

OpenDNA Limited

ACN: 613 410 398

ASX Preliminary Final Report

Appendix 4E

30 June 2017

Results for Announcement to the Market

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

Current Reporting Period: 30 June 2017

Previous Corresponding Period: N/A – The Company was incorporated on 1 July 2016

For and on behalf of the Directors



Peter Torre
Company Secretary
Dated: 31 August 2017

Review of operations

Group overview

Following the Company's successful oversubscribed A\$8m Initial Public Offering ("IPO") and subsequent listing on the Australian Securities Exchange ("ASX") on 16 November 2016, the balance of the financial year ended 30 June 2017 saw OpenDNA make significant progress in relation to several key facets of its business, including:

- developing and consolidating its core management and sales teams, as well as the Group's operating presence in key markets;
- expanding its global customer base across a diverse range of industries, including retail, entertainment and telecommunications;
- securing channel partner arrangements and other key strategic agreements (such as those with Facebook and Fyber) to promote OpenDNA's services;
- developing a range of important updates to the Company's technology suite, designed to maximise the practical benefit of the Company's offering; and
- creating public awareness and recognition, including the Company being recognised as a Westpac Business of Tomorrow and its CEO/MD, Mr Jay Shah, being invited to speak at a number of industry conferences in the UK and Singapore.

A detailed summary of key operational events relevant to the reporting period ended 30 June 2017 is set out below.

Customers and channel partners

Since the Company's listing on ASX in November 2016, the board has overseen the expansion of the Company's business presence and capabilities into key geographic and industry markets. In addition to Australia, OpenDNA and its subsidiaries have operations in Singapore (where its head operational office is located), South Africa and the United States. The bolstering of the Company's sales and business development team since listing on ASX has resulted in the creation of an extensive pipeline of future potential customers and channel partners, as well as having led to the signature of legally binding agreements with customers and channel partners operating in industries identified by the board as key markets for OpenDNA's artificial intelligence ("AI") and machine learning technology.

In addition to foundation customers, Robb Report Australia and SportsBlog, in January 2017 an agreement was signed with UK-based travel company Family Traveller for OpenDNA's AI systems to power their software applications ("Apps"), enabling psychographic profiling of Family Traveller's 250,000+ clients. Subsequent months saw the release in February 2017 of the OpenDNA-powered iOS and Android Apps for Sportsblog and the creation of a similar App for Robb Report Australia (ultimately launched in early July 2017).

On 27 June 2017, the Company announced the signing of a binding Memorandum of Understanding ("MOU") with progressive Android handset manufacturer and supplier Future Mobile Technology ("FMT"), pioneering the expansion of OpenDNA's AI systems into the lucrative mobile handset sector. Under the MOU, OpenDNA's personalised content App Jottr will (subject to Google's approval) be pre-loaded on FMT's wide array of the latest "Netsurfer" brand smartphone and tablet devices, enabling content to be tailored to the specific individual owner/user of the device.

In return, OpenDNA will receive 50% of advertising revenue derived from the use of the App on the device. The MOU represents an exciting first foray for the Company into the massive mobile handset market and opens the way for Android device manufacturers to tailor services and content across Google's rich content ecosystem, paving the way for the "Internet of Me".

Shortly after the end of the reporting period, a further significant development occurred with the finalisation and execution of an MOU with Endeavour Drinks Group ("Endeavour"), a business operated by Woolworths Limited and which is the owner of the Dan Murphy's, BWS and CellarMasters brands (amongst others). Under the MOU, OpenDNA and Endeavour will create and launch an App, providing users with the ability, with the help of OpenDNA's personalisation technology, to tap into Endeavour's extensive product suite and associated knowledge base to choose "off the shelf" the best alcoholic beverage selection for their immediate needs. Through psychographic profiling and user interaction with the App, consumers will be able to create a library of potential products tailored to their specific interests and reflecting their preferences across a wide range of situations, events and moods. OpenDNA will be entitled to revenue both from App development and ongoing usage fees.

As noted in the Company's Quarterly operations report released on 28 July 2017, the agreements with Endeavour and Robb Report Australia – in each case organisations responsible for leading brands – illustrate the potential appeal of OpenDNA's AI and personalisation technology to successful businesses operating in diverse industries.

