

OpenDNA Limited

ACN: 613 410 398

ASX Preliminary Final Report

Appendix 4E

30 June 2018

Results for Announcement to the Market

This Preliminary Final Report for OpenDNA Limited ('OpenDNA' or the 'Company') is provided to the Australian Securities Exchange (ASX) under ASX Listing Rule 4.3A.

Current Reporting Period: 30 June 2018

Previous Corresponding Period: 30 June 2017

For and on behalf of the Directors



Peter Torre
Company Secretary
Dated: 29 August 2018

Review of operations

Group overview

For the financial year ended 30 June 2018, OpenDNA was primarily focussed on technical development and driving both customer and market awareness of the Group's artificial intelligence and machine learning technology. Discussions progressed with several prospective customers which the Group believes represent significant opportunities regarding the application of OpenDNA's technology. As discussed below, the development by the Group of a number of proprietary tools designed to improve the Company's ability to market its Artificial Intelligence System ("AIS") to customers and potential strategic partners is expected to assist in streamlining those interactions with a view to shortening the pathway to concluded agreement. Finally, OpenDNA continues to attract the attention of leading technology companies in terms of potential collaborative relationships.

A detailed summary of key operational events relevant to the reporting year ended 30 June 2018 is set out below.

Customers

General

One of the key challenges identified by the Group is that, having regard to the nature of OpenDNA's offering, the traditional customer sales cycle is made more complicated by the need to educate and demonstrate, often to multiple persons within prospective customer organisation and over extended periods, in order to progress sales discussions towards closure. A further complexity involves the fact that customer businesses most likely to embrace OpenDNA's technology (and best able to generate revenue uplift for mutual benefit) are generally large organisations who traditionally work on longer sales cycles than smaller ones.

To better facilitate and streamline the customer engagement process, OpenDNA has built a number of "business-ready" tools which enable customers to visualise in real-time the beneficial effects that OpenDNA's personalisation technology can have on their specific business and individual end-user behaviour. A number of customer trials carried out during the year have demonstrated the significant benefits created through the use of that technology when compared to sample groups of end-users to whom it was not applied.

Endeavour Drinks Group

In July 2017, OpenDNA announced that it had signed an agreement with Woolworths-owned Endeavour Drinks Group ("Endeavour") to design an artificial intelligence-powered "Drinks Library" app whereby users could, with the power of OpenDNA's personalisation technology, tap into Endeavour's extensive product suite and associated knowledge base to choose "off the shelf" the best alcoholic beverage selection for their immediate needs. Over the subsequent months the app was designed, built and ultimately released in April 2018. Endeavour is currently planning various activities designed to market and promote the Drinks Library App, with a promotional video due to be released over the coming months which will target over 3 million of their existing customers. Together with other marketing initiatives aimed at a wider audience, this video is designed to increase awareness and user adoption.

Future Mobile Technology

In the previous financial year, OpenDNA identified the potential for its artificial intelligence technology to be combined with mobile device hardware to offer a product to consumers which came pre-loaded with personalisation capability. Following the signature in June 2017 of an agreement with innovative mobile handset manufacturer Future Mobile Technology ("FMT") (provider of the high-quality range of "Netsurfer" Android handsets to the European and African markets), in January 2018 FMT launched a range of smartphones to be sold pre-loaded with OpenDNA's proprietary "Jottr" news app. The Group sees significant potential in the combination of its personalization technology with mobile device hardware and is pursuing relationships with other telecommunications-related customers.

Publishing and analytics

Other high-profile organisations with which OpenDNA concluded agreements during the financial year included international publisher Epoch Times, for whom a successful trial has been completed, and leading US-based business intelligence platform Looker, Inc. OpenDNA is in ongoing discussions with these companies as to the ways to best monetize their existing and future relationship.

Opportunities in relation to EU General Data Protection Regulations

On 25 May 2018, a significant European regulatory reform came into operation in the form of the EU's General Data Protection Regulations ("GDPRs"). The GDPRs govern the collection, storage and use by organisations of consumers' private information and have significant implications for how organisations worldwide manage their users' data and privacy.

The introduction of the GDPRs presents a significant leverage point for OpenDNA and, accordingly, the Company has been undertaking confirmatory research and development activities to ensure that its AIS, ancillary products and tools are fully compliant. Once that work is completed, OpenDNA will be able to market its technology to businesses not only from the perspective that they will have the ability to understand in real-time their own individual users' interests, likes, dislikes, wants and needs, but also as being a GDPR-compliant solution. Through the use of OpenDNA's technology, businesses will have the ability to use information about their own customers to automatically personalise individual customer experiences in relation to their business without violating their data privacy rights, by giving end-users total control over their own data.

