ATOMOS



Atomos Limited

Appendix 4D & Financial Statements

for the half-year ended 31 December 2018

ACN: 139 730 500 ASX Code: AMS

Contents

Appendix 4D – Half-yearly report	3
Directors' Report	5
Auditor's Independence Declaration	8
Financial Statements	10
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	11
Condensed Consolidated Statement of Financial Position	12
Condensed Consolidated Statement of Changes in Equity	13
Condensed Consolidated Statement of Cash Flows	14
Notes to the Condensed Consolidated Financial Statements	15
Directors' Declaration	25
Independent Auditor's Report	27
Company Directory	30



Appendix 4D – Half-yearly report

Reporting period

Reporting period:	Half-year ended 31 December 2018
Previous corresponding period (PCP):	Half-year ended 31 December 2017

Results for announcement to the market

REVENUE AND LOSS AFTER TAX FOR THE HALF-YEAR ENDED 31 DECEMBER 2018	$'000	INCREASE/ (DECREASE) ON PCP	VAR%
Revenue from ordinary activities:	24,248	5,894	32%
Loss from ordinary activities after tax attributable to members:	(2,292)	906	33%
Loss for the period attributable to members:	(2,292)	870	33%

Dividends

No dividends have been paid or declared since the start of the financial year (2017: nil). No recommendation for payment has been made.

Overview of operating results

Atomos reported a strong first half result compared to the same period last year ('YoY'), with key highlights as follows:

- Revenue of $24.2m, up 32% YoY led by strong sales of Ninja V, released in September 2018
- Gross profit of $10.5m, up 26% YoY
- Whilst overall gross profit was significantly higher than last year, percentage margin was slightly lower due to higher than anticipated component costs associated with the popular Ninja V product, accentuated by the product mix favouring Ninja V. It is not uncommon for initial production runs of new products to incur higher costs. Management have addressed these component costs and anticipate run-rate margins in line with prospectus forecast by May/June 2019.

For a further explanation of the results above please refer to the accompanying Directors' Report.

Net tangible assets per security

	31/12/18	31/12/17
Net tangible assets per share:	$0.09	($0.22)
Total number of shares on issue at period end:	151,957,624	61,299,000*

* Number of shares held at balance date in the comparative period of 20,433 has been adjusted to account for share split of 1:3,000 which occurred 18 January 2018 to enable comparison with the current period.

Entities over which control has been gained or lost during the period

There are no entities over which control has been gained or lost during the period.

Appendix 4D – Half-yearly report

Associates and joint venture entities

There are no associates or joint venture entities.

Dividend reinvestment plans

The Company currently does not have a dividend reinvestment plan.

Independent audit review

This report is based on the condensed consolidated financial statements which have been subject to independent audit review by Deloitte. The independent audit review report is included within the Company's Interim Report which accompanies this Appendix 4D.

Accounting standards

This report has been compiled using Australian Accounting Standards and International Financial Reporting Standards.

Other information required by Listing Rule 4.3A

Other information requiring disclosure to comply with Listing Rule 4.3A is contained in the 31 December 2018 Interim Report (which includes the Directors' Report) which accompanies this Appendix 4D.

Directors' Report



Directors' Report

The Directors of Atomos Limited ('Atomos' or 'the Company') present their Report together with the financial statements of the consolidated entity, being Atomos and its Controlled Entities ('the Group') for the half-year ended 31 December 2018.

Directors

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

Mr Jeromy Michael Young
Sir Hossein Yassaie
Mr Christopher John Tait
Mr Stephen John Stanley (appointed 1 February 2019)
Mr Bradley Evan Whitcomb (appointed 1 February 2019)

Mr Neil Gregory Chatfield (resigned 1 February 2019)
Mr Robert Song (resigned 16 October 2018)

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

Dividends

No dividends have been paid or declared since the start of the financial year (2017: nil). No recommendation for payment has been made.

Company Overview

Atomos is a global video technology company founded in 2009 and which listed on the ASX on 28 December 2018 (ASX:AMS).

Atomos enhances video content creation by producing products that connect the imaging and computer worlds, from the point of capture (camera) through to displaying (monitor), processing and recording of the latest high-quality video onto affordable computer media for creative enhancement and distribution of content.

The Company designs, develops and commercialises, award winning, simple to use and affordable monitor recorder products. They enhance video content creation, ensuring content creators have access to advanced video monitoring, processing and recording technologies, regardless of the camera or production technology they use.