The agreement with FMT is a breakthrough step for the Company in terms of its move into the Android mobile hardware space. Android has more than 2 billion monthly active users, making it the world's number one operating system (ahead of Windows) and it dominates the smartphone market with an 87.5% market share (ahead of Apple). Accordingly, demonstration by the Company of the effectiveness of the OpenDNA technology in the Android hardware market has significant potential for the Company's future growth.

Key technology and strategic initiatives

Since its ASX listing, the Company has made several strides in terms of bolstering its exciting AI technology and developing associated tools and initiatives designed to maximise its utility to customers and potential customers. Agreements signed in December 2016 with MediaFuse and in March 2017 with Facebook and Fyber GmbH enabled OpenDNA to offer customers extensive inventories of mobile advertising content, able to be personalised on OpenDNA-powered platforms to the specific interests of individual end-users.

The Facebook agreement in particular is especially notable given Facebook's status as a leading provider of "native" advertising, in which ads are seamlessly integrated into overall website/App content without breaks or delays which can otherwise interrupt or detract from the user experience. For customers operating in the digital publishing space, these additions are especially significant and constitute OpenDNA a "one-stop shop" where both published core content and advertising can be seamlessly provided on a user-specific basis to individual readers, reflecting only the interests and preferences of that reader rather than serving content in which they are not interested.

Substantial in-house work was undertaken by the Company during the reporting period on technology-related initiatives. That work was reflected by the announcement shortly thereafter of a number of key developments, including an upgraded version of the proprietary Jottr "Smart App" and the release of the Company's innovative web content extraction tool, IRIS.

Further, during the reporting period the latest Android version of the Company's software development kit ("SDK") was released for use by App developers, providing them with the tools to quickly integrate OpenDNA's AI and personalisation technology into third party Apps and hence broadening the Company's potential reach. A number of other key initiatives are currently under development by OpenDNA's technical team and are expected to be launched in the coming months, with the intention of further strengthening the Company's compelling usage case for customers.

Awards and recognition

Given the innovative and dynamic field in which OpenDNA operates, a key area identified by the board post-IPO was to drive broad awareness of the Company and its proprietary technology. It was therefore pleasing in April 2017 that the Company was recognised by Westpac as one of its "Businesses of Tomorrow"; an achievement not only resulting in access to direct financial and non-financial support (as well as mentoring from some of Australia's leading business people), but also evidencing the wider recognition of the importance of artificial intelligence as a future area of economic growth.

Notably, OpenDNA was one of only seven ASX-listed entities to be featured in this regard. Being named as a "Business of Tomorrow" constituted the most recent noteworthy recognition event for the Company, whose technology was featured in the Apple Store on several occasions in 2016 and who received substantial services credits from Amazon in 2015 as part of the "Amazon Activate" program.

During the period, the Company's MD & CEO Mr Jay Shah was also invited to speak at a number of prominent events to discuss the Company's technology and the future of artificial intelligence generally. In March 2017, he spoke as a panel member in front of an audience of approximately 500 at an event held in Singapore by CASBAA, the association for the multi-channel audio-visual content creation and distribution industry across Asia. In June 2017, he presented to approximately 200 senior employees of Vodafone at a London-based "Deep Dive on Artificial Intelligence and Machine Learning" session held as part of the Vodafone Innovation Forum.

Together with successful efforts on the part of the Company to penetrate new markets and secure new customers in a diverse range of industries, these developments illustrate the growing awareness and recognition of the potential of AI to influence and benefit a wide range of businesses operating in the digital environment.

Operating results for the year

The Group has recorded a net loss after tax of \$7,713,236 in its first financial year.

Review of financial position

The net assets of the group as at 30 June 2017 were \$6,531,062, comprised of the following key items:

- Cash and cash equivalents \$3,747,988; and
- Intangible assets of \$2,574,522.

Summary results for the year ended 30 June 2017

The following is a summary of the financial results for the year ended 30 June 2017.

