ConnectedIO

ConnectedIO

CONNECTED IO LIMITED
AND ITS CONTROLLED ENTITIES
ABN 99 009 076 233

CONSOLIDATED ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017

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CORPORATE INFORMATION

This consolidated annual report is for Connected IO Limited and its controlled entities ("the Group") for the year ended 30 June 2017. Unless otherwise stated, all amounts are presented in Australian Dollars.

A description of the Group's operations and of its principal activities is included in the review of operations and activities in the directors' report. The directors' report is not part of the financial statements.

Directors

Mr Jason Ferris *(Executive Chairman)*

Mr Yakov Temov *(Managing Director and Chief Executive Officer)*

Mr Blaise Thomas *(Non-Executive Director)*

Company Secretary

Ms Nicki Farley

Registered and Principal Office

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44 St Georges Terrace
PERTH WA 6000

Auditors

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PERTH WA 6005

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Solicitors

Price Sierakowski Corporate
Level 24, 44 St Georges Tce
PERTH WA 6000

Bankers

National Australia Bank
100 St Georges Terrace
PERTH WA 6000

Westpac Bank
1257 – 1261 Hay Street
WEST PERTH WA 6005

Stock Exchange Listing

Connected IO Limited
The Australian Securities Exchange.
ASX Code:CIO

Contact Information

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Web Sites

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CHAIRMAN'S REPORT

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As Chairman of Connected IO Limited, and on behalf of my fellow Directors, I am pleased to present the CIO Annual Report for 2017. In the last 12 months, CIO has delivered on our commitment to shareholders to deliver quarter on quarter growth and has continued to attract and confirm new customers throughout the year.

Growth of Connected IO

The Company grew revenues to AUD$1.68m for FY17 which is a change of +675% from FY16. Increased revenue is a direct result of expanding existing relationships with US Cellular Carriers including Verizon and also through direct channel marketing and sales.

Whilst overhead costs grew during FY17, the static costs including Corporate and Administration and fixed staff costs have been maintained and reduced marginally in quarter 4 as the business focuses on increasing manufacturing to meet increased product demand.

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The Board is focused on the continued growth of the business, and building a solid foundation for future sales channels to buy into.

Looking Forward

With a healthy forward order book and strong building reputation for product excellence, CIO is well positioned to capitalize on the positive growth outlook for the Internet of Things ("IOT") both within our core North American market and also in developing opportunity markets such as Australia and Asia. The growing relationships with the likes of Verizon, AT&T and Airship Drones (providing US Military opportunities as well as other government agencies in the United States) will provide CIO with greater financial strength and stability over the next 12 months.

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Receipt of several significant purchase orders throughout the year has enabled our Company to develop and grow to a point where we are making significant in-roads in the Machine to Machine ("M2M") sector and we are attracting significantly increased referred opportunities via Verizon and AT&T. The Company is poised to develop these opportunities further as we move into our next growth phase taking the business to new levels.

Board and Governance

During the year one change was made to the Board, with Non-Executive Director Eric De Mori resigning on 24 March 2017 to pursue other business interests. We thank Eric for his service and wish him all the best in his business endeavors.

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Our People

Increased revenues and sales would not have been possible without the commitment of our dedicated staff. I would like to extend my appreciation to employees and management for their strong work ethic and dedication over the past year.

The Board and management team remain confident about the future outlook for our Company. We enter the new financial year with a significant work in progress position, which will continue to develop into a stable revenue base to enable future growth of our Company.

I look forward to strengthening our Company's financial position in the year ahead while maintaining our growing reputation in the IOT space.

Jason Ferris
Chairman
Connected IO Limited

CEO YEAR IN REVIEW

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I am pleased to report a significant increase to the underlying financial performance of the business, achieved in line with the growing and developing Internet of Things (“IOT”) sector. During the year we further developed the carrier relationships in the USA, secured a number or key significant Purchase Orders and also capitalized on the general growth of the IOT industry as more and more devices are being connected to the internet.

It has been reported the IOT industry is currently operating at only 1% of capacity and compound growth of up to 16.5% pa can be expected as machine to machine operations become more prevalent. Analysts are suggesting the US market alone is worth up to US$1b p.a. in revenue. CIO will use the growth in FY17 to springboard into the coming years as we aim to take up to 10% of the US market in the coming 3 to 5 years, with internal growth aspirations of achieving over US$100m in revenue in that time.

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Sales and revenue growth of CIO is expected to continue to develop over the coming year and years ahead as momentum in FY17 has suggested. The company remains focused on delivering quality product in a timely manner to fulfil purchase orders received and aims to increase manufacturing capacity as revenues increase delivering organic growth. CIO aim to achieve breakeven in the coming quarters.

Review of Operations

During the year, CIO received a conditional commitment for AUD$1.6m+ of product (announced 15 December 2016) along with initial guaranteed orders of AUD$550,000. A further purchase order of AUD$320,000+ (announced 21 October 2016) was received along with reseller agreement relating to product bundles, including CIO's recurring data management services by an integrator of heating and cooling systems.

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An initial purchaser order of AUD$129,000+ (announced 8 November 2016) was received with additional demand of between AUD$12,000 and AUD$19,000 of CIO product per month by a technical systems supplier to the Oil and Gas industry.

Trials and pilot programs continue with various customers expanding the testing and roll out of CIO's products. The City of Nashville has placed several orders (announced 11 November 2016), with several product shipments during the half to both EPRI (announced 20 September 2016), Shotspotter and State of Nebraska (announced 23 August 2016). CIO continues to work with Coca-Cola (announced 18 November 2016) providing hardware and consultation for Coca-Cola's Freestyle Fountain machines. Coca-Cola holds a 75%+ share of the world's soda fountain market.

Sales and technical training as well as customer trials with Hills Limited (announced 6 October 2016) took place in the latter half of 2016 with purchase orders anticipated in 2017 to some of Hills high profile client base, some of whom are trialing CIO product now.

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In addition to the release of its new EMU line of cellular modems and routers (announced 1 September 2016) CIO also introduced its Cloud Based Devices Management Portal, creating a recurring revenue line for the company on each and every unit.

CIO received a purchase order from US Cyber Security Company (announced 5 January 2017) of USD$306,580. The purchase formed part of the anticipated minimum order of USD$1.25m from the client in 2017.

CIO negotiated a new agreement with Verizon (announced 8 February 2017) to collaborate on initiatives that are critical to Verizon's IOT strategy. Verizon selected CIO to integrate its game-changing device management solution "ThingSpace" into CIO's family of products as well as its ground-breaking Drone program (ALO) which will facilitate the deployment of millions of drones on Verizon's network.

CIO announced (28 February 2017) it had strengthened its relationship with AT&T collaborating on its Internet of Things Division in a joint effort to address the evolving needs of AT&T's enterprise customers. AT&T's IOT vertical market teams include; Drones & Robotics, Energy Management, Oil & Gas, Fleet & Asset Tracking, Security & Surveillance, Point of Sale, Smart City, Vending/ATM, Digital Signage, kiosks, etc.

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CIO released the latest version of its live streaming body camera (announced 7 March 2017) designed for police and security applications. The camera is to be launched in both Australian and US markets.

A new purchase order was received from one of AT&T's largest wireless distributors in the USA, CNM (announced 4 April 2017). This was the first significant order received in conjunction with the expanded AT&T agreement as announced on 28 February 2017.

CIO's Cat1 products were launched this year (as announced 6 April 2017) which provides a dedicated IOT network, enabling compatibility with Telstra in Australia.

Extended trials with the American Red Cross were successfully completed (as announced 9 May 2017) with further purchase orders received, taking total orders to over USD$125k.

CIO also finalised a loan facility for $1.5m to assist with manufacturing and working capital requirements (as announced 22 June 2016).