By using the processing and recording capability of Atomos products, video creators can achieve enhanced recording quality, on sharp deep colour displays for greater flexibility and control onto lower-cost media creating a more streamlined workflow than the camera's standard functionality is capable of.

Review of operations

During the first half of FY19 the Company completed development of a new, highly leverageable, technology platform ("Ninja Platform"). The Ninja Platform incorporates new electronics and operating system and will underpin a range of new products to launch over the next 2-3 years.

The first of these products, the 5" Ninja V recorder/monitor, was launched in September 2018, targeting the rapidly growing 'Social' segment of the content creation market. Ninja V contributed strongly to the first half sales, exceeding initial expectations.

Atomos completed a pre-IPO capital raise in Q1FY19 raising $7.0m led by Ellerston Capital and also successfully completed its IPO on 28 December, raising $6.0m.

Since 31 December 2018 Atomos has:

- finalised a licence agreement with RED.com LLC removing a key prospectus risk;
- released the 5" Shinobi monitor-only product; and
- appointed new directors, Stephen Stanley and Bradley Whitcomb, to the Board, replacing Robert Song and Neil Chatfield, who stepped down as a director but remains a Board advisor.

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under s307C of the *Corporations Act 2001* is included on page 9 of this financial report and forms part of this Directors' Report.

Rounding of amounts

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

Signed in accordance with a resolution of the Directors, pursuant to section 306(3) of the *Corporations Act 2001*:

On behalf of the Directors



Mr Christopher Tait
Chairman

Melbourne.
27th day of February 2019

Auditor's Independence Declaration



Auditor's Independence Declaration

Deloitte.

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27 February 2019

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

Dear Board Members

Atomos Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Atomos Limited.

As lead audit partner for the review of the financial report of Atomos Limited for the half-year ended 31 December 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Craig Bryan
Partner
Chartered Accountants

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Member of Deloitte Touche Tohmatsu Limited

Financial Statements



Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half-year ended 31 December 2018

		CONSOLIDATED HALF-YEAR ENDED	
	Notes	31/12/18 $'000	31/12/17 $'000
Revenue	4	24,248	18,354
Cost of sales		(13,731)	(9,984)
Gross profit		10,517	8,370
Other income	4	2	(1)
Other gains		1,045	278
Employee benefits expense		(3,497)	(3,145)
Research and development expense		(1,745)	(1,846)
Advertising and marketing expense		(1,755)	(1,170)
Finance costs		(1,907)	(2,646)
Administration and other expense		(1,464)	(729)
Distribution expense		(691)	(634)
Occupancy expense		(331)	(334)
Legal and professional services		(434)	(147)
Initial Public Offering expense		(1,307)	–
Depreciation and amortisation		(571)	(112)
Loss before income tax		**(2,138)**	**(2,116)**
Income tax expense		(154)	(1,318)
Loss for the period		**(2,292)**	**(3,434)**
Other comprehensive income, net of income tax			
Items that will not be reclassified subsequently to profit or loss:		–	–
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translating foreign operations		(2)	34
		(2)	34
Other comprehensive income for the period, net of income tax		**(2)**	**34**
Total comprehensive loss for the period		**(2,294)**	**(3,400)**
Earnings per share			
Basic loss per share	7	(2.3) cents	(4.9) cents
Diluted loss per share	7	(2.3) cents	(4.9) cents

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

Condensed Consolidated Statement of Financial Position

As at 31 December 2018

		CONSOLIDATED	
	Notes	31/12/18 $'000	30/6/18 $'000
Assets			
Current assets			
Cash and cash equivalents		5,595	1,447
Trade and other receivables		6,086	4,848
Inventories		11,065	5,953
Other current assets		2,591	1,746
Total current assets		**25,337**	**13,994**
Non-current assets			
Property, plant and equipment		871	824
Intangible assets		8,245	7,671
Total non-current assets		**9,116**	**8,495**
Total assets		**34,453**	**22,489**
Liabilities			
Current liabilities			
Trade and other payables		10,889	8,461
Borrowings	8	358	2,706
Provisions		544	493
Other financial liabilities	9	–	1,496
Current liabilities		**11,791**	**13,156**
Non-current liabilities			
Provisions		64	47
Total non-current liabilities		**64**	**47**
Total liabilities		**11,855**	**13,203**
Net assets		**22,598**	**9,286**
Equity			
Issued capital	11	44,057	28,987
Reserves		1,899	1,365
Accumulated losses		(23,358)	(21,066)
Total equity		**22,598**	**9,286**