Results for announcement to the market

| | Year ended 30 June 2017 \$'000 | Year ended 30 June 2016 \$'000 | Increase / (Decrease) \$'000 | % Change |
|------------------------------------|---|---|---|---------------------|
| Revenue from continuing operations | 50 | N/A | N/A | N/A |
| Loss before income tax benefit | (8,337) | N/A | N/A | N/A |
| Income tax benefit | 624 | N/A | N/A | N/A |
| Net loss for the year | (7,713) | N/A | N/A | N/A |

Dividends

No dividends were declared or paid during the year.

**Preliminary consolidated statement of profit or loss
and other comprehensive income
For the year ended 30 June 2017**

| | Notes | \$ |
|---|-------|--------------------|
| Continuing operations | | |
| Revenue | | 19,681 |
| Interest income | | 30,090 |
| Depreciation and amortisation expense | | (158,134) |
| Impairment charge | | (2,528,788) |
| Share based payment expense | | (808,967) |
| <i>Other expenses</i> | | |
| Consulting fees | | (1,296,967) |
| Employee costs | | (1,958,915) |
| Travel and accommodation costs | | (410,886) |
| Other expenses | | (1,224,002) |
| Loss before income tax | | (8,336,888) |
| Income tax benefit | 1 | 623,652 |
| Net loss for the year | | (7,713,236) |
| Other comprehensive loss, net of income tax | | |
| <i>Items that may be reclassified to profit or loss</i> | | |
| Exchange differences on translation of foreign operations | | (123,789) |
| Other comprehensive loss for the year, net of income tax | | (123,789) |
| Total comprehensive loss for the year | | (7,837,025) |
| Basic loss per share (cents per share) | 2 | (9.40) |
| Diluted loss per share (cents per share) | 2 | (9.40) |

The accompanying notes form part of these financial statements

**Preliminary consolidated statement of financial position
As at 30 June 2017**

| | Notes | \$ |
|--------------------------------------|-------|------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | | 3,747,988 |
| Trade and other receivables | | 359,851 |
| Other current assets | | 199,218 |
| Total current assets | | <u>4,307,057</u> |
| Non-current assets | | |
| Property, plant and equipment | | 81,859 |
| Deferred tax assets | 1 | 273,838 |
| Intangible assets | | 2,574,522 |
| Total non-current assets | | <u>2,930,219</u> |
| Total assets | | <u>7,237,276</u> |
| Liabilities | | |
| Current liabilities | | |
| Trade and other payables | | 207,501 |
| Total current liabilities | | <u>207,501</u> |
| Non-current liabilities | | |
| Deferred tax liabilities | 1 | 498,713 |
| Total non-current liabilities | | <u>498,713</u> |
| Total liabilities | | <u>706,214</u> |
| Net assets | | <u>6,531,062</u> |
| Equity | | |
| Issued capital | 4 | 13,646,581 |
| Reserves | | 597,717 |
| Accumulated loss | | (7,713,236) |
| Total equity | | <u>6,531,062</u> |

The accompanying notes form part of these financial statements

Preliminary consolidated statement of changes in equity
For the year ended 30 June 2017

| | Notes | Issued capital \$ | Share-based payment reserve \$ | Foreign currency translation reserve \$ | Accumulated loss \$ | Total equity \$ |
|--|-------|----------------------|---|---|---------------------------|--------------------|
| Issue of incorporation shares | 4 | 10 | - | - | - | 10 |
| Loss for the year | | - | - | - | (7,713,236) | (7,713,236) |
| Other comprehensive loss, net of income tax | | - | - | (123,789) | - | (123,789) |
| Total comprehensive loss for the year | | - | - | (123,789) | (7,713,236) | (7,837,025) |
| Shares issued | 4 | 14,608,354 | - | - | - | 14,608,354 |
| Share issue costs | 4 | (961,783) | - | - | - | (961,783) |
| Share-based payments | | - | 721,506 | - | - | 721,506 |
| Balance as at 30 June 2017 | | 13,646,581 | 721,506 | (123,789) | (7,713,236) | 6,531,062 |