Yakov Temov
Chief Executive Officer, Connected IO Limited

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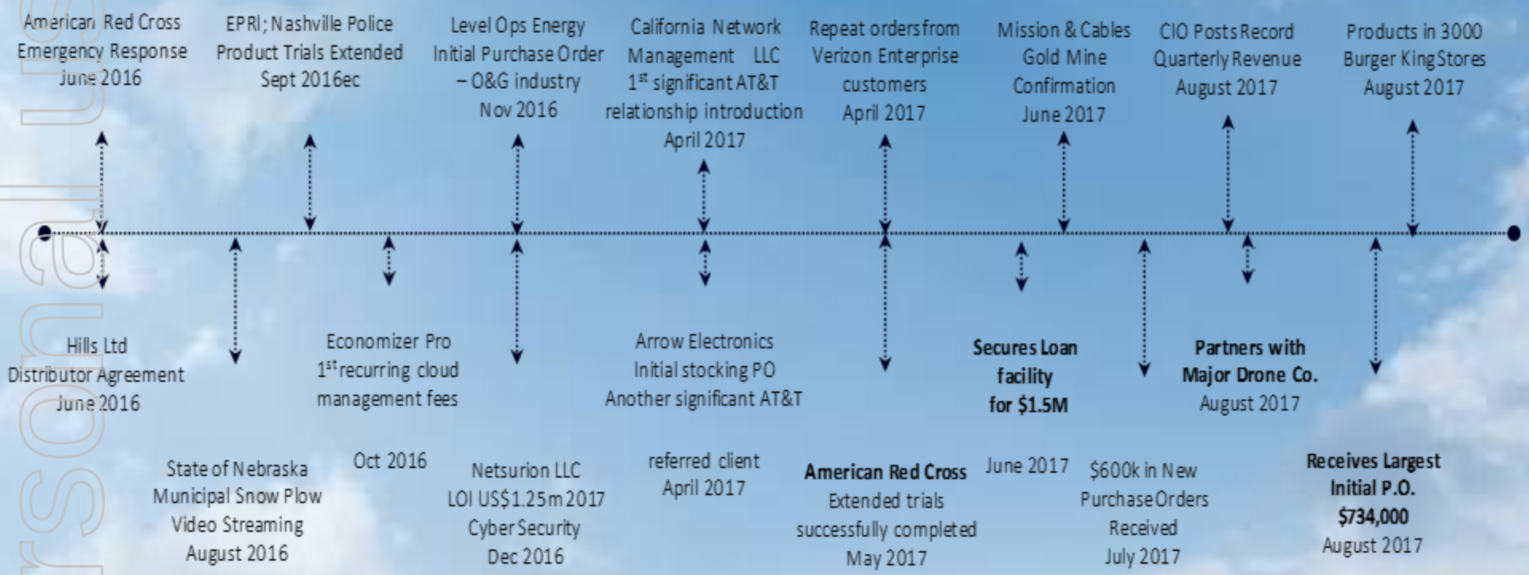
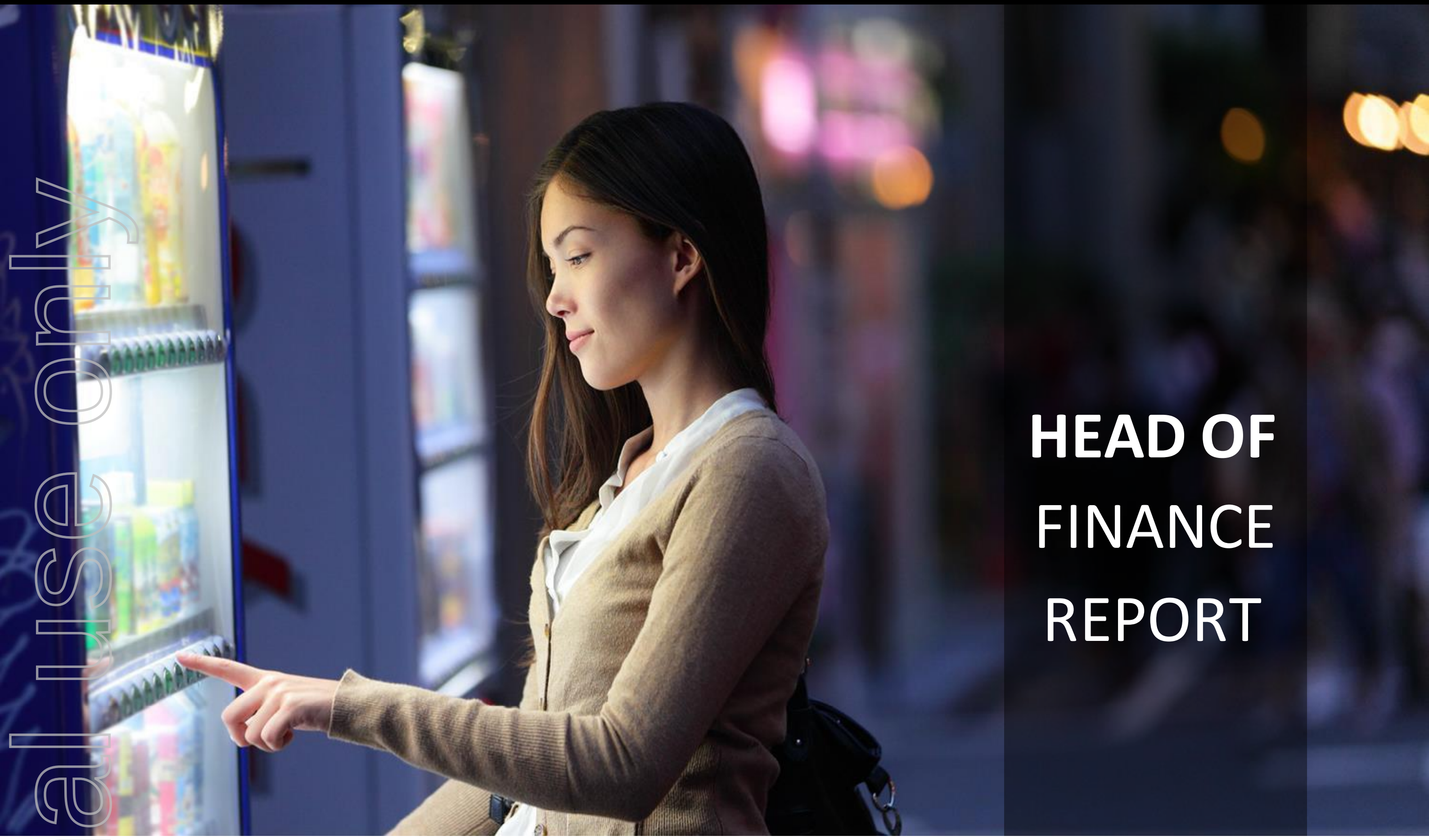
Building Clients & Sales Across Multiple Sectors

Selected announced clients and sales (past 12 months)



CIO hardware is manufactured in Shenzhen, China with capacity to produce 30 thousand + units per month.

Well over 15,000 unit sales of CIO's initial product design has paved the way for an expanded menu of new products that have already been successfully deployed in thousands of additional applications since ASX Listing in March 2016



HEAD OF FINANCE REPORT

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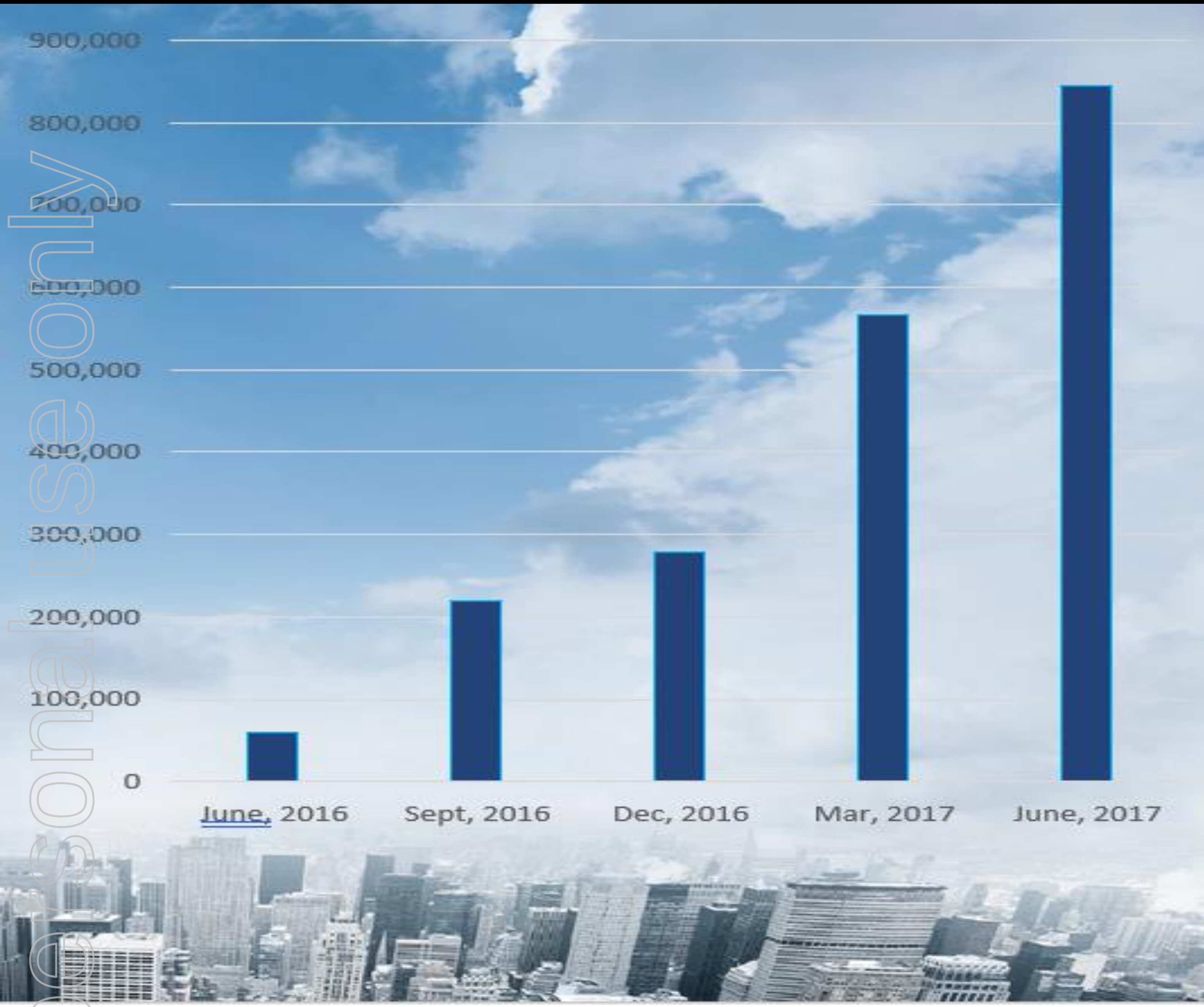
Financial Overview

CIO reported revenues of $1.68m for the year. The result compares to $0.21m in the previous financial year. Increased performance was due to improved sales across the product range and access to capital post listing in March 2016.

Cash holdings at year end were $0.63m (FY16 $1.29m) with a further $1.0m available via the Convertible Note facility announced in June 2017. Inventory improved to $1.07m ($0.47m FY16) with outstanding receivables of $0.29m (FY16 $0.48m).

Major cash movements in the year included increased manufacturing as reflected in product delivery and increased Inventory, as well as R&D expensed against the recently released Cat1 Router product.

The company brought to account an impairment of goodwill in the year resulting in $2.7m being written off, contributing to an increased net loss for the year of $7.0m (FY16 $2.0m).



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CIO's strategy has been validated by:

- A growing revenue profile, and decreasing costs per unit sold
- Strong strategic relationships with major carriers, distributors, and integrators
- Product sales and successful trials with customers across an increasingly diverse range of industries lead to increasing unit sales
- Reoccurring revenue from cloud management and data service begin to accrue
- Continual, disruptive development of new products

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DIRECTORS' REPORT

The directors of Connected IO Limited and its controlled entities ("the Group") submit herewith the consolidated annual financial statements of the Group for the financial year ended 30 June 2017.

These financial statements cover the period from 1 July 2016 to 30 June 2017. In order to comply with the provisions of the Corporations Act 2001, the directors' report is as follows:

The names and particulars of the directors of the Company during or since the end of the financial year are:

Mr Jason Ferris	**Non-Executive Director (appointed 28 April 2015) and became Executive Chairman on 18 January 2016** Mr Ferris is an experienced financial services professional having worked in financial services, property and corporate finance industries for more than 25 years. Mr Ferris is an experienced company director having served on the board of public and private companies in Australia, South Africa and United Kingdom. He is a Fellow of the Australian Institute of Management (FAIM) and is a Member of the Australian Institute of Company Directors (MAICD). He has also facilitated many joint venture opportunities in both property, tech and mining sectors.
Interest in Shares	Nil shares.
Interest in Options	Nil options.
Directorships held in other listed entities	During the past three years Mr Ferris has served as a Director of the following other listed companies: (a) Diploma Group Limited – resigned 9 December 2016; and (b) Titanium Sands Limited - appointed 31 July 2014.
Mr Yakov Temov	**Managing Director and Chief Executive Officer (appointed 18 January 2016)** Mr Temov specialises in product development and executive leadership, with a long and consistent track record of successfully delivering innovative products on time and under budget, fast yet high quality roadmap evolutions, and building and growing world-class engineering teams. Most recently, Mr Temov was CEO and Founder of White Label Corporation. Prior to that, Mr Temov was VP of Engineering at U4EA Technologies, Inc. (acquired by Gos Networks, Ltd.) where he was responsible for all product design, engineering, and testing.
Interest in Shares	Mr Temov holds 46,000,000 ordinary shares, 34,550,000 Class A performance shares and 17,275,000 Class B performance shares directly in the Company.
Interest in Options	Nil options.
Directorships held in other listed entities	During the past three years Mr Temov has not held directorship of any other ASX listed companies.

