

ASX RELEASE

RELEASE OF FY21 AUDITED ANNUAL REPORT

Real-time software company Vection Technologies Ltd (**ASX:VR1**)(**Vection Technologies, Vection** or the **Company**) advises that, further to the release on Tuesday 31 August 2021 of its preliminary FY21 Preliminary Final Report and its FY21 Full Year Investor Presentation, the Company releases its Audited FY21 Annual Report.

To assist investors' review of the FY21 Annual Report, Vection has prepared the following short summary table of management's strategic goals for fiscal year 2022:

OBJECTIVES:	MANAGEMENT'S GOAL
REVENUE ACCELERATION:	Double yearly revenue from a base of \$10m unaudited revenue in FY21 (including full FY21 unaudited revenue from the acquisition of Blank Canvas and JMC Group (ASX: 27 April 2021 and 4 August 2021). Please refer to the FY21 Audited Annual Report for more information).
INTERNATIONAL EXPANSION:	Secure major sales channels and access to a broader international potential client base with tier-1 technological and consulting partners, for increased adoption of XR digital transformation solutions.
TECHNOLOGY INTEGRATION:	Advance current product integration with dominant technology partners to access global XR product distribution opportunities.
INTEGRATED SALES FORCE:	Cross-divisional sales force enabling a global XR multi-platform market approach across Vection's suite of products and industries (verticals) to significantly increase its TCV and ACV metrics. As part of this integrated approach, the Company is focussing on improved sales collateral, online presence and global sales tools.
STRATEGIC ACQUISITION:	Focus on value accretive M&A opportunities targeting a combination of scale, sales team, integrated technologies and geographical expansion within the U.S., Europe and Australia.

ENDS

Vection Technologies Ltd (ASX:VR1) ACN: 614 814 041

1

Asia Pacific

Address: Level 4, Building C, Garden Office Park, 355 Scarborough Beach Road, Osborne Park WA 6017
 Phone: +61 8 6380 7446

Europe

Address: Via Isonzo 61
 40033 Casalecchio di Reno (BO), Italy

North America

Address: 785 Market Street, #600
 San Francisco CA 94103
 USA

Media Enquiries

AUpress@vection.com.au
 EUpress@vection.com.au



3D



VIRTUAL
REALITY



AUGMENTED
REALITY



INDUSTRIAL
IoT



CAD

Investor Relations Contact Details:

Gianmarco Biagi – Managing Director (Europe Based)
 Email: gianmarco.biagi@vection.com.au
 Phone: +39 051 0142248

Gianmarco Orgnoni – Director and COO (Australia Based)
 Email: gianmarco.ornoni@vection.com.au
 Phone: +61 8 6380 7446

About Vection Technologies:

Vection Technologies Ltd (ASX:VR1) is a multinational software company that focuses on real-time technologies for industrial companies' digital transformation.

Through a combination of 3D, Virtual Reality, Augmented Reality, Industrial IoT, AI, ICT and CAD solutions, Vection Technologies helps companies and organisations to innovate, collaborate and create value.

For more information please visit the Company's websites:

vection.com.au

mindeskvr.com

blankcanvas.studio

imcgroup.it

ASX release authorised by the Board of Directors of Vection Technologies Ltd.



3D



VIRTUAL
REALITY



AUGMENTED
REALITY



INDUSTRIAL
IoT



CAD

Vection Technologies Ltd (ASX:VR1) ACN: 614 814 041

Asia Pacific

Address: Level 4, Building C, Garden
 Office Park, 355 Scarborough Beach
 Road, Osborne Park WA 6017
 Phone: +61 8 6380 7446

Europe

Address: Via Isonzo 61
 40033 Casalecchio di Reno (BO),
 Italy

North America

Address: 785 Market Street, #600
 San Francisco CA 94103
 USA

Media Enquiries

AUpres@vection.com.au
 EUpres@vection.com.au

ANNUAL
REPORT FY21:

**LEADING
THE
XR ENTERPRISE
REVOLUTION**



3	Corporate Directory
4	Letter from Managing Director
5	Directors' Report
19	Auditor's Independence Declaration
20	Annual Financial Report
21	Consolidated Statement of Profit or Loss and Other Comprehensive Income
22	Consolidated Statement of Financial Position
23	Consolidated Statement of Cash Flows
24	Consolidated Statement of Changes in Equity
25	Notes to the Consolidated Financial Statement
56	Directors' Declaration
57	Independent Auditor's Report to the Members
61	Additional ASX information

Directors	Mr Gianmarco Biagi – Managing Director Mr Gianmarco Orgnoni – Executive Director Mr Lorenzo Biagi – Executive Director Mr Gabriele Sorrento – Non-Executive Director Mr Umberto (Bert) Mondello – Non-Executive Chairman
Company Secretary	Mr Derek Hall
Registered Office	Level 4, Building C, Garden Office Park, 355 Scarborough Beach Road, Osborne Park WA 6017
Principal Place of Business	Level 4, Building C, Garden Office Park, 355 Scarborough Beach Road, Osborne Park WA 6017 Phone: +61 8 6380 7446 Website: www.vection.com.au
Securities Exchange Listing	Australian Securities Exchange (ASX) ASX Code: VR1
Share Registry	Automic Registry Services Level 2, 267 St Georges Terrace, Perth WA 6000 Phone: +61 8 9324 2099 Email: hello@automic.com.au
Auditor	RSM Australia Partners Level 32, Exchange Tower 2 The Esplanade Perth WA 6000
Solicitors	Steinepreis Paganin Level 4, The Read Buildings, 16 Milligan Street, Perth WA 6000



Gianmarco Biagi
Managing Director
Vection Technologies Ltd

Dear Shareholders,

I am pleased to report on the progress of Vection Technologies Ltd for the year ended 30 June 2021.

Vection is today a global technology company seeking to impact business innovation through the combination of emerging technologies stemming from XR. In just three years, the Company's management has incrementally expanded its key metrics of technology, revenue, funding, people, global expansion and share price, building the foundations for continued value creation for the benefit of its stakeholders.

Although the first half of the 2021 fiscal year was heavily impacted by the perduring challenging COVID-19 environment in the E.U. and North America, the second half of the fiscal year demonstrated, and further reinforced, the validity of the Company's verticalisation strategy leading into FY22.

Specifically, during fiscal year 2021, the Company invested significant resources in advancing its verticalisation strategy via direct investments and M&A activities, resulting in the establishment of Vection Healthcare & Pharma and the acquisitions of Blank Canvas and JMC, and the continued development of its XR platforms with their combination with multiple emerging technologies.

Whilst macroeconomic conditions are expected to remain uncertain for the short- to medium-term, the Company continues to view this challenging environment as an opportunity to advance its global growth strategy also via well-executed M&A activities.

During the next twelve months Vection's goals will be:

- **Revenue Acceleration:** Management's goal is to double yearly revenue underpinned by core XR platforms upselling and increasing TCV and ACV metrics (supported by \$4M TCV at August 2021).
- **International Expansion:** A significant international opportunity underpins Vection's strategy in FY22 supported by strong direct market presence.
- **Further Strategic Acquisitions:** Targeting a combination of scale, sales team, integrated technologies, and geographical expansions.

Underpinned by:

- **Scalable XR Technology:** Solid XR technology platforms and business applications able to be replicated across diversified industries and geographies.
- **Market Trends:** Increasing accessibility of smartphones, applications and wearables and pandemic considerations are just some of the trends underpinning a fast-growing global XR market projected to reach \$463.7 billion by 2026.¹

Vection's management team remain committed to the creation of value for its stakeholders while it progresses the overarching growth strategy. On behalf of Vection Technologies, its team and stakeholders, I would like to thank you for your ongoing support, and I look forward to an exciting next 12 months.

Gianmarco Biagi

(1) <https://www.mordorintelligence.com/industry-reports/extended-reality-xr-market>

The Directors of Vection Technologies Limited (the **Company**, **Group**, **Vection Technologies**, or **Vection**) present their report on the consolidated entity for the year ended 30 June 2021. The Company was incorporated on 14 September 2016. References to the results of the Group in this financial report for the year ended 30 June 2021 refer to the period 1 July 2020 to 30 June 2021. The terms "year" and "period" are used interchangeably in this report.

DIRECTORS

The following persons were directors of the Company during the whole of the financial year and up to the date of this report, unless otherwise stated:

Mr Bert Mondello

Non-Executive Chairman

Mr Gianmarco Biagi

Managing Director

Mr Gianmarco Orgoni

Executive Director & Chief Operating Officer

Mr Lorenzo Biagi

Executive Director & Chief Sales Officer

Mr Gabriele Sorrento

Non-Executive Director & Head of Global Partnerships

PRINCIPAL ACTIVITIES

During the period, the principal continuing activity of the Group consisted in developing real-time integrated solutions for industrial companies' digital transformation, through 3D, Virtual Reality, Augmented Reality, IoT, CAD, AI and ICT technologies.

REVIEW OF OPERATIONS

Real-time software company, Vection Technologies, reports the following for the Financial Year ended 30 June 2021:

Overview

Vection Technologies achieved triple digit revenue growth in the second half of the 2021 fiscal year compared to the first half, following a challenging 2020 calendar year, re-aligning the Company to its pre-pandemic growth trajectory. During the fiscal year, Vection expanded its global presence within the Asia Pacific and European regions while leveraging its technology portfolio in specific industrial segments to capture increased business opportunities.

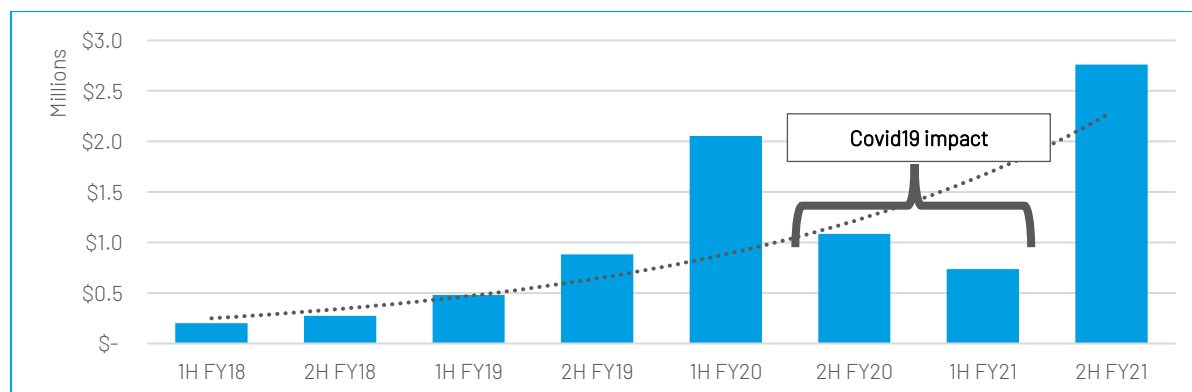


Figure 1: Revenue on a half yearly basis (FY18-FY21).

FY21 Total revenue was \$3,471,358 (2020: \$3,138,948), with FY21 underlying EBITDA of -\$653,731 (2020: -\$182,828).

Vection's balance sheet is strong, ending the year with a cash balance of \$7,083,890 (2020: \$1,584,715). The Company's management is strategically focussed on ensuring a continued strong cash position across all international divisions to secure a robust framework for future growth aligned with its global verticalization strategy.

Total assets at 30 June 2021 were \$33,435,621 (2020: \$16,227,711) while net assets were \$12,147,727 (2020: \$6,059,365).

The Company reported net cash outflows from operating activities of \$2,324,805 compared to net cash outflows of \$312,532 in FY20. Net cash inflow from investing activities increased to \$908,474 from \$273,358 in FY20, cementing the positive strong financial impact of the Company's vertical acquisitions during the fiscal year.

Borrowings of \$4,222,276 represent:

- A bank loan by the Company, which is unsecured, has a 3 year term with an expiry date of 27 April 2023. The loan has a variable Interest rate of 4.5%.

VECTION TECHNOLOGIES LIMITED

Directors' Report

- A fixed-rate bank loan by Vection Italy. The loan has a 6 year term with an expiry date of 19th May 2026. The loan has a fixed Interest rate of 1.25%
- A variable rate bank loan by Vection Italy. The loan has a 6 year term with an expiry date of 9th June 2026. The loan has a variable Interest rate of circa 1.75% plus EURIBOR 1m 360.
- An Invoice financing facility by Vection Italy. This is a short term liability at an Interest rate of 3.8%
- 3 bank loans by JMC Group. The loans have a 6 year terms with expiry date in 2026 and 2027. The loans have a variable Interest rate of 1.4% + EURIBOR 3m 360, 0.45% + EURIBOR 6m 360 and 1.25% + EURIBOR 3m 360.

Vection Technologies posted an after-tax loss attributed to members of \$2,442,889 for the financial year ended 30 June 2021, representing an increase of 109% over the prior corresponding period (30 June 2020: loss \$1,165,870). Several non-cash and one-off expenses were recorded in the Company's accounts during the period, specifically for legacy assets related expenses and for costs incurred pursuant to the acquisitions of Blank Canvas Studios (Aus) Pty Ltd, JMC Group and the establishment of Vection Health (the Company's healthcare and pharma focussed division).

	Full Year Ended 30-Jun-21	Half Year Ended 31-Dec-20	Full Year Ended 30-Jun-20
	\$	\$	\$
Profit (Loss) after Income Tax	(2,442,889)	(1,469,588)	(1,163,640)
Interest and Financing related Costs	111,091	49,588	62,647
Depreciation and Amortisation	657,973	309,283	507,851
One-Off Transaction Costs	728,753	-	535,491
Non-Cash Accounting Charges	214,778	42,297	238,816
Income Tax	76,563	1,745	1,663
Underlying EBITDA¹	(653,731)	(1,066,675)	182,828

(1) Underlying EBITDA is an unaudited, non-AIFRS financial measure which is not prescribed by Australian Accounting Standards ('AAS')

Operational Highlights

During the financial year ended 30 June 2021, Vection Technologies completed the second phase of its overarching strategy – namely, Transforming (2019-2020) and Rebuilding (2017-2018) – resulting in the development of its robust core technology stack and progressed to the Leading Strategy phase (2021-2023), with "Verticalisation" being its first foundational step.

Verticalisation Strategy

Introduction: The Verticalisation approach seeks to significantly expand Vection's footprint in companies' application landscapes, segmenting industrial markets while capturing new business opportunities, protecting market positions, and averting competitive threats. As part of this approach, Vection is developing highly verticalised extensions to its core technology stack aimed at anchoring its solutions in clients' core processes. The Company is following a Build / Acquire / Partner strategy where, in each vertical industry, it analyses the benefits of internally building functionality, working with a partner, or acquiring companies.

Healthcare & Pharma: In March 2021, Vection established its Healthcare & Pharma division by joining forces with a strong team of professionals led by Dr Carlo Centemeri, a leading healthcare and pharma executive with senior experience in BASF, Knoll Pharmaceuticals, Abbott Laboratories, Bristol-Myers Squibb and AstraZeneca. This division represents a tactical approach that seeks to significantly expand the Company's footprint in the healthcare, pharmaceutical, biotechnological, medical devices and nutraceutical market segments (ASX:11,19 March 2021). In September 2021, the Company completed the first milestone as part of its public hospital trial, via a solution to enable surgeons to visualise in their field of view (hand-free), in AR, all the data necessary for the surgery, including diagnostic images, surgery checklist, endoscopic video-feed, and more (ASX: 21 September 2020).

Architecture, Engineering & Construction (AEC) and Real Estate: In April 2021, the Company acquired Blank Canvas Studios (Aus) Pty Ltd, a leading Australian ArchViz studio, to evolve its leading architectural visualisation offering beyond traditional 3D rendering services into transformative XR products and experiences (ASX:15 April 2021). Vection has significantly progressed this division with first VR sales within the APAC region concluded in May 2021 (ASX:18 May 2021) and the launch of Mindesk for Autodesk Revit, the major player in the BIM market, with a market coverage of about 70% and ~11m AEC users. The commercial launch of the Mindesk Suite 2022 is expected for late Q3 CY2021, with current and new Mindesk subscribers to have immediate access to Mindesk Suite 2022 preview. (ASX: 1 July 2021)

European Expansion: In May 2021, the Company assumed control of JMC Group, a European based technology company and DELL Platinum and OEM partner, designing, developing, and delivering high-level integrated business technology solutions for Industry 4.0, underpinned by a strong knowledge in Virtual Reality and Augmented Reality (XR), Internet of Things (IoT), Artificial Intelligence (AI) and Information and Communication Technology (ICT). The acquisition aims at accelerating Vection's expansion within the Europe, Middle East and Africa (EMEA) region while further integrating its XR portfolio with IoT, AI and ICT towards a 360° product suite for Industry 4.0. JMC's strong growth history is expected to provide a more robust foundation for the combined group as it grows within the EMEA region. (ASX:15 June, 30 July, 4 August 2021).

