	<u>(348,192)</u>	<u>-</u>
Net cash flows generated by / (used in) investing activities		<u>142,882</u>	<u>(26,030)</u>
Cash flows from financing activities			
Proceeds from issue of shares		4,725,826	3,000,000
Share issue costs paid		(263,247)	(120,000)
Advances received under debtor financing facility		61,398	4,367,301
Advances repaid under debtor financing facility		-	(5,381,480)
Net cash flows provided by financing activities		<u>4,523,977</u>	<u>1,865,821</u>
Net increase in cash and cash equivalents		(2,259,750)	(3,942,133)
Cash and cash equivalents at the beginning of the year		4,231,884	8,202,204
Effects of exchange rate changes on cash and cash equivalents		74,857	(28,187)
Cash and cash equivalents at the end of the year	5	<u>2,046,991</u>	<u>4,231,884</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2019

	Contributed equity	Accumulated losses	Share based payments reserve	Foreign currency translation reserve	Total equity
	\$	\$	\$	\$	\$
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
Balance at 1 July 2017	17,157,235	(13,982,000)	5,096,104	(67,255)	8,204,084
Loss for the year	-	(7,509,395)	-	-	(7,509,395)
<i>Other comprehensive income</i>					
Foreign exchange differences arising on translation of foreign operations	-	-	-	79,601	79,601
Total comprehensive income / (expenditure) for the year	-	(7,509,395)	-	79,601	(7,429,794)
Transactions with equity holders in their capacity as owners					
Ordinary shares issued	3,000,000	-	-	-	3,000,000
Share issue costs	(120,000)	-	-	-	(120,000)
Share based payments expense	-	-	111,621	-	111,621
Shares issued on vesting of performance rights	2,549,272	-	(2,549,272)	-	-
	5,429,272	-	(2,437,651)	-	2,991,621
Balance at 30 June 2018	22,586,507	(21,491,395)	2,658,453	12,346	3,765,911

NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS

1. SEGMENT INFORMATION

The Company's focus has shifted away from performance marketing and is instead directed towards the commercialisation of its core fraud protection product, TrafficGuard. The Company disposed of its performance marketing division on 31 July 2018. This division has been designated as a discontinued operation in the financial information reported for the prior period.

The Group's only operating segment is its technology division which is responsible for the development and maintenance of the Group's proprietary software platforms, nxus and TrafficGuard. These activities are conducted primarily at the Group's Australian head office and at its office in Croatia. The Group also maintains an office in Singapore, which is responsible for marketing TrafficGuard in the Asia Pacific region, and an office in the United States, which is responsible for marketing TrafficGuard in the North America region.

The board of directors review internal management reports on a monthly basis that are consistent with the information provided in the Statement of Profit and Loss and Other Comprehensive Income, Statement of Financial Position and 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 2019

	Technology	Other	Consolidated
	\$	\$	\$
Revenue	643,579	-	643,579
Other income	974,388	618,159	1,592,547
Overheads	(4,765,797)	(3,579,070)	(8,344,867)
Other expenses	-	(503,233)	(503,233)
EBITDA	(3,147,830)	(3,464,144)	(6,611,974)
Reconciliation of reportable segment loss			
EBITDA	(3,147,830)	(3,464,144)	(6,611,974)
Interest income	-	24,336	24,336
Interest expense	-	-	-
Depreciation	(33,452)	(5,739)	(39,191)
Income tax expense	(17,591)	-	(17,591)
Loss after income tax	(3,198,873)	(3,445,547)	(6,644,420)

Segment results for the year ended 30 June 2018

The segment information for the 2018 financial year has been restated to exclude the performance marketing operations as they have been classified as a discontinued operation in the financial statements.