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

Condensed Consolidated Statement of Changes in Equity

For the half-year ended 31 December 2018

	ISSUED CAPITAL (ORDINARY SHARES)	ISSUED CAPITAL (CLASS A SHARES)	ACCUMU-LATED LOSSES	FOREIGN CURRENCY TRANS-LATION RESERVE	SHARE BASED PAYMENTS RESERVE	TOTAL EQUITY
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2017	**8,595**	**292**	**(4,553)**	**195**	**–**	**4,529**
Transactions with owners						
Share-based payments	–	–	–	–	75	75
Total transactions with owners	**–**	**–**	**–**	**–**	**75**	**75**
Comprehensive income						
Loss for the period	–	–	(3,434)	–	–	(3,434)
Other comprehensive income	–	–	–	34	–	34
Total comprehensive income	**–**	**–**	**(3,434)**	**34**	**–**	**(3,400)**
Balance at 31 December 2017	**8,595**	**292**	**(7,987)**	**229**	**75**	**1,204**
Balance at 1 July 2018	**28,987**	**–**	**(21,066)**	**352**	**1,013**	**9,286**
Transactions with owners						
Share-based payments	–	–	–	–	536	536
Conversion of convertible notes	9,457	–	–	–	–	9,457
Issue of new share capital	6,000	–	–	–	–	6,000
Transaction costs relating to issue of share capital	(387)	–	–	–	–	(387)
Income tax benefit relating to transaction costs	–	–	–	–	–	–
Total transactions with owners	**15,070**	**–**	**–**	**–**	**536**	**15,606**
Comprehensive income						
Loss for the period	–	–	(2,292)	–	–	(2,292)
Other comprehensive income	–	–	–	(2)	–	(2)
Total comprehensive income	**–**	**–**	**(2,292)**	**(2)**	**–**	**(2,294)**
Balance at 31 December 2018	**44,057**	**–**	**(23,358)**	**350**	**1,549**	**22,598**

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

Condensed Consolidated Statement of Cash Flows

For the half-year ended 31 December 2018

		CONSOLIDATED HALF-YEAR ENDED	
	Notes	30/12/18 $'000	31/12/17 $'000
Operating activities			
Receipts from customers		23,156	19,451
Payments to suppliers and employees		(27,551)	(21,416)
Interest received		2	–
Income taxes paid		(114)	(13)
Net cash used in operating activities		**(4,507)**	**(1,978)**
Investing activities			
Payments for property, plant and equipment		(216)	(114)
Payments for intangible assets		(976)	(676)
Net cash used in investing activities		**(1,192)**	**(790)**
Financing activities			
Proceeds from issue of ordinary shares	11	6,000	–
Payment for equity raising costs		(1,003)	–
Proceeds from issue of convertible notes		6,455	3,627
Interest paid		(13)	
Repayments of borrowings		(1,592)	(110)
Net cash inflow from financing activities		**9,847**	**3,517**
Net change in cash and cash equivalents		4,148	749
Cash and cash equivalents, beginning of period		1,447	1,548
Cash and cash equivalents, end of period		**5,595**	**2,297**

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

Notes to the Condensed Consolidated Financial Statements

1. General information

Atomos is a public company limited by shares, incorporated and domiciled in Australia. Atomos is the Group's ultimate holding Company. The Group listed on the ASX on 28 December 2018 (ASX:AMS).

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

The Consolidated Financial Statements for the half-year ended 31 December 2018 were approved and authorised for issue by the board of Directors on 26 February 2019.

2. Significant Accounting Policies

Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. The half year report does not include the type of notes normally included in the annual report. This should be read in conjunction with the most recent financial report.

Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical costs. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The company is a company of the kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2018 annual report for the financial year ended 30 June 2018, except for the impact of the Standards and interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

Amendments to Accounting Standards and new interpretations that are mandatorily effective for the current reporting period

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the annual reporting period. The relevant revised standards and amendments include:

(i) AASB 9 *Financial Instruments* and related amending Standards

The Group has adopted AASB 9 *Financial Instruments* which replaces AASB 139 *Financial Instruments: Recognition and Measurement* effective 1 July 2018. AASB 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities, a new model for calculating the provision for doubtful debts and new hedge accounting requirements. The impact on the Group from the adoption of AASB 9 did not have a material impact as discussed below.