Fiscal Year Overview

Since early calendar year 2020, the Company experienced the economic impact caused by challenging COVID-19 conditions in the European and North American market. Therefore, Vection implemented a proactive long-term strategy, aligned with its overarching macro approach, namely: Rebuilding (2017-2018), Transforming (2019-2020) and Leading (2021-2023) phases.

During the fiscal year 2021 to date, Vection strongly progressed its mission to deliver its proprietary technology to industrial companies enabling the digital transformation of workflows while expanding its proposition across verticals/industries, geographies and technologies:

- **Technology**, with:
 - The launch of Mindesk 2020.3;
 - A provisional patent lodgement for Healthcare Augmented Reality (AR) solutions;
 - The launch of Mindesk 2020.4 officially bringing to market Network Multi-User VR CAD;
 - The global launch of the Dell Technologies (DELL) powered Virtual Reality (VR) integrated solution for enterprise, VRONE;
 - The launch of Mindesk Suite 2021 with an innovative Augmented and Mixed Reality (XR) interface for Computer Aided Design (CAD) at the CES 2021; and
 - The launch of Mindesk for Autodesk Revit, the major player in the BIM market.
- **Partnerships**, with:
 - An Original Equipment Manufacturer (OEM) partnership agreement to introduce Vection's real-time software suite to DELL's Software and Peripherals (SnP) global sales program with SnP MFG ID 3123 3rd Party Vendor Code, via JMC Group Srl (JMC);
 - An initial collaboration with Trenitalia S.p.A., one of the leading railway operators in Europe and the primary train operator in Italy, and a subsidiary of Ferrovie dello Stato Italiane S.p.A., owned by the Italian government;
 - A Memorandum of Understanding (MoU) with Olivetti, the fully owned IoT Digital Farm of TIM Group (BIT:TIT), leading telecommunications operator in Italy;
 - The entry into the Facebook Oculus Independent Software Vendor (ISV) program;
 - The acceptance into the Autodesk's Global Outsight Network Residency program as part of the Microsoft Hololens 2 Autodesk Request For Proposal (RFP);
 - The agreement with Cisco Italy for XR collaboration;
 - The execution of an Original Equipment Manufacturer (OEM) agreement with multinational technology company HP Inc (HP); and
 - The commencement of the commercial distribution of the Company's Mixed Reality (XR) software portfolio via Toshiba Tec Italia SpA (Toshiba Tec).
- **Growth**, with:
 - A strengthened global distribution network now counting over 50 partners and the opening of new verticals with initial tier-1 clients;
 - The establishment of its Healthcare & Pharma division seeking to significantly expand the Company's footprint in the healthcare, pharmaceutical, biotechnological, medical devices and nutraceutical market segments;
 - The acquisition of leading Australian ArchViz studio, Blank Canvas Studios (Aus) Pty Ltd, to evolve its architectural visualisation offering beyond traditional 3D rendering services into transformative XR products and experiences;
 - The acquisition of JMC Group, a European based technology company and DELL Platinum and OEM partner, designing, developing, and delivering high-level integrated business technology solutions for Industry 4.0, underpinned by a strong knowledge in Virtual Reality and Augmented Reality (XR), Internet of Things (IoT), Artificial Intelligence (AI) and Information and Communication Technology (ICT);
 - The sale of the Company's first VR solution to the Australian Real Estate industry; and
 - The completion of the first milestone as part of its XR public hospital trial;
 - The achievement of \$4M in FY22 Total Contract Value (TCV) at 9 August 2021.

Organisation & People

During the fiscal year 2021, the Company significantly advanced its recruitment efforts, considered pivotal for the implementation of the Leading Strategy phase. As part of these efforts, a pool of internationally based senior talent has joined Vection to support the internal development of industry-specific functionality for its core technology stack.

Furthermore, the strategic M&A activities conducted by the Company's management during the fiscal year, have resulted in an increased head count to over 100 people across its global divisions in the Asia Pacific, EMEA and American regions.

During July 2021, the Company also announced the establishment of its Advisory Board with the appointment of its first member, highly experienced automotive executive, Dr Siegmund Haasis. Dr Haasis is a highly experienced automotive executive with twenty-six years international digitization experience with Daimler, one of the biggest producers of premium cars and the world's biggest manufacturer of commercial vehicles with a global reach, of which the last eight years as CIO R&D of Mercedes-Benz.

Financial Strategy

During the fiscal year 2021, the Company concluded its Smart Capital Strategy, ensuring a non-dilutive value accretive outcome for its stakeholders, having secured ~\$1.6M in strategic funding from the Italian Government's National Agency for Investment Attraction and Business Development, of which ~\$1.1M as an interest-free working capital facility (30% non-refundable and 70% refundable in 10 years), and ~\$0.5M as a non-refundable grant from the European Commission. Furthermore, the Company completed a ~\$6M oversubscribed placement from institutional and sophisticated investors.

This robust cash foundation (30 June 2021: \$7,083,890), will enable Vection to pursue its Leading Strategy phase, while accelerating its strategic core-business operations and research and development activities.

Corporate Overview

During fiscal year 2021:

- The Company issued 66,666,667 fully paid ordinary shares (Shares) pursuant to a ~\$6M oversubscribed placement from institutional and sophisticated investors (Placement), in addition to 4,005,505 Shares issued in lieu of payment of historical advisory services to ensure the strategic utilisation of all funds towards the achievement of the Company's long-term revenue growth strategy.
 - The Company issued 35,000,000 unlisted options to advisors (or nominees) pivotal in ensuring the successful participation in the Placement of prominent Australian institutional investors. The unlisted options have an exercise price of \$0.112 (25% premium to Placement Share price) and an expiry of 3 years from the date of their issue. (ASX: 9 October 2020)
 - In accordance with the terms of the performance rights issued in relation to the acquisition of Vection Italy, as approved at the Company's General Meeting on 11 April 2019, 50,000,000 Tranche 2 Performance Rights A vested and converted into fully paid ordinary Company shares, having met the applicable vesting criteria, following the strong performance of Vection Italy during FY20. (ASX: 2 October 2020)
 - In accordance with the terms of the Company's Performance Rights Plan, most recently approved at the Company's Annual General Meeting on 25 November 2019, 18,000,000 Class B Performance Rights held by Directors and 4,500,000 Class B Performance Rights held by Advisors vested and converted into Shares, having met the applicable vesting criteria. (ASX: 9 July 2020, 14 August 2020, 22 September 2020)
 - Following the approval of Shareholders, the Company completed the acquisition of Blank Canvas Studios (Aus) Pty Ltd (Blank Canvas) and JMC Group Srl (JMC), as announced, respectively, on 27 April 2021 and on 4 August 2021. (Acquisitions)
 - In accordance with the terms of the Acquisitions, the Company issued to the vendors of Blank Canvas 2,769,469 at a price of \$0.09027 per Share in addition to 1,000,000 Shares to advisors at \$0.10 per Share and issued to the Vendor of JMC 63,912,230 Shares at \$0.10 per Share subject to escrow for a period of 18 months from issue date (4 August 2021).
 - In accordance with the terms of the acquisition of Blank Canvas, the Company issued to Mr Paul Clayton (as CEO of Blank Canvas):
 - \$500,000 in Shares upon Blank Canvas achieving A\$1,500,000 in audited revenue and EBITDA being equal to or above 0 by the financial year ending 30 June 2022 (Class A Milestone);
 - \$600,000 in Shares upon Blank Canvas achieving A\$3,000,000 in audited revenue and EBITDA being equal to or above 0 by the financial year ending 30 June 2023 (Class B Milestone); and
 - \$700,000 in Shares upon Blank Canvas achieving A\$5,000,000 in audited revenue and EBITDA margin being equal to or above 15% by the financial year ending 30 June 2024 (Class C Milestone).
- The applicable conversion price, being the greater of:
- \$0.10;
 - Vection's 14 day VWAP prior to the date the relevant audited accounts demonstrating the achievement of the relevant Milestone is released on ASX.
- In accordance with the terms of the acquisition of JMC, the Company has entered into an agreement with Mr Jacopo Merli to appoint him as CEO of JMC, including an offer made pursuant to Vection's Employee Incentive Performance Rights Plan for the issue of performance rights which will convert into fully paid ordinary shares on the achievement audited revenue and/or EBITDA targets for JMC, aligned with the Company's overarching global growth strategy. The key terms of the performance rights will be as follows:
 - Class A Performance Rights will convert into an aggregate of \$159,780.57 worth of Ordinary Shares upon JMC achieving ~\$8.8M¹ in audited revenue or \$0.5M¹ in audited EBITDA in the applicable 2021 fiscal year.²
 - Class B Performance Rights will convert into an aggregate of \$159,780.57 worth of Ordinary Shares upon JMC achieving ~\$14.2M¹ in audited revenue or \$1.5M¹ in audited EBITDA in the applicable 2022 fiscal year.³
 - Class C Performance Rights will convert into an aggregate of \$159,780.57 worth of Ordinary Shares upon JMC achieving ~\$20.8M¹ in audited revenue or \$3M¹ in audited EBITDA in the applicable 2023 fiscal year.⁴

at the conversion price being the greater of \$0.10 and the Company's 5 day VWAP prior to the date that the performance milestone for the relevant performance right is determined achieved by the Company's auditor.

The performance rights are expected to be issued under the Vection's Employee Incentive Performance Rights Plan to Mr Merli within 3 months. It is expected that, if all the final performance milestones are achieved, and the performance rights are converted at the floor conversion price, a maximum of 4,793,417 shares will be issued across 3 years.

Notes:

(1) Based on the AUD\$/EUR€ exchange rate for the fiscal year 2021 (July 2020 - June 2021) of 0.62585833.

(2) Audited revenue of €5.5M and audited EBITDA of €291k.

(3) Audited revenue of €8.9M and audited EBITDA of €938k.

(4) Audited revenue of €13M and audited EBITDA of €1.9M.

At 30th June 2021, the Company's structure (excluding performance rights, performance shares and options) is as follows:

Ordinary Fully Paid Shares 969,618,516

Explanation of Loss

The Company's loss for the year of \$2,406,420 (2020: loss of \$1,163,640) is largely attributed to depreciation, amortisation and other non-cash expenses (\$872,751) and one-off transaction costs attributable to the acquisitions of JMC, Blank Canvas Studios (Aus) Pty Ltd and the establishment of Vection Healthcare & Pharma.

As the Company progresses its global growth strategy and further implements synergistic initiatives across its growing global structure, it expects to improve its underlying full financial year result.

Cash Position

Cash at the end of the year was \$7,083,890. The Company had significant receivables outstanding at 30 June 2021 of \$4,878,715.

Outlook

In the first half of fiscal year 2022, following the launch of its Verticalization strategy, resulted in the establishment of Vection Healthcare & Pharma, and the acquisition of Blank Canvas Studios (Aus) Pty Ltd and JMC Group, the Company is focussing on:

- The reinforcement of the existing global infrastructure for the commercialisation of its core technology solutions;
- Continued creation of cross-functional efficiencies, synergies and sales opportunities for its increasing global presence;
- Increase its overall sales performance across EMEA, AMER and APAC;
- M&A opportunities in North America and globally, aligned with its overarching verticalization strategy;
- Key appointments of seasoned executives to pursue vertical specific strategies;
- Expanded sales and delivery teams in EMEA, AMER and APAC;
- Continued focus on the development of breakthrough technologies to support the Company's global commercial activities, within the requirements of Digital Transformation (DX) to support its core technology stack.

EVENTS OCCURRING AFTER THE REPORTING PERIOD

Following the end of the period, in accordance with the terms of the acquisition of JMC Group Srl (**JMC**), the Company issued 63,912,230 fully paid ordinary shares under its Listing Rule 7.1 capacity. The consideration shares are subject to voluntary escrow for 18 months from 3 August 2021.

The impact of the Coronavirus (COVID-19) pandemic is ongoing and while it has been financially positive for the Group up to 30 June 2021, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

There were no other matters or circumstances arising since the end of the reporting period that have significantly affected or may significantly affect the operations of the Group and the results of those operations or the state of the affairs of the Group in the financial period subsequent to 30 June 2021.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The following significant changes in the state of affairs of the Company occurred during the financial year:

- ~\$2.6M in non-dilutive funding, including:
 - A ~\$1.1M interest-free facility from Invitalia, of which ~30% non-repayable and ~70% interest-free, repayable in 10 years, from the Italian National Agency for Inward Investment and Economic Development, with circa ~\$121 billion in invested funds; and
 - ~\$1.5M raised through the utilisation of the Controlled Placement Agreement (CPA) (ASX:24 June 2019). (ASX: 7 September 2020)
- \$6M institutional share placement via the issue of 66.7 million fully paid ordinary shares at \$0.09 per share. (ASX: 2 October 2020);
- Incorporation of Vection Healthcare & Pharma, a joint venture company controlled by Vection at 60% (ASX: 11 March 2021);
- Acquisition of Blank Canvas Studios (Aus) Pty Ltd (**Blank Canvas**) (ASX: 27 April 2021); and
- Acquisition of JMC (ASX: 15 June 2021).

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Other than information disclosed elsewhere in this annual report, information on likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this Directors' Report because the Directors believe, on reasonable grounds, that to include such information would be likely to result in unreasonable prejudice to the Group.

ENVIRONMENTAL REGULATION

The Group is not subject to any particular or significant environmental regulations under either Commonwealth or State law.

INFORMATION ON CURRENT DIRECTORS AND COMPANY SECRETARY

Mr Bert Mondello – LLB
Non-Executive Chairman

Experience and expertise: Mr Bert Mondello is an experienced public company director, corporate advisor and technology expert with 20 years' experience across both the private and public sectors. Mr Mondello has widespread experience spanning across retail and institutional sectors and an extensive knowledge of marketing communications and investor relations. With deep rooted expertise across multiple technology sectors, Mr Mondello has provided strategic corporate advice and mentoring to several private and public organisations internationally across multiple industries. He holds a Bachelor of Laws from the University of Notre Dame, Australia.

Other current directorships: Dough Limited and Emerge Gaming Limited

Former ASX directorships in past 3 years: WestStar Industrial Limited and Sinetech Limited.

Interests in the Company's securities: Indomain Enterprises Pty Ltd (Director related entity): 4,500,000 Ordinary Shares.

Mr Gianmarco Biagi – MEng
Managing Director

Experience and expertise: Mr Gianmarco Biagi is a former CEO of important multinational manufacturing groups and General manager of an important Italian group leader in luxury furniture. He has been President of Settepontonove Srl since 2018, a holding company of industrial investments in the sector of new technologies, furniture, automotive and of services. He holds institutional roles as President of AICQ, UMIQ Board President at CONFINDUSTRIA Emilia and National Councillor at AISOM. Previously he held the position of President of the furniture and wood sector at Unindustria Bologna and of Media Industry President at Unindustria Bologna and President of the EXO consortium.

Other current directorships: Nil

Former ASX directorships in past 3 years: Nil

Interests in the Company's securities:

- a) Officine 8k Srl (Director related entity): 351,556,186 Ordinary Shares and 100,000,000 Performance Rights (Class A)
- b) Settepontonove Srl (Director related entity): 9,000,000 Ordinary Shares.

Mr Gianmarco Orgnoni – BBus
Executive Director & Chief Operating Officer

Experience and expertise: Mr Gianmarco Orgnoni has skills extending across corporate finance, investment banking and research analysis. Mr Orgnoni has extensive experience in offering corporate advisory and finance analysis across European and Australian private and publicly listed companies. Mr Orgnoni has worked closely with and has provided adversarial services to several companies spanning from civil engineering, education, technology, biotechnology and real estate. Mr Orgnoni holds a bachelor's degree in economics and Business Administration from the Catholic University of the Sacred Heart of Milan, Italy.

Other current directorships: Non-Executive Director of TikForce Limited (ASX: TKF)

Former ASX directorships in past 3 years: TikForce Limited.

Interests in the Company's securities: Torg Advisors Pty Ltd (Director related entity): 4,500,000 Ordinary Shares.

Mr Lorenzo Biagi
Executive Director & Chief Sales Officer

Experience and expertise: Mr Lorenzo Biagi is an experienced company manager in the private sector, with extensive knowledge in virtual reality technology, sales and cost control management. While managing corporate development processes for more than 10 years, Mr Biagi has implemented new procedures and technologies helping make the companies he worked for and with, leaders in innovation.