Business development

Oracle accelerator program

Following its recognition in the previous financial year as one of Westpac's "Businesses of Tomorrow", OpenDNA has recently been shortlisted by Oracle Singapore as part of its accelerator program, an initiative whereby Oracle will select 6 businesses to work with and foster on an ongoing basis to promote co-development and co-innovation. From the initial 306 applicants, only 11 entities were chosen to be shortlisted, providing a strong testament to the Company's technology and its ability to attract the interest of a world-class international technology company such as Oracle. The final selection decision is expected to be made in late August or early September 2018 and, if selected, OpenDNA will have access to Oracle customers and partners, investors and ongoing mentoring/advice from Oracle, which is expected to be invaluable to rapidly scale the Company's technology and market presence.

Other activities

In addition to the Oracle initiative described above, OpenDNA continues to engage with and pursue relationships with several well-known global technology brands to form similar partnerships to that of Oracle, that will enable the Company to rapidly expand its global footprint and its potential to attract large businesses as customers for its AI technology.

Operating results for the year

The Group has recorded a net loss after tax of \$3,967,854 (30 June 2017: net loss after tax of \$7,713,236).

Review of financial position

The net assets of the group as at 30 June 2018 were \$2,666,368 (30 June 2017: \$6,531,062), comprised of the following key items:

- Cash and cash equivalents \$669,840 (30 June 2017: \$3,747,988); and
- Intangible assets of \$2,302,351 (30 June 2017: \$2,574,522).

Since December 2017, the Group has implemented a number of measures designed to preserve its cash reserves, including deferral of Director's fees and reduction in various internal and external expenditures. Recently, the Board undertook a comprehensive strategic review of all expenditures to ensure that the Group is best positioned to continue to pursue its key objectives. As key technology developments and improvements regarding the AIS and the Company's other ancillary tools have already been undertaken, there has been a significant reduction in monthly cash burn. Additional cost reduction measures implemented recently will ensure that the Group continues to operate in an efficient manner.

Summary results for the year ended 30 June 2018

The following is a summary of the financial results for the year ended 30 June 2018.

Results for announcement to the market

	Year ended 30 June 2018 \$'000	Year ended 30 June 2017 \$'000	Increase / (Decrease) \$'000	% Change
Revenue from continuing operations	132	50	82	164%
Loss before income tax benefit	(4,254)	(8,337)	(4,083)	49%
Income tax benefit	286	624	(338)	(54%)
Net loss for the year	(3,968)	(7,713)	(3,745)	49%

Dividends

No dividends were declared or paid during the year.

**Preliminary consolidated statement of profit or loss
and other comprehensive income
For the year ended 30 June 2018**

	Notes	2018 \$	2017 \$
Continuing operations			
Revenue		118,739	19,681
Interest income		13,024	30,090
Depreciation and amortisation expense		(309,838)	(158,134)
Impairment charge	4	-	(2,528,788)
Share based payment expense		(109,599)	(808,967)
<i>Other expenses</i>			
Consulting fees		(344,355)	(1,296,967)
Employee costs		(2,593,480)	(1,958,915)
Travel and accommodation costs		(145,003)	(410,886)
Other expenses		(883,554)	(1,224,002)
Loss before income tax		(4,254,066)	(8,336,888)
Income tax benefit		286,212	623,652
Net loss for the year		(3,967,854)	(7,713,236)
Other comprehensive loss, net of income tax			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations		(6,439)	(123,789)
Other comprehensive loss for the year, net of income tax		(6,439)	(123,789)
Total comprehensive loss for the year		(3,974,293)	(7,837,025)
Basic loss per share (cents per share)	1	3.78	9.40
Diluted loss per share (cents per share)	1	3.78	9.40

The accompanying notes form part of these financial statements

**Preliminary consolidated statement of financial position
As at 30 June 2018**

	Notes	2018 \$	2017 \$
Assets			
Current assets			
Cash and cash equivalents		669,840	3,747,988
Trade and other receivables		303,564	359,851
Other current assets		147,598	199,218
Total current assets		1,121,002	4,307,057
Non-current assets			
Property, plant and equipment		56,755	81,859
Deferred tax assets		222,577	273,838
Intangible assets		2,302,351	2,574,522
Total non-current assets		2,581,683	2,930,219
Total assets		3,702,685	7,237,276
Liabilities			
Current liabilities			
Trade and other payables		592,960	207,501
Total current liabilities		592,960	207,501
Non-current liabilities			
Deferred tax liabilities		443,357	498,713
Total non-current liabilities		443,357	498,713
Total liabilities		1,036,317	706,214
Net assets		2,666,368	6,531,062
Equity			
Issued capital	3	13,646,581	13,646,581
Reserves		700,877	597,717
Accumulated loss		(11,681,090)	(7,713,236)
Total equity		2,666,368	6,531,062