Credit losses on trade receivables

The Group has elected to use the simplified approach which recognition of lifetime expected loss allowance for all trade receivables. Trade receivables have been grouped based on credit risk attributes and debtor profile in estimating expected credit losses.

The calculation of the provision under the simplified approach under AASB 9 has not materially impacted the credit loss allowance under AASB 139.

Classification and measurement

Upon adoption, the Group reviewed its classifications of its financial assets on the basis of the contractual terms of their cash flows and the business model by which they are managed. All of the Group's financial assets were previously classified as loans and receivables or held to maturity and were reclassified to held at amortised cost on transition date.

Impairment of financial assets

The Group implemented the new forward-looking expected credit loss model which is required for certain financial instruments. The simplified approach was used for the trade receivables. There was an insignificant impact on application of the expected credit loss model. The Directors will continue to determine expected credit losses in this manner.

Classification and measurement of financial assets

The Group classifies its financial assets into the following categories: those to be measured subsequently at fair value through profit or loss (FVPL) and those to be held at amortised cost. Further detail on each classification is outlined below.

Classification depends on the business model for managing the financial assets and the contractual terms of the cash flows. Management determines the classification of financial assets at initial recognition. Generally, the Group does not acquire financial assets for the purpose of selling in the short term.

Financial assets

At initial recognition, trade receivables that do not have a significant financing component, are recognised at their transaction price. Other financial assets are initially recognised at fair value plus related transaction costs; they are subsequently measured at amortised cost using the effective interest method. Any gain or loss on de-recognition or modification of a financial asset held at amortised cost is recognised in the income statement.

Financial liabilities

Trade payables and borrowings (but excluding derivative liabilities) are recognised initially at fair value, net of transaction costs incurred, and are subsequently measured at amortised cost.

Derivative financial instruments

The Group has previously entered into debt arrangements that have embedded derivative components.

Derivatives are initially recognised at fair value at the date the debt contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period, or immediately preceding conversion. The resulting gain or loss is recognised in profit or loss immediately.

(ii) AASB 15 *Revenue from Contracts with Customers* and related amending Standards

The Group has adopted AASB 15 *Revenue from Contracts with Customers* which replaces AASB 118 *Revenue* effective 1 July 2018. The Group is applying the modified approach on transition. AASB 15 establishes a single comprehensive model with five-step approach to revenue recognition. The core principle of AASB 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to receive. The five-step approach to revenue recognition under AASB 15 is as follows:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. The impact of the adoption of AASB 15 are discussed under each revenue stream below.

Revenue Recognition

The Group recognises revenue at a point in time when the Group expects to satisfy the performance obligation and on the nature and specifications of contracts entered into with its customers from the following major sources:

Sale of Goods

Sale of goods (video equipment) is recognised at a point in time when the performance obligations of the sale have been fulfilled and control of the goods has transferred to the customers. In recognising revenue from the sale of goods, the Group considers its historical experience with sales returns to determine if it is highly probable that a significant reversal of revenue will arise in the future. Furthermore, the Group has considered its performance obligations attributed to the sales of goods when determining the transaction price and timing of recognition. The adoption of AASB 15 had no impact.

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted the following new or amended standards in preparing these consolidated financial statements. The Group's assessment of the impact of these standards and interpretations is set out below.

(iii) AASB 16 *Leases*

AASB 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. AASB 16 will supersede the current lease guidance including AASB 117 *Leases* and the related interpretations when it becomes effective.

AASB 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting and replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets. The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date.

Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. This standard must be implemented retrospectively, either with the restatement of comparative information or with the cumulative impact of application recognised as at application date under the modified retrospective approach. AASB 16 contains several practical expedients. Under the modified retrospective approach, on a lease-by-lease basis, the right of use of an asset may be deemed to be equivalent to the liability at transition or calculated retrospectively as at inception of the lease.

AASB 16 on implementation is to provide an estimate and is dependent on amongst others the appropriate application of discount rates and the choice of transition method. Notwithstanding this, the Group does not consider the upcoming leasing standard will have a material impact on the Group given the minimal leases currently in place.