Other current directorships: Nil

Former ASX directorships in past 3 years: Nil

Interests in the Company's securities:

- a) Officine 8k Srl (Director related entity): 351,556,186 Ordinary Shares and 100,000,000 Performance Rights (Class A)
- b) Settepontonove Srl (Director related entity): 9,000,000 Ordinary Shares.

Mr Gabriele Sorrento – M.Arch/M.Eng.
Non-Executive Director & Head of Global Partnerships

Experience and expertise: Mr Gabriele Sorrento is the CEO and co-founder of Mindesk, acquired by Vection Technologies in April 2020. He is passionate about computational design, having obtained a Master's Degree in Architectural Engineering at the Polytechnic University of Milan and studied entrepreneurship at Santa Clara University as a Fulbright fellow. He has over 13 years of experience in 3D CAD, having worked with renowned architectural brands including Renzo Piano Building Workshop and Heller Manus Architects. Today Mr Sorrento is part of the AIASF Design Technology Commission and is a board member of Vection Technologies Limited.

Other current directorships: Nil

Former ASX directorships in past 3 years: Nil

Interests in the Company's securities:

22,257,873 Ordinary Shares.

2,867,529 Deferred Consideration A; 14,337,644 Deferred Consideration C; 1,792,206 Deferred Consideration D; 1,792,206 Deferred Consideration E; 5,376,617 Deferred Consideration F; and 5,376,617 Deferred Consideration G.

Mr Derek Hall – BCom, CA, FFin, AGIA
Company Secretary

Experience and expertise: Mr Hall is a finance and compliance specialist in the listed space. Mr Hall has significant commercial experience identifying key business drivers and bringing cost control and process improvement into sharp focus. Mr Hall has been involved as a Chief Financial Officer and Company Secretary for a number of publicly listed and unlisted companies involving transactions in technology, mining, oil and gas and construction. Mr Hall is a Chartered Accountant, Chartered Secretary and Fellow of the Financial Services Institute.

Other current directorships: Nil

Former ASX directorships in past 3 years: Vection Technologies Limited, Sinetech Limited

Interests in the Company's securities: Nil

MEETINGS OF DIRECTORS

The number of meetings of the board of directors (including board committees) held during the year ended 30 June 2021, and the number of meetings attended by each director are set out below:

Directors	Board Meetings	Eligible to Attend
	Eligible	Attended
Mr Bert Mondello	8	8
Mr. Gianmarco Biagi	8	8
Mr Gianmarco Orgnoni	8	8
Mr Lorenzo Biagi	8	8
Mr Gabriele Sorrento	8	8

SHARE OPTIONS

Unissued ordinary shares of the Company under options at the date of this report are as follows:

Date options granted	Expiry date	Issue price of shares	Number under option
9 October 2020	9 October 2023	\$0.112	35,000,000

The holders of these options do not have any rights under the options to participate in any share issue of the Company or of any other entity.

No ordinary shares were issued during or since the end of the financial year as a result of exercise of options.

PERFORMANCE RIGHTS

During the year, in relation the acquisition of Blank Canvas Studios (Aus) Pty Ltd, the Company issued 18,000,000 deferred consideration performance rights with various milestones over three tranches (largely tied to revenue) for performance in periods up to FY2024. Further details are provided in the financial report.

In the prior period, the Company issued 22,500,000 performance rights, of which 18,000,000 were issued to to directors. The performance rights were vested during the period. Further details are provided in the remuneration report. In addition, in relation to the acquisition of Mindesk, the Company issued 108,000,000 deferred consideration performance rights with various milestones over seven tranches (largely tied to revenue) for performance in periods up to FY 2024. Further details are provided in the remuneration report. Group B of the performance rights expired during the year.

During the year, 50,000,000 performance rights issued to an entity related to Mr Gianmarco Biagi and Mr Lorenzo Biagi in relation to the acquisition of Vection Italy vested during the year. Further details are provided in the remuneration report.

The information provided in this remuneration report has been audited as required by section 308(3C) of the Corporations Act 2001.

The Directors present the Vection Technologies' 2021 remuneration report, outlining key aspects of our remuneration policy and framework, and remuneration awarded this year.

The report is structured as follows:

- A) Key management personnel covered in this report
- B) Principles used to determine the nature and amount of remuneration
- C) Non-executive directors' remuneration
- D) Executive director and senior management remuneration
- E) Details of remuneration

A) Key management personnel covered in this report

Directors	Position
Mr Bert Mondello	Non-Executive Chairman
Mr Gianmarco Biagi	Managing Director
Mr Lorenzo Biagi	Executive Director
Mr Gianmarco Orgnoni	Executive Director
Mr Gabriele Sorrento	Non-Executive Director

B) Principles used to determine the nature and amount of remuneration

The Board adheres to the remuneration policy detailed in the Company's prospectus issued in December 2016. The remuneration policy of the Board is designed to ensure that the level and composition of remuneration is competitive, reasonable and appropriate for the results delivered and to attract and maintain desirable directors, company secretaries and senior executives.

The Board are mindful that where possible the remuneration structures reward the achievement of strategic objectives to achieve the broader outcome of creation of value for shareholders.

The remuneration committee is responsible for assessing performance against key performance indicators and determining the short-term incentives and long-term incentives to be paid. To assist in this assessment, the committee receives detailed reports on performance from management which are based on independently verifiable data such as financial measures, market share and data from independently run surveys.

In the event of serious misconduct or a material misstatement in the Group's financial statements, the remuneration committee can cancel or defer performance-based remuneration and may also claw back performance-based remuneration paid in previous financial years.

C) Non-executive directors' remuneration

Fees

The Board's policy is to remunerate non-executive directors at market rates for time, commitment, and responsibilities. The Board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties, and accountability. Independent external advice is sought when required. In the current year, no advice was sought.

Upon appointment to the Board, all non-executive directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarizes the policies and terms, including compensation, relevant to the office of the director.

The key terms of the non-executive director service agreements are as follows:

- Term of Agreement – ongoing subject to annual review and the Company's constitution
- Non-Executive Directors' Fees of up to \$72,000 per annum plus an amount equivalent to statutory superannuation (if applicable)
- There is a 6-month notice period stipulated to terminate the contract by either party. The maximum aggregate amount of fees that can be paid to non-executive directors is currently fixed at \$300,000 with any change in this amount subject to approval by shareholders at the Annual General Meeting. The Company does not have a Director's Retirement Scheme in place at present.

D) Executive director and senior management remuneration**Service Contracts**

It is the Company's policy that service contracts for executive directors and senior executives be entered into. A service contract with an executive director or senior executive would provide for the payment of benefits where the contract is terminated by the entity or the individual.

The executive directors and senior executives would also be entitled to receive on termination of employment their statutory entitlements of accrued annual and long service leave, together with any superannuation benefits. An executive director or senior executive would have no entitlement to termination payment in the event of removal for misconduct.

Major provisions of the agreements existing at reporting date relating to executive remuneration are set out below:

Mr Gianmarco Biagi – Managing Director

- Term of agreement: Until terminated in accordance with the agreement.
- Remuneration: \$15,000 per month, for the first 12 months of the agreement, then \$16,667 per month.
- Period of notice for termination/resignation: Three month's written notice by the consultant. Three month's written notice by the Company.
- Details of remuneration entitlement on termination: Payment of fees up to the date of termination or payment of three month's fees in lieu of notice.

Mr Lorenzo Biagi – Executive Director

- Term of agreement: Until terminated in accordance with the agreement.
- Remuneration: \$10,600 per month, for the first 12 months of the agreement, then \$13,100 per month for the next 12 months, then \$15,600 per month.
- Period of notice for termination/resignation: Three month's written notice by the consultant. Three month's written notice by the Company.
- Details of remuneration entitlement on termination: Payment of fees up to the date of termination or payment of three month's fees in lieu of notice.

Mr Gianmarco Orgnoni – Executive Director

- Term of agreement: Until terminated in accordance with the agreement.
- Remuneration: \$12,500 per month.
- Period of notice for termination/resignation: Three month's written notice by the consultant. Three month's written notice by the Company.
- Details of remuneration entitlement on termination: Payment of fees up to the date of termination or payment of three month's fees in lieu of notice.

Share-based payment arrangements relating to key management personnel

No options were issued to Directors or other key management personnel during the year.

The acquisition of Vection Italy included an offer of ordinary shares and performance shares to the vendors of Vection Italy which included the directors Mr Gianmarco Biagi and Mr Lorenzo Biagi. Details of these securities are outlined in tables below.

The acquisition of Mindesk included an offer of ordinary shares and performance shares to the vendors of Mindesk which included the director Mr Gianmarco Orgnoni. Details of these securities are outlined in tables below.

E) Details of remuneration

Details of the remuneration of the directors and key management personnel of the Group (as defined in AASB 124 Related Party Disclosures) are set out in the following tables.

Key management personnel of the Group and other executives of the Company and the Group:

2021	Short term benefits (paid or payable as at 30 June 2021)	Post-employment benefits		Long-term benefits	Share-based payments	Total	Proportion of remuneration performance related
	Cash, salary & fees	Termination payments	Superannuation	Long service leave	Options/ Performance Rights		
Name							
Directors	\$	\$	\$	\$	\$	\$	%
Mr Gianmarco Biagi	173,250	-	-	-	5,701	178,951	3%
Mr Lorenzo Biagi	122,700	-	-	-	5,701	128,401	4%
Mr Bert Mondello	69,300	-	-	-	5,701	75,001	8%
Mr Gianmarco Orgnoni	91,800	-	-	-	5,701	97,501	6%
Mr Gabriele Sorrento	134,694	-	-	-	-	134,694	0%
Total Director Remuneration	591,744	-	-	-	22,804	614,548	4%
Total Key Management Personnel	591,744	-	-	-	22,804	614,548	4%
Total	591,744	-	-	-	22,804	614,548	4%

2020	Short term benefits (paid or payable as at 30 June 2020)	Post-employment benefits		Long-term benefits	Share-based payments	Total	Proportion of remuneration performance related
	Cash, salary & fees	Termination payments	Superannuation	Long service leave	Options/ Performance Rights		
Name							
Directors	\$	\$	\$	\$	\$	\$	%
Mr Gianmarco Biagi	173,250	-	-	-	20,873	194,123	11%
Mr Lorenzo Biagi	122,700	-	-	-	20,873	143,573	15%
Mr Bert Mondello	69,300	-	-	-	20,873	90,173	23%
Mr Gianmarco Orgnoni	69,300	-	-	-	20,873	90,173	23%
Mr Derek Hall ¹	20,000	-	-	-	-	20,000	-
Mr Gabriele Sorrento	21,165	-	-	-	-	21,165	-
Total Director Remuneration	475,715	-	-	-	83,492	559,207	15%
Total Key Management Personnel	475,715	-	-	-	83,492	559,207	
Total	475,715	-	-	-	83,492	559,207	

¹ Resigned on 25 November 2019

Other transactions with key management personnel

i. Transactions with directors and key management personnel

The Group may enter into agreements for services rendered with individuals (or an entity that is associated with the individuals) during the ordinary course of business.

A number of entities associated with the directors and key management personnel have consulting agreement in place which has resulted in transactions between the Group and those entities during the period. The terms and conditions of those transactions were no more favorable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

Director	Transaction	Transaction Value		Outstanding Balance	
		2021	2020	2021	2020
Mr Gianmarco Biagi and Mr Lorenzo Biagi	Other revenue (a)	-	123,981	136,794	248,544
	Other service cost (b)	81,608	22,700	86,217	22,700
	Revenue from services (c)	71,727	6,034	239,108	7,039
	Professional, legal and tax services (d)	24,594	49,258	-	14,921
Mr Bert Mondello	Contract Revenue (a)	-	215,000	-	-

- a) The Company's subsidiary Vection Italy SRL received services from companies associated with Mr Gianmarco Biagi and Mr Lorenzo Biagi. As at 30 June 2021, the amount receivable is \$136,794. This transaction was entered on a commercial, arm-length basis;
- b) The Company's subsidiary Vection Italy SRL paid to companies associated with Mr Gianmarco Biagi and Mr Lorenzo Biagi for service provided. As at 30 June 2021, the amount payable is \$86,217. This transaction was entered on a commercial, arm-length basis;
- c) The Company's subsidiary Vection Italy SRL received services from companies associated with Mr Gianmarco Biagi and Mr Lorenzo Biagi for service provided. As at 30 June 2021, the amount receivable is \$239,108. This transaction was entered on a commercial, arm-length basis;
- d) The Company's subsidiary Vection Italy SRL paid to companies associated with Mr Gianmarco Biagi and Mr Lorenzo Biagi for service provided. As at 30 June 2021, the amount payable is \$NIL. This transaction was entered on a commercial, arm-length basis;
- e) In the prior year, the Company's subsidiary Vection Australia Pty Ltd entered into a contract to provide services to Emerge Gaming Solutions Pty Ltd a subsidiary of Emerge Gaming Limited.

Mr B Mondello is a director of Emerge Gaming Limited. This contract was signed on a commercial, arm-length basis and discontinued in December 2019;

In addition, each of the directors received director's fees in accordance with the terms of their respective contracts.

ii. Loans to directors

There were no loans to directors and executives during the financial year ended 30 June 2021.

Equity instrument disclosures relating to key management personnel

i. Shareholdings

The numbers of shares in the Company held during the financial year by each director of Vection Technologies Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

2021	Balance at the start of the year	Received during the year on exercise of performance rights	Other changes during the year	Balance at the end of the year or date of resignation (if applicable)
Ordinary shares				
Directors				
Mr Gianmarco Biagi ¹	292,556,186 ²	59,000,000 ^{4,5}	-	351,556,186
Mr Lorenzo Biagi ¹				
Mr Bert Mondello	-	4,500,000 ⁵	-	4,500,000
Mr Gianmarco Orgnoni	-	4,500,000 ⁵	-	4,500,000
Mr Gabriele Sorrento	22,257,873 ³	-	-	22,257,873
Total	314,814,059	68,000,000	-	382,814,059

¹ Indirect shareholding as a result of a relevant interest in VR Tech SRL which has a relevant interest in Officine8K, which is the registered holder of these securities

² As a vendor of Vection Italy, these shares were issued as part of the consideration for the Acquisition of Vection Italy.

³ As a vendor of Mindesk, these shares were issued as part of the consideration for the Acquisition of Mindesk.

⁴ During the year, 50,000,000 performance rights issued as part of the consideration for the Acquisition of Vection Italy was vested and converted to ordinary shares.

⁵ During the year, 18,000,000 performance rights issued to the directors for services rendered was vested and converted to ordinary shares.

ii. Option holdings

During the year, no options were issued to key management personnel.

Performance-based remuneration

During the year, the following performance rights were vested:

- a) Performance rights issued as part of the consideration for the Acquisition of Vection Italy, Officine8K SRL, an entity associated with Mr Gianmarco Biagi and Mr Lorenzo Biagi:

Director	Number	\$
Mr Gianmarco Biagi	50,000,000	850,000
Mr Lorenzo Biagi		

Tranche 2 Performance Rights: 50,000,000 Performance rights issued to Officine8K SRL as part of the consideration for the acquisition of Vection Italy, each converting into Shares (on a one for one basis) upon the revenue generated by the business of Vection Italy achieving a minimum of \$1,500,000 (as verified by the Company's auditors) within 24 months of settlement of the acquisition;

- b) Performance rights issued to Directors for services rendered.

Director	Tranch 1		Tranch 2		Tranch 3		Total	
	Number	\$	Number	\$	Number	\$	Number	\$
Mr Gianmarco Biagi	1,500,000	10,420	1,500,000	9,035	1,500,000	7,118	4,500,000	26,573
Mr Lorenzo Biagi	1,500,000	10,420	1,500,000	9,035	1,500,000	7,118	4,500,000	26,573
Mr Bert Mondello	1,500,000	10,420	1,500,000	9,035	1,500,000	7,118	4,500,000	26,573
Mr Gianmarco Orgnoni	1,500,000	10,420	1,500,000	9,035	1,500,000	7,118	4,500,000	26,573

- (i) Tranche 1 Performance Rights: 7,500,000 Performance rights issued to directors and advisor each converting into shares (on a one for one basis) will vest on the date that the Company's 14 day volume weighted average (VWAP) share price is equal or exceeds \$0.035 per share on trading on ASX;
- (ii) Tranche 2 Performance Rights: 7,500,000 Performance rights issued to directors and advisor each converting into shares (on a one for one basis) will vest on the date that the Company's 14 day volume weighted average (VWAP) share price is equal or exceeds \$0.045 per share on trading on ASX;
- (iii) Tranche 3 Performance Rights: 7,500,000 Performance rights issued to directors and advisor each converting into shares (on a one for one basis) will vest on the date that the Company's 14 day volume weighted average (VWAP) share price is equal or exceeds \$0.065 per share on trading on ASX;

During the year, the following performance rights issued as part of the consideration for the acquisition of Mindesk, an entity associated with Mr Gabriele Sorrento expired.

