Appendix 4D and Financial Report for the Half-year ended 30 June 2019

1. Company Details

Name of entity: Pivotal Systems Corporation
ARBN: 626 346 325

Reporting period: Period ended 30 June 2019
Previous Corresponding Period: Period ended 2 July 2018

The financial information contained in the attached consolidated financial report of Pivotal Systems Corporation ("Company") is for the half-year ended 30 June 2019. The previous corresponding period was the half-year ended 2 July 2018 in order to provide a more accurate reflection of the position of the Company, after the completion of listing the Company's CHESS Depository Interests ("CDIs") on the Australian Securities Exchange ("ASX"). Whilst settlement of the funds raised from the Initial Public Offer ("IPO") were received by the Company on 29 June 2018, the conversion of preferred stock and warrants, issue of new shares, and the official listing of the Company did not occur until 2 July 2018 in Australia.

2. Results for Announcement to the Market

	30 Jun 2019 US$'000	2 Jul 2018 US$'000	Up/Down %
Revenue from ordinary activities	8,012	11,187	Down 28%
Gross Profit	199	4,172	Down 95%
Operating Loss	5,106	1,433	Up 256%
Loss from ordinary activities after tax attributable to members of the parent entity	5,076	63,450	Down 92%

3. Review of Operations and Financial Results

Commentary related to the above results and additional information is contained within the attached half-year Financial Report and Directors Report.

4. Dividends

No dividends have been paid or are proposed to be paid by Pivotal Systems Corporation for the half-year 2019 (2018: $Nil).

5. Net Tangible Assets per share

	30 Jun 2019	2 July 2018
Net tangible assets per share (US$ per share)	0.15	0.23

6. Control Gained or Lost Over Entities

There were no changes in control over entities by Pivotal Systems Corporation or its subsidiaries ("Group") during the period.

7. Details of Associates and Joint Venture Entities
The Group has no investments in associates or joint ventures during the reporting period.

8. Accounting Standards
The half-year financial report has been compiled using Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB").

9. Audit Status
The Pivotal Systems Corporation half-year financial report for the half-year ended 30 June 2019 has been subject to review by our external auditors, BDO East Coast Partnership. A copy of the independent review report to the members of Pivotal Systems Corporation is included in the accompanying half-year report.

The information contained within this report is to be read in conjunction with the 2018 Annual Report of Pivotal Systems Corporation and any public announcements made to the ASX during the half-year period ending 30 June 2019 pursuant to its continuous disclosure obligations. Further information regarding the Company and its business activities can be obtained by visiting the Company's website at www.pivotalsys.com.

John Hoffman (*Director*)
29 August 2019 (Fremont PDT), 30 August 2019 (Sydney AEST)

Pivotal Systems Corporation

A DELAWARE CORPORATION
ARBN 626 346 325

Half Year Report

30 June 2019

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Corporate Directory

Company
Pivotal Systems Corporation
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Fax +1 (510) 770 9126

Website www.pivotalsys.com

Directors

John Hoffman	Executive Chairman and Chief Executive Officer
Dr. Joseph Monkowski	Executive Director and Chief Technical Officer
Ryan Benton	Independent Non-Executive Director
Kevin Landis	Non-Executive Director
Peter McGregor	Independent Non-Executive Director
David Michael	Non-Executive Director

Australian Securities Exchange Representative
Ms. Naomi Dolmatoff

United States Registered Office
c/o Incorporating Services Ltd
3500 South Dupont Highway
Dover, Delaware 19901 USA

Australian Registered Office
c/o Company Matters Pty Limited
Level 12, 680 George Street
Sydney, NSW 2000 Australia

United States Legal Adviser
Fenwick & West LLP
801 California Street
Mountain View, California 94041 USA

Australian Legal Adviser
Maddocks Lawyers
Angel Place Level 27,
123 Pitt Street
Sydney, NSW 2000 Australia

Share Registry
Link Market Services
Level 12, 680 George Street
Sydney, NSW 2000 Australia
Telephone: +61 1300 554 474
Facsimile: +61 2 9287 0303

American Stock Transfer and Trust Company, LLC
6201, 15th Avenue
Brooklyn, NY 11219 USA
Telephone: +1 (718) 921 8386

Securities Exchange Listing
Pivotal Systems Corporation (ASX code: PVS).
Chess Depository Interests (“CDIs”) over shares of the Company’s common stock are quoted on the Australian Securities Exchange. One CDI represents one fully paid share in the Company.

Directors' Report

The Directors present their report for Pivotal Systems Corporation ("Pivotal" or "Company") together with the interim financial statements of the Consolidated Entity (referred to hereafter as the "Consolidated Entity" or "Group") consisting of the Company and its subsidiaries for the half-year ended 30 June 2019 and the independent auditor's review report thereon.