The accompanying notes form part of these financial statements

Preliminary consolidated statement of cash flows
For the year ended 30 June 2017

| | Notes | \$ |
|---|-------|-------------------------|
| Cash flows from operating activities | | |
| Receipts from customers | | 13,169 |
| Payments to suppliers and employees | | (4,871,962) |
| Interest received | | 30,089 |
| Other – Research and Development cash rebate received | | 75,665 |
| Other – Advances and security deposits paid | | (139,711) |
| Net cash outflow from operating activities | | <u>(4,892,750)</u> |
| Cash flows from investing activities | | |
| Payments for property, plant and equipment | | (104,297) |
| Cash assumed on acquisition of subsidiary | 5 | 266,635 |
| Net cash inflow from investing activities | | <u>162,338</u> |
| Cash flows from financing activities | | |
| Proceeds from issue of shares | | 9,340,000 |
| Payments for share issue costs | | (849,432) |
| Net cash inflow from financing activities | | <u>8,490,568</u> |
| Net increase in cash and cash equivalents | | 3,760,156 |
| Cash and cash equivalents at incorporation | | - |
| Effect of exchange rate fluctuations on cash held | | (12,168) |
| Cash and cash equivalents at the end of the year | | <u><u>3,747,988</u></u> |

The accompanying notes form part of these financial statements

Note 1: Income tax

Income tax recognised in profit or loss

The major components of tax benefit are:

| | |
|--|------------------|
| | \$ |
| Current tax benefit | (333,463) |
| Deferred tax benefit relating to the origination and reversal of temporary differences | (290,189) |
| Total tax benefit | <u>(623,652)</u> |

The prima facie income tax benefit on pre-tax accounting profit from operations reconciles to the income tax benefit in the financial statements as follows:

| | |
|--|--------------------|
| Accounting loss before tax from continuing operations | <u>(8,336,888)</u> |
| Income tax benefit calculated at 27.5% (2016: 30%) | (2,292,644) |
| Tax effect of amounts which are not deductible/(taxable) in calculating taxable income: | |
| • Effect of expenses that are not deductible in determining taxable profit | 910,142 |
| • Effect of concessions – research and development | (333,463) |
| • Effect of unused tax losses and timing differences not recognised as deferred tax assets | 678,636 |
| • Effect of unused tax losses now recognised as deferred tax assets | (273,838) |
| • Effect of different tax rates of subsidiaries operating in other jurisdictions | 687,515 |
| Income tax benefit reported in the consolidated statement of comprehensive income | <u>(623,652)</u> |

The tax rate used in the above reconciliation is the corporate tax rate of 27.5% payable by Australian corporate entities on taxable profits under Australian tax law. This reduction in corporate tax rate from 30% in 2016 was substantively enacted as part of the *Treasury Laws Amendment (Enterprise Tax Plan) Bill 2016* (on 19 May 2017).

Deferred tax assets comprise:

| | |
|----------------------|----------------|
| Tax losses - revenue | <u>273,838</u> |
|----------------------|----------------|

Deferred tax liabilities comprise:

| | |
|---------------------------------------|----------------|
| Fair value adjustments on acquisition | 486,977 |
| Property, Plant and Equipment | 11,736 |
| | <u>498,713</u> |

Unrecognised deferred tax assets

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

| | |
|----------------------|----------------|
| | \$ |
| Tax losses – revenue | 678,636 |
| Timing differences | 99,497 |
| | <u>778,133</u> |

The tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits thereof.

Note 2: Loss per share

Basic and diluted loss per share

| | |
|---|-----------------|
| | Cents per share |
| Total basic and diluted loss per share attributable to the ordinary equity holders of the Company | <u>(9.40)</u> |

Reconciliation of loss used in calculating loss per share

| | |
|---|--------------------|
| | \$ |
| Loss attributable to the ordinary equity holders of the Company used in the calculation of basic and diluted loss per share | <u>(7,713,236)</u> |

Weighted average number of shares used as the denominator

| | |
|--|-------------------|
| | Number |
| Weighted average number of ordinary shares used in the denominator in calculating loss per share | <u>82,034,309</u> |

Information concerning classification of securities

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

Note 3: Net tangible asset backing

| | |
|--|--------------------|
| Net assets (\$) | 6,531,062 |
| Less intangible assets (\$) | <u>(2,574,522)</u> |
| Net tangible assets of the Company (\$) | <u>3,956,540</u> |
| Fully paid ordinary shares on issue at balance date (number) | <u>105,083,540</u> |
| Net tangible asset backing per issued ordinary share at balance date (cents) | <u>3.77</u> |