- a) Group B Performance Rights: 7,168,822 Performance rights each converting into shares (on a one for one basis) if technical specifications are met on a plugin for Mindesk to work with McNeel Rhinoceros 6 for the year to 31 December 2021.

Shares provided on exercise of remuneration options

During the reporting period, no shares were issued to key management personnel on the exercise of options previously granted as remuneration.

Loans to key management persons

There were no loans to directors and executives during the financial year ended 30 June 2021.

Use of remuneration consultants

The Company has not engaged the services of remuneration consultants to review its executive remuneration recommendations.

Company performance

The following table shows key performance indicators for the Group:

	2021	2020	2019	2018
Loss for the year	(2,442,889)	(1,165,870)	(4,420,102)	(3,872,777)
Closing share price (\$)	0.06	0.04	0.014	0.012
Basic and diluted loss per share	(0.244)	(0.203)	(1.512)	(3.93)

Voting and comments made at the company's 2020 Annual General Meeting

Vection Technologies Ltd received 99% of "yes" votes on its remuneration report for the 2020 financial year. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

END OF AUDITED REMUNERATION REPORT

INSURANCE OF OFFICERS

The Company has entered into a deed of access, indemnity and insurance with each of its current and former directors, and the Company Secretary. Under the terms of the deed, the Company indemnifies the officer or former officer, to the extent by law, for the liabilities incurred as an officer of the Company.

Since the end of the previous financial year, the Company has paid premiums in respect of contracts insuring the current and former directors and officers of the Company against liabilities incurred by them to the extent permitted by the Corporations Act 2001. The contracts prohibit disclosure of the nature of the liability cover and the amount of the premium.

INDEMNITY AND INSURANCE OF AUDITOR

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

NON-AUDIT SERVICES

Taxation services were provided by the Company's auditor, RSM Australia Partners.

CONFIRMATION UNDER ASX LISTING RULE 4.10.19

In accordance with Listing Rule 4.10.19, the Company confirms that during the financial year ended 30 June 2021, the Company used the cash and assets in a form readily convertible to cash, that it had at the time of admission, in a way consistent with its business objectives.

PROCEEDINGS ON BEHALF OF THE COMPANY

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

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

AUDITOR'S INDEPENDENCE DECLARATION

Section 307C of the Corporations Act 2001 requires our auditors, RSM Australia Partners, to provide the directors of the Company with an Independence Declaration in relation to the review of the annual financial report. This Independence Declaration is set out on page 19 and forms part of this Directors' Report for the year ended 30 June 2021.

This report is signed in accordance with a resolution of the Board of Directors made pursuant to section 306(3) of the Corporations Act 2001.



Mr Bert Mondello
Chairman

Perth, Western Australia 30 September 2021.

RSM Australia Partners

Level 32, Exchange Tower
2 The Esplanade Perth WA 6000
GPO Box R1253 Perth WA 6844

T +61 (0) 8 9261 9100

F +61 (0) 8 9261 9111

www.rsm.com.au

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Vection Technologies Limited for the year ended 30 June 2021, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (i) The auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) Any applicable code of professional conduct in relation to the audit.



David Wall
Partner
RSM Australia Partners

Perth, WA
Dated: 30 September 2021

ANNUAL REPORT FY21

LEADING
THE
XR ENTERPRISE
REVOLUTION

VECTION TECHNOLOGIES LIMITED

Annual Report for the Year Ended 30 June 2021

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Notes	Consolidated	
		30 June 21	30 June 20
		\$	\$
Revenue			
Revenue	2(i)	3,471,358	3,138,948
Expenses			
Acquisition Costs		(25,000)	40,882
Changes in inventories		339,512	-
Raw materials and consumables used		509,433	314,055
Employee benefits expense		1,162,401	1,807,079
Consulting and professional fees		1,449,195	799,087
Finance costs	2(ii)	111,091	62,647
Depreciation and amortisation	2(iii)	657,973	507,851
Impairment of receivables		84,909	115,159
Other expenses	2(iv)	1,381,832	549,803
Share based payments		129,869	104,362
Total Expenses		5,801,215	4,300,925
Loss before income tax expense		(2,329,857)	(1,161,977)
Income tax expense	3	76,563	1,663
Loss after income tax attributable to equity holders		(2,406,420)	(1,163,640)
Discontinued Operations			
Loss for the year after income tax from discontinued operations	28	(36,469)	(2,230)
Loss after income tax attributable to equity holders of Vection Technologies Limited		(2,442,889)	(1,165,870)
Other comprehensive (loss) / income			
Items that may be reclassified to profit or loss		(300,071)	127,339
Exchange differences on translation of foreign operations			
Total comprehensive (loss) / income for the period		(300,071)	127,339
Total comprehensive loss attributable to equity holders of Vection Technologies Limited		(2,742,960)	(1,038,531)
Loss for the year is attributable to:			
Non-Controlling Interest		(137,176)	-
Members of Vection Technologies Limited		(2,305,713)	(1,165,870)
Loss per share for the year attributable to the members of Vection Technologies Limited		(2,442,889)	(1,165,870)
Discontinued operations loss per share for the year (per share) attributable to the members of Vection Technologies Limited	19	(0.004)	-
Continuing operations loss per share for the year (per share) attributable to the members of Vection Technologies Limited	19	(0.262)	(0.203)
Earnings per share for loss attributable to the members of Vection Technologies Limited			
Overall basic loss per share	19	(0.244)	(0.203)
Overall diluted loss per share	19	(0.244)	(0.203)

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

VECTION TECHNOLOGIES LIMITED

Annual Report for the Year Ended 30 June 2021

Consolidated Statement of Financial Position

	Notes	Consolidated	
		30 June 21	30 June 20
		\$	\$
Current Assets			
Cash and cash equivalents	4	7,083,890	1,584,715
Receivables	5	4,878,715	2,149,552
Inventories	6	1,083,871	-
Income tax receivable		16,855	-
Total Current Assets		13,063,331	3,734,267
Non-Current Assets			
Property, plant & equipment	7	239,957	76,859
Right-of-use assets	8	631,895	571,409
Intangible assets	9	19,437,289	11,793,046
Financial assets	26	63,149	52,130
Total Non-Current Assets		20,372,290	12,493,444
Total Assets		33,435,621	16,227,711
Current Liabilities			
Trade and other payables	10	3,615,025	2,272,404
Provisions	11	9,915,043	3,321,031
Employee benefits	12	36,299	-
Current tax liabilities		-	19,878
Lease liabilities	13	167,756	94,322
Borrowings	14	1,047,145	427,606
Total Current Liabilities		14,781,268	6,135,241
Non-Current Liabilities			
Provisions	11	1,869,262	2,434,980
Employee benefits	12	333,179	83,989
Deferred tax liabilities	3	599,128	604,233
Lease liabilities	13	529,926	487,713
Borrowings	14	3,175,131	422,190
Total Non-Current Liabilities		6,506,626	4,033,105
Total Liabilities		21,287,894	10,168,346
Net Assets		12,147,727	6,059,365
Equity			
Issued capital	15	27,502,218	22,376,991
Reserves	16	3,616,924	230,858
Accumulated losses	17	(18,971,415)	(16,548,484)
		12,147,727	6,059,365
Equity attributable to the members of Vection Technologies Limited		12,264,945	6,059,365
Non-Controlling Interest	18	(117,218)	-
Total Equity		12,147,727	6,059,365

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

VECTION TECHNOLOGIES LIMITED

Annual Report for the Year Ended 30 June 2021

Consolidated Statement of Cash Flows

		Consolidated	
		30 June 21	30 June 20
	Notes	\$	\$
Cash flow from operating activities			
Receipts from customers		2,566,597	2,422,484
Payments to suppliers and employees		(4,817,392)	(2,706,280)
Interest received		26,226	517
Interest paid / Finance costs		(76,061)	(40,179)
Tax paid		(24,175)	(10,926)
Net cash outflow from operating activities	4	(2,324,805)	(312,532)
Cash flows from investing activities			
Purchase of plant and equipment		(66,325)	(62,975)
Purchase of subsidiary (net cash acquired)	24	2,304,962	1,096,984
Payments for intangible assets		(1,330,163)	(761,902)
Proceeds from sale of investment		-	1,251
Net cash inflow from investing activities		908,474	273,358
Cash flow from financing activities			
Proceeds from issues of fully paid shares	15	7,485,000	-
Payment of transaction costs	15	(264,000)	-
Repayment of lease liabilities		(96,347)	-
Proceeds from borrowings		71,056	776,099
Net cash inflow from financing activities		7,195,709	776,099
Net increase in cash and cash equivalents		5,779,378	736,925
Cash and cash equivalents at the beginning of the financial year		1,584,715	796,569
Effect of movement in exchange rates on cash held		(280,203)	51,221
Cash and cash equivalents at the end of the financial year	4	7,083,890	1,584,715

The above Consolidated Statement of Cash Flow should be read in conjunction with the accompanying notes.

VECTION TECHNOLOGIES LIMITED

Annual Report for the Year Ended 30 June 2021

Consolidated Statement of Changes in Equity

	Note s	Consolidated					Total
		Issued Capital	Accumulated Losses	Reserves	Foreign Currency Translation Reserve	Non-Controlling Interest	
		\$	\$	\$	\$	\$	
Balance at 1 July 2020		22,376,991	(16,548,484)	104,362	126,496	-	6,059,365
Loss for the period		-	(2,305,713)	-	-	(137,176)	(2,442,889)
Other comprehensive loss		-	-	-	(300,071)	-	(300,071)
Total comprehensive loss for the period		-	(2,305,713)	-	(300,071)	(137,176)	(2,742,960)
Transactions with owners in their capacity as owners							
Contribution of equity, net of transaction costs	15	5,125,227	-	-	-	-	5,125,227
Share based payments	16	-	-	3,686,137	-	-	3,686,137
Acquisition of subsidiaries with Non-Controlling Interest		-	-	-	-	19,958	19,958
Balance at 30 June 2021		27,502,218	(18,854,197)	3,790,499	(173,575)	(117,218)	12,147,727
Balance at 1 July 2019							
		19,397,897	(15,655,114)	272,500	(843)	-	4,014,440
Loss for the period		-	(1,165,870)	-	-	-	(1,165,870)
Other comprehensive income		-	-	-	127,339	-	127,339
Total comprehensive (loss) /income for the period		-	(1,165,870)	-	127,339	-	(1,038,531)
Transactions with owners in their capacity as owners							
Share based payments		-	-	104,362	-	-	104,362
Expiry of options		-	272,500	(272,500)	-	-	-
Issue of share capital		2,979,094	-	-	-	-	2,979,094
Balance at 30 June 2020		22,376,991	(16,548,484)	104,362	126,496	-	6,059,365

The above Consolidated Statement of Changes of Equity should be read in conjunction with the accompanying notes.

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The annual financial report of Vection Technologies Limited (Vection Technologies, Vection, the Company or Group) for the year ended 30 June 2021 was authorised for issue in accordance with a resolution of directors on 30 September 2021.

The Company is a public company limited by shares incorporated on 14 September 2016 and domiciled in Australia. The nature of the operations and principal activities of the Company are described in the Directors' report.

a) Basis of preparation

The principle accounting policies adopted for the preparation of the annual financial report are set out below. These accounting policies have been applied consistently to all periods presented unless otherwise stated.

i) Statement of compliance

This annual financial report for the year ended 30 June 2021 are general purpose financial statements which have been prepared in accordance with the Australian Accounting Standards (AASBs), including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

ii) Basis of measurement and reporting convention

This annual financial report has been prepared on an accruals basis and is based on historical cost. The annual financial report is presented in Australian dollars and all values are rounded to the nearest dollar unless otherwise stated.

b) Segment Information

Operating Segments – AASB 8 requires a management approach under which segment information is presented on the same basis as that used for internal reporting purposes. This is consistent to the approach used for the comparative period. Operating segments are reported in a uniform manner to which is internally provided to the chief operating decision maker. The chief operating decision maker has been identified as the Board of Directors.

An operating segment is a component of the Group that engages in business activity from which it may earn revenues or incur expenditure, including those that relate to transactions with other Group components. Each operating segment's results are reviewed regularly by the Board to make decisions about resources to be allocated to the segments and assess its performance, and for which discrete financial information is available.

The Board monitors the operations of the Group based on 2 segments; its software technology development services division and sales of integrated technology goods division.

The financial results of each segments are reported to the board to assess the performance of the Group. The Board has determined that strategic decision making is facilitated by evaluation of the operations of the legal parent and subsidiaries which represent the operational performance of the Group's revenues and the research and development activities as well as the finance, treasury, compliance and funding elements of the Group.

c) Estimates and judgements

The preparation of the annual financial report requires the use of accounting estimates and judgements which, by definition, will seldom equal the actual results. This note provides an overview of the areas that involve a degree of judgement or complexity in the preparing the annual financial report. Facts and circumstances may come to light after the event which may have significantly varied the assessment used which result in a materially different value being recorded at the time of preparing this annual financial report.

Deferred tax assets – The Group has not recognised deferred tax assets relating to carried forward tax losses or timing differences. These amounts have not been recognised given the recognition requirements of AASB 112 Income Taxes.

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. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity. Refer to notes 15 and 16 for details of inputs utilised in calculating the fair value of the equity instrument.

Deferred considerations – The Group measures the value of the deferred considerations in relation to the Mindesk acquisition by performing a forecast on the value of each of the Performance Rights. A probability distribution was assigned to each of the main assumptions and a Monte Carlo simulation was performed based on the assumed probability distributions. 3,000 samples were used.

VECTION TECHNOLOGIES LIMITED

Annual Report for the Year Ended 30 June 2021

Notes to Consolidated Financial Statements

The mean of the 3,000 samples for each of the Performance Rights were calculated. The net present value of each of the performance rights as at 29 April 2020 has been estimated by discounting the mean by an assumed weighted average cost of capital of 16.50%.

In relation to the Vection Italy acquisition, 150,000,000 Performance Rights issued were initially valued at \$nil as the probability of conversion was remote. In the 12 month period since the acquisition, the Company reassessed this probability to 100% and recognised a value of \$2,550,000 being the value of the Shares if the Performance Rights were converted at reassessment date.

The Group measures the value of the deferred considerations in relation to the Bank Canvas acquisition by assigning management's probabilities of Blank Canvas Studios (Aus) Pty Ltd achieving the revenue and EBITDA milestones above against Management's forecast for the years ending 30 June 2022, 2023 and 2024. The net present value of the performance rights as at 27 April 2021 was estimated by discounting by the weighted average cost of capital.

Estimation of useful lives of assets – The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Goodwill and other indefinite life intangible assets – The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 1(s). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated pre-tax discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Coronavirus (COVID-19) pandemic – Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the Group based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the Group operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the consolidated financial statements or any significant uncertainties with respect to events or conditions which may impact the Group unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

d) Principles of consolidation

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Business Combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired. The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the Group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the Group remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the consolidated entity. Losses incurred by the Group are attributed to the non-controlling interest in full, even if that results in a deficit balance.

e) Standards and Interpretations applicable to 30 June 2021

In the year ended 30 June 2021, the directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Group and effective for the current annual reporting period. As a result of this review, the directors have determined that there is no material impact of the new and revised Standards and Interpretations on the Group and, therefore, no material change is necessary to Group accounting policies.

f) Standards and Interpretations in issue not yet adopted

The directors have also reviewed all Standards and Interpretations in issue but not yet adopted for the year ended 30 June 2021. These standards are not expected to have a material impact on the Group in the current annual reporting period.

g) Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the consolidated statement of financial position.

h) Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (credit loss allowance) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

i) Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost comprises of direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity.

j) Trade and other payables

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

k) Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

VECTION TECHNOLOGIES LIMITED

Annual Report for the Year Ended 30 June 2021

Notes to Consolidated Financial Statements

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 profit or loss during the reporting period in which they are incurred.

Increases in the carrying amounts arising on revaluation of land and buildings are recognised, net of tax, in other comprehensive income and accumulated in reserves in shareholders' equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the same asset are first recognised in other comprehensive income to the extent of the remaining surplus attributable to the asset; all other decreases are charged to profit or loss. Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost, net of tax, is reclassified from the property, plant and equipment revaluation surplus to retained earnings.