3. Segment reporting

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

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

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

Notes to the Condensed Consolidated Financial Statements

4. Revenue

	CONSOLIDATED HALF-YEAR ENDED	
	31/12/18 $'000	31/12/17 $'000
Revenue – at a "point in time"		
Sales of goods	23,984	17,264
Other revenue	264	1,090
Total revenue	24,248	18,354
Other income		
Interest income	2	(1)
Total other income	2	(1)
Total revenue and other income	24,250	18,353

5. Change in accounting estimates

There were no significant changes in accounting estimates during the period.

6. Dividends

There were no dividends paid or declared to equity holders during or since the half-year ended 31 December 2018. There were no dividends paid during the comparative period.

7. Earnings per share

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

	CONSOLIDATED HALF-YEAR ENDED	
	31/12/18 $'000	31/12/17 $'000
Loss attributable to the owners of the Company	(2,292)	(3,434)
	No.	No.*
▸ weighted average number of shares used in earning per share calculation	108,937,061	59,538,701

* The weighted average number of shares calculation has been adjusted to account for share split of 1:3,000 which occurred 18 January 2018 to enable comparison with the current period.

8. Borrowings

	CONSOLIDATED	
	31/12/18 $'000	30/06/18 $'000
Current:		
Debt – Previous noteholders	358	2,706
Total current borrowings	**358**	**2,706**
Total secured liabilities		
The total secured liabilities are as follows:		
Debt – Previous noteholders	358	2,976
Less capitalised borrowing costs	–	(270)
	358	**2,706**
Financing arrangements		
Unrestricted access was available at the reporting date to the following lines of credit:		
Total facilities		
Financial institution – export line of credit facility*	1,500	–
Financial institution – credit card facility	65	450
	1,565	**450**
Used at reporting date		
Financial institution – export line of credit facility*	–	–
Financial institution – credit card facility	52	428
	52	**428**
Unused at reporting date		
Financial institution – export line of credit facility*	1,500	–
Financial institution – credit card facility	13	22
	1,513	**22**

* On 2 August 2018, the Company entered into a revolving loan facility with the following features:

- The Company may drawdown up to 75% of the amount of purchase orders received from approved customers.
- Repayment on drawn amounts are due on the earlier of 5 days after payment of purchase orders drawn against or 90 after funds are drawn.
- There is a fixed and floating charge over 'all other property' within the Group.
- There are no other conditions or covenants relating to this facility.

9. Other financial liabilities

	CONSOLIDATED	
	31/12/18 $'000	30/06/18 $'000
Current		
Designated at fair value through profit and loss		
Derivative financial liability	–	1,496
Total current other financial liabilities	**–**	**1,496**

	CONSOLIDATED	
	Six (6) months to 31/12/18 $'000	Year ended 30/06/18 $'000
Derivative liability		
Balance at the beginning of the period	1,496	5,063
Recognition of the derivative component of convertible notes issued	2,576	1,353
Net gain arising on financial liabilities designated as FVTPL	(1,203)	(377)
Derecognise derivative component of convertible notes at date of conversion	(2,869)	(4,543)
Derivative liability at the end of the period	**–**	**1,496**

10. Convertible notes

Issued

During the financial period the Company issued 7,000,000 notes ("pre IPO Notes") with a face value of $1.00 each and an aggregated principal amount of $7,000,000. The maturity date of the convertible notes was 31 December 2019. Coupon interest at the rate of 10% per annum is payable at the earlier of the Conversion Date or the maturity date. A conversion date is defined as an IPO or a trade sale.

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

Redeemed

During the financial period the following conversions/redemptions of convertible notes occurred:

On 10 August 2018, a noteholder converted 113,261 notes resulting in the issue of 239,796 ordinary shares.

On 20 December 2018, all pre IPO notes were converted to ordinary shares in accordance with the terms of the agreement and upon an IPO occurring which triggered the conversion date as referred to above. This resulted in the conversion of 7,203,288 notes (including outstanding interest) being converted into 21,961,244 ordinary shares.

On 20 December 2018, all other note holders who had not opted out of the conversion of their outstanding notes into ordinary shares as a result of the IPO trigger event received 5,311,106 shares upon conversion of their 2,177,553 notes.

On 20 December 2018, noteholders who had opted to receive cash repayment of their notes rather than converting them to ordinary shares received $1,591,836 as repayment of their notes. A further $357,907 was repayable at balance date and was repaid on 2 January 2019 to settle all remaining notes totalling 1,949,743.