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DIRECTORS' REPORT (CONT'D)

Mr Blaise Thomas -	**Non-Executive Director** **(appointed 28 April 2015)** Mr Thomas has over 25 years' experience in building and managing businesses in Australia and the UK and has held executive level positions in private and publicly listed companies. His corporate experience has been within Resources, Engineering, Technology and Banking & Financial Services industries. With expertise across business and market development, contract management, operations, strategy, finance and people management. Mr Thomas has advised a number of early-stage businesses on sales & marketing strategies, leadership structure, commercial partnerships and investor relations.
Interest in Shares	Nil shares.
Interest in Options	Nil options.
Directorships held in- other listed entities	During the past three years Mr Thomas has not held directorship of any other ASX listed companies.
Mr Eric de Mori	**Non-Executive Director** **(appointed 18 January 2016 and resigned on 24 March 2017)** Mr de Mori specialises in natural resources, technology and biotechnology transactions with a focus on the ASX. He advises clients on M&A activity, capital raisings, Initial Public Offerings (IPO's), Reverse Take Over's (RTO's) recapitalisation and restructure and DOCA process management. Mr de Mori was previously a Non-Executive Director of Newera Resources Ltd, now Consolidated Zinc Ltd (ASX:CZL), and also held director positions with Incitive Ltd, now Hawkley Oil and Gas Limited (ASX:HOG) and Coventry Resources Ltd (ASX:CVY). He was also a Non-Executive Director of Alcyone Resources Ltd (ASX:AYN) where he helped lead the company's corporate restructure and evolution into a successful silver producer. Mr de Mori was Corporate Advisor and major shareholder in Intermet Resources Ltd, where he was instrumental in leading the acquisition of US HR tech company 1-Page, and subsequent $8.5m backdoor listing (ASX:1PG). Mr de Mori graduated from Murdoch University with a Bachelor of Arts, and holds a Diploma of Financial Services (RG146 compliance) with Financial Services Institute of Australasia (FINSIA).
Interest in Shares	Mr de Mori holds 3,400,000 ordinary shares in the Company and 2,000,000 ordinary shares escrowed until 15 March 2018.
Interest in Options	Nil options.
Directorships held in other listed entities	During the past three years Mr de Mori has served as a Director for the following other listed companies; (a) Newera Resources Ltd - resigned on January 2015.

DIRECTORS' REPORT (CONT'D)

Ms Nicki Farley

Company Secretary (appointed 21 December 2015)

Ms Farley has over 10 years' experience working within the legal and corporate advisory sector providing advice in relation to capital raisings, corporate and securities laws, mergers and acquisitions and general commercial transactions. Ms Farley also holds a number of company secretarial roles for ASX listed companies. Ms Farley holds a Bachelor of Laws and Arts from the University of Western Australia.

Directors' meetings

The following table sets out the number of directors' meetings held during the financial year and the number of meetings attended by each director (while they were a director).

The Board of Directors also approved four circular resolution during the year ended 30 June 2017 which were signed by all Directors of the Company. The audit, compliance and corporate governance committee is performed by the Board of Directors.

	Board of Directors	
Directors	**Eligible to Attend**	**Attended**
Mr Jason Ferris	7	7
Mr Yakov Temov	7	7
Mr Blaise Thomas	7	7
Mr Eric de Mori[1]	5	4

[1] Mr de Mori resigned on 24 March 2017.

Interests in the shares, options and convertible notes of the Company and related bodies corporate

The following relevant interests in shares and options of the Company or a related body corporate were held by the Directors as at the date of this report.

Directors	**Fully paid ordinary shares Number**	**Performance shares Number**
Mr Jason Ferris	-	-
Mr Yakov Temov	46,000,000	51,825,000[1]
Mr Blaise Thomas	-	-

[1] 34,550,000 Class A Performance Shares and 17,275,000 Class B Performance Shares were issued to Mr Temov as part of the consideration under the Vendor Offer for the acquisition of the Connected Group.

Share options granted to Directors and senior management

During the financial year, no options have been granted to Directors and senior management (30 June 2016: nil).

Principal activities

The Group is focused on sales and marketing of the Connected Group's products and further product development.

Review of operations

See CEO Year in Review Report on page 9.

Operating results and financial position

See CEO Year in Review Report and Head of Finance Report on page 9.

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DIRECTORS' REPORT (CONT'D)

Subsequent events
On 28 September 2017, the Company announced that it has received firm commitments from sophisticated investors to raise $3 million, with 100 million Shares to be issued at $0.03 per share. The funds raised will be used for working capital as the Company seeks to meet increasing purchase orders as recently announced on the Company's ASX announcement platform. It is anticipated that the Placement Shares will be issued on or about 10 October 2017.

Future developments
The Group will continue to develop, sell and market the Connected Group's products.

Significant changes in the state of affairs
There have been no significant changes in the state of affairs of the Group to the date of this report.

Environmental issues
The Group's operations are not subject to significant environmental regulations under the law of the Commonwealth or of a State or Territory.

Dividends
No amounts have been paid or declared by way of dividend by the Group since the end of the previous financial year and the Directors do not recommend the payment of any dividend.

Indemnification of officers and auditors
The Group has not otherwise, during or since the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

REMUNERATION REPORT (AUDITED)

Remuneration Policy
The board policy is to remunerate non-executive directors at a level which provides the company with the ability to attract and retain directors with the experience and qualification appropriate to the development strategy of the Company. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at a General Meeting. The current maximum amount of remuneration that may be paid to all non-executive Directors has been set at $500,000 per annum at the Company's General Meeting held on 14 March 2014.

Directors' fees are reviewed annually. During the period, the non-executive director fees were $60,000 per annum. Non-executive directors' fees are not linked to the performance of the company. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company.

During the financial year, the Group did not employ the use of remuneration consultants.

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DIRECTORS' REPORT (CONT'D)
REMUNERATION REPORT (AUDITED) (CONT'D)

Key Management Personnel

The Key Management Personnel of the Group are considered to be the directors of the Company.

The following table discloses the contractual arrangements with the Group's Key Management Personnel that were in place as at 30 June 2017.

Component	Executive Chairman – Mr Jason Ferris
Fixed remuneration	$120,000
Contract duration	2 years commencing on 18 January 2016.
Termination notice by the individual/company	12 months.
Other entitlements	Annual leave plus superannuation

Component	Managing Director and Chief Executive Officer – Mr Yakov Temov
Fixed remuneration	USD 150,000
Contract duration	2 years commencing on 18 January 2016.
Termination notice by the individual/company	12 months.
Other entitlements	Annual leave.

Relationship between the remuneration policy and company performance

Aside from the matters described above, no Director held or holds any contract for performance-based remuneration with the Company.

Remuneration expense details for the year ended 30 June 2017

The directors were paid the following amounts as compensation for their services as key management personnel of the Group during the year:

	Short-term employee benefits			Post-employment benefits	Share-based payment		
2017	Salary & fees $	Bonus $	Other $	Superannuation $	Options & rights $	Total $	% Performance related $
Directors							
Jason Ferris [1]	120,000	-	-	11,400	-	**131,400**	-
Yakov Temov [2]	202,222	-	-	-	-	**202,222**	-
Blaise Thomas [3]	60,000	-	-	-	-	**60,000**	-
Eric de Mori [4]	43,850	-	-	-	-	**43,850**	-
Total	**426,072**	**-**	**-**	**11,400**	**-**	**437,472**	**-**

[1] Mr Ferris's director fees were paid directly to himself.

[2] Mr Temov's director fees were paid directly to himself.

[3] Mr Thomas's director fees were paid to International Island Group Pty Ltd, a company of which he is a Director and Shareholder.

[4] Mr de Mori's director fees were paid to Glamour Division Pty Ltd, a company which he is a Director and Shareholder.

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DIRECTORS' REPORT (CONT'D)
REMUNERATION REPORT (AUDITED) (CONT'D)

2016	Short-term employee benefits Salary & fees $	Bonus $	Other $	Post-employment benefits Superannuation $	Share-based payment Options & rights $	Total $	% Performance related $
Directors							
Jason Ferris	89,186	-	-	3,325	-	**92,511**	-
Yakov Temov	85,855	-	-	-	-	**85,855**	-
Blaise Thomas	60,000	-	-	-	-	**60,000**	-
Eric de Mori	27,097	-	-	-	-	**27,097**	-
Craig Willis[1]	35,000	-	-	-	-	**35,000**	-
Graham Chapman[2]	32,258	-	-	-	-	**32,258**	-
Total	**329,396**	**-**	**-**	**3,325**	**-**	**332,721**	**-**

[1] Mr Willis resigned on 18 January 2016.
[2] Mr Chapman resigned on 18 January 2016.

Securities received that are not performance-related
No members of key management personnel are entitled to receive securities that are not performance-based as part of their remuneration package.

Options
No options were granted as equity compensation benefits to key management personnel during the year ended 30 June 2017 or 30 June 2016.

Key Management Personnel shareholdings
The number of ordinary shares in Connected IO Limited held by each key management personnel of the Group during the financial year is as follows:

Ordinary Shares 2017	Balance at 1 July 2016 or on date of appointment	Granted as remuneration during the year	Issued on exercise of options during the year	Net other changes during the year	Balance at 30 June 2017 or on date of resignation
Jason Ferris	-	-	-	-	-
Yakov Temov	46,000,000	-	-	-	46,000,000
Blaise Thomas	-	-	-	-	-
Eric de Mori	5,400,000	-	-	-	5,400,000[1]

[1] Balance held on date of resignation.

The number of performance shares in Connected IO Limited held by each key management personnel of the Group during the financial year is as follows:

Performance Shares 2017	Balance at 1 July 2016 or on date of appointment	Granted as remuneration during the year	Issued on exercise of options during the year	Net other changes during the year	Balance at 30 June 2017 or on date of resignation
Jason Ferris	-	-	-	-	**-**
Yakov Temov	51,825,000	-	-	-	**51,825,000**
Blaise Thomas	-	-	-	-	**-**
Eric de Mori	-	-	-	-	**-**

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DIRECTORS' REPORT (CONT'D)
REMUNERATION REPORT (AUDITED) (CONT'D)

Other equity-related key management personnel transactions
There have been no other transactions involving equity instruments apart from those describe in the table above relating to options, rights and shareholdings.