Land is not depreciated. Depreciation on other assets is calculated using the methods shown in the table below to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term.

The depreciation rates used for each class of depreciable assets are as follows:

Class of fixed asset	Depreciation method	Depreciation rate
Office and computer equipment	Diminishing value	20% - 67%
Leasehold improvements	Straight-line	2.5%
Software development	Straight-line	4%-25%

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. When revalued assets are sold, it is Group policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

l) 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.

Where any group company purchases the Company's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of Vection Technologies Limited as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of the Group.

m) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

n) Earnings per share

i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares.
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

o) Income taxes

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entity's which intend to settle simultaneously.

p) Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

q) Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. The intellectual property acquired as part of the Vection Italy business combination have been treated as indefinite life intangible assets as they are expected to contribute to the Group's cashflows for the foreseeable future. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

The amortisation rates used for each class of depreciable intangible assets are as follows:

Class of intangible asset	Amortisation method	Amortisation rate
Rights of use of intangible asset	Straight-line	20%
Other intangible assets (patents and development costs)	Straight-line	20%

r) Foreign currency translation**i) Functional and presentation currency**

Items included in the financial statements of each of the Group's entities 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 dollar (\$), which is Vection Technologies Limited's functional and presentation currency.

ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. 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 generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statement of profit or loss and other comprehensive income, within finance costs.

All other foreign exchange gains and losses are presented in the consolidated statement of profit or loss and other comprehensive income on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each Statement of Financial Position presented are translated at the closing rate at the date of that Statement of Financial Position
- income and expenses for each Statement of Profit or Loss and other Comprehensive Income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale where applicable.

s) Impairment of assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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 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). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

t) Revenue recognition*Revenue from contracts with customers*

Revenue is recognised at an amount that reflects the consideration to which the group is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the group identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are initially recognised as deferred revenue in the form of a separate refund liability.

VECTION TECHNOLOGIES LIMITED

Annual Report for the Year Ended 30 June 2021

Notes to Consolidated Financial Statements

Interest

Interest revenue is recognised using the effective interest rate method.

Other income

Other income is recognised when it is received or when the right to receive payment is established.

All revenue is stated net of the amount of goods and services tax (GST).

u) Leases

The Group leases offices which are made for fixed periods of up to five years. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Group.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option. Low-value assets comprise IT equipment and small items of office furniture.

v) Employee benefits

i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave that are 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. The liabilities for annual leave and accumulating sick leave are presented as employee provisions in the consolidated statement of financial position while all other short-term employee obligations are presented as payables in the consolidated Statement of financial position.

ii) Other long-term employee benefit obligations

The liabilities for long service leave and annual leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. 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 end of the reporting period of high-quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows.

Re-measurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss. Obligations are presented as current in the Statement of Financial Position if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

iii) Retirement benefit obligations

All Australian-resident employees of the Group are entitled to receive a superannuation guarantee contribution required by the government, which is currently 10%, and do not receive any other retirement benefits. Some individuals have chosen to sacrifice part of their salary to increase payments towards superannuation.

Other amounts charged to the financial statements in this respect represents the contributions made by the Group to employee retirement benefit funds in other jurisdictions.

Market conditions are taken into consideration in determining fair value. Therefore, any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

iv) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits.

The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of AASB 137 Provisions, Contingent Liabilities and Contingent Assets and involves the payment of terminations benefits.

In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

v) 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.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

w) Compound Financial Instruments

Compound financial instruments issued by the Group comprise convertible facilities that can be converted to ordinary shares at the option of the holder, when the number of shares to be issued is fixed. The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition. Interest related to the financial liability is recognised in the consolidated statement of profit or loss and other comprehensive income. On conversion the financial liability is reclassified to equity and no gain or loss is recognised.

x) Financial instruments**i) Classification**

Financial assets recognised by the Group are subsequently measured in their entirety at either amortised cost or fair value, subject to their classification and whether the Group irrevocably designates the financial asset on initial recognition at fair value through other comprehensive income (FVTOCI) in accordance with the relevant criteria in AASB 9.

Financial liabilities classified as held-for-trading, contingent consideration payable by the Group for the acquisition of a business, and financial liabilities designated at fair value through profit and loss (FVTPL), are subsequently measured at fair value.

All other financial liabilities recognised by the Group are subsequently measured at amortised cost.

ii) Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. For financial assets, this is equivalent to the date that the Group commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value adjusted for transaction costs, except where the instrument is classified as fair value through profit or loss, in which case transaction costs are immediately recognised as expenses in profit or loss.

Trade and other receivables

Trade and other receivables arise from the Group's transactions with its customers and are normally settled within 30 days.

Consistent with both the company's business model for managing the financial assets and the contractual cash flow characteristics of the assets, trade and other receivables are subsequently measured at amortised cost.

iii) Impairment

The following financial assets are tested for impairment by applying the 'expected credit loss' impairment model:

- a. debt instruments measured at amortised cost;
- b. debt instruments classified at fair value through other comprehensive income; and
- c. receivables from contracts with customers and contract assets.

The Group applies the simplified approach under AASB 9 to measuring the allowance for credit losses for both receivables from contracts with customers and contract assets. Under the AASB 9 simplified approach, the Group determines the allowance for credit losses for receivables from contracts with customers and contract assets on the basis of the lifetime expected credit losses of the financial asset. Lifetime expected credit losses represent the expected credit losses that are expected to result from default events over the expected life of the financial asset.

The Group determines expected credit losses based on the company's historical credit loss experience, adjusted for factors that are specific to the financial asset as well as current and future expected economic conditions relevant to the financial asset. When material, the time value of money is incorporated into the measurement of expected credit losses. There has been no change in the estimation techniques or significant assumptions made during the reporting period.

The Group has identified contractual payments more than 90 days past due as default events for the purpose of measuring expected credit losses.

y) Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

VECTION TECHNOLOGIES LIMITED

Annual Report for the Year Ended 30 June 2021

Notes to Consolidated Financial Statements

2) LOSS FOR THE PERIOD

Loss for the year included the following items:

	Consolidated	
	30 June 21	30 June 20
	\$	\$
i) Revenue		
Software technology development services	1,996,409	1,821,703
Sales of integrated technology goods	1,082,921	302,176
Outsourced services	-	423,000
Interest received	26,226	16,857
R&D tax refund	190,661	355,706
Foreign exchange gain	-	88,102
Other revenue	175,141	131,404
Total revenue	3,471,358	3,138,948
ii) Finance costs		
Interest costs	59,616	38,644
Foreign exchange loss	35,029	-
Other finance costs	16,446	24,003
Total finance costs	111,091	62,647
iii) Depreciation and amortisation		
Depreciation	43,300	103,391
Amortisation	614,673	404,459
Total depreciation and amortisation	657,973	507,851
iv) Other expenses		
Advertising expenses	250,457	180,130
Rent expenses	133,176	129,526
Travel	151,653	115,635
Other administrative expenses	846,546	124,512
Total other expenses	1,381,832	549,803

VECTION TECHNOLOGIES LIMITED

Annual Report for the Year Ended 30 June 2021

Notes to Consolidated Financial Statements

3) INCOME TAX EXPENSE

	30 June 21	30 June 20
	\$	\$
(a) Income tax expense Current tax		
Current tax	73,806	7,474
Deferred tax	2,757	(5,811)
Income tax expense reported in consolidated statement of profit or loss and other comprehensive income	76,563	1,663
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Loss from continuing operations before income tax expense	(2,366,326)	(1,164,206)
Tax at the Australian tax rate of 26.0% (2020:27.5%)	(615,245)	(320,157)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income	62,560	12,622
Tax losses and other timing differences for which no DTA is recognised	629,248	309,198
Income tax expense	76,563	1,663
(c) Recognised deferred tax liabilities		
Other intangible assets (patents and development costs)	611,521	611,521
Rights of use assets	(12,393)	(7,288)
	599,128	604,233
(d) Unrecognised deferred tax assets and liabilities		
The directors estimate that the potential future income tax benefits carried forward but not brought to account at year end at the Australian corporate tax rate of 25% (2020: 26%) are made up as follows:		
Australian revenue losses	3,153,863	3,097,733
Australian capital losses	148,722	100,442
Australian CGT assets	52,062	59,101
Australian taxable temporary differences	81,297	92,678
Unrecognised net deferred tax assets	3,435,944	3,349,954

The tax benefits of the above deferred tax assets will only be obtained if:

- (i) the Group derives future assessable income of a nature and of an amount sufficient to enable the benefits from the deduction for the losses to be realised;
- (ii) the Group continues to comply with the conditions for deductibility imposed by tax legislation; and
- (iii) no changes in income tax legislation adversely affecting the Group in realizing the benefit from the deduction for the losses.

VECTION TECHNOLOGIES LIMITED

Annual Report for the Year Ended 30 June 2021

Notes to Consolidated Financial Statements

4) CASH

	Consolidated	
	30 June 21	30 June 20
	\$	\$
Cash bank	7,083,890	1,584,715
Balance per statement of cash flows	7,083,890	1,584,715

Refer note 27 for the risk exposure analysis for cash and cash equivalents.

a. Reconciliation of loss after income tax to net cash flows from operating activities		
Loss for the period	(2,442,889)	(1,165,870)
Non-cash items:		
Depreciation (including discontinued operations)	657,973	507,851
Accrued Interest	-	(16,340)
Finance costs	-	24,003
Credit loss allowances	72,299	36,581
Share based payments	129,869	104,362
Loss on investment	(7,016)	-
Impairment expenses	(47,745)	(78,579)
Gain on disposal	-	19,294
Movements in assets/liabilities:		
(increase)/decrease in trade and other receivables	(824,764)	(685,867)
Decrease/(increase) in inventories	330,458	-
Increase/(decrease) in tax liability	52,388	(7,288)
Increase/(decrease) in other payable and provisions	(245,378)	949,321
Net cash outflow from operating activities	(2,324,805)	(312,532)

b. Non-cash financing and investing activities:

- I. Share based payments
The Company issued shares in lieu of services rendered during the year (Note 15).
- II. Mindesk consideration securities
The Company issued securities in consideration for the acquisition of Mindesk in the prior year.
- III. Blank Canvas Studios (Aus) Pty Ltd consideration securities
The Company issued securities in consideration for the acquisition of Blank Canvas Studios (Aus) Pty Ltd (Note 24(i)) in the current year.

5) RECEIVABLES

	Consolidated	
	30 June 21	30 June 20
	\$	\$
Trade receivables (i)	3,337,663	1,361,448
Trade and other receivables due from sale of business (ii)	-	92,021
Credit loss allowances	(165,485)	(32,971)
	3,172,178	1,420,498
Other receivables	1,665,156	723,148
Prepayments	41,381	5,906
Total Receivables	4,878,715	2,149,552

VECTION TECHNOLOGIES LIMITED

Annual Report for the Year Ended 30 June 2021

Notes to Consolidated Financial Statements

Allowance for expected credit losses

The Group has recognised a loss of \$72,299 in profit or loss in respect of the expected credit losses for the year ended 30 June 2021.

Refer to Note 27 for the risk exposure analysis for receivables.

- I. Classification of trade and other receivables (current and non-current)
All receivables apart from the balance detailed below in (ii) are non-interest bearing. There are no receivables where the fair value would be materially different from the current carrying value. The Group reviews all receivables for impairment. Any receivables which are doubtful have been provided for. Based on past experience all receivables where no impairment has been recognised are not considered to be impaired. No other class of financial asset is past due.
- II. Trade and other receivables due from sale of business
In the prior year, the Company entered into an agreement with The Agency whereby amounts outstanding from The Agency to the Company will accrue interest at a rate of 8% per annum.

6) INVENTORIES

	Consolidated	
	30 June 21	30 June 20
	\$	\$
Raw materials and consumables	62,537	-
Finished goods	990,588	-
Work in progress	30,746	-
	1,083,871	-

7) PROPERTY, PLANT & EQUIPMENT

	Consolidated	
	30 June 21	30 June 20
	\$	\$
Office and computer equipment		
Office & computer equipment at cost	646,079	198,681
Less: accumulated depreciation	(441,231)	(126,047)
	204,848	72,634
Plant & Machinery and Industrial Equipment		
Plant & Machinery and Industrial Equipment at cost	92,480	-
Less: accumulated depreciation	(57,371)	-
	35,109	-
Leasehold improvements		
Leasehold improvements at cost	-	185,735
Less: accumulated depreciation	-	(181,510)
	-	4,225
Total property, plant and equipment	239,957	76,859

VECTION TECHNOLOGIES LIMITED

Annual Report for the Year Ended 30 June 2021

Notes to Consolidated Financial Statements

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Office and computer equipment	Plant & Machinery and Industrial Equipment	Leasehold improvements	Total
	\$	\$	\$	\$
Consolidated				
Balance at 1 July 2019	81,804	-	8,271	90,075
Additions	68,110	-	-	68,110
Additions through business combinations	10,646	-	-	10,646
Disposals	-	-	23,272	23,272
Depreciation expense	(91,967)	-	(27,728)	(119,695)
Foreign exchange	4,041	-	410	4,451
Balance at 30 June 2020	72,634	-	4,225	76,859
Additions	51,577	2,973	-	54,550
Additions through business combinations (note 24)	129,962	34,646	-	164,608
Disposals	(7,288)	-	(3,998)	(11,286)
Depreciation expense	(30,219)	(2,402)	-	(32,621)
Foreign exchange	(11,818)	(108)	(227)	(12,153)
Balance at 30 June 2021	204,848	35,109	-	239,957

8) RIGHT-OF-USE ASSETS

	Consolidated	
	30 June 21	30 June 20
	\$	\$
Right of use asset - Land and buildings	959,397	734,176
Less: accumulated amortisation	(327,502)	(162,767)
	631,895	571,409

Additions to the right-of-use assets during the year were \$239,489. Refer Note 13 for lease details.

9) INTANGIBLE ASSETS

	Consolidated	
	30 June 21	30 June 20
	\$	\$
GOODWILL		
Acquisition - Vection Italy Srl	2,550,000	2,550,000
Acquisition - Mindesk Group	3,587,687	3,587,687
Less: Reduction in consideration for Mindesk Group	(803,502)	-
	5,334,185	6,137,687
INTANGIBLE ARISING FROM BUSINESS ACQUISITION		
Acquisition - Blank Canvas Studios (Aus) Pty Ltd- Note 24 (i)	1,647,240	-
Acquisition - JMC Group- Note 24 (ii)	5,906,643	-
	7,553,883	-

VECTION TECHNOLOGIES LIMITED

Annual Report for the Year Ended 30 June 2021

Notes to Consolidated Financial Statements

	Consolidated	
	30 June 21	30 June 20
	\$	\$
INTELLECTUAL PROPERTY		
Intellectual property at cost	2,811,417	2,811,417
Less: accumulated amortisation	-	-
	2,811,417	2,811,417
OTHER INTANGIBLE ASSETS (SOFTWARE PATENTS AND DEVELOPMENT COSTS)		
Other intangible assets at cost	4,468,964	2,987,559
Less: accumulated amortisation	(731,160)	(143,617)
	3,737,804	2,843,942
TOTAL INTANGIBLE ASSETS	19,437,289	11,793,046

During the year, the purchase price allocation for Mindesk has been finalized with no revision to the calculations required.

Goodwill Impairment Testing

The Group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of the cash-generating units (CGUs) were determined by a value-in-use calculations using a discounted cash flow mode, based on a for year project period together with a terminal value approved by management. The forecast budget process was developed based revenue expectation on existing customer contracts along with ongoing opportunities. Key assumptions are those to which the recoverable amount of an asset or cash-generating units is most sensitive. The following key assumptions were used in the discounted cash flow models:

The following key assumptions were used in discounted cash flow model:

- 18.25% pre-tax discount rate;
- 184% average projected revenue growth rate for Mindesk Group;
- 55% average projected revenue growth rate for Vection Italy Srl;
- 1% cash flow growth rate for terminal value;
- 0.6326 EUR to AUD exchange rate.

The discount rate of 18.25% pre-tax reflects management's estimate of the time value of money and the Group's weighted average cost of capital adjusted for the division, the risk free rate and volatility of the share price relative to market movements.

Management believes the above projected revenue growth rate is reasonable based on the following factors:

- Results for FY2021 were impacted by the Covid-19 pandemic, with many contracts being delayed/postponed;
- In addition to visibility on those delayed contracts, management now have greater visibility on any follow-on contracts;
- The development of new sales channels which provide further support to project growth.

Based on the above, the recoverable amounts of Mindesk Group and Vection Italy Srl exceeded the carrying amounts. As a result, no impairment expense was recorded.