Derivative liability

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

At balance date there was no remaining derivative liability as all notes had either converted to ordinary shares or for those notes that were not converted, the holder would be repaid their notes plus outstanding interest. This is shown as a current liability in the statement of financial position. The unrealised gain in the current financial period recorded in the profit and loss was $1,203,279 (2017: 395,085).

11. Issued capital

	CONSOLIDATED	
	31/12/18 $'000	30/06/18 $'000
Ordinary shares – fully paid (a)	44,057	28,987
	44,057	**28,987**

(a) Ordinary shares	Six (6) months to 31/12/18 No.	Year ended 30/6/18 No.	Six (6) months to 31/12/18 $'000	Year ended 30/6/18 $'000
Shares issued and fully paid:				
▸ beginning of the period	105,722,865	16,958	28,987	8,595
▸ 28/11/2017 – shares issued @ $977.62 per share.	–	715	–	–
▸ 18/1/2018 – additional shares issued to existing shareholders as part of 1:3,000 share split.	–	53,001,327	–	–
▸ 18/1/2018 – Class A shares reclassified to ordinary shares.	–	3,747,000	–	150
▸ 10/5/2018 – Class A shares reclassified to ordinary shares.	–	4,533,000	–	142
▸ 6/6/2018 – shares issued at $0.41 cents per share.	–	17,165,301	–	7,000
▸ 29/6/2018 – Conversion of convertibles notes to ordinary shares at $0.465 per share.	–	27,258,564	–	13,567
▸ 10/08/2018 – Conversion of convertible notes to ordinary shares at $0.472 per share.	239,796	–	113	–
▸ 13/08/2018 – Issue of shares to employees.	325,400	–	–	–
▸ 20/12/2018 – Issue of shares to employees.	70,000	–	–	–
▸ 20/12/2018 – Shares issued as a top-up to certain convertible noteholders.	3,693,067	–	–	–
▸ 20/12/2018 – Conversion of convertible notes to ordinary shares.	27,272,350	–	9,344	–
▸ 20/12/2018 – Issue of shares in accordance with prospectus dated 30 November 2018.	14,634,146	–	6,000	–
▸ Equity-raising costs, net of income tax.	–	–	(387)	(467)
Total share capital at the end of the period	**151,957,624**	**105,722,865**	**44,057**	**28,987**

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

12. Employee share-based payments

(a) Employee share option plan

(i) Details of the employee share option plans of the Company

The Company has a share option scheme for Directors, executives and senior employees of the Company and its subsidiaries. As approved by shareholders and in accordance with the terms of the plan, Directors, executives and senior employees may be granted options to purchase ordinary shares. Each employee share option converts into one ordinary share of the Company on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

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

(ii) Employee share options issued during the period:

Under the Equity Incentive Plan, the Directors have made initial grants of long-term incentives in the form of New Options to selected Directors, Key Management Personnel and other key employees of the Company prior to listing. The New Options will vest three years from the date of issue, subject to achievement of specified earnings per share or share price hurdles over the three-year period. The Company issued 6,505,391 options on 20 December 2018 at an exercise price of $0.41 as a part of this plan.

Pre-existing options on issue of 3,593,770 vested on IPO and therefore are treated as a cancellation under AASB 2 and the remaining portion of Share Based Payment expense not previously recognised was accelerated in the profit and loss.

(b) Performance rights

(i) Employee performance rights issued during the period

During the period, the Directors made grants of short-term incentives in the form of Performance Rights and rights to receive cash bonuses to selected employees of the Company under the Equity Incentive Plan. A total of 2,187,780 performance rights were issued. Performance Rights are an entitlement to receive an ordinary share for no consideration upon satisfaction of applicable vesting conditions and performance hurdles.

A summary of the material terms and conditions of the Performance Rights is as follows:

- Performance Rights will be issued for nil consideration and will have a nil exercise price;
- Performance Rights will vest and be automatically exercised upon a recipient meeting the vesting conditions (as detailed below) and to the extent that the Company meets the relevant performance hurdles (also as detailed below);
- The vesting condition is that a recipient must remain an employee or director of the Company or one of its related companies up to and including the date when the relevant performance hurdle is satisfied;
- The performance hurdle shall be based on the Company achieving EBITDA and revenue targets for FY2019; and
- Any unvested Performance Rights will automatically lapse on the expiry date, being one year from the date of issue of the Performance Rights.