Other transactions with Key Management Personnel and/for their related parties
A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

There were no transactions with the Company in the reporting period with Key Management Personnel or their related parties.

Reimbursements
During the year, $45,612 (ex GST) was paid to Mr Ferris in relation to reimbursements (2016: $40,159). Mr Thomas was paid $254 (ex GST) in relation to reimbursements (2016: $1,063). Mr De Mori was paid $51 (ex GST) in relation to reimbursements (2016: $nil). Reimbursements related to travelling, communications and other minor incidentals.

End of audited Remuneration Report

Voting and comments made at the Company's 2016 Annual General Meeting
The Company received more than 99% of votes, of those shareholders who exercised their right to vote, in favour of the remuneration report for the 2016 financial year. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

Proceedings on behalf of the Company
No person has applied for leave of Court to bring proceedings on behalf of the Company or 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 any part of those proceedings.

The Company was not a party to any such proceedings during the year.

Non-audit services
During the year $nil was paid to the auditor for the provision of non-audit services (2016: nil).

Corporate Governance
In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Connected IO support and have adhered to principles of sound corporate governance. The Company continued to follow best practice recommendations as set out by 3rd edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations. Where the Company has not followed best practice for any recommendation, explanation is given in the Corporate Governance Statement which is available on the Company's website at http://connectedio.com.au/corporate-governance/ .

Auditor's independence declaration
The auditor's independence declaration is included on page 23 of the annual report.

Signed in accordance with a resolution of the directors

Jason Ferris
Director

Perth
29 September 2017

HLB Mann Judd

Accountants | Business and Financial Advisers

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the consolidated financial report of Connected IO Limited for the year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) any applicable code of professional conduct in relation to the audit.

HLB Mann Judd
Chartered Accountants

N G Neill
Partner

Perth, Western Australia
29 September 2017

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

	Note	Consolidated 2017 $	Consolidated 2016 $
Sales revenue	7	1,683,616	217,150
Cost of goods sold		(1,350,327)	(22,622)
Gross profit		333,289	194,528
Interest received	7	10,495	19,694
Other income		-	987
Debts forgiven	6	250,638	567,774
Director fees, salary and wages expense		(1,896,447)	(1,018,850)
Professional fees		(1,296,503)	(1,184,572)
Depreciation expense		(33,724)	(737)
Administration expense		(1,099,287)	(654,349)
Other intangible assets written off	5	(626,043)	-
Impairment of goodwill	4	(2,703,574)	-
Impairment of plant and equipment	12	(35,750)	-
Net loss before tax		**(7,096,906)**	**(2,075,525)**
Income tax expense	8	-	-
Net loss for the year		**(7,096,906)**	**(2,075,525)**
Other comprehensive loss for the year, net of tax			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign balances		470,737	(220,106)
Total comprehensive loss for the year		**(6,626,169)**	**(2,295,631)**
Earnings per share for loss attributable to the ordinary equity holders of the company			
		Cents	Cents
Basic and diluted loss per share	17	(0.92)	(0.54)

The accompanying notes form an integral part of this consolidated statement of profit or loss and other comprehensive income.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

	Note	Consolidated 2017 $	Consolidated 2016 $
Current assets			
Cash and cash equivalents	9	639,457	1,295,818
Trade and other receivables	10	294,745	480,674
Inventory	11	1,070,072	473,882
Loan receivable		-	141,445
Total current assets		2,004,274	2,391,819
Non-current assets			
Other assets		14,142	10,740
Goodwill	4	2,418,610	5,122,184
Other intangibles	5	-	606,205
Plant and equipment	12	54,547	42,829
Total non-current assets		2,487,299	5,781,958
Total Assets		**4,491,573**	**8,173,777**
Current Liabilities			
Trade and other payables	13	961,380	1,282,843
Payroll liabilities		-	19,356
Borrowings	14	500,000	-
Total current liabilities		1,461,380	1,302,199
Total Liabilities		**1,461,380**	**1,302,199**
Net Assets		**3,030,193**	**6,871,578**
Equity			
Issued capital	15	63,678,745	60,893,961
Reserves	16	1,219,480	748,743
Accumulated losses		(61,868,032)	(54,771,126)
Total Equity		**3,030,193**	**6,871,578**

The accompanying notes form an integral part of this consolidated statement of financial position.

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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017**

Consolidated	Issued Capital $	Share-Based Payments Reserve $	Foreign Currency Translation Reserve $	Accumulated Losses $	Total $
Balance at 1 July 2015	**50,019,941**	**968,849**	**-**	**(52,695,601)**	**(1,706,811)**
Net loss for the year	-	-	-	(2,075,525)	(2,075,525)
Other comprehensive loss for the year	-	-	(220,106)	-	(220,106)
Total comprehensive loss	-	-	(220,106)	(2,075,525)	(2,295,631)
Shares issued	11,394,763	-	-	-	11,394,763
Share issue costs	(520,743)	-	-	-	(520,743)
Balance at 30 June 2016	**60,893,961**	**968,849**	**(220,106)**	**(54,771,126)**	**6,871,578**
Balance at 1 July 2016	**60,893,961**	**968,849**	**(220,106)**	**(54,771,126)**	**6,871,578**
Net loss for the year	-	-	-	(7,096,906)	(7,096,906)
Other comprehensive income for the year	-	-	470,737	-	470,737
Total comprehensive loss	-	-	470,737	(7,096,906)	(6,626,169)
Shares issued	3,078,000	-	-	-	3,078,000
Share issue costs	(293,216)	-	-	-	(293,216)
Balance at 30 June 2017	**63,678,745**	**968,849**	**250,631**	**(61,868,032)**	**3,030,193**

The accompanying notes form an integral part of this consolidated statement of changes in equity.

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CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

	Note	Consolidated 2017 $	Consolidated 2016 $
Cash flows from operating activities			
Receipts from customers		1,757,603	508,199
Payments to suppliers and employees		(5,700,612)	(3,686,863)
Interest received		10,495	19,694
Finance costs		(1,318)	(21,748)
Net cash used in operating activities	18	(3,933,832)	(3,180,718)
Cash flows from investing activities			
Payments for property, plant and equipment		(7,313)	-
Proceeds from sale of investment		-	5,244
Cash acquired on acquisition of Connected Group	2	-	27,175
Net cash provided by/(used in) investing activities		(7,313)	32,419
Cash flows from financing activities			
Proceeds from issue of shares		3,000,000	4,500,100
Payments for share issue costs		(215,216)	(520,743)
Proceeds from borrowings		500,000	825,000
Repayment of borrowings		-	(366,588)
Net cash provided by financing activities		3,284,784	4,437,769
Net change in cash and cash equivalents held		(656,361)	1,289,470
Cash and cash equivalents at beginning of the financial year		1,295,818	6,348
Cash and cash equivalents at end of financial year	9	**639,457**	**1,295,818**

The accompanying notes form an integral part of this consolidated statement of cash flows.

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NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and interpretations and complies with other requirements of the law.

The accounting policies detailed below have been consistently applied to all of the years presented unless otherwise stated. The financial statements are for the Group consisting of Connected IO Limited and its controlled entities.

The financial report has been prepared on an accruals basis and is based on historical costs, except for available-for-sale financial assets which have been measured at fair value. Cost is based on fair value of the consideration given in exchange for assets.

The financial report is presented in Australian dollars.

Connected IO Limited whose shares are publicly traded on the Australian Securities Exchange, was incorporated in Australia The nature of the operations and principal activities of the Group are focused on sales and marketing of the Connected Group's products and further product development.

(b) Adoption of new and revised standards

Standards and Interpretations applicable to 30 June 2017

In the year ended 30 June 2017, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Company 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 Company and, therefore, no material change is necessary to Group accounting policies.

Standards and interpretations in issue not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2017 reporting periods. Those which may have a significant to the Group are set out below. The Group does not plan to adopt these standards early.

AASB 9 Financial Instruments (2014)

AASB 9 (2014), published in December 2014, replaces the existing guidance AASB 9 (2009), AASB 9 (2010) and AASB 139 *Financial Instruments: Recognition and Measurement* and is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The new standard results in changes to accounting policies for financial assets and liabilities covering classification and measurement, hedge accounting and impairment. The Group has assessed these changes and determined that based on the current financial assets and liabilities held at reporting date, the Group will need to reconsider its accounting policies surrounding impairment recognition. The new impairment requirements for financial assets are based on a forward looking 'expected loss model' (rather than the current 'incurred loss model').

The Group does not expect a significant effect on the financial statements resulting from the change of this standard however the Group is in the process of evaluating the impact of the new financial instrument standard. The changes in the Group's accounting policies from the adoption of AASB 9 will be applied from 1 July 2018 onwards.

AASB 15 Revenue from Contracts with Customers

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised, including in respect of multiple element arrangements. It replaces existing revenue recognition guidance, AASB 111 *Construction Contracts,* AASB 118 *Revenue* and AASB 1004 *Contributions.* AASB

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NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Adoption of new and revised standards (cont'd)

15 is effective from annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The core principle of AASB 15 is that it requires identification of discrete performance obligations within a transaction and associated transaction price allocation to these obligations. Revenue is recognised upon satisfaction of these performance obligations, which occur when control of goods or services is transferred, rather than on transfer of risks and rewards. Revenue received for a contract that includes a variable amount is subject to revised conditions for recognition, whereby it must be highly probable that no significant reversal of the variable component may occur when the uncertainties around its measurement are removed.

The Group has commenced the process of evaluating the impact of the new standard on existing revenue streams and will first apply AASB 15 in the financial year beginning 1 July 2018.

AASB 16 Leases

AASB 16 replaces the current AASB 17 Leases standard. AASB 16 removes the classification of leases as either operating leases or finance leases- for the lessee - effectively treating all leases as finance leases. Most leases will be capitalised on the statement of financial position by recognising a 'right-of-use' asset and a lease liability for the present value obligation. This will result in an increase in the recognised assets and liabilities in the statement of financial position as well as a change in expense recognition, with interest and deprecation replacing operating lease expense.

Lessor accounting remains similar to current practice, i.e. lessors continue to classify leases as finance and operating leases.

AASB 16 is effective from annual reporting periods beginning on or after 1 January 2019, with early adoption permitted for entities that also adopt AASB 15.