As disclosed in note 1(c), judgements and estimates in respect of impairment testing of goodwill have been made. Should these judgments and estimates not occur the resulting goodwill carrying amount may decrease. The sensitivities are as follows:

- Pre-tax discount rate would be required to increase to 45% or more for both CGUs before goodwill would need to be impaired, with all other assumptions remaining constant.
- Revenue would need to decrease by more than 110% and 300% for Mindesk Group and Vection Italy Srl respectively before goodwill would need to be impaired, with all other assumptions remaining constant.

VECTION TECHNOLOGIES LIMITED

Annual Report for the Year Ended 30 June 2021

Notes to Consolidated Financial Statements

10) TRADE AND OTHER PAYABLES

	Consolidated	
	30 June 21	30 June 20
	\$	\$
Unsecured liabilities:		
Trade payables	2,062,290	694,544
Sundry creditors and accruals	1,552,735	1,577,860
	<u>3,615,025</u>	<u>2,272,404</u>

Payables (current and non-current) are non-interest bearing. There are no payables where the fair value would be materially different from the current carrying value.

11) PROVISIONS

	Consolidated	
	30 June 21	30 June 20
	\$	\$
PROVISIONS - CURRENT		
Deferred Consideration - Note 24	9,915,043	3,321,031
	<u>9,915,043</u>	<u>3,321,031</u>
PROVISIONS- NON- CURRENT		
Deferred Consideration - Note 24	1,869,262	2,434,980
	<u>1,869,262</u>	<u>2,434,980</u>

The deferred considerations are non-cash in nature and relate to the valuation of performance rights that were part of the consideration of the acquisition of Vection Italy, Mindesk and Blank Canvas Studios (Aus) Pty Ltd. The Company will be able to satisfy these liabilities as and when the conditions of the performance rights are achieved.

12) EMPLOYEE BENEFITS

	Consolidated	
	30 June 21	30 June 20
	\$	\$
EMPLOYEE BENEFITS - CURRENT		
Employee Benefits	36,299	-
	<u>36,299</u>	<u>-</u>

The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the Group does not have an unconditional right to defer settlement.

EMPLOYEE BENEFITS- NON- CURRENT		
Employee Benefits	333,179	83,989
	<u>333,179</u>	<u>83,989</u>

The non-current provision for employee benefits includes director and employee severance indemnity payable to its Italian employees. The amount has been carried at cost as the fair value effect has been considered as immaterial.

13) LEASE LIABILITIES

	Consolidated	
	30 June 21	30 June 20
	\$	\$
LEASE LIABILITIES - CURRENT		
Current portion lease liabilities	167,756	94,322
	<u>167,756</u>	<u>94,322</u>
LEASE LIABILITIES - NON- CURRENT		
Non-current portion lease liabilities	529,926	487,713
	<u>529,926</u>	<u>487,713</u>

The Group leases land and buildings for its offices under agreements of between three to six years with, in some cases, with options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated. The Group also leases plant and equipment under agreements of three years.

VECTION TECHNOLOGIES LIMITED

Annual Report for the Year Ended 30 June 2021

Notes to Consolidated Financial Statements

14) BORROWINGS

	Consolidated	
	30 June 21	30 June 20
BORROWINGS - CURRENT	\$	\$
Borrowings	1,047,145	427,606
	1,047,145	427,606
BORROWINGS - NON- CURRENT		
Borrowings	3,175,131	422,190
	3,175,131	422,190

Terms of the borrowings:

- A bank loan by the Company which is unsecured, has a 3 years term with an expiry date of 27 April 2023. The loan has a variable Interest rate of 4.5%.
- A fixed-rate bank loan by Vection Italy. The loan has a 6 years term with an expiry date of 19th May 2026. The loan has a fixed Interest rate of 1.25%
- A variable rate bank loan by Vection Italy. The loan has a 6 years term with an expiry date of 9th June 2026. The loan has a variable Interest rate of circa 1.75% plus EURIBOR 1m 360.
- An Invoice financing facility by Vection Italy. This is a short term liability at an Interest rate of 3.8%
- 3 bank loans by JMC Group. The loans have a 6 years terms with expiry date in 2026 and 2027. The loans have a variable Interest rate of 1.4% + EURIBOR 3m 360, 0.45% + EURIBOR 6m 360 and 1.25% + EURIBOR 3m 360.

15) ISSUED CAPITAL

	30 June 21	30 June 20	30 June 21	30 June 20
Share Capital	Shares No.	Shares No.	\$	\$
Ordinary Shares	969,618,516	822,676,875	27,502,218	22,376,991

Movement in share capital

Date	Details	Number of shares	Issue Price	\$
1 July 2020	Opening balance	822,676,875	-	22,376,991
9/07/2020	Vesting of performance rights	7,500,000	\$0.01	44,289
9/07/2020	Variance on ASIC statement	-	-	1,365
19/08/2020	Vesting of performance rights	7,500,000	\$0.01	44,289
7/09/2020	Issue of shares under controlled placement facility on 24 June 2019	-	-	1,485,000
22/09/2020	Vesting of performance rights	7,500,000	\$0.01	44,289
2/10/2020	Vesting of performance rights	50,000,000	\$0.02	850,000
9/10/2020	Issue of shares	66,500,000	\$0.09	5,985,000
9/10/2020	Issue of shares for services rendered	4,005,505	\$0.09	360,495
11/12/2020	Issue of shares	166,667	\$0.09	15,000
27/04/2021	Issue of shares for Blank Canvas Studios (Aus) Pty Ltd acquisition (i)	2,769,469	\$0.09	250,000
27/04/2021	Issue of shares to advisor for facilitation and introduction fee	1,000,000	\$0.10	100,000
6/10/2020	Share issue transaction costs, net of tax	-	-	(264,000)
9/10/2020	Share issue transaction costs, net of tax	-	-	(3,790,500)
30 June 2021	Closing balance	969,618,516		27,502,218

i) Consideration shares issued to the vendors of Blank Canvas Studios (Aus) Pty Ltd- refer Note 24(i)

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

VECTION TECHNOLOGIES LIMITED

Annual Report for the Year Ended 30 June 2021

Notes to Consolidated Financial Statements

16) RESERVES

	Consolidated	
	30 June 21	30 June 20
	\$	\$
Share based payment reserve	3,790,499	104,362
Foreign currency translation reserve	(173,575)	126,496
	3,616,924	230,858

	30 June 21	30 June 20	30 June 21	30 June 20
i) Options	Options No.	Options No.	\$	\$
Options (\$0.30 ex, 3 yrs)	35,000,000	-	3,790,499	-
	35,000,000	-	3,790,499	-

Date	Details	Number of shares	\$
1 July 2020	Opening balance	-	-
	Issue of unlisted options to corporate advisor	35,000,000	3,790,499
30 June 2021	Closing balance	35,000,000	3,790,499

i) Fair value of options

During the year, the Company issued 35,000,000 unlisted options to an advisor for services rendered at an exercise price of \$0.112. The unlisted options are exercisable at any time on or prior to the expiry date.

The fair value at grant date of the unlisted options issued has been determined using a Black-Scholes pricing model that takes into account the exercise price, the term of the unlisted options, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the performance rights. The total fair value of the unlisted options was \$3,790,500. The total share based payment expense recognised for the period ended 30 June 2021 was \$3,790,500 as the unlisted options has no vesting conditions.

	30 June 21	30 June 20	30 June 21	30 June 20
ii) Performance rights	Performance Rights No.	Performance Rights No.	\$	\$
Performance rights - Directors and corporate advisor	119,000,000	172,500,000	-	104,362
	119,000,000	172,500,000	-	104,362

Date	Details	Performance Rights	\$
1 July 2020	Opening balance	172,500,000	104,362
09/07/2020	Vesting of Performance Rights (ii)(a)	(7,500,000)	(52,102)
19/08/2020	Vesting of Performance Rights (ii)(b)	(7,500,000)	(45,175)
22/09/2020	Vesting of Performance Rights (ii)(c)	(7,500,000)	(7,085)
02/10/2020	Vesting of Performance Rights (ii)(d)	(50,000,000)	-
08/01/2021	Issue of Performance Rights to employee (iii)	1,000,000	-
15/04/2021	Issue of Performance Rights to Black Canvas vendors (iv)	18,000,000	-
30 June 2021	Closing balance	119,000,000	-

(ii) Vesting of performance rights – Directors and Corporate Advisor

During the year, the following performance rights were vested:

- Tranche 1 Performance Rights (Class B): 7,500,000 Performance Rights issued to directors and advisor each converting into Shares (on a one for one basis) will vest on the date that the Company's 14 day volume weighted average (VWAP) share price is equal or exceeds \$0.035 per share on trading on ASX;

VECTION TECHNOLOGIES LIMITED

Annual Report for the Year Ended 30 June 2021

Notes to Consolidated Financial Statements

- b) Tranche 2 Performance Rights (Class B): 7,500,000 Performance Rights issued to directors and advisor each converting into Shares (on a one for one basis) will vest on the date that the Company's 14 day volume weighted average (VWAP) share price is equal or exceeds \$0.045 per share on trading on ASX;
- c) Tranche 3 Performance Rights (Class B): 7,500,000 Performance Rights issued to directors and advisor each converting into Shares (on a one for one basis) will vest on the date that the Company's 14 day volume weighted average (VWAP) share price is equal or exceeds \$0.065 per share on trading on ASX;
- d) Tranche 2 Performance Rights (Class A): 50,000,000 Performance Rights issued to Officine8K SRL as part of the consideration for the acquisition of Vection Italy, each converting into Shares (on a one for one basis) upon the revenue generated by the business of Vection Italy achieving a minimum of \$1,500,000 (as verified by the Company's auditors) within 24 months of settlement of the acquisition;

The fair value at grant date of the performance rights issued has been determined using a Black-Scholes pricing model that takes into account the exercise price, the term of the performance rights, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the performance rights. The total fair value of the performance rights was \$132,866. The total share based payment expense recognised was \$28,504 (2020: \$104,362).

(iii) Fair value of performance rights – Employees

During the year, the Company issued 1,000,000 performance rights to Vection Italy's employees and collaborators. Management's view was that the probability of these performance rights vesting were remote due to the requirement to satisfy a service condition, market condition and is subject to Board discretion. As such, the performance rights were valued at nil.

(iv) Fair value of performance rights – Blank Canvas Studios (Aus) Pty Ltd acquisition

During the year, the Company issued 18,000,000 performance rights to the vendors of Blank Canvas Studios (Aus) Pty Ltd with the following terms:

- Class A Milestone – Issue to a vendor and will vest upon Blank Canvas Studios (Aus) Pty Ltd achieving A\$1.5m in audited revenue and EBITDA being equal to or above 0 by the financial year ending 30 June 2022 and that the Company's 14 day volume weighted average VWAP share price is equal or exceeds \$0.010 per share on trading on ASX;
- Class B Milestone – Issue to a vendor and will vest upon Blank Canvas Studios (Aus) Pty Ltd achieving A\$3m in audited revenue and EBITDA being equal to or above 0 by the financial year ending 30 June 2023 and that the Company's 14 day volume weighted average VWAP share price is equal or exceeds \$0.010 per share on trading on ASX;
- Class C Milestone – Issue to a vendor and will vest upon Blank Canvas Studios (Aus) Pty Ltd achieving A\$5m in audited revenue and EBITDA being equal to or above 0 by the financial year ending 30 June 2024 and that the Company's 14 day volume weighted average VWAP share price is equal or exceeds \$0.010 per share on trading on ASX.

The fair value of these performance rights is \$1,171,293 and is treated as deferred consideration (Note 11, 24).

17) ACCUMULATED LOSSES

	Consolidated	
	30 June 21	30 June 20
	\$	\$
Opening balance	(16,548,484)	(15,655,114)
Transfer of lapsed performance rights value – Note 16	-	272,500
Loss for the period	(2,422,931)	(1,165,870)
Closing balance	(18,971,415)	(16,548,484)

18) NON-CONTROLLING INTEREST

	Consolidated	
	30 June 21	30 June 20
	\$	\$
Issued capital	5,724	-
Reserves	-	-
Accumulated losses	(122,942)	-
	(117,218)	-

VECTION TECHNOLOGIES LIMITED

Annual Report for the Year Ended 30 June 2021

Notes to Consolidated Financial Statements

19) EARNINGS PER SHARE

	Consolidated	
	30 June 21	30 June 20
	\$	\$
Earnings per share for loss from continuing operations		
Loss after income tax	(2,406,420)	(1,163,640)
Non-controlling interest	(137,176)	-
Loss after income tax from continuing operations attributable to the members of Vection Technologies Limited	(2,269,244)	(1,163,640)
Basic earnings per share	(0.244)	(0.203)
Diluted earnings per share	(0.244)	(0.203)
Earnings per share for loss from discontinued operations		
Loss after income tax from discontinuing operations attributable to the members of Vection Technologies Limited	(36,469)	(2,230)
Basic earnings per share	(0.004)	-
Diluted earnings per share	(0.004)	-
Earnings per share for loss		
Loss after income tax attributable to the members of Vection Technologies Limited	(2,442,889)	(1,165,870)
Basic earnings per share	(0.262)	(0.203)
Diluted earnings per share	(0.262)	(0.203)
Weighted average number of ordinary shares used in calculating basic earnings per share	931,408,192	573,655,276

20) SEGMENT REPORTING

	Discontinued Operations	IT Development	Outsourced Services	Corporate	Total
	\$	\$	\$	\$	\$
Year ended 30 June 2021					
Segment Revenue	-	2,678,978	511,552	280,828	3,471,358
Significant items					
Changes in inventories	-	(339,512)	-	-	(339,512)
Raw materials and consumables used	-	(509,433)	-	-	(509,433)
Employee benefits expense	-	(884,874)	(118,229)	(159,298)	(1,162,401)
Consulting and professional fees	(9)	(1,065,481)	(25,178)	(358,527)	(1,449,195)
Financing costs	-	(81,521)	(2,031)	(27,539)	(111,091)
Depreciation and amortisation	-	(600,265)	-	(57,708)	(657,973)
Other administrative expenses	(36,460)	(1,526,203)	(21,167)	(24,249)	(1,608,079)
Tax expenses	-	(76,563)	-	-	(76,563)
Segment operating loss after tax	(36,469)	(2,404,874)	344,947	(346,493)	(2,442,889)
Year ended 30 June 2020					
Segment Revenue		2,615,487	423,000	100,461	3,138,948
Significant items	-	(995,399)	(547,303)	(264,377)	(1,807,079)
Employee benefits expense	(694)	(386,623)	(7,986)	(422,470)	(817,773)
Consulting and professional fees	(1,535)	(44,691)	(112)	(16,309)	(62,647)
Financing costs	-	(21,430)	(81,961)	(404,460)	(507,851)
Depreciation and amortisation	-	(508,099)	(219,829)	(379,877)	(1,107,806)

VECTION TECHNOLOGIES LIMITED

Annual Report for the Year Ended 30 June 2021

Notes to Consolidated Financial Statements

	Discontinued Operations	IT Development	Outsourced Services	Corporate	Total
	\$	\$	\$	\$	\$
Other administrative expenses	-	(1,663)	-	-	(1,663)
Segment operating loss after tax	(2,229)	657,582	(434,191)	(1,387,032)	(1,165,870)

Segments assets

At 30 June 2021	-	12,437,132	596,112	20,402,377	33,435,622
At 30 June 2020	-	3,140,625	182,128	12,904,958	16,227,711

Segment liabilities

At 30 June 2021	19,906	8,829,062	240,145	12,198,782	21,287,895
At 30 June 2020	19,907	2,596,050	47,399	7,504,990	10,168,346

1) Descriptions of assets

The Group's executive directors examine the Group's performance from a core operations perspective and two reportable segments of its continuing business, being IT development and outsourced services.

2) Segment revenue and results

Segment revenue reported above represents revenue generated from external customers. The accounting policies of the reportable segments are the same as the Group's accounting policies describes in note 1. Segment profit represents the profit before tax earned by each segment without allocation of central corporate and administration costs, employee benefits, depreciation and amortisation, and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

3) Segment assets and liabilities

All assets are allocated to reportable segments other than cash, GST receivables, office equipment, and certain other receivables. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments.