The accompanying notes form part of these financial statements

Preliminary consolidated statement of changes in equity
For the year ended 30 June 2018

Year ended 30 June 2018

	Notes	Issued capital \$	Share-based payment reserve \$	Foreign currency translation reserve \$	Accumulated loss \$	Total equity \$
Balance as at 1 July 2017		13,646,581	721,506	(123,789)	(7,713,236)	6,531,062
Loss for the year		-	-	-	(3,967,854)	(3,967,854)
Other comprehensive loss, net of income tax		-	-	(6,439)	-	(6,439)
Total comprehensive loss for the year		-	-	(6,439)	(3,967,854)	(3,974,293)
Share-based payments		-	109,599	-	-	109,599
Balance as at 30 June 2018		13,646,581	831,105	(130,228)	(11,681,090)	2,666,368

Year ended 30 June 2017

	Notes	Issued capital \$	Share-based payment reserve \$	Foreign currency translation reserve \$	Accumulated loss \$	Total equity \$
Issue of incorporation shares		10	-	-	-	10
Loss for the year		-	-	-	(7,713,236)	(7,713,236)
Other comprehensive loss, net of income tax		-	-	(123,789)	-	(123,789)
Total comprehensive loss for the year		-	-	(123,789)	(7,713,236)	(7,837,025)
Shares issued	3	14,608,354	-	-	-	14,608,354
Share issue costs	3	(961,783)	-	-	-	(961,783)
Share-based payments		-	721,506	-	-	721,506
Balance as at 30 June 2017		13,646,581	721,506	(123,789)	(7,713,236)	6,531,062

The accompanying notes form part of these financial statements

Preliminary consolidated statement of cash flows
For the year ended 30 June 2018

	Notes	2018 \$	2017 \$
Cash flows from operating activities			
Receipts from customers		114,957	13,169
Payments to suppliers and employees		(3,556,977)	(4,871,962)
Interest received		11,990	30,089
Other – Research and Development cash rebate received		344,384	75,665
Other – Advances and security deposits paid		-	(139,711)
Net cash outflow from operating activities		(3,085,646)	(4,892,750)
Cash flows from investing activities			
Payments for property, plant and equipment		(8,790)	(104,297)
Cash assumed on acquisition of subsidiary	4	-	266,635
Net cash inflow from investing activities		(8,790)	162,338
Cash flows from financing activities			
Proceeds from issue of shares		-	9,340,000
Payments for share issue costs		-	(849,432)
Net cash inflow from financing activities		-	8,490,568
Net increase in cash and cash equivalents		(3,094,436)	3,760,156
Cash and cash equivalents at the beginning of the year		3,747,988	-
Effect of exchange rate fluctuations on cash held		16,288	(12,168)
Cash and cash equivalents at the end of the year		669,840	3,747,988

The accompanying notes form part of these financial statements

Note 1: Loss per share

Basic and diluted loss per share

	2018	2017
	Cents per share	Cents per share
Total basic and diluted loss per share attributable to the ordinary equity holders of the Company	3.78	9.40

Reconciliation of loss used in calculating loss per share

	\$	\$
Loss attributable to the ordinary equity holders of the Company used in the calculation of basic and diluted loss per share	3,967,854	7,713,236

Weighted average number of shares used as the denominator

	Number	Number
Weighted average number of ordinary shares used in the denominator in calculating loss per share	105,083,541	82,034,309

Information concerning classification of securities

Options granted are considered to be potential ordinary shares and have been included in the determination of diluted loss per share to the extent to which they are dilutive (the options are not considered to be dilutive). The options have not been included in the determination of basic loss per share.

Note 2: Net tangible asset backing

	2018	2017
	\$	\$
Net assets (\$)	2,666,368	6,531,062
Less intangible assets (\$)	(2,302,351)	(2,574,522)
Net tangible assets of the Company (\$)	364,017	3,956,540
Fully paid ordinary shares on issue at balance date (number)	105,083,541	105,083,540
Net tangible asset backing per issued ordinary share at balance date (cents)	0.35	3.77

Note 3: Issued capital

Shares capital

	2018	2017
	\$	\$
105,083,541 / 105,083,540 Ordinary shares issued and fully paid	13,646,581	13,646,581

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

Movement in ordinary share capital

30 June 2018

Date	Details	Number of shares	Issue price	\$
1 July 2017	Opening balance	105,083,540	-	13,646,581
8 September 2017	Share issued on cancellation of performance shares	1	-	-
30 June 2018		<u>105,083,541</u>		<u>13,646,581</u>