Directors

The following persons were directors of the Company during the financial period and until the date of this report, unless otherwise stated:

John Hoffman	Executive Chairman and Chief Executive Officer
Dr. Joseph Monkowski	Executive Director and Chief Technical Officer
Ryan Benton	Independent Non-Executive Director
Kevin Landis	Non-Executive Director
Peter McGregor	Independent Non-Executive Director
David Michael	Non-Executive Director

Half Year Ended 30 June 2019

Principal Activities

Pivotal designs, develops, manufactures and sells high-performance gas flow controllers (GFC). Pivotal provides high quality gas flow monitoring and control technology platform for the global semiconductor industry. The Company's proprietary hardware and software utilizes advanced machine learning to enable preventative diagnostic capability resulting in an order of magnitude increase in fab productivity and capital efficiency for existing and future technology nodes.

Pivotal is incorporated in Delaware, United States and has offices in Fremont California, USA (headquarters) and third party contracted manufacturing and assembling facilities in Shenzhen, China and Dongtan, South Korea.

No significant change in the nature of the activities occurred during the period.

Review of Operations and Financial Results

Revenue decreased 28% to $8.0 million (2018 1H: $11.2 million) as a result of less shipments than expected due to the industry downturn. During the same period Costs of goods sold increased 11%. Costs of goods sold for the first half included a number of one-time expenses that adversely impacted Gross product margin (GPM). Also, product mix has a negative impact on margins as the percentage of original equipment manufacturer, OEM, shipments increased compared to the same period last year. As a result, the Company's gross profit decreased 95% to $0.2 million (2018 1H: $4.2 million).

Total operating expenses for the half year were $5.3 million, decreased slightly from prior year (2018 1H: $5.6 million).

The operating loss was $5.1 million (2018 1H: $1.4 million).

Net loss in the prior period of $63.5 million included a $62.0 million loss due to the impact of the fair value remeasurement of financial liabilities prior to conversion to common shares based on the IPO price. These financial liabilities were Convertible Preferred Stock, Common Stock Warrants, Series C Preferred Stock Warrants, and Series D Preferred Stock Warrants. Immediately prior to completion of the IPO, all warrants were converted to Company's shares either for cash or in a cashless exercise (according to warrant terms), and all Preferred Shares were converted to Common Stock or were cancelled for a cash payment as noted above.

Directors' Report

Key achievements for the period included:

- Achieved Preferred Supplier Status for both the Standard GFC and High Flow GFC at a leading US based Original Equipment Manufacturer (OEM).
- Achieved record bookings (new orders) from China for both the Standard GFC and the High Flow GFC at a leading Chinese Integrated Device Manufacturer (IDM).
- Achieved qualification and multiple repeat orders for the High Temperature GFC with a leading Japanese OEM.
- Successfully qualified the standard GFC at a leading European foundry.
- Successfully qualified and obtained multiple repeat orders at a leading Japanese Logic IDM.
- Successfully qualified and received multiple repeat orders for both deposition and etch at a leading Taiwanese IDM.
- Successfully shipped a second Flow Ratio Controller ("FRC") to a leading Korean IDMo Successfully passed ISO 9001:2015 recertification.
- Backlog (confirmed orders not yet shipped) at 30 June 2019 was US$5.8 million.

Going Concern

As disclosed in the consolidated interim financial statements, the consolidated entity generated a loss after income tax for the period ended 30 June 2019 of $5.1 million (2 July 2018: $63.4 million) and incurred net cash outflows from operating activities of $5.7 million (2 July 2018 net cash inflows of $0.3 million).

The Directors believe that there are reasonable grounds to conclude that the consolidated entity will continue as a going concern, after consideration of the following factors:

- The securing of a US$10 million debt financing facility with Bridge Bank on 27 August 2019 comprised of a $3 million term loan and a working capital revolving credit line of $7 million (refer note 17 for further details).
- The expansion of market opportunities as a result of the development and production of new products.

Accordingly, the directors believe the consolidated entity will be able to continue as a going concern and that it is appropriate to adopt the going concern basis of preparation of the consolidated interim financial report.

Significant Changes in the State of Affairs

There were no significant changes in the state of affairs of the Group during the half-year.

Dividends

No dividends were paid during the half-year ended 30 June 2019 and the Company does not intend to pay any dividends for the half-year 2019 (2018: $Nil).

Presentation Currency

The functional and presentation currency of the Group is United States Dollars (US Dollars). The financial report is presented in US Dollars with all references to dollars, cents or $'s in these financial statements presented in US currency, unless otherwise stated.

Rounding of Amounts

Unless otherwise stated, amounts in this report have been rounded to the nearest thousand United States dollar (US$'000).

Directors' Report

Jurisdiction of incorporation

The Company is incorporated in the State of Delaware, United States of America and is a registered foreign entity in Australia. As a foreign company registered in Australia, the Company is subject to different reporting and regulatory regimes than Australian companies.