	Technology	Other	Consolidated
	\$	\$	\$
Other income	30,839	-	30,839
Overheads	(3,807,822)	(3,304,827)	(7,112,649)
Other expenses	-	(111,621)	(111,621)
EBITDA	(3,776,983)	(3,416,448)	(7,193,431)
Reconciliation of reportable segment loss			
EBITDA	(3,776,983)	(3,416,448)	(7,193,431)
Interest income	-	42,472	42,472
Interest expense	(23)	-	(23)
Depreciation	(48,915)	(3,716)	(52,631)
Income tax (expense) / benefit	(47,971)	-	(47,971)
Loss after income tax	(3,873,892)	(3,377,692)	(7,251,584)

NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS

1. SEGMENT INFORMATION (continued)

Segment assets and liabilities at 30 June 2019

	Technology	Other	Consolidated
	\$	\$	\$
Assets	656,475	2,545,016	3,201,491
Liabilities	763,156	293,849	1,057,005

Segment assets and liabilities at 30 June 2018

	Continuing operations		Discontinued operation	
	Technology	Other	Performance Marketing	Consolidated
	\$	\$	\$	\$
Assets	734,607	3,573,031	1,154,520	5,462,158
Liabilities	551,150	429,180	715,917	1,696,247

Geographic information

	Consolidated	
	2019	2018
	\$	\$
Revenue from external customers by customer location:		
Australia	-	-
Foreign countries (refer to note 2.1 for further details)	643,579	-
Total	643,579	-

Included in revenue from foreign countries is revenue arising from sales in the technology segment from one customer which amounted to \$572,560 (2018: Nil),

	Consolidated	
	2019	2018
	\$	\$
Non-current operating assets by location		
Australia	87,695	97,688
United States	1,969	-
Asia Pacific	2,506	2,111
Other	1,787	4,905
Total	93,957	104,704

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

NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS

2. REVENUE FROM CONTRACTS WITH CUSTOMERS

2.1 Disaggregated revenue information

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

	Consolidated 2019 \$	2018 \$
Revenue by type of goods or services		
Revenue from the sale of software as a service	643,579	-
Total revenue from contracts with customers	643,579	-
Revenue by timing of revenue recognition		
Services transferred over time	643,579	-
Total revenue from contracts with customers	643,579	-
Revenue by geographical region		
North America	572,560	-
Latin America	53,633	-
Asia Pacific	9,214	-
Middle East	8,171	-
Total revenue from contracts with customers	643,579	-

2.2 Contract balances

	Consolidated 2019 \$	2018 \$
Trade receivables (Note 6)	151,457	-

Revenue from SaaS is recognised in the accounting period in which the services are rendered.

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days.

3. OTHER INCOME AND EXPENSE ITEMS

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

	Consolidated 2019 \$	2018 \$
(a) Other income		
Research and development grant	955,868	-
Profit on disposal of controlled entity (refer to Note 9)	594,698	-
Interest income	24,336	-
Miscellaneous income	41,981	73,311
	1,616,883	73,311
(b) Administration costs		
IT costs	247,009	266,896
Office and general administration costs	148,761	182,377
Travel	90,547	172,341
	486,317	621,614

NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS

3. OTHER INCOME AND EXPENSE ITEMS (continued)

	Consolidated	
	2019	2018
	\$	\$
(c) Compliance costs		
Accounting fees	11,160	11,150
ASX compliance fees	137,992	136,207
Tax advice and compliance fees	116,737	182,653
Regulatory body fees	10,590	1,710
	276,479	331,720
(d) Employment costs		
Salaries and wages ¹	4,136,461	3,639,078
Ancillary employment costs	797,717	878,893
Other	301,110	259,651
	5,235,288	4,777,622
(e) Finance costs		
Interest expense	-	23
	-	23
(f) Consultancy costs		
Legal	184,770	76,547
Investor relations	137,167	111,592
Other	109,395	31,663
	431,332	219,802

1. Note 15 provides details on directors and executives' remuneration.

4. INCOME TAX EXPENSE

The Group calculates the period income tax benefit using the tax rate that would be applicable to the expected total annual earnings.