This standard will primarily affect the accounting for the Group's operating lease. As at 30 June 2017, the Group has $13,065 of non-cancellable operating lease commitments, solely relating to property lease. The Group is considering the available options to account for this transition but the Group expects an increase in reported earnings before interest, tax, depreciation and amortisation (EBITDA) and increase in lease assets and liabilities recognition. This will however be dependent on the lease arrangements in place when the new standard is effective. The Group has commenced the process of evaluating the impact of the new lease standard.

No other new standards, amendments to standards and interpretations are expected to affect the Group's consolidated financial statements.

(c) Statement of Compliance

The financial report was authorised for issue on 29 September 2017.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

(d) Going Concern

The 30 June 2017 financial report has been prepared on the going concern basis that contemplates the continuity of normal business activities and the realisation of assets and extinguishment of liabilities in the ordinary course of business. For the year ended 30 June 2017 the Group incurred an operating loss of $7,096,906 (2016 net loss: $2,075,525) and a net cash outflow from operating activities amounting to $3,933,832 (30 June 2016: $3,180,718). The Company has a loan facility of $1,500,000 (only $500,000 was drawn at 30 June 2017) which is repayable by 31 December 2017 either in cash, ordinary shares or a combination of both cash and ordinary shares.

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NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) Going Concern (cont'd)

On 28 September 2017, the Company announced that it has received firm commitments from sophisticated investors to raise $3 million, with 100 million Shares to be issued at $0.03 per share. The funds raised will be used for working capital as the Company seeks to meet increasing purchase orders as recently announced on the Company's ASX announcement platform. It is anticipated that the Placement Shares will be issued on or about 10 October 2017.

Based on the Group's cash flow forecast it is likely that the Group will need to access additional working capital in the next 12 months to advance its activities and to ensure the realisation of assets on an orderly basis and the extinguishment of liabilities as and when they fall due. The directors are confident that the Group will be successful in obtaining additional loan financing or the raising additional funds through the issue of new equity, should the need arise. The directors are also aware that the Group has the option, if necessary, to reduce administration costs in order to minimise its capital raising requirements.

Based on these facts, the Directors consider the going concern basis of preparation to be appropriate for this financial report. Should the Group be unsuccessful in obtaining additional loan financing or raising additional funds through the issue of new equity, there is a material uncertainty which may cast significant doubt whether the Group will be able to continue as a going concern and therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial statements do not include any adjustments relative to the recoverability and classification of recorded asset amounts or, to the amounts and classification of liabilities that might be necessary should the entity not continue as a going concern.

(e) Basis of consolidation

The consolidated financial statements comprise of the financial statements of Connected IO Limited ("the Company") and its controlled entities ("the Group") as at 30 June 2017. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-Group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Control exists where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing when the Group controls another entity.

Unrealised gains or transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any no-controlling interests. When assets of the subsidiary are carried at revalued
amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group has directly disposed of the relevant assets (i.e. reclassified to profit or loss of transferred directly to retained earnings as specified by applicable Standards). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under AASB 139 'Financial Instruments: recognition and Measurement' or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or business under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.
The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. These provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with AASB 139, or AASB 137 'Provisions, Contingent Liabilities and Contingent Assets', as appropriate, with the corresponding gain or loss being recognised in profit or loss.

(g) Revenue recognition

Revenue is measured at fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

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NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(g) Revenue recognition (cont'd)

Sale of goods

Revenue is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from the rendering of services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- Contract income is recognised by reference to the total actual costs incurred at the end of the reporting period relative to the proportion of the total costs expected to be incurred over the life of the contract;
- Servicing fees are recognised by reference to the proportion of the total cost of providing the service for the product sold; and
- Revenue from time and material contracts are recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

Interest income

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

(h) Borrowing costs

Borrowing costs are capitalised that are directly attributable to the acquisition, construction or production of qualifying assets where the borrowing cost is added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(i) Cash and cash equivalents

Cash comprises cash at bank and in hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as described above, net of outstanding bank overdrafts.

(j) Trade and other receivables

Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. Trade receivables are generally due for settlement within periods ranging from 15 days to 30 days.

Impairment of trade receivables is continually reviewed and those that are considered to be uncollectible are written off by reducing the carrying amount directly. An allowance account is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms. Factors considered by the Group in making this determination include known significant financial difficulties of the debtor, review of financial information and significant delinquency in making contractual payments to the Group. The impairment allowance is set equal to the difference between the carrying amount

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NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(j) Trade and other receivables (cont'd)

of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate. Where receivables are short-term discounting is not applied in determining the allowance.

The amount of the impairment loss is recognised in the statement of comprehensive income 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 account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of profit or loss and other comprehensive income.

The Group assesses at each balance date whether a financial asset or Group of financial assets is impaired.

(i) Financial assets carried at amortised cost
If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account.
The amount of the loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a Group of financial assets with similar credit risk characteristics and that Group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(ii) Financial assets carried at cost
If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Such impairment loss shall not be reversed in subsequent periods.

(iii) Available-for-sale investments
If there is objective evidence that an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the Statement of Comprehensive Income. Reversals of impairment losses for equity instruments classified as available-for-sale are not recognised in profit. Reversals of impairment losses for debt instruments are reversed through profit or loss if the increase in an instrument's fair value can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

(k) Foreign currency translation
Both the functional and presentation currency of the Company and its controlled entities in these Financial Statements is Australian dollars. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(k) Foreign currency translation (cont'd)

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance date.

All exchange differences in the consolidated financial report are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss.

Tax charges and credits attributable to exchange differences on borrowings are also recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

As at the reporting date the assets and liabilities of these subsidiaries are translated into the presentation currency of the Company at the rate of exchange ruling at the balance date and their statements of comprehensive income are translated at the weighted average exchange rate for the year.

The exchange differences arising on the translation are taken directly to a separate component of equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss.

(l) Income Tax

The income tax expense or benefit for the period is the tax payable on the current 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 and to unused tax losses.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance date.

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of 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 profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or

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NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(l) Income Tax (cont'd)

- interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

(m) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

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

(n) Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition is accounted for as follows:

- Raw materials – purchase cost on a first-in, first-out basis; and
- Finished goods and work-in-progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

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NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(o) Plant and equipment
Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on a diminishing value basis over the estimated useful life of the assets as follows:
Plant and equipment – over 3 to 10 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

(i) Impairment
The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the Statement of Comprehensive Income in the cost of sales line item.

(ii) Derecognition and disposal
An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

(p) Goodwill
Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash-generating units, or Groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

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NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(p) Goodwill (cont'd)

Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with AASB 8 Operating Segments.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

(q) Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period, with any changes in these accounting estimates being accounted for on a prospective basis.

Internally generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period as incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably.

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NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(q) Intangible assets (cont'd)

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

(r) Financial assets

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

(i) Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(iii) Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss. The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models.

(iv) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(s) Derecognition of financial assets and financial liabilities

(i) Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a Group of similar assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either:
- has transferred substantially all the risks and rewards of the asset, or
- has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Group could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such as an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(t) Interest-bearing loans and borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

The fair value of the liability portion of a convertible note is determined using a market interest rate for an equivalent non-convertible note. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the note. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholder's equity, net of income tax effects.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

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NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(t) Interest-bearing loans and borrowings (cont'd)

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(u) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

Provisions are measured at the present value or management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

Onerous contracts
Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

Warranties
Provisions for the expected cost of warranty obligations under local sale of goods legislation are recognised at the date of sale of the relevant products, at the Directors' best estimate of the expenditure required to settle the Group's obligation.

(v) Employee leave benefits

Wages, salaries, annual leave and sick leave
Liabilities accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave expected to be settled within 12 months of the balance date are recognised in other payables in respect of employees' services up to the balance date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Liabilities accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave not expected to be settled within 12 months of the balance date are recognised in non-current other payables in respect of employees' services up to the balance date. They are measured as the present value of the estimated future outflows to be made by the Group.

Long service leave
The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the balance date. Consideration is given to expected future wage and salary levels, experience of employee departures, and period of service. Expected future payments are discounted using market yields at the balance date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(w) Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(x) Impairment of tangible and intangible assets other than goodwill

The Group assesses at each balance date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

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NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(x) Impairment of tangible and intangible assets other than goodwill (cont'd)

An assessment is also made at each balance date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(y) Trade and other payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. Trade and other payables are presented as current liabilities unless payment is not due within 12 months.

(z) Share-based payment transactions

Equity settled transactions:

The Group provides benefits to employees (including senior executives) of the Group in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

When provided, the cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a binomial model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Connected IO Limited (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The Statement of Comprehensive Income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

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NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(z) Share-based payment transactions (cont'd)

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (see Note 17).

(aa) Issued capital

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.

(bb) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of the Company.

(cc) Parent entity financial information

The financial information for the parent entity, Connected IO Limited, disclosed in Note 26 has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the parent entity's financial statements. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

Share-based payments

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution to that subsidiary undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

(dd) Earnings per share

Basic earnings per share is calculated as net profit/loss attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit/loss attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

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NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(ee) Critical Accounting Estimates and Judgments

The application of accounting policies requires the use of judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions are recognised in the period in which the estimate is revised if it effects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Business Acquisition

On 18 January 2016, G8 Communications Limited (now known as Connected IO Limited) ("the Company"), through its wholly owned subsidiary G8 International Inc ("G8I") acquired 100% of the voting shares of Connected IO, Inc. ("Connected") and ICU Wireless Systems Limited ("ICU") (together the "Connected Group").

Management assessed the acquisition and deemed it to be a business combination in accordance with AASB 3. As such, consideration is measured at the fair value of the assets transferred, liabilities incurred and equity interests issued by the entity on the acquisition date.

Share issues for non-cash consideration

On 18 January 2016, 400,000,000 shares were issued to the Vendors of the acquisition. Management valued this at the market price on that date, being $0.01 in accordance with the principles of AASB 2.

Impairment of available-for-sale financial assets

The Group follows the guidance of AASB 139 *Financial Instruments: Recognition and Measurement* to determine when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

2 BUSINESS COMBINATION

Acquisition of the Connected Group

On 18 January 2016, G8 Communications Limited (now known as Connected IO Limited) ("the Company"), through its wholly owned subsidiary G8 International Inc ("G8I") acquired 100% of the voting shares of Connected IO, Inc. ("CIO") and ICU Wireless Systems Limited ("ICU") (together the "Connected Group").

In accordance with AASB 3 Business Combinations, this transaction is within the scope of the accounting standard and is deemed to be a business combination. As such, consideration is measured at the fair value of the assets transferred, liabilities incurred and equity interests issued by the entity on the acquisition date.