All liabilities are allocated to reportable segments other than borrowings, and corporate creditors. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

21) AUDITOR'S REMUNERATION

	Consolidated	
	30 June 21	30 June 20
	\$	\$
Audit and other assurance services – RSM Australia Partners		
Audit and review of financial statements	55,000	35,000
Total remuneration for audit and other assurances services	55,000	35,000

22) INTERESTS IN SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following wholly-owned subsidiaries in accordance with the accounting policy described in note 1:

	Date of the Gain of Control	Country of Incorporation	Ownership Interest	
			2021 (%)	2020 (%)
Sell Lease Property Pty Ltd	16/09/2016	Australia	100	100
Vection Consulting Pty Ltd	16/09/2016	Australia	100	100
Vection Australia Pty Ltd	16/09/2016	Australia	100	100
ServTech Global PH Inc	08/12/2016	Philippines	100	100
SVT India Private Limited	23/03/2017	India	100	100
Vection Italy SRL	12/04/2019	Italy	100	100
Mindesk Inc	29/04/2020	USA	100	100
Mindesk SRL	29/04/2020	USA	100	100
Blank Canvas Studios (Aus) Pty Ltd	27/04/2021	Australia	100	-
JMC Group SRL	31/5/2021	Italy	100	-

VECTION TECHNOLOGIES LIMITED

Annual Report for the Year Ended 30 June 2021

Notes to Consolidated Financial Statements

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiary with non-controlling interests in accordance with the accounting policy described in note 1:

	Date of the Gain of Control	Country of Incorporation	Parent		Non-controlling interest	
			Ownership Interest 2021 (%)	2020(%)	Ownership Interest 2020 (%)	2020 (%)
Vection Health SRL ¹	26/3/2021	Italy	60	-	40	-
Xinntex SRL ²	31/05/2021	Italy	64	-	36	-
JMC AMEA Ltd ²	31/05/2021	Abu Dhabi	70	-	30	-

- 1) Vection Health SRL is the subsidiary of Vection Italy SRL. The non-controlling interests hold 40% of the voting rights of Vection Health SRL.
- 2) Xinntex SRL and JMC AMEA Ltd are the subsidiaries of JMC Group SRL. The non-controlling interests hold 36% and 30% of the voting rights respectively.

23) RELATED PARTY TRANSACTIONS

i) Transactions with directors and key management personnel

The Group may enter into agreements for services rendered with individuals (or an entity that is associated with the individuals) during the ordinary course of business.

Key management personnel compensation

	Consolidated	
	30 June 21	30 June 20
	\$	\$
Short-term benefits	591,744	475,715
Share-based payments	22,803	83,492
	614,547	559,207

A number of entities associated with the directors and key management personnel have consulting agreement in place which has resulted in transactions between the Group and those entities during the period. The terms and conditions of those transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

Director	Transaction	Transaction Value		Outstanding Balance	
		2021	2020	2021	2020
Mr Gianmarco Biagi and Mr Lorenzo Biagi	Other revenue (a)	-	123,981	136,794	248,544
	Other service cost (b)	81,608	22,700	86,217	22,700
	Revenue from services (c)	71,727	6,034	239,108	7,039
	Professional, legal and tax services (d)	24,594	49,258	-	14,921
Mr Bert Mondello	Contract Revenue (e)	-	215,000	-	-

- a) The Company's subsidiary Vection Italy SRL received services from companies associated with Mr Gianmarco Biagi and Mr Lorenzo Biagi. As at 30 June 2021, the amount receivable is \$136,794. This transaction was entered on a commercial, arm-length basis;
- b) The Company's subsidiary Vection Italy SRL paid to companies associated with Mr Gianmarco Biagi and Mr Lorenzo Biagi for service provided. As at 30 June 2021, the amount payable is \$86,217. This transaction was entered on a commercial, arm-length basis;
- c) The Company's subsidiary Vection Italy SRL received services from companies associated with Mr Gianmarco Biagi and Mr Lorenzo Biagi for service provided. As at 30 June 2021, the amount receivable is \$239,108. This transaction was entered on a commercial, arm-length basis;

VECTION TECHNOLOGIES LIMITED

Annual Report for the Year Ended 30 June 2021

Notes to Consolidated Financial Statements

- d) The Company's subsidiary Vection Italy SRL paid to companies associated with Mr Gianmarco Biagi and Mr Lorenzo Biagi for service provided. As at 30 June 2021, the amount payable is \$NIL. This transaction was entered on a commercial, arm-length basis;
- e) In the prior year, the Company's subsidiary Vection Australia Pty Ltd entered into a contract to provide services to Emerge Gaming Solutions Pty Ltd a subsidiary of Emerge Gaming Limited.
Mr B Mondello is a director of Emerge Gaming Limited. This contract was signed on a commercial, arm-length basis and discontinued in December 2019;

ii) Loans to directors

There were no loans outstanding to directors at year end.

iii) Performance Rights

- A) As part of the consideration for the acquisition of Vection, Officine8K SRL, an entity associated with Mr Gianmarco Biagi and Mr Lorenzo Biagi was granted 150,000,000 performance rights in three tranches with the following terms:
 - (a) Tranche 1 Performance Rights: 50,000,000 Performance rights each converting into shares (on a one for one basis) upon Vection Italy's earnings before interest, tax, depreciation and amortisation at the end of a financial year being at least \$500,000 (as verified by the Company's auditors) within 24 months of the settlement of the acquisition;
 - (b) Tranche 2 Performance Rights: 50,000,000 Performance rights each converting into shares (on a one for one basis) upon the revenue generated by the business of Vection Italy achieving a minimum of \$1,500,000 (as verified by the Company's auditors) within 24 months of settlement of the acquisition; and
 - (c) Tranche 3 Performance Rights: 50,000,000 Performance rights each converting into shares (on a one for one basis) upon:
 - a. the volume weighted average price for the shares on twenty (20) consecutive days on which sales are recorded being no less than \$0.03; and
 - b. the revenue generated by the business of Vection Italy achieving a minimum of \$2,500,000 (as verified by the Company auditors) within 36 months of settlement of the acquisition.

In prior year, the Group reports a provisional amount for the items for which accounting is incomplete as the initial accounting for the business acquisition is incomplete by the end of the reporting period in which the combination occurs. This provisional amount is adjusted during the measurement period (no longer than 12 months from the initial acquisition) on a retrospective basis by restating the comparative information presented in the financial statements. In April 2020, i.e. within the prescribed 12 months from the initial acquisition, the Company reassessed the intangible asset value of Vection Italy in particular the value of the IP, customer relationships and the expertise of the management and their potential to deliver significant positive cash flows from a strong forecast pipeline of work, thus, re-assessing the probability of meeting the non-market based conditions from 0% to 100%. In relation to each class of performance right, the directors have re-assessed the probability of meeting the non-market based conditions from 0% to 100% in view of additional information. Accordingly, \$2,550,000 has been recognised.

During the year, tranche 2 of the performance rights has been vested (Note 16).

- B) In the prior year, the Company issued 18,000,000 performance rights in three tranches to Mr Gianmarco Biagi, Mr Lorenzo Biagi, Mr Bert Mondello and Mr Gianmarco Orgnoni with the following terms:
 - (a) Tranche 1 Performance Rights: 6,000,000 Performance rights each converting into shares (on a one for one basis) will vest on the date that the Company's 14 day volume weighted average (VWAP) share price is equal or exceeds \$0.035 per share on trading on ASX;
 - (b) Tranche 2 Performance Rights: 6,000,000 Performance rights each converting into shares (on a one for one basis) will vest on the date that the Company's 14 day volume weighted average (VWAP) share price is equal or exceeds \$0.045 per share on trading on ASX;
 - (c) Tranche 3 Performance Rights: 6,000,000 Performance rights each converting into shares (on a one for one basis) will vest on the date that the Company's 14 day volume weighted average (VWAP) share price is equal or exceeds \$0.065 per share on trading on ASX;

The fair value at grant date of the performance rights issued has been determined using a Black-Scholes pricing model that takes into account the exercise price, the term of the performance rights, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the performance rights. The total share based payment expense recognised for the year ended 30 June 2021 of \$22,803 (2020: \$83,492) has been recognised in the consolidated statement of profit or loss and other comprehensive income or in the remuneration disclosures for directors and key management personnel.

During the year, all performance rights have been vested.

- C) As part of the consideration for the Acquisition of Mindesk in prior year, an entity associated with Mr Gabriele Sorrento was granted 38,711,641 performance rights in seven groups with the following terms:

- (a) Group A Performance Rights: 2,867,529 Performance Rights each converting into Shares (on a one for one basis) upon Mindesk revenues equal to, or exceed EUR920,001 for the year to 31 December 2020;
- (b) Group B Performance Rights: 7,168,822 Performance Rights each converting into Shares (on a one for one basis) if technical specifications are met on a plugin for Mindesk to work with McNeel Rhinoceros 6 for the year to 31 December 2021;
- (c) Group C Performance Rights: 14,337,644 Performance Rights each converting into Shares (on a one for one basis) upon Mindesk revenues equal to, or exceed, EUR2,950,001 for the year to 31 December 2021;
- (d) Group D Performance Rights: 1,792,206 Performance Rights each converting into Shares (on a one for one basis) if the combined revenues of Vection and Mindesk Inc equal to, or exceed, EUR9,300,001 for the year to 31 December 2021;
- (e) Group E Performance Rights: 1,792,206 Performance Rights each converting into Shares (on a one for one basis) if the combined revenues of Vection and Mindesk Inc equal to, or exceed, EUR15,000,001 for the year to 31 December 2022;
- (f) Group F Performance Rights: 5,376,617 Performance Rights each converting into Shares (on a one for one basis) if the combined revenues of Vection and Mindesk Inc for the year ending 31 December 2023 equal to at least 10% increase on the Combined Revenues for the year to 31 December 2022; and
- (g) Group G Performance Rights: 5,376,617 Performance Rights each converting into Shares (on a one for one basis) if the combined revenues of Vection and Mindesk Inc for the year ending 31 December 2024 equal to at least 10% increase on the Combined Revenues for the year to 31 December 2023.

During the year, Group B Performance rights has expired.

24) BUSINESS COMBINATION

i) Acquisition of Blank Canvas Studios (Aus) Pty Ltd

On 27 April 2021, the Group completed the acquisition of 100% of the issued capital and voting rights in Blank Canvas Studios (Aus) Pty Ltd ("Blank Canvas").

(a) Acquisition Consideration

The consideration for the acquisition comprised of:

- \$250,000 In cash
- 2,769,469 in fully paid ordinary shares to the Blank Canvas vendors at an Issue price based on the volume weighted average price of Vection's shares for the last 20 trading days prior to settlement, valued at \$250,000
- An amount of cash equal to trade debtors plus un-invoiced WIP plus cash less liabilities as at the settlement date, less any unpaid trade debtors not recovered by 30 June 2021
- 18,000,000 performance rights Issued to Blank Canvas vendors to the value of \$1,800,000 based on the following terms:
 - Class A: \$500,000 performance rights subject to Blank Canvas achieving revenue of \$1,500,000 and EBITDA being equal to or above 0 by the financial year ending 30 June 2022
 - Class B: \$600,000 performance rights subject to Blank Canvas achieving revenue of \$3,000,000 and EBITDA being equal to or above 0 by the financial year ending 30 June 2023
 - Class C: \$500,000 performance rights subject to Blank Canvas achieving revenue of \$5,000,000 and EBITDA being equal to or above 0 by the financial year ending 30 June 2024

Under the principles of AASB 3, the assets and liabilities of Blank Canvas are measured at fair value on the date of acquisition.

(b) Goodwill

Goodwill is calculated as the difference between the fair value of consideration transferred less the fair value of the identified net assets of Blank Canvas Studios (Aus) Pty Ltd. Details of the transaction are as follows:

VECTION TECHNOLOGIES LIMITED

Annual Report for the Year Ended 30 June 2021

Notes to Consolidated Financial Statements

i) Acquisition of Blank Canvas Studios (Aus) Pty Ltd (Continued)

	Fair Value 30 June 2021
	\$
Consideration	
Cash	264,074
2,769,469 fully paid ordinary shares	250,000
18,000,000 million performance rights (1)	1,157,219
Total consideration	1,671,293
Fair value of assets and liabilities at acquisition date:	
Cash	264,747
Trade and other receivables	102,761
Trade and other payables	(299,384)
Employee benefits	(36,299)
Tax liabilities	(7,772)
Fair value of identifiable assets and liabilities acquired	24,053
Consideration paid	1,671,293
Less: Fair value of identifiable assets and liabilities assumed	(24,053)
Intangibles arising from acquisition	1,647,240

- The Group measures the value of the deferred considerations by assigning Management's probabilities of Blank Canvas Studios (Aus) Pty Ltd achieving the revenue and EBITDA milestones above against Management's forecast for the years ending 30 June 2022, 2023 and 2024. The probabilities assigned are 100%, 90% and 80% respectively. The net present value of the performance rights is estimated as at 27 April 2021 by discounting by the weighted average cost of capital of 19.5%.

The fair values of the entity's assets and liabilities have been measured provisionally. If new information is obtained within one year of the date of acquisition about facts and circumstance that existed at the date of acquisition identifies adjustment to the amounts above, the accounting for the acquisition will be revised.

ii) Acquisition of JMC Group S.r.l

On 30 May 2021, the Group obtained the control of 100% of the issued capital and voting rights in JCM Group S.r.l ("JMC").

(a) Acquisition Consideration

The consideration for the acquisition comprised of:

- EUR 4,000,000 worth of fully paid ordinary shares to the JMC vendors determined at an Issue price of the higher of \$0.10 and the volume weighted average price of the shares for the 5 trading days prior to settlement. Based on an exchange rate of 0.62448, the maximum number of shares to be issued will be 64,053,292 (\$6,405,329).
- In accordance with the terms of the acquisition of JMC, the Group will enter into an agreement with Mr Jacopo Merli to appoint him as CEO of JMC, including an offer made pursuant to Vection's Employee Incentive Performance Rights Plan for the issue of performance rights which will convert into fully paid ordinary shares on the achievement audited revenue and/or EBITDA targets for JMC, aligned with the Company's overarching global growth strategy. The key terms of the performance rights will be as follows:
 - Class A Performance Rights will convert into an aggregate of \$159,780.57 worth of Ordinary Shares upon JMC achieving ~\$8.8M1 in audited revenue or \$0.5M1 in audited EBITDA in the applicable 2021 fiscal year.²
 - Class B Performance Rights will convert into an aggregate of \$159,780.57 worth of Ordinary Shares upon JMC achieving ~\$14.2M1 in audited revenue or \$1.5M1 in audited EBITDA in the applicable 2022 fiscal year.³
 - Class C Performance Rights will convert into an aggregate of \$159,780.57 worth of Ordinary Shares upon JMC achieving ~\$20.8M1 in audited revenue or \$3M1 in audited EBITDA in the applicable 2023 fiscal year.⁴
 - at the conversion price being the greater of \$0.10 and the Company's 5 day VWAP prior to the date that the performance milestone for the relevant performance right is determined achieved by the Company's auditor.

VECTION TECHNOLOGIES LIMITED

Annual Report for the Year Ended 30 June 2021

Notes to Consolidated Financial Statements

- The performance rights are expected to be issued under the Vection's Employee Incentive Performance Rights Plan to Mr Merli within 3 months. It is expected that, if all the final performance milestones are achieved, and the performance rights are converted at the floor conversion price, a maximum of 4,793,417 shares will be issued across 3 years.

Notes:

(1) Based on the AUD\$/EUR€ exchange rate for the fiscal year 2021 (July 2020 - June 2021) of 0.62585833.

(2) Audited revenue of €5.5M and audited EBITDA of €291k.

(3) Audited revenue of €8.9M and audited EBITDA of €938k.

(4) Audited revenue of €13M and audited EBITDA of €1.9M.

Under the principles of AASB 3, the assets and liabilities of JMC are measured at fair value on the date of control.

(b) Goodwill

Goodwill is calculated as the difference between the fair value of consideration transferred less the fair value of the identified net assets of JMC. Details of the transaction are as follows:

	Fair Value 30 June 2021
	\$
Consideration	
64,053,292 fully paid ordinary shares	6,405,329
Total consideration	6,405,329
Fair value of assets and liabilities at acquisition date:	
Cash and cash equivalents	2,265,216
Trade and other receivables	1,763,046
Inventory	1,414,329
Other assets	29,928
Deferred tax assets	8,136
Property, plant and equipment	164,608
Intangible assets	37,465
Financial assets	4,004
Income tax receivable	93,863
Trade and other payables	(1,775,569)
Borrowings	(3,301,425)
Provision for employee benefits	(204,915)
Fair value of identifiable assets and liabilities acquired	498,686
Consideration	6,405,329
Less: Fair value of identifiable assets and liabilities assumed	(498,686)
Intangibles arising from acquisition	5,906,643

The fair values of the entity's assets and liabilities have been measured provisionally. If new information is obtained within one year of the date of acquisition about facts and circumstance that existed at the date of acquisition identifies adjustment to the amounts above, the accounting for the acquisition will be revised.