The income tax benefit applicable to the accounting loss before income tax at the statutory income tax rate is reconciled to the income tax benefit at the Company's effective income tax rate for the period below:

	Consolidated	
	2019	2018
	\$	\$
Major components of income tax expense for the year are:		
Income statement		
<i>Current income tax</i>		
Current income tax charge	6,138	47,971
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 / (benefit) reported in income statement	17,591	47,971

NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS

4. 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 / (benefit) at the Company's effective income tax rate for the year is as follows:

	Consolidated	
	2019	2018
	\$	\$
Accounting loss before tax from continuing operations	(6,626,829)	(7,203,613)
Accounting profit / (loss) before tax from discontinued operations	25,970	(743,257)
	(6,600,859)	(7,946,870)
Income tax expense / (benefit) at the statutory income tax rate of 27.5% (2018: 27.5%)	(1,815,236)	(2,185,390)
Adjusted for:		
Under / (over) provision for income tax in previous years	(54,802)	(485,446)
Non-deductible share-based payment expenses	138,389	30,696
Non-deductible entertainment expenses	3,088	4,878
Other non-deductible expenses	10,209	28,038
Profit on disposal of controlled entity	(163,542)	-
Other non-assessable amounts	(269,222)	-
Difference between the Australian statutory income tax rate and the statutory income tax rate applicable to foreign operations	(2,483)	(17,989)
Tax losses and temporary differences not recognised as a deferred tax asset (Australian tax: \$1,930,464 (FY18: \$1,837,304, Canadian tax: \$19,653 (FY18: \$175,987), Singapore tax: \$130,998 (FY18: \$174,447) USA tax: \$23,821 (FY18: Nil))	2,104,936	2,187,738
	(48,663)	(437,475)
Income tax expense reported in income statement	17,591	47,971
Income tax expense / (benefit) attributable to discontinued operation	(66,254)	(485,446)
	(48,663)	(437,475)

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	
	2019	2018
	\$	\$
Revenue losses	11,993,184	7,601,207
Capital losses	762,336	194,514
Temporary differences	2,157,326	1,931,765
	14,912,845	9,727,486
Unrecognised tax losses at 27.5% (2018: 27.5%)	3,507,768	2,675,059

Tax losses do not expire under current legislation.

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.

NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS

4. 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 2019 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.

5. CASH AND CASH EQUIVALENTS

	Consolidated	
	2019	2018
	\$	\$
Cash at bank and on hand	2,046,991	4,054,816
Cash and cash equivalents	2,046,991	4,054,816

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

Cash at bank and on hand	2,046,911	4,054,816
Cash at bank and on hand attributable to discontinued operations	-	177,068
Cash and cash equivalents	2,046,911	4,231,884

Cash at bank and on hand earns interest at floating rates based on daily at call bank deposit and savings rates. Short-term deposits are for a period of 1 month and earn interest at the respective short-term deposit rate.

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

	Consolidated	
	2019	2018
	\$	\$
Net profit / (loss)	(6,552,197)	(7,509,395)
<i>Adjustments for non-cash items:</i>		
Bad debts written off	-	127,572
Depreciation	39,191	69,053
Profit on disposal of controlled entity	(594,697)	-
Profit on disposal of plant and equipment	(904)	-
Share based payments	503,233	111,621
Unrealised foreign exchange differences	(154,711)	116,550
<i>Changes in assets and liabilities:</i>		
Decrease / (Increase) / in trade receivables ¹	(98,191)	2,389,147
(Increase) / decrease in other receivables	1,559	(59,599)
(Increase) / decrease in prepayments	(73,513)	107,454
Increase in trade and other payables ¹	(21,564)	(527,655)
Increase in provision for employee entitlements	96,971	19,487
Increase / (decrease) in provision for income tax	(71,786)	(626,159)
Net cash generated by operating activities	(6,926,609)	(5,781,924)

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.

NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS

6. TRADE AND OTHER RECEIVABLES

	Consolidated 2019	2018
	\$	\$
CURRENT		
Trade receivables (a)	151,457	30,895
Deferred consideration receivable (refer to Note 9)	341,720	-
Income tax refund receivable	33,580	-
Sundry receivables	2,802	831
Deposits	35,984	35,955
GST receivables	15,223	8,916
	<u>580,766</u>	<u>76,597</u>
Allowance for expected credit losses (b)	(35,603)	-
	<u>545,163</u>	<u>76,597</u>
NON-CURRENT		
Deferred consideration receivable (refer to Note 9)	255,607	-
	<u>255,607</u>	<u>-</u>

(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 45 days and are therefore classified as current assets.

(b) Allowance for expected credit losses

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

	Consolidated 2019	2018
	\$	\$
Balance at 1 July	-	-
Provision for expected credit losses: trade receivables	35,603	-
	<u>35,603</u>	<u>-</u>
Balance at 30 June		

(c) Fair values of trade and other receivables

The fair value of trade and other receivables is assumed to approximate their carrying amounts.

7. TRADE AND OTHER PAYABLES

	Consolidated 2019	2018
	\$	\$
Trade payables	372,637	230,328
Statutory liabilities	165,689	312,681
Other payables	158,473	148,113
	<u>696,799</u>	<u>691,122</u>

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.

NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS

8. PROVISIONS

	Consolidated 2019 \$	2018 \$
CURRENT		
Employee benefits	326,254	241,109
NON-CURRENT		
Employee benefits	33,952	18,129

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			
	2019		2018	
	Annual leave \$	Long service leave \$	Annual leave \$	Long service leave \$
Balance at 1 July	155,365	103,873	97,900	98,968
Amounts provided for during the year	313,010	28,495	242,772	4,905
Unused leave balances paid during the year	(57,684)	-	(43,908)	-
Leave taken during the year	(182,853)	-	(141,399)	-
Balance at 30 June	227,838	132,368	155,365	103,873
<i>The balance is split as follows:</i>				
Current portion	227,838	98,416	155,365	85,744
Non-current portion	-	33,952	-	18,129

9. DISCONTINUED OPERATION

In May 2018, the Company, via its wholly owned subsidiary, Livelynk Group Pty Ltd (Livelynk), entered into an indicative, confidential and non-binding term sheet with Canadian performance marketplace, ClearPier Inc (ClearPier), pursuant to which Livelynk agreed to sell 90% of its equity interest in Mpire Network Inc (Mpire Network)

At 30 June 2018, Mpire Network was classified as a disposal group held for sale and as a discontinued operation.

On 31 July 2018, Livelynk completed the sale of 90% of Mpire Network, to ClearPier for a cash consideration of US\$666,817 (\$900,000¹), of which US\$370,454 (\$500,000¹) was received upfront and US\$296,363 (\$400,000¹) was deferred. The purchase consideration also included a maximum of US\$4,445,442 (\$6,000,000¹) under a 3 year profit share agreement. In addition, under the terms of the Sale and Purchase Agreement, Livelynk is due to receive a working capital adjustment amount of US\$163,158 (\$220,214¹).

As the deferred consideration and working capital adjustment amounts are denominated in USD, the balances owing at 30 June 2019 have been retranslated at the spot rate on 30 June 2019. This has resulted in an unrealised foreign exchange gain of \$34,314 being recognised in the consolidated statement of profit and loss and other comprehensive income.

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

¹ These are the AUD values at the time the sale was completed.

NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS

9. DISCONTINUED OPERATION (continued)

As at 30 June 2019, the deferred consideration and working capital adjustment amounts owing have been classified as follows:

Current trade and other receivables	\$341,719
Non-current trade and other receivables	\$255,607

The results of the discontinued operation are presented below:

	2019	2018
	\$	\$
Revenue	564,386	15,483,256
Cost of services rendered	(339,079)	(13,050,446)
Gross Profit	225,307	2,432,810
Other income	-	89,362
Administration costs	(21,689)	(249,127)
Compliance costs	(12,931)	(6,005)
Consultancy costs	(6,446)	(113,713)
Employment costs	(99,656)	(2,381,343)
Occupancy costs	(6,444)	(76,121)
Marketing costs	(1,905)	(305,680)
Bad and doubtful debts expense	13,524	12,535
Foreign exchange differences	(62,848)	(50,660)
Finance costs	(943)	(78,893)
Depreciation	-	(16,422)
Overheads	(199,338)	(3,265,429)
Profit / (loss) before income tax	25,969	(743,257)
Income tax benefit / (expense)	66,254	485,446
Profit / (loss) for the year	92,223	(257,811)