Matters Subsequent to the End of the Half-Year

During July 2019, the Company participated in the SEMICON West and at the 11th Annual CEO Summit held in conjunction with SEMICON West. The Company once again demonstrated a new architecture for the existing etch gas stick commonly used by the OEMs. This architecture is called SmartStik as it leverages all of the intelligent signals of the standard GFC, while operating at the microsecond (up to 1,000 times faster than standard GFC millisecond speeds). This design also includes the insertion of a Teflon coating to the GFC valve, enabling a positive shutoff capability. This new architecture potentially enables the elimination of costly components used on traditional etch gas sticks as the SmartStik makes them redundant.

The Company also provided live demonstrations at SEMICON West of the new High Temperature GFC, running at 100 degrees centigrade and the Flow Ratio Controller showing industry leading fast turn on, switching speeds at industry leading accuracy.

Pivotal is also intending to release a derivative of the High Flow GFC, which is expected to materially enhance metal-organic chemical vapour deposition techniques ("MOCVD") used in the production of solar, LED and flat panel markets. The combination of these product initiatives is expected to increase Pivotal's total available market to over US$1 billion. The development and testing per specific application continued during the period, which is expected to be completed in the next six to twelve months.

On 8 July 2019, LHC Capital Partners Pty Ltd, a substantial shareholder of Pivotal Systems Corporation, increased their shareholding from 12.90% to 14.17%.

On 1 August 2019, 2,595,000 share options with an exercise price of AUD $1.60 were issued to employees.

On 1 August 2019, 49,791 shares were issued on the exercise of options.

On 27 August 2019, the Group closed a US$10.0 million business financing agreement with Bridge Bank, a division of Western Alliance Bank (NYSE: WAL). The new $10.0 million facility is comprised of:

- US$7.0 million working capital revolving credit line ("**Revolving Credit Line**")
- US$3.0 million term loan line of credit ("**Term Loan**")

The amount of liquidity available under the US$7.0 million Revolving Credit Line is based upon the Company's balances and composition of eligible customer receivables and inventory, as well as other factors. Amounts borrowed under the Revolving Credit Line mature and become due and payable in 24 months, unless extended by the parties.

The US$3.0 million Term Loan provides funds for the funding of working capital and other corporate purposes for three years, at which time amounts funded under the Term Loan then become payable in 36 equal monthly installments.

Directors' Report

Hari Prasad Sarda v. Pivotal Systems Corporation

On July 14, 2019, Mr. Sarda filed a complaint in the United States District Court Northern District of California, against the Group and is seeking declaratory relief. Mr. Sarda seeks to enforce and exercise an option to purchase 1,100,000 shares of Common Stock allegedly granted on April 29, 2013 at an exercise price of $0.25 per share and alleges that the Group refused to accept the offer to exercise the option claiming that the options were subject to termination per the Groups terms. The Group believes it has defenses to Mr. Sarda's claim and intends to vigorously defend the claim.

No other matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial periods.

Likely developments and expected results of operations

The Group's core growth strategy involves continuing its strong customer-driven product development focus in order to continue to increase market share. The Group's growth strategy also includes:

1. Expanding the product portfolio which in turn increases the total addressable market size; and
2. Establishing relationships with key technology and industry partners in order to improve our product offering and delivery capabilities.

On behalf of the directors

John Hoffman
Executive Chairman and
Chief Executive Officer

Joseph Monkowski
Chief Technology Officer
and Executive Director

29 August 2019 (Fremont PDT), 30 August 2019 (Sydney AEST)

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the half-year ended 30 June 2019

	Note	30 Jun 2019 US$'000	2 Jul 2018 US$'000
Revenue	3	**8,012**	**11,187**
Cost of goods sold		(7,813)	(7,015)
Gross profit		**199**	**4,172**
Expenses			
Research & development	4	(1,743)	(1,567)
Selling & marketing	4	(1,537)	(1,694)
General & administrative	4	(2,025)	(2,344)
Total expenses		**(5,305)**	**(5,605)**
Operating loss		**(5,106)**	**(1,433)**
Finance income	5	99	61
Finance expenses	5	(69)	(102)
Other financial items	5	-	(61,976)
Net loss before income tax expense		**(5,076)**	**(63,450)**
Income tax expense		-	-
Net loss		**(5,076)**	**(63,450)**
Other comprehensive income			
Other comprehensive income for the period, net of tax		-	-
Total comprehensive loss for the period attributable to the members of Pivotal Systems Corporation		**(5,076)**	**(63,450)**
		US$ per share	**US$ per share**
Loss per share from continuing operations attributable to the members of Pivotal Systems Corporation			
Basic and diluted loss per share	13	(0.05)	(3.87)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position
As at 30 June 2019

	Note	30 Jun 2019 US$'000	31 Dec 2018 US$'000
Assets			
Current assets			
Cash and cash equivalents	6	9,705	17,489
Trade and other receivables	7	6,657	3,870
Inventories	8	5,828	6,347
Other assets		470	334
Total current assets		**22,660**	**28,040**
Non-current assets			
Property, plant and equipment, net		331	302