Consideration also includes the acquisition date fair values of any contingent consideration arrangements, any pre-existing equity interest in the acquiree and share-based payment awards of the acquiree that are required to be replaced in a business combination. Where equity instruments are issued as part of the consideration, the value of the equity instruments is their published market price at the acquisition date. Identifiable assets acquired and liabilities and contingent liabilities assumed in business combinations are, with limited exceptions, initially measured at their fair values at acquisition date.

Goodwill represents the excess of the consideration transferred over fair value of the identifiable net assets acquired. If the consideration is less than the fair value of the net identifiable assets acquired the difference is recognised in profit or loss as a bargain purchase price, but only after a reassessment of the identification and measurement of the net assets acquired.

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NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

2 BUSINESS COMBINATION (CONT'D)

Consideration paid

The Company issued 200,000,000 Vendor shares valued at $0.02 per share which was the market price of the shares at the date of exchange, as consideration for the acquisition of Connected Group. The proportion of consideration shares paid for CIO and ICU respectively was determined by the number of shares received by the Vendors of the acquisition.

	CIO	ICU	Total
	$	$	$
Consideration Paid	**1,840,000**	**2,160,000**	**4,000,000**

There were no acquisition costs in relation to the business combination.

Assets acquired and liabilities assumed at the date of acquisition

As at 30 June 2016, the Group recognised the fair values of the identifiable assets and liabilities of the Connected Group based upon the best information available as of the reporting date. Business combination accounting is as follows:

	CIO	ICU	Total
	$	$	$
Cash and cash equivalents	27,149	26	27,175
Trade and other receivables	276,460	1,051	277,511
Inventory	39,396	-	39,396
Property plant and equipment	19,269	-	19,269
Other intangibles	-	657,761	657,761
Loan receivable	29,158	-	29,158
Trade and other payables	(675,712)	(7,749)	(683,461)
Loan payable	(294,330)	(1,194,663)	(1,488,993)
Net identifiable liabilities acquired	**(578,610)**	**(543,574)**	**(1,122,184)**
Consideration paid	1,840,000	2,160,000	4,000,000
Fair value attributable to goodwill acquired	**2,418,610**	**2,703,574**	**5,122,184**

Goodwill arose in the acquisition because the cost of the combination includes a control premium. None of the goodwill arising on acquisition is expected to be deductible for tax purposes.

3 INVESTMENTS

The consolidated financial statements include financial statements of Connected IO Limited and the following subsidiaries:

	Country of	*% Equity Interest*	
Name	*Incorporation*	*2017*	*2016*
Connected IO, Inc	Delaware, USA	100%	100%
ICU Wireless Systems Limited	Mauritius	100%	100%
G8 International Connect, Inc	Delaware, USA	100%	100%
Denny Dalton (Pty) Ltd	Republic of South Africa	100%	100%
Energy Corporation of America LLC	USA	100%	100%

Connected IO Limited is the ultimate Australian parent entity and ultimate parent of the Group.

Balances between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and not disclosed in this note.

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NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

4 GOODWILL

	Consolidated 2017 $	Consolidated 2016 $
Opening Balance	5,122,184	-
Acquired as part of the business combination (Note 2)	-	5,122,184
Impairment	(2,703,574)	-
Closing Balance	**2,418,610**	**5,122,184**

Impairment of $2,703,574 is applicable to the acquisition of ICU Wireless Systems Limited cash generating unit as intangible assets acquired were written off as they were no longer being utilised.

5 OTHER INTANGIBLES

	Consolidated 2017 $	Consolidated 2016 $
Opening Balance	606,205	-
Acquired as part of the business combination	-	657,761
Foreign exchange movement	19,838	(51,556)
Assets written off as no longer utilised	(626,043)	-
Closing Balance	**-**	**606,205**

Impairment of $626,043 as intangible assets acquired were written off as no longer being utilised.

6 DEBTS FORGIVEN

Current year debts forgiven were $250,638 (2016: $567,774). Debts were forgiven as they were no longer due to be paid by the Company during the year.

7 REVENUE

	Consolidated 2017 $	Consolidated 2016 $
Sales revenue	1,683,616	217,150
Interest received	10,495	19,694
Total revenue	**1,694,111**	**236,844**

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NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

8 INCOME TAX

	Consolidated 2017 $	Consolidated 2016 $
(a) Income Tax Benefit		
The major components of tax expense are:		
The prima face income tax expense/benefit on pre-tax accounting result from operations reconciles to the income tax expense/benefit in the financial statements as follows:		
Accounting loss before tax from continuing operations	(7,096,906)	(2,075,525)
Income tax benefit calculated at 27.5% (2016: 30%)	(1,951,649)	(622,658)
Non-deductible expenses	983,873	-
Unused tax losses and tax offset not recognised as deferred tax assets	413,516	76,733
Other deferred tax assets and tax liabilities not recognised	35,219	545,925
Difference in tax rate of subsidiaries	(363,028)	-
Change in tax rate	882,069	-
Income tax expense/(benefit) reported in the income statement	**-**	**-**

(b) Unrecognised deferred tax balances

The following deferred tax assets and liabilities have not been brought to account:		
Deferred tax assets comprise:		
Losses available for offset against future taxable income – revenue	1,787,461	8,183,818
Losses available for offset against future taxable income - capital	-	2,276,811
Depreciation timing differences	13,177	-
Share issue expenses	135,598	114,780
Accrued expenses and liabilities	55,014	9,421
	1,991,250	**10,584,830**
Deferred tax liabilities comprise:		
Prepayments	4,019	-
	4,019	**-**

Deferred tax assets have not been recognised in respect of the above items because it is not considered probable that future taxable profit will be available against which the Group can utilise the benefits thereof.
Deferred tax liabilities have not been recognised in respect of these taxable temporary differences as the entity is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

(c) Income tax expense not recognised direct in equity during the year:

Share issue costs	59,184	103,860
	59,184	**103,860**

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NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

9 CASH AND CASH EQUIVALENTS

	Consolidated 2017 $	Consolidated 2016 $
Cash at bank	639,457	1,295,818
Closing Balance	**639,457**	**1,295,818**

10 TRADE AND OTHER RECEIVABLES

	Consolidated 2017 $	Consolidated 2016 $
Current		
Trade and Other Receivables	393,910	480,674
Allowance for Doubtful Debts	(99,165)	-
Closing Balance	**294,745**	**480,674**

(i) the average credit period on sales of goods and rendering of services is 30 days.

(ii) An allowance has been made for estimated irrecoverable trade receivable amounts arising from the past sale of goods and rendering of services, determined by reference to past default experience.

Aging of past due but not impaired
In determining the recoverability of a trade receivable, the Group considers any changes in the credit quality of the trade receivable from the date credit was initially granted up to the balance date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the Directors believe that there is no further credit provision required in excess of the allowance for impairment.

11 INVENTORY

	Consolidated 2017 $	Consolidated 2016 $
Finished goods – at cost	1,070,072	473,882
Closing Balance	**1,070,072**	**473,882**

12 PLANT AND EQUIPMENT

	Consolidated 2017 $	Consolidated 2016 $
Paintings	-	36,111
Plant and equipment	54,547	6,718
Closing Balance	**54,547**	**42,829**

Reconciliation

	Paintings $	Plant and Equipment $	Total $
Cost			
Opening Balance	56,539	-	56,539
Acquired as part of a business combination	-	7,290	7,290
Foreign exchange	-	(572)	(572)
Closing Balance – 30 June 2016	**56,539**	**6,718**	**63,257**

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NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

12 PLANT AND EQUIPMENT (CONT'D)

	Paintings $	Plant and Equipment $	Total $
Additions	-	81,386	81,386
Impairment	(35,750)	-	(35,750)
Foreign exchange	-	(194)	(194)
Closing Balance – 30 June 2017	**20,789**	**87,910**	**108,699**
Accumulated depreciation			
Opening balance	(19,691)	-	(19,691)
Depreciation	(737)	-	(737)
Closing Balance – 30 June 2016	**(20,428)**	**-**	**(20,428)**
Depreciation	(361)	(33,363)	(33,724)
Closing Balance – 30 June 2017	**(20,789)**	**(33,363)**	**(54,152)**
Carrying value – 30 June 2016	36,111	6,718	42,829
Carrying value – 30 June 2017	-	54,547	54,547

Impairment loss recognised

During the year, artwork appraisals noted a significant decline in the net realisable value of the paintings held. The results of the appraisal, which is based on recent market valuations of similar assets, gave rise to recognition of an impairment loss of $35,750. No impairment assessment was performed in 2016 as there was no indication of impairment.

13 TRADE AND OTHER PAYABLES

	Consolidated 2017 $	Consolidated 2016 $
Current		
Trade payables and accruals	961,380	1,282,843
Closing Balance	**961,380**	**1,282,843**

The net carrying value of trade payables and accruals are considered a reasonable approximation of fair value.

14 BORROWINGS

	Consolidated 2017 $	Consolidated 2016 $
Current		
Opening Balance	-	-
Loan – secured	-	-
Loan – unsecured (1)	500,000	-
Closing Balance	**500,000**	**-**

(1) During the year the Company entered into a loan agreement to advance funds of up to $1,500,000. The loan is for working capital purposes and any repayment of the loan is to be made in cash unless the lender elects at its sole discretion to be made in shares in the Company or a combination of both.

The last repayment date is six months from the initial drawdown of the loan, being 28 December 2017 and the interest rate is 9% per annum.