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

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

NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS

9. DISCONTINUED OPERATION (continued)

The net cash flows incurred by Mpire Network are as follows:

	2019	2018
	\$	\$
Operating activities	(102,509)	613,177
Investing activities	-	(4,692)
Financing activities	274,053	(2,022,110)
Net cash (outflow) / inflow	<u>171,544</u>	<u>(1,413,625)</u>

As Mpire Network was disposed of prior to 30 June 2019, the assets and liabilities classified as held for sale as at 30 June 2018 are no longer included in the consolidated statement of financial position as at 30 June 2019.

The assets and liabilities classified as held for sale as at 30 June 2018 are set out below:

	2018
	\$
Assets	
Cash and short term deposits	177,068
Trade and other receivables	951,762
Plant and equipment	25,690
Assets held for sale	<u>1,154,520</u>
Liabilities	
Trade and other payables	(613,163)
Provisions	(20,359)
Interest-bearing loans and borrowings	(82,395)
Liabilities directly associated with assets held for sale	<u>(715,917)</u>

10. CONTRIBUTED EQUITY

(a) Issued capital

	Consolidated	
	2019	2018
	\$	\$
Ordinary shares, fully paid	<u>26,305,580</u>	<u>22,586,507</u>

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.

NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS

10. CONTRIBUTED EQUITY (continued)

(b) Movements in share capital

	2019		2018	
	Number	\$	Number	\$
Shares on issue at 1 July	88,797,667	22,586,507	65,807,669	17,157,235
Shares issued on conversion of Class B Performance Rights	-	-	7,500,000	2,549,272
Shares issued on conversion of Class D Performance Rights	33,332	13,330	-	-
Shares issued under an Employee Incentive Plan	-	-	196,664	-
Shares issued on exercise of options	4,500	450	-	-
Shares issued pursuant to an Entitlements Issue	53,278,600	2,397,537	-	-
Shares issued pursuant to a placement	15,926,302	2,327,840	15,000,000	3,000,000
Shares issued as consideration for placement services	858,523	71,256	293,334	66,000
Share issue costs ¹	-	(1,091,340)	-	(186,000)
Shares on issue at 30 June	158,898,924	26,305,580	88,797,667	22,586,507

1. Share issue costs is made up as follows:

	Consolidated	
	2019	2018
	\$	\$
Cash fees paid	(263,247)	(120,000)
Fair value of options issued as consideration for underwriting services	(756,837)	-
Fair value of shares issued as consideration for placement services	(71,256)	(66,000)
	(1,091,340)	(186,000)

(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 2019 and 30 June 2018. The financial information presented below for the year ended 30 June 2018 excludes amounts classified as assets held for sale and amounts classified as liabilities associated with assets held for sale.

	Consolidated	
	2019	2018
	\$	\$
Trade and other payables (Note 7)	696,799	691,122
Less: cash and cash equivalents (Note 5)	(2,046,911)	(4,054,816)
Net (Debt) / Capital	(1,350,112)	(3,363,694)
Equity	26,305,580	22,586,507
Total Capital	26,305,580	22,586,507
Capital and net debt	24,955,468	19,222,813
Gearing ratio	(5%)	(17%)

NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS

11. RESERVES

	Consolidated 2019 \$	2018 \$
Foreign currency translation reserve	15,973	12,346
Share based payments reserve	3,905,193	2,658,453
Foreign currency translation reserve		
Balance at beginning of year	12,346	(67,255)
Foreign exchange differences arising on translation of foreign operations	3,627	79,601
Balance at end of year	15,973	12,346
Share based payments reserve		
Balance at beginning of year	2,658,453	5,096,104
Fair value of options issued to directors	207,214	45,616
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 Class B Performance Rights converted into ordinary shares	-	(2,549,272)
Fair value of Class D Performance Rights recognised	-	6,109
Fair value of Class D Performance Rights converted into ordinary shares	(13,330)	-
Fair value of Class E Performance Rights recognised	-	6,415
Fair value of Class F Performance Rights recognised	-	25,659
Fair value of Class G Performance Rights recognised	-	3,564
Fair value of Class H Performance Rights recognised	3,745	-
Fair value of Class I Performance Rights recognised	7,489	-
Fair value of Class J Performance Rights recognised	7,489	-
Fair value of Class K Performance Rights recognised	14,980	-
Fair value of Class L Performance Rights recognised	22,469	-
Fair value of Class M Performance Rights recognised	11,234	-
Fair value of Class N Performance Rights recognised	11,234	-
Fair value of Class O Performance Rights recognised	14,980	-
Employee share scheme expense	18,996	24,258
Employee option scheme	85,054	-
Balance at end of year	3,905,193	2,658,453

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.

NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS

12. SHARE BASED PAYMENTS

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

	2019		2018	
	Number granted	\$	Number granted	\$
Options granted to non-executive directors	3,000,000	207,214	500,000	45,616
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	2,850,000	85,054	-	-
Performance rights granted (class D) ¹	-	-	-	6,109
Performance rights granted (classes E – G) ^{1, 2}	-	-	1,200,000	35,638
Performance rights granted (classes H – O) ¹	14,850,000	93,620	-	-
Shares issued under employee share plan ¹	-	18,996	-	24,258
Balance at the end of financial year		<u>503,233</u>		<u>111,621</u>

Notes

1. There are vesting conditions attached to these securities. The fair value at grant date is recognised over the vesting period.
2. These performance rights were held by Mr Lee Hunter and lapsed on 18 July 2018 when he resigned from the Company. None of the performance milestone had been achieved by the date of his resignation.

(a) Options

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

	2019		2018	
	Number	Fair value per option at grant date (cents)	Number	Fair value per option at grant date (cents)
Opening balance	2,000,000		8,500,000	
Granted during the year				
* free attaching options granted pursuant to an entitlements issue ¹	39,958,961	-	-	-
* options granted pursuant to 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	500,000	9.12
* options granted under employee option plan	2,850,000	5.56	-	-
Exercised during the year	(4,500)	5.56	-	-
Expired during the year	-		(7,000,000)	
Closing balance	<u>64,946,334</u>		<u>2,000,000</u>	

Notes

1. 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.
2. The fair value of these options has been recognised as a share issue cost and allocated against contributed equity.

NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS

12. SHARE BASED PAYMENTS (continued)

(a) Options (continued)

The fair value of options granted during the year, excluding the free attaching options, was \$1,220,791 (2018: \$45,616).

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

	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5
Number granted	15,541,873	1,000,000	2,850,000	600,000	3,000,000
Exercise price	\$0.10	\$0.10	\$0.15	\$0.15	\$0.20
Expiry date	25/10/2021	7/12/2020	24/12/2020	24/12/2020	27/03/2022
Dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%
Expected volatility	99.34%	100.55%	103.02%	103.02%	109.51%
Risk-free interest rate	2.06%	1.92%	1.97%	1.97%	0.92%

The weighted average remaining contractual life for the share-based payment options outstanding as at 30 June 2019, including the free attaching options, was 2.24 years (30 June 2018: 1.85 years).