30 June 2017

Date	Details	Number of shares	Issue price	\$
1 July 2016	Opening balance	-	-	-
1 July 2016	Issue of incorporation shares	10	\$1.00	10
9 September 2016	Shares issued on acquisition of OpenDNA (UK) Limited	48,483,530	\$0.10	4,848,354
9 September 2016	Shares issued to seed capital investors	15,600,000	\$0.10	1,560,000
20 September 2016	Shares issued to Chief Operating Officer	1,000,000	\$0.20	200,000
16 November 2016	Shares issued on Initial Public Offering	40,000,000	\$0.20	8,000,000
		<u>105,083,540</u>		<u>14,608,364</u>
	Less: Transaction costs arising on share issue	-		(961,783)
30 June 2017		<u>105,083,540</u>		<u>13,646,581</u>

Performance shares

	2018	2017
	\$ ¹	\$ ¹
33,250,000 / 31,500,000 Performance shares	-	-

¹ The Performance Shares have been valued at \$0.20 each, based on the IPO issue price of the Company's shares. The Company will be required to record the value of these shares in its accounting records over the vesting period, however, this will only commence when the directors believe it is probable that any of the performance milestones will be achieved.

At the date of this report, the directors cannot resolve with any certainty whether it would be considered probable that any of the performance milestones will be achieved. As a result, no value has been recorded in the accounting records.

Performance shares comprise of the following:

	2018 Number	2017 Number
Class A Performance Shares, will convert to ordinary shares upon the Company achieving within five years of issue annualised gross revenue exceeding \$3.5m (measured over any three-consecutive month period) or achieving 20m users (at least half of which are directly revenue generative).	11,800,000	11,200,000
Class B Performance Shares, will convert to ordinary shares upon the Company achieving within five years of issue annualised gross revenue exceeding \$7.5m (measured over any three-consecutive month period) or achieving 30m users (at least half of which are directly revenue generative).	11,800,000	11,200,000
Class C Performance Shares, will convert to ordinary shares upon the Company achieving within five years of issue annualised gross revenue exceeding \$12m (measured over any three-consecutive month period) or achieving 50m users (at least half of which are directly revenue generative).	9,650,000	9,100,000
	33,250,000	31,500,000

The performance shares have been issued to the following Executives:

30 June 2018

	Class A	Class B	Class C	Total
Executives				
J Shah	10,000,000	10,000,000	8,000,000	28,000,000
G Irwin	1,200,000	1,200,000	1,100,000	3,500,000
R Jarvis	600,000	600,000	550,000	1,750,000
J Loia ¹	600,000	600,000	550,000	1,750,000
	12,400,000	12,400,000	10,200,000	35,000,000
Less: performance shares lapsed	(600,000)	(600,000)	(550,000)	(1,750,000)
	11,800,000	11,800,000	9,650,000	33,250,000

¹ The performance shares issues to J Loia lapsed, following his cessation of employment with the Company.

30 June 2017

	Class A	Class B	Class C	Total
Executives				
J Shah	10,000,000	10,000,000	8,000,000	28,000,000
K Fell ¹	1,200,000	1,200,000	1,100,000	3,500,000
G Irwin	1,200,000	1,200,000	1,100,000	3,500,000
	12,400,000	12,400,000	10,200,000	35,000,000
Less: performance shares lapsed	(1,200,000)	(1,200,000)	(1,100,000)	(3,500,000)
	11,200,000	11,200,000	9,100,000	31,500,000

¹ The performance shares issues to K Fell lapsed, following his resignation from the Company.

Share options

The Company has an Incentive Share Option Plan under which options to subscribe for the Company's shares have been granted to certain directors and executives. In addition, further options were issued to certain directors and executives outside of the Incentive Share Option Plan, but substantially on the same terms and conditions. The Company refers to these as Special Purpose Options and whilst no formal plan has been adopted for these options, the Company refers to any issues outside of the shareholder approval Incentive Share Option Plan as being issued under the Special Purpose Option Plan.

Note 4: Business combination

Acquisition of OpenDNA (UK) Limited

On 5 August 2016, the Company entered into individual Share Sale Deeds with each of the shareholders of OpenDNA (UK) Limited, a UK registered company, to acquire 100% of the issued share capital of that company. As a result, OpenDNA (UK) Limited became a wholly-owned subsidiary of the Company at that date.

As disclosed in the Company's Annual Report for the year ended 30 June 2017, an independent valuation of the cash generating unit relating to the technology asset and goodwill arising from this business combination, resulted in an impairment charge of \$2,528,788.

Note 5: Events subsequent to the reporting date

Other than what has been disclosed in the financial report above, there have been no other material matters arising subsequent to the end of the financial year.

Note 6: Compliance statement

This report is based on financial statements that are in the process of being audited.