25) PARENT ENTITY INFORMATION

The following details information related to the Parent entity, Vection Technologies Limited, at 30 June 2021. The information presented here has been prepared using consistent accounting policies as presented in note 1.

	30 June 21	30 June 20
	\$	\$
Current assets	4,390,114	517,927
Non-current assets	21,638,708	11,627,689
Total assets	26,028,822	12,145,616
Current liabilities	13,992,028	4,499,752
Non-current liabilities	4,419,262	2,508,969
Total liabilities	18,411,290	7,008,721
Contributed equity	29,664,115	22,376,991
Option reserve	1,628,603	104,362
Accumulated losses	(23,675,186)	(17,344,458)
Total equity	7,617,532	5,136,895
Loss for the year	(629,316)	(1,038,267)
Other comprehensive loss for the year	-	-
Total comprehensive loss for the year	(629,316)	(1,038,267)

Guarantees in relation to subsidiaries
Vection Technologies Limited does not have any guarantees in relation to subsidiaries (2020: nil).

Contingent liabilities
Vection Technologies Limited has no material contingent liabilities which are not disclosed in this report.

Commitments
Vection Technologies Limited has the following commitments:

	30 June 21	30 June 20
	\$	\$
Within one year	-	15,845
After one year but not more than five years	-	-
Total assets	-	15,845

These commitments do not form part of the group's capital commitments as detailed in Note 29.

26) FINANCIAL ASSETS

	Consolidated	
	30 June 21	30 June 20
	\$	\$
Listed equity shares held-for-trading (i)	59,147	52,130
Interest rate swap (ii)	4,002	-
	63,149	52,130

VECTION TECHNOLOGIES LIMITED

Annual Report for the Year Ended 30 June 2021

Notes to Consolidated Financial Statements

- i. The Australian listed equity shares held-for-trading at fair value through profit or loss \$7,016 (2020: \$52,130). The fair value has been determined directly by reference to published price quotations in an active market for identical securities.
- ii. They are deemed to be Level 1 securities in accordance with the AASB 7 fair value measurement hierarchy and hence there is no subjectivity in relation to their value.
- iii. One of the Company's subsidiaries has a derivative instrument, Interest Rate Swap, that has been designed to hedge the interest rate. The fair value of the derivative instrument is equal to EUR 2,532 (A\$4,002).

27) FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk, interest rate risk, credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed.

The Group holds the following financial instruments:

	Consolidated	
	30 June 21	30 June 20
	\$	\$
Financial assets		
Cash and cash equivalents	7,083,890	1,584,715
Receivables (current)	4,837,334	2,143,646
Derivative instruments	4,002	-
	11,925,226	3,728,361
Financial liabilities		
Payables (current)	3,615,025	2,272,404
Interest bearing liabilities	4,919,958	1,431,832
	8,534,983	3,704,236

a) Market Risk

i) Interest rate risk

As at and during the year ended on reporting date, the Group had no significant interest bearing assets or liabilities other than liquid funds on deposit. As such, the Group's income and operating cash flows (other than interest income from funds on deposit and interest expense on the facility loan) are substantially independent of changes in market interest rates. The Group's exposure to interest rate risk for each class of financial assets and liabilities is set out below:

	Consolidated	
	30 June 21	30 June 20
	\$	\$
Financial assets		
Cash and cash equivalents at floating rate	7,083,890	1,584,715
Receivables owing from The Agency at fixed rate	-	92,021
Financial liabilities		
Interest bearing liabilities (Note 13,14)	4,919,958	1,431,832

Group sensitivity

At 30 June 2021, if interest rates had changed by +/- 100 basis points from the year end with all other variables held constant, the loss for the year would have been \$70,839 lower/higher (2020: \$15,847 higher/lower), as a result of a lower/higher interest income from cash and cash equivalents.

ii) Commodity risk pricing

The Group is not exposed to commodity risk price risk.

VECTION TECHNOLOGIES LIMITED

Annual Report for the Year Ended 30 June 2021

Notes to Consolidated Financial Statements

b) Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to customers. For banks and financial institutions, only independently rated parties with a minimum of 'A' are accepted. The Group trades only with recognised, trustworthy third parties. It is the Group's policy to perform credit verification procedures in relation to any customer's financial position and any past experience to set individual risk limits as determined by the Board.

The maximum exposure to credit risk at the reporting date is the carrying amount of the following financial assets:

	Consolidated	
	30 June 21	30 June 20
	\$	\$
Cash and cash equivalents	7,083,890	1,584,715
Receivables (current)	4,837,334	2,143,646
	11,921,224	3,728,361

c) Liquidity risk

Prudent liquidity risk management involves the maintenance of sufficient cash, marketable securities, committed credit facilities and access to capital markets. It is the policy of the Board to ensure that the Group is able to meet its financial obligations and maintain the flexibility to pursue attractive investment opportunities through keeping committed credit lines available where possible, ensuring the Group has sufficient working capital and preserving the 15% share issue limit available to the Company under the ASX Listing Rules. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Maturities of financial liabilities

As at the reporting date the Group has total financial liabilities of \$8,534,985 (2020: \$3,704,236), comprised solely in the current year of trade creditors and accruals of \$3,615,027 (2020: \$2,272,404) with a maturity of 1 – 3 months and interest bearing liabilities of \$4,919,958 (2020: \$1,431,832) with a maturity of 3-6 years.

Remaining contractual maturities

The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

	Weighted average interest rate	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Remaining contractual maturities
Consolidated 30 June 2021	%	\$	\$	\$	\$	\$
Non-derivatives						
Non-interest bearing						
Payables		3,615,025	-	-	-	3,615,025
Interest bearing						
Borrowings	3.11%	1,101,062	817,664	2,193,434	230,335	4,342,495
Lease liabilities	5%	182,372	215,140	343,030	-	740,542
		4,898,459	1,032,804	2,536,464	230,335	8,698,062

	Weighted average interest rate	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Remaining contractual maturities
Consolidated 30 June 2020	%	\$	\$	\$	\$	\$
Non-derivatives						
Non-interest bearing						
Payables		2,188,415	-	-	-	2,188,415
Borrowings	4.24%	430,638	170,455	188,425	57,971	847,489
Lease liabilities	5%	72,716	93,266	369,902	-	535,884
		2,691,769	263,721	558,327	57,971	3,571,788

VECTION TECHNOLOGIES LIMITED

Annual Report for the Year Ended 30 June 2021

Notes to Consolidated Financial Statements

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

d) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair value due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

e) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders.

The capital structure of the Group consists of cash equivalents and equity attributable to equity holders of the Parent. The Group is not subject to externally imposed capital requirements.

f) Foreign exchange risk

As a result of operations in Italy, USA and India, the Group's Statement of Financial Position can be affected by movements in the Euro (EUR)/AUD, United States dollars (USD)/AUD and Indian Rupee (INR)/AUD exchange rates. The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating entity in currencies other than the functional currency.

The Group had the following exposure to foreign currency:

	30 June 2021			30 June 2020		
	EUR	PHP	INR	EUR	PHP	INR
	A\$	A\$	A\$	A\$	A\$	A\$
Financial assets						
Cash and cash equivalents	2,603,798	-	3,297	1,252,474	611	1,747
Receivables	4,319,450	-	18,438	1,093,320	1,541	18,962
	6,923,248	-	21,735	2,345,794	2,152	20,709
Financial liabilities						
Payables	3,710,031	-	17,858	1,197,985	4,063	20,275
	3,710,031	-	17,858	1,197,985	4,063	20,275
	3,213,217	-	3,877	1,147,809	(1,911)	434

The following sensitivity is based on a 10% movement of EUR, USD and INR against the AUD and the effect on the net profit or loss and equity of the Group for the period to 30 June 2021, with all other variables held constant:

	30 June 21		30 June 20	
	Profit	Equity	Profit	Equity
	\$	\$	\$	\$
EUR, USD, INR increasing 10% against AUD	321,709	321,709	114,633	114,633
EUR, USD, INR decreasing 10% against AUD	(321,709)	(321,709)	(114,633)	(114,633)

VECTION TECHNOLOGIES LIMITED

Annual Report for the Year Ended 30 June 2021

Notes to Consolidated Financial Statements

28) DISCONTINUED OPERATIONS

During the year, Sell Lease Property Pty Ltd and ServTech Global PH Inc are considered discontinued operations.

Contribution of entities to discontinued operations	30 June 21	30 June 20
	\$	\$
Sell Lease Property Pty Ltd	-	2,230
ServTech Global PH Inc	36,469	-
Loss from discontinued operations	36,469	2,230

29) COMMITMENTS

The Group did not have any commitments as at reporting date.

30) CONTINGENT LIABILITIES

The Group did not have any contingent liabilities as at reporting date.

31) EVENTS OCCURRING AFTER THE REPORTING PERIOD

Following the end of the period, in accordance with the terms of the acquisition of JMC Group Srl (JMC), the Company issued 63,912,230 fully paid ordinary shares under its Listing Rule 7.1 capacity. The consideration shares are subject to voluntary escrow for 18 months from 3 August 2021.

The impact of the Coronavirus (COVID-19) pandemic is ongoing and while it has been financially positive for the Group up to 30 June 2021, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

There were no other matters or circumstances arising since the end of the reporting period that have significantly affected or may significantly affect the operations of the Company and the results of those operations or the state of the affairs of the Company in the financial period subsequent to 30 June 2021.

DIRECTORS' DECLARATION

In the opinion of the directors of Vection Technologies Limited:

- (a) The financial statements and notes are in accordance with the Corporations Act 2001, including:
 - I. giving a true and fair view of the Group's financial position as at 30 June 2021 and of its performance for the year ended on that date; and
 - II. complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporation Act 2001 for the financial year ending 30 June 2021.

Signed in accordance with a resolution of the directors.



Mr Bert Mondello

Chairman

Vection Technologies Limited

30 September 2021

Perth, Western Australia

RSM Australia Partners

Level 32, Exchange Tower
2 The Esplanade Perth WA 6000
GPO Box R1253 Perth WA 6844

T +61 (0) 8 9261 9100

F +61 (0) 8 9261 9111

www.rsm.com.au

INDEPENDENT AUDITOR'S REPORT

To the Members of Vection Technologies Limited

Opinion

We have audited the financial report of Vection Technologies Limited (**Company**) and its subsidiaries (**Group**), which comprises the consolidated statement of financial position as at 30 June 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2021 and of its financial performance for the year then ended; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed this matter
Intangible assets Refer to Note 9 in the financial statements	
The Group has goodwill of \$5,334,185, intangibles arising from business combinations of \$7,553,883 and other intangible assets of \$6,549,221 at the reporting date. For the year ended 30 June 2021, the Group did not recognise an impairment expense in relation to its intangible assets. Management is required to perform an annual impairment test on the recoverability of the Group's goodwill by using a value-in-use model. In addition, management is required to assess whether indicators of impairment are present in relation to the Group's other intangible assets. We determined this to be a key audit matter due to the size of the balance and because management judgement is involved in: - Preparing a value-in-use model of the cash generating unit (CGU), which requires estimates of the future underlying cash flows of the CGU and the discount rate applied; - Assessing whether indicators of impairment are present in relation to the Group's other intangible assets; and - Determining the impairment expense to be recognised, if required.	Our audit procedures in relation to goodwill included: - Assessing management's determination of the CGU; - Assessing the valuation methodology of the value-in-use model; - Checking the mathematical accuracy of the model; - Challenging the reasonableness of key assumptions used in the model; - Reviewing sensitivity analysis over the key assumptions used in the model; and - Reviewing the adequacy and accuracy of the relevant disclosures in the financial statements. Our audit procedures in relation to the other intangible assets included: - Critically evaluating management's assessment of whether impairment indicators were present at 30 June 2021; - Assessing management's determination of the useful life of the intangible assets; - Checking the mathematical accuracy of the amortisation expense of the intangible assets; and - Assessing the appropriateness of the impairment expense against the intangible assets in relation to intellectual property, software patents and development costs.

Key audit matter	How our audit addressed this matter
Business combinations Refer to Note 24 in the financial statements	
The Group acquired the businesses of Blank Canvas Studios (Aus) Pty Ltd on 27 April 2021 and JMC Group S.r.l. on 31 May 2021. The transactions were treated as business combinations in accordance with AASB 3 <i>Business Combinations</i>. The provisional purchase price allocation has resulted in total intangible assets of \$7,553,883 being recognised. This was considered a key audit matter because the accounting for these transactions is complex and involves significant judgments. These include the recognition and valuation of consideration paid and the determination of the fair value of the assets acquired and liabilities assumed.	Our audit procedures included: • Obtaining the purchase agreements and other associated documents to obtain an understanding of the transactions and the related accounting considerations; • Determination that the acquisitions met the definition of a business in accordance with Accounting Standards; • Assessing management's determination of the acquisition dates, fair value of consideration paid, assets acquired and liabilities assumed; and • Reviewing the disclosures in the financial statements.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2021 but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or 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.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/auditors_responsibilities/ar2.pdf. This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of Vection Technologies Limited, for the year ended 30 June 2021, 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.

A handwritten signature in black ink, reading 'David Wall'.

David Wall
Partner
RSM Australia Partners

Perth, WA
Dated: 30 September 2021

VECTION TECHNOLOGIES LIMITED

Additional ASX Information

ADDITIONAL ASX INFORMATION

NUMBER OF HOLDINGS OF EQUITY SECURITIES AS AT 31 AUGUST 2021

The fully paid issued capital of the Company consisted of 969,618,516 ordinary fully paid shares held by 3,659 shareholders. Each share entitles the holder to one vote.

DISTRIBUTION OF HOLDERS OF EQUITY SECURITIES AS AT 31 AUGUST 2021

Holding Ranges	Holders	Total Units	% Issue Share Capital
above 0 up to and including 1,000	34	5,873	0.00%
above 1,000 up to and including 5,000	434	1,709,825	0.18%
above 5,000 up to and including 10,000	697	5,503,400	0.57%
above 10,000 up to and including 100,000	1,914	73,579,484	7.59%
above 100,000	580	888,819,934	91.66%
Totals	3,659	969,618,516	100.00%

	Minimum parcel size	Holders	Units
Minimum \$500 parcel at \$0.088 per unit	5,682	544	2,126,974

SUBSTANTIAL SHAREHOLDERS AS AT 31 AUGUST 2021

The names of substantial shareholders the Company is aware of from the register, or who have notified the Company in accordance with Section 671B of the Corporations Act are:

Substantial shareholder	Number of shares	% held
OFFICINE 8K S R L	342,556,186	35.33%
PRIMOMIGLIO SGR	54,289,139	5.60%
CDP VENTURE CAPITAL SGR SPA	52,690,278	5.43%

TWENTY LARGEST SHAREHOLDERS OF QUOTED EQUITY SECURITIES

TOP 20 HOLDERS OF ORDINARY FULLY PAID SHARES AS AT 31 AUGUST 2021

POSITION	HOLDER NAME	HOLDING	% IC
1	OFFICINE 8K S R L	342,556,186	35.33%
2	PRIMOMIGLIO SGR	54,289,139	5.60%
3	CDP VENTURE CAPITAL SGR SPA	52,690,278	5.43%
4	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	31,379,959	3.24%
5	CITICORP NOMINEES PTY LIMITED	20,983,265	2.16%
6	CROSSBAY PTY LTD	15,390,000	1.59%
7	MR KEITH JAMES SCUDDS & MRS PATRICIA ANNE SCUDDS	12,400,000	1.28%
8	A11 VENTURE S R L	11,991,467	1.24%
9	HTC VIVE INVESTMENT (BVI) CORP	11,179,911	1.15%
10	TRADITIONAL SECURITIES GROUP PTY LTD <LPR FAMILY A/C>	10,490,041	1.08%
11	MR MARCEL ANTHONY REUBEN <DEBMAR A/C>	7,244,850	0.75%
12	MR SERGIO GIORGIO	7,019,500	0.72%
13	CROSSBAY PTY LTD	6,810,556	0.70%
14	JMC GROUP SRL	6,102,487	0.63%
15	INVESTSHARE NOMINEES PTY LTD <INVESTSHARE NOMINEES A/C>	6,065,619	0.63%
16	SETTEPUNTONOVE SRL	6,000,000	0.62%
17	TW CONSULTING CO LTD	5,660,000	0.58%
18	MR ARTHUR BROMIDIS	5,500,000	0.57%
19	SHELF PTY LTD <THE CRUZ A/C>	5,258,374	0.54%
20	MR KIRIL RUVINSKY	5,230,000	0.54%
Total		624,241,632	64.38%