The exercise price for share based payment options outstanding as at the end of the period, including the free attaching options, was a range of \$0.10 to \$0.45 (30 June 2018: \$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 2018 Number	Granted during the year Number	Converted into ordinary shares during the year Number	Lapsed during the year Number	Closing balance at 30 June 2019 Number
Class D	33,332	-	(33,332)	-	-
Class E	150,000	-	-	(150,000)	-
Class F	900,000	-	-	(900,000)	-
Class G	150,000	-	-	(150,000)	-
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
	1,233,332	14,850,000	(33,332)	(1,200,000)	14,850,000

NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS

12. SHARE BASED PAYMENTS (continued)

(b) Performance Rights (continued)

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

Tranche	Vesting Condition	Expiry date
Class H	First 10 clients that sign on using TrafficGuard	30 June 2021
Class I	First 3 Tier 1 Clients who the Board consider to be enterprise level i.e. > 1 billion clicks per month	30 June 2021
Class J	First achievement of revenue producing twelve month contracts to the amount of \$1m	30 June 2021
Class K	First achievement of revenue producing twelve month contracts to the amount of \$3m	30 June 2021
Class L	First achievement of revenue producing twelve month contracts to the amount of \$5m	30 June 2021
Class M	First achievement of break-even cash flow in a financial year	30 June 2021
Class N	First achievement of audited \$1m earnings before interest tax, depreciation and amortization (EBITDA)	30 June 2021
Class O	First achievement of audited \$3m EBITDA	30 June 2021

The fair value of performance rights granted during the year was \$1,280,158 (2018: \$88,088).

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

	Tranche 1	Tranche 2
Number granted	6,600,000	8,250,000
Exercise price	Nil	Nil
Expiry date	30/06/2021	30/06/2021
Dividend yield	0.00%	0.00%
Expected volatility	103.63%	109.51%
Risk-free interest rate	1.79%	0.94%

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 (2018: 196,664).

(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, 2,850,000 options were granted to employees under the plan (2018: Nil).

NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS

13. ACCUMULATED LOSSES

	Consolidated	
	2019	2018
	\$	\$
Accumulated losses at 1 July	(21,491,395)	(13,982,000)
Net loss for the year	(6,552,197)	(7,509,395)
Withholding tax on intragroup dividend payment	(38,668)	-
Accumulated losses at 30 June	<u>(28,082,260)</u>	<u>(21,491,395)</u>

14. EARNINGS / LOSS PER SHARE

Basic earnings / (loss) per share is calculated by dividing the profit / (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 earnings / (loss) per share is calculated by dividing the profit / (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 earnings / (loss) per share:

	2019 Number	2018 Number
Weighted average number of ordinary shares used in the calculation of basic earnings / (loss) per share	130,226,820	80,290,480
Weighted average number of ordinary shares used in the calculation of diluted earnings / (loss) per share	130,226,820	80,290,480
	\$	\$
Profit / (loss) attributable to ordinary equity holders of Adveritas Limited		
Continuing operations	(6,644,420)	(7,251,584)
Discontinued operations	92,233	(257,811)
Loss attributable to ordinary equity holders of Adveritas Limited for basic and diluted earnings / (loss)	<u>(6,552,197)</u>	<u>(7,509,395)</u>
	Cents	Cents
Basic earnings / (loss) per share	(5.03)	(9.35)
Basic earnings / (loss) per share – continuing operations	(5.10)	(9.03)
Basic earnings / (loss) per share – discontinued operations	0.07	(0.32)
Diluted earnings / (loss) per share	(5.03)	(9.35)
Diluted earnings / (loss) per share – continuing operations	(5.10)	(9.03)
Diluted earnings / (loss) per share – discontinued operations	0.07	(0.32)

Classification of securities as ordinary shares

The Company has only one category of ordinary shares included in basic earnings / (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.

15. DIRECTORS AND EXECUTIVE DISCLOSURE

Compensation of Key Management Personnel

	Consolidated	
	2019	2018
	\$	\$
Short-term employee benefits	1,508,207	1,925,646
Post-employment benefits	80,184	86,711
Other long-term benefits	5,745	4,624
Share based payments	353,058	81,253
	<u>1,947,194</u>	<u>2,098,234</u>

16. GOING CONCERN

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

During the year ended 30 June 2019, the Group incurred a net loss after tax of \$6,562,197 and a net cash outflow from operating activities of \$6,296,609. The cash and cash equivalents balance as at 30 June 2019 was \$2,046,091. The Group's net current asset position at 30 June 2019 was \$1,715,349.

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 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.