In addition, the Directors have granted cash bonuses to eligible employees of equal value to the Performance Rights granted to the relevant employee that will be paid upon the satisfaction of the same vesting conditions and performance hurdles applicable to Performance Rights.

The cash bonuses will not be payable and the Performance Rights will not vest unless the Company exceeds the Revenue and EBITDA in the Pro-forma Forecast Financial Information for FY19 as described in section 4 of the Company's Prospectus dated 30 November 2018. The Company will need to significantly outperform the Pro-forma Forecast Revenue and EBITDA targets set out in the prospectus to require payment of cash bonuses and achieve vesting of all Performance Rights in full.

(ii) Performance Rights exercised during the year

There were no Performance Rights exercised during the period.

13. Related party transactions

Equity instruments issued to directors

The following equity instruments were issued to directors during the period:

New options issued during the period under the terms and conditions as described in Note 12(a) Employee Option Plan and Performance Rights issued during the period under the terms and conditions as described in Note 12(b) Performance Rights are as follows:

	POSITION	OPTIONS	PER-FORMANCE RIGHTS
		No.	No.
Director			
Mr Jeromy Michael Young	Director/Chief Executive Officer	1,082,474	320,122
Sir Hossein Yassaie	Non-Executive Director	257,732	–
Mr Christopher John Tait	Non-Executive Director	257,732	–
Mr Neil Gregory Chatfield	Non-Executive Director	257,732	–
Mr Robert Song	Director (resigned 16/10/2018)	–	–
Key management personnel			
Mr James Cody	Chief Financial Officer	804,124	237,805
Mr Trevor Elbourne	Chief Technology Officer	804,124	237,805

Transactions with director-related entities

Chris Tait is a shareholder and director of Henslow. Henslow entered into an agreement on 31 May 2018 with the Company to act as Corporate Adviser in respect of the pre-IPO capital raising and the IPO. Henslow is currently retained as the Corporate Adviser and is paid a retainer of $16,500 per month. Total payments made during the period were $82,500. Henslow have been retained as Corporate Advisors post IPO.

In addition, Henslow acted as one of the Joint Lead Managers to the IPO offer and received $120,000 in underwriting fees and $60,000 in management fees in relation to the listing of the company on the Australian Stock Exchange on 28 December 2018.

There have been no other significant transactions since the end of the last annual reporting where disclosure is necessary for an understanding of the interim period.

Notes to the Condensed Consolidated Financial Statements

14. Contingent assets and liabilities

In the Directors' view, there are no contingent assets or liabilities that will have a material effect on the Group in the future.

15. Subsequent events

Subsequent to the end of the reporting period, the company entered into a royalty based license agreement with RED.com LLC ("RED") covering certain RED patents and the recording and/or playback of two video codec standards implemented by certain Atomos products. This resolved the risk of potential litigation against the Company as noted in the company's 2018 annual financial report.

No other matters or circumstances that have arisen since the end of the period that have significantly affected or may significantly affect either:

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

Directors' Declaration



Directors' Declaration

The directors of Atomos Limited declare that:

a. in the directors' opinion, there are reasonable grounds to believe that Atomos Limited will be able to pay its debts as and when they become due and payable; and

b. in the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to s303(5) of the *Corporations Act 2001*.

On behalf of the Directors



Mr Christopher Tait
Chairman

Melbourne.
27th day of February 2019

Independent Auditor's Report



Independent Auditor's Report

Deloitte.

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Independent Auditor's Review Report to the Members of Atomos Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Atomos Limited, which comprises the condensed statement of financial position as at 31 December 2018, and the condensed statement of profit or loss and other comprehensive income, the condensed statement of cash flows and the condensed statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The Directors of the company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Atomos Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the Directors of Atomos Limited, would be in the same terms if given to the Directors as at the time of this auditor's review report.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

Deloitte.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Atomos Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Craig Bryan
Partner
Chartered Accountants
Melbourne, 27 February 2019

Company Directory



Company Directory

Company

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Web: www.atomos.com

Registered Office

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ASX Code

AMS

Directors

Chris Tait
Non-executive Chairman

Jeromy Young
Managing Director and CEO

Sir Hossein Yassaie
Independent Non-executive Director

Mr Stephen Stanley
Independent Non-executive Director

Mr Bradley Whitcomb
Independent Non-executive Director

Company Secretary

Lisa Dadswell

Auditor

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Australian Legal Adviser

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