Note 4: Issued capital

Shares capital

| | Number of shares | \$ |
|---------------------------------------|---------------------|-------------------|
| Ordinary shares issued and fully paid | <u>105,083,540</u> | <u>13,646,581</u> |

Movement in ordinary share capital

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

Ordinary shares

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

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

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

Performance shares

| | Number of shares | \$ ¹ |
|--------------------|---------------------|-----------------|
| Performance shares | <u>35,000,000</u> | <u>-</u> |

Performance shares comprise of the following:

| | Number | \$ ¹ |
|--|-------------------|-----------------|
| Class A Performance Shares, will convert to ordinary shares upon the Company achieving within five years of issue annualised gross revenue exceeding \$3.5m (measured over any three-consecutive month period) or achieving 20m users (at least half of which are directly revenue generative). | 12,400,000 | - |
| Class B Performance Shares, will convert to ordinary shares upon the Company achieving within five years of issue annualised gross revenue exceeding \$7.5m (measured over any three-consecutive month period) or achieving 30m users (at least half of which are directly revenue generative). | 12,400,000 | - |
| Class C Performance Shares, will convert to ordinary shares upon the Company achieving within five years of issue annualised gross revenue exceeding \$12m (measured over any three-consecutive month period) or achieving 50m users (at least half of which are directly revenue generative). | 10,200,000 | - |
| | <u>35,000,000</u> | <u>-</u> |

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

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

Share options

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

Note 5: Business combination

Acquisition of OpenDNA (UK) Limited

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

Details of the purchase acquisition and net assets acquired are as follows:

| | \$ |
|---|------------------|
| 40,656,903 fully paid shares in the capital of the Company issued to the shareholders of OpenDNA (UK) Limited, valued at 10 cents per share | 4,065,690 |
| 7,826,627 fully paid shares in the capital of the Company issued to advisors of OpenDNA (UK) Limited, valued at 10 cents per share | 782,663 |
| Treasury shares | 17,163 |
| | <u>4,865,516</u> |

The assets and liabilities recognised as a result of the acquisition are as follows:

| | As at 5 August 2016 \$ |
|--|------------------------------|
| Cash | 266,635 |
| Other receivables | 11,088 |
| Tax receivable (R&D rebate receivable) | 78,886 |
| Property, plant and equipment | 8,043 |
| Website development | 4,371 |
| Other creditors and accruals | (215,139) |
| Deferred tax liability | (2,482) |
| | <u>151,402</u> |
| Excess consideration paid over net assets acquired | 4,714,114 |
| | <u><u>4,865,516</u></u> |

The accounting treatment for the acquisition of OpenDNA (UK) Limited has been determined at the end of the reporting period.

During the period, an independent valuation was obtained to provide an opinion on the fair market value of OpenDNA (UK) Limited's Intangible Assets. The valuation report specifically complies with the Australian Accounting Standard AASB 3 *Business Combinations*. Based on the valuation of the identifiable intangible assets, the Purchase Price Allocation per the valuation report is summarised in the table below:

| | \$ |
|---|-------------------------|
| Purchase consideration | <u><u>4,865,516</u></u> |
| <i>Comprised of:</i> | |
| Net tangible assets acquired | 147,031 |
| Net intangible assets acquired | 4,371 |
| Identifiable intangible assets acquired | 2,697,933 |
| Residual goodwill | <u>2,016,181</u> |
| | <u><u>4,865,516</u></u> |

Net cash inflow arising on acquisition

| | |
|---|-----------------------|
| Cash consideration | - |
| Less: Net cash acquired with the subsidiary | <u>266,635</u> |
| Net cash inflow – investing activities | <u><u>266,635</u></u> |

Impact of acquisition on the results of the Group

If the combination had taken place at the beginning of the year, the loss of the Group would have been increased by \$55,602, being the loss that OpenDNA (UK) Limited incurred for the period 1 July 2016 to 5 August 2016.

Note 6: Events subsequent to the reporting date

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

Note 7: Compliance statement

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