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NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

15 ISSUED CAPITAL

	Consolidated 2017 $	Consolidated 2016 $
Issued and paid up capital		
Ordinary shares fully paid (a)	63,678,745	60,893,961
	63,678,745	**60,893,961**

Movements in issued and paid up capital

	Number	Consolidated $
(a) Ordinary shares fully paid		
Balance as at 1 July 2015	2,373,350,092	46,802,238
Shares issued pursuant to a Placement - 2 July 2015[1]	17,703,000	17,703
Partly paid shares paid up - 13 November 2015[2]	4,000,000	3,200,000
Capital consolidation 1:60[3]	(2,355,137,040)	-
Conversion of convertible notes - 18 January 2016[4]	100,000,000	1,000,000
Public shares issued pursuant to a Prospectus raising - 18 January 2016[5]	225,000,000	4,500,000
Vendor shares issued pursuant to a Prospectus - 18 January 2016[5]	200,000,000	4,000,000
Facilitation shares issued pursuant to a Prospectus - 18 January 2016[5]	20,000,000	400,000
Shares issued under the KVG loan with ICU – 18 January 2016[6]	90,000,000	1,194,663
Shares issued under the Bonarc offer - 18 January 2016[7]	15,000,000	300,000
Costs directly attributable to issue of share capital	-	(520,643)
Balance as at 30 June 2016	**689,916,052**	**60,893,961**
Balance as at 1 July 2016	689,916,052	60,893,961
Shares issued pursuant to a Placement – 30 August 2016[8]	100,000,000	3,000,000
Shares issued to a corporate advisory mandate – 11 April 2017[9]	3,000,000	78,000
Costs directly attributable to issue of share capital	-	(293,216)
Balance as at 30 June 2017[10]	**792,916,052**	**63,678,745**
(b) Ordinary shares partly paid		
Balance as at 1 July 2015	4,000,000	3,200,000
Shares which became fully paid during the year[2]	(4,000,000)	(3,200,000)
Balance as at 30 June 2016	**-**	**-**
Balance as at 1 July 2016	-	-
Shares which became fully paid during the year	-	-
Balance as at 30 June 2017	**-**	**-**

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NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

15 ISSUED CAPITAL (CONT'D)

	Number	Consolidated $
(c) Unissued shares		
Balance as at 1 July 2015	17,703,000	17,703
Shares which became fully paid during the year[1]	(17,703,000)	(17,703)
Balance as at 30 June 2016	**-**	**-**
Balance as at 1 July 2016	-	-
Movement	-	-
Balance as at 30 June 2017	**-**	**-**

[1] On 2 July 2015, the Company issued 17,703,000 fully paid ordinary shares as approved by Shareholders at the Annual General Meeting held on 28 November 2014.
[2] On 13 November 2015, the Company held an auction whereby the partly paid shares had become fully paid shares upon sale of 4,000,000 ordinary shares for $100 as approved by Shareholders at the Annual General Meeting held on 28 November 2014.
[3] On 30 December 2015, the Company's capital was consolidated on a 1:60 basis as approved by Shareholders at the General Meeting held on 21 December 2015.
[4] On 18 January 2016, 50,000,000 fully paid ordinary shares were issued to Connected Noteholders and 50,000,000 fully paid ordinary shares were issued to Leopard Noteholders as approved by Shareholders at the General Meeting held on 21 December 2015.
[5] On 18 January 2016, 225,000,000 fully paid ordinary shares were issued under a Prospectus Public Raising, 200,000,000 fully paid ordinary shares were issued to Vendors for the acquisition of Connected Group and 20,000,000 fully paid ordinary shares were issued to facilitators of the transaction, pursuant to the Prospectus dated 27 November 2015 and as approved by Shareholders at the General Meeting held on 21 December 2015.
[6] On 18 January 2016, 90,000,000 Shares in full satisfaction and extinguishment of the KGV Loan as approved by Shareholders at the General Meeting held on 21 December 2015.
[7] On 18 January 2016, 15,000,000 Shares in partial satisfaction of the Bonarc Loan as approved by Shareholders at the General Meeting held on 21 December 2015.
[8] On 30 August 2016, 100,000,000 fully paid ordinary shares were placed with sophisticated investors at $0.03 to raise $3,000,000.
[9] On 11 April 2017, 3,000,000 fully paid ordinary shares were issued in consideration for corporate services pursuant to a corporate advisory mandate.
[10] Of a total of 792,916,052 ordinary shares on issue, 265,246,700 are escrowed to 15 March 2018.

Options

	2017 Number	2016 Number
Unlisted Options 0.5 cents		
Balance as at 1 July	-	696,666,667
Expired during the year	-	(696,666,667)
Balance at 30 June	**-**	**-**

16 RESERVES

Nature and purpose of reserves

Share-based payments reserve

This reserve is used to record the value of equity benefits provided to employees and Directors as part of their remuneration.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. It is also used to record the effect of hedging net investments in foreign operation.

Available-for-sale financial assets revaluation reserve

This reserve reflects the fair value changes in available-for-sale financial assets.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

17 EARNINGS PER SHARE

	2017 cents	2016 cents
Basic loss per share	(0.92)	(0.54)

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share is as follows:

	2017 $	2016 $
Net loss for year used in total basic EPS	(7,096,906)	(2,075,525)
	Number	**Number**
Weighted average number of ordinary shares used in the calculation of basic EPS	772,916,052	382,107,832

18 NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of cash and cash equivalents

For the purpose of the Statement of Cash Flows, cash includes cash on hand and in banks and deposits at call, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	2017 $	2016 $
Cash at bank	639,457	1,295,818
Balance at 30 June	**639,457**	**1,295,818**

(b) Reconciliation of loss for the period to net cash flows from operating activities

	2017 $	2016 $
Loss after income tax	(7,096,906)	(2,075,525)
Non-Cash Items:		
Depreciation expense	33,724	737
Loss on disposal of investments	-	18
Impairment of goodwill	2,703,574	-
Impairment of plant and equipment	35,750	-
Other intangibles written off	626,043	-
Debts forgiven	(250,638)	(567,774)
Changes in Assets and Liabilities		
(Increase)/decrease in trade and other receivables	185,929	(192,328)
(Increase)/decrease in inventory	(596,190)	(473,882)
(Decrease)/increase in trade and other payables	286,839	(298,293)
Increase)/decrease in other assets	(3,402)	-
(Increase)/decrease in loan receivable	141,445	(141,445)
Net cash flows from operating activities	**(3,933,832)**	**(3,180,718)**

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18 NOTES TO THE CASH FLOW STATEMENT (CONT'D)

Non-cash financing activities
The company did not engage in any non-cash financing activities for the year ended 30 June 2017.

19 RELATED PARTY TRANSACTIONS

(a) Transactions with key management personnel

i. Key management personnel compensation
The aggregate compensation made to key management personnel of the Company is set out below:

	2017 $	2016 $
Short term employee benefits	426,072	329,396
Post-employment benefits	11,400	-
Share-based payments	-	3,325
	437,472	**332,721**

ii. Transactions with key management personnel and related parties
A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Company in the reporting period. The terms and conditions of the transactions with management persons and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis.

Reimbursements
During the year, $45,612 (ex GST) was paid to Mr Ferris in relation to reimbursements (2016: $40,159). Mr Thomas was paid $254 (ex GST) in relation to reimbursements (2016: $1,063). Mr De Mori was paid $51 (ex GST) in relation to reimbursements (2016: $nil). Reimbursements related to travelling, communications and other minor incidentals.

20 AUDITORS' REMUNERATION

	2017 $	2016 $
Remuneration of the auditor of the Company (HLB Mann Judd) for:		
- auditing or reviewing the financial report	51,150	40,150
	51,150	**40,150**

21 FINANCIAL INSTRUMENTS

(a) Financial risk management policies
The Group's principal financial instruments comprise cash and short-term deposits and trade and other payables as disclosed in the financial statements. The main purpose of these financial instruments is to manage the working capital needs of the Group's operations. It is the Group's policy that no trading in financial instruments shall be undertaken. The board reviews and agrees policies for managing this risk is summarised below.

(i) Credit risk management
The Company is not currently exposed to credit risk other than in the normal course of business.

21 FINANCIAL INSTRUMENTS (CONT'D)

(a) Financial risk management policies (cont'd)
(ii) Liquidity risk management
Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

	1 year or less $	1 to 5 years $	Total $
Consolidated			
30 June 2017			
Financial assets			
Cash and cash equivalents	639,457	-	**639,457**
Trade receivables and other receivables	294,745	-	**294,745**
Loan receivable	-	-	**-**
Total financial assets	**934,202**	**-**	**934,202**
Financial liabilities			
Trade and other payables	(961,380)	-	**(961,380)**
Borrowings	(500,000)	-	**(500,000)**
Total financial liabilities	**(1,461,380)**	**-**	**(1,461,380)**
Consolidated			
30 June 2016			
Financial assets			
Cash and cash equivalents	1,295,818	-	**1,295,818**
Trade receivables and other receivables	480,674	-	**480,674**
Loan receivable	141,445	-	**141,445**
Total financial assets	**1,917,937**	**-**	**1,917,937**
Financial liabilities			
Trade and other payables	(1,282,843)	-	**(1,282,843)**
Borrowings	-	-	**-**
Total financial liabilities	**(1,282,843)**	**-**	**(1,282,843)**

(iii) Interest rate risk
The financial instruments which primarily expose the Company to interest rate risk are cash and cash equivalents. The Company's exposure to interest rate risk and the effective interest rate for classes of financial assets and financial liabilities using sensitivity analysis is not material.

(iv) Foreign currency risk
The Group operates internationally and is exposed to foreign exchange risk arising from exposures to the US dollar. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

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NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

21 FINANCIAL INSTRUMENTS (CONT'D)

(a) Financial risk management policies (cont'd)
(iv) Foreign Currency Risk (Cont'd)

Foreign currency sensitivity analysis
The Group is exposed to US Dollar (USD) currency fluctuations.

The following table details the Group's sensitivity to a 3% increase and decrease in the Australian dollar against the USD. 3% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 3% change in foreign currency rates. A positive number indicates a decrease in profit or loss and other equity where the Australian Dollar strengthens against the respective currency. For a weakening of the Australian Dollar against the respective currency there would be an equal and opposite impact on the profit and other equity and the balances below would be negative.

	2017 $	2016 $
Profit or loss	81,297	244,083
Equity	(81,297)	(244,083)

(v) Fair value of financial instruments
The fair values of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analyses.

The directors consider that the carrying amounts of financial assets and financial liabilities which are all recorded at amortised cost less accumulated impairment charges in these financial statements, approximate their fair values.

22 OPERATING SEGMENTS

AASB 8 Operating Segments requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Group's operating segments have been determined with reference to the monthly management accounts used by the Chief Operating Decision Maker to make decisions regarding the Company's operations and allocation of working capital. Due to the size and nature of the Group, the Board as a whole has been determined as the Chief Operating Decision Maker.

Based on the quantitative thresholds included in AASB 8, there is only one reportable segment, being the development and manufacture of wireless technologies.

The revenues and results of this segment are those of the Group as a whole and are set out in the consolidated statement of comprehensive income. The segment assets and liabilities of this segment are those of the Group and are set out in the consolidated statement of financial position.

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NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

23 CONTINGENT LIABILITIES

The Company is currently seeking legal advice in relation to the Missions and Cables tenement. As previously announced, court processes have commenced and the Company has been advised the process will run to 20 November 2017. A ruling will be made in relation to the "Other Party" file submissions by 26 September 2017, Company file submissions by 24 October 2017 and "Other party" to file any responsive submissions by 31 October 2017.

The substantive hearing is listed for 20 November 2017. The board has the full support of major shareholders to continue with this process.

With the exception of the above, there are no other contingent liabilities as at balance date (2016: $nil).

24 COMMITMENTS

Office Accommodation Services

On 19 January 2017, the Company entered into a 12 month lease agreement with Palmstar Pty Ltd for office premises.

	2017 $	2016 $
Commitments no longer than 1 year		
Annual office accommodation services	13,065	13,000
Balance as at 30 June	**13,065**	**13,000**

25 SUBSEQUENT EVENTS

On 28 September 2017, the Company announced that it has received firm commitments from sophisticated investors to raise $3 million, with 100 million Shares to be issued at $0.03 per share. The funds raised will be used for working capital as the Company seeks to meet increasing purchase orders as recently announced on the Company's ASX announcement platform. It is anticipated that the Placement Shares will be issued on or about 10 October 2017.

26 PARENT ENTITY INFORMATION

The following detailed information is related to the parent entity, Connected IO Limited, as at 30 June 2016 and 30 June 2017.

	2017 $	2016 $
Current assets	581,066	1,425,121
Non-current assets	3,128,885	5,860,611
Total assets	**3,709,951**	**7,285,732**
Current liabilities	679,758	414,154
Non-current liabilities	-	-
Total liabilities	**679,758**	**414,154**
Contributed equity	63,678,745	60,893,961
Reserves	968,849	968,849
Accumulated losses	(61,617,401)	(54,991,232)
Total equity	**3,030,193**	**6,871,578**
Loss for the year	(6,626,169)	(2,295,630)
Other comprehensive loss for the year	-	-
Total comprehensive loss for the year	**(6,626,169)**	**(2,295,630)**

DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. in the Directors' opinion, the financial statements and accompanying notes are in accordance with the *Corporations Act 2001* and:

   (a) comply with Accounting Standards and the *Corporations Regulations 2001*; and

   (b) give a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the year ended on that date;

2. note 1 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board;

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

4. the remuneration disclosures included in the directors' report (as part of the audited Remuneration Report), for the year ended 30 June 2017, comply with section 300A of the *Corporations Act 2001*; and

5. the directors have been given declarations by the chief executive officer and the chief financial officer required by s295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:

Jason Ferris
Director

Perth
29 September 2017

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INDEPENDENT AUDITOR'S REPORT

To the members of Connected IO Limited

Report on the Audit of the Financial Report

Qualified opinion

We have audited the financial report of Connected IO Limited ("the Company") and its controlled entities ("the Group"), which comprises the consolidated statement of financial position as at 30 June 2017, 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, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, except for the effects of the matter described in the Basis for qualified opinion section of our report, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended; and
b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for qualified opinion

As disclosed in our audit report for the year ended 30 June 2016, as at the date of our report, we were unable to obtain sufficient appropriate audit evidence in relation to the acquired goodwill relating to the acquisition of subsidiaries. As a result, we were unable to form an opinion on the consolidated statement of financial position at 30 June 2016 and 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.

As the statement of financial position as at 30 June 2016 provides the basis for the determination of the performance, cash flows and changes in equity for the year ended 30 June 2017, we are unable to determine the impacts, if any, on the consolidated statement of profit and loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended 30 June 2017.

Our audit opinion on the financial report for the period ended 30 June 2016 was modified accordingly. Our opinion on the current period's financial report is also modified because of the possible effect of this matter on the comparability of the current period's figures and the corresponding figures.

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* ("the 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.

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

Material uncertainty relating to going concern

Without further modification to our opinion, we draw attention to Note 1(d) in the financial report, which indicates that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern.

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. In addition to the matters described in the *Material uncertainty related to going concern* and *Basis for qualified opinion* sections, we have determined the matters described below to be the key audit matters to be communicated in our report**.**

Key Audit Matter	**How our audit addressed the key audit matter**
Carrying amount of goodwill Note 4 of the financial report	
At 30 June 2017, the Group has a balance of \$2,418,610 relating to goodwill acquired as part of a business combination. The Group is required to conduct an impairment assessment in relation to goodwill annually. We considered this to be a key audit matter due to its importance to users' understanding of the financial statements, the degree of estimation involved in future cash flows, discounts rates and other inputs to the value-in-use calculation and the degree of audit effort directed towards this area.	Our audit procedures included but were not limited to the following: • Obtaining an understanding of the key controls associated with the preparation of the model used to assess the recoverable amount of the asset; • Critically evaluating management's methodology in the value-in-use model and the basis for key assumptions; • Assessing the value-in-use model for consistency with the requirements of Australian Accounting Standards; • Performing sensitivity analyses around the key inputs used in the cash flow forecasts and the headroom impact on the model; • Reviewing the mathematical accuracy of the value-in-use model; • Comparing value-in-use to the carrying amount of assets comprising the cash-generating unit; • Considering whether the assets comprising the cash-generating unit had been correctly allocated; • Comparing forecast cash flows to the latest Board approved forecasts; • Considering the appropriateness of the discount rate used; and • Assessing the appropriateness of the disclosures included in the relevant notes to the financial report.

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Information other than the financial report and auditor's report thereon

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 2017, but does not include the financial report and our 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 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.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
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- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 2017.

In our opinion, the remuneration report of Connected IO Limited for the year ended 30 June 2017 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.

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

Norman Glad

N G Neill
Partner

Perth, Western Australia
29 September 2017

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ASX ADDITIONAL INFORMATION

Pursuant to the Listing Rules of the Australian Securities Exchange, the shareholder information set out below was applicable as at 18 September 2017.

A. Distribution of Equity Securities

Analysis of numbers of shareholders by size of holding:

Distribution	Number of Shareholders	Number of Shares
1 to 1,000	2,988	405,926
1,001 to 5,000	251	585,144
5,001 to 10,000	56	444,301
10,001 to 100,000	428	19,906,081
100,001 and Over	599	771,574,600
	4,322	**792,916,052**

There were 3,346 shareholders holding less than a marketable parcel of ordinary shares.

B. Substantial Shareholders

An extract of the Company's Register of Substantial Shareholders (who hold 5% or more of the issued capital) is set out below:

		Issued Ordinary Shares	
	Shareholder Name	**Number**	**%**
1	Cocoon Capital Investments Limited	124,500,000	15.70
2	King George V Nominees Ltd	90,000,000	11.35
3	Yakov Temov	46,000,000	5.80
4	White Light Communications Ltd	46,000,000	5.80

C. Twenty Largest Shareholders

The names of the twenty largest holders of quoted shares are listed below:

		Issued Ordinary Shares	
	Shareholder Name	**Number**	**%**
1	Cocoon Capital Investments Limited	124,500,000	15.70
2	King George V Nominees Ltd	90,000,000	11.35
3	Yakov Temov	46,000,000	5.80
3	White Light Communications Ltd	46,000,000	5.80
5	Trident Capital Pty Ltd	15,000,000	1.89
6	Tyche Investments Pty Ltd	10,343,000	1.30
7	IML Holdings Pty Ltd	10,096,666	1.27
8	924 Pty Ltd <Zoloto S/F A/C>	9,083,333	1.15
9	Botsky Pty Ltd <The Botica No.2 Family A/C>	7,375,258	0.93
10	Ninety Three Pty Ltd <One Mile S/F A/C>	7,000,000	0.88
11	Aegean Capital Pty Ltd <The Spartacus A/C>	6,000,001	0.76
12	Mr Glynn Logue	6,000,000	0.76
13	Willis Holdings Limited	5,305,753	0.67
14	Wimalex Pty Ltd <Trio S/F A/C>	5,000,000	0.63
15	Mr Brendan David Gore <The Gore Family A/C>	4,766,667	0.60
16	Praha Nominees Pty Ltd <Jag Unit A/C>	3,833,333	0.48
17	Mr Paul Gregory Brown + Mrs Jessica Oriwia Brown <Brown Super Fund A/C>	3,500,000	0.44
18	Dr Nimal Martin Fernando	3,300,000	0.42
19	Willingvale Pty Ltd	3,200,000	0.40
20	Ms Neni Budi Astutik	3,170,833	0.40
	TOTAL	**409,474,844**	**51.64**

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ASX ADDITIONAL INFORMATION (CONT'D)

D. Listed Options

As at the date of this report there were nil listed options on issue in the Company.

E. Voting Rights

In accordance with the Company's Constitution, voting rights in respect of ordinary shares are on a show of hands whereby each member present in person or by proxy shall have one vote and upon a poll, each share will have one vote.

F. Unquoted Securities

Class A Performance Shares	
Number of Class A Performance Shares	100,000,000
Number of Holders	3
Holders with more than 20%	Yakov Temov – 34.55% White Light Communications Ltd – 19.55% Cocoon Capital Investments Ltd – 45.9%

Class B Performance Shares	
Number of Class B Performance Shares	50,000,000
Number of Holders	3
Holders with more than 20%	Yakov Temov – 34.55% White Light Communications Ltd – 19.55% Cocoon Capital Investments Ltd – 45.9%

G. On Market Buy-Back

There is no current on market buy-back for any of the Company's securities.

H. Restricted Securities

Shares	**No. Shares**
Shares – Escrowed 24 months to 15 March 2018	265,246,700
Total	**265,246,700**

Performance Shares	**No. Shares**
Class A Performance Shares – Escrowed 24 months to 15 March 2018	100,000,000
Class B Performance Shares – Escrowed 24 months to 15 March 2018	50,000,000
Total	**150,000,000**

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ASX ADDITIONAL INFORMATION (CONT'D)

I. Details of Performance Shares

Each of the 100,000,000 Class A Performance Shares and 50,000,000 Class B Performance Shares will convert to one (1) fully paid ordinary share upon satisfaction of the relevant Milestone. Accordingly, the Class A Performance Milestone will be achieved if the Company and its subsidiaries achieve aggregated gross revenue of $15,000,000 in any of the financial years ending on 31 December 2017 or 2018, following re-compliance with Chapters 1 and 2 of the Listing Rules. The Class B Performance Milestone will be achieved if the Company and its subsidiaries achieve aggregated gross revenue of $25,000,000 in any of the financial years ending on 31 December 2017 or 2018, following re-compliance with Chapters 1 and 2 of the Listing Rules. No Performance Shares were converted or cancelled during the period. No performance milestones were met during the period.

J. ASX Listing Rule 4.10.19 Confirmation

The Directors of Connected IO Limited confirm in accordance with ASX Listing Rule 4.10.19 that during the financial year ending 30 June 2017, the Company has used its cash, and assets that are readily convertible to cash, in a way consistent with its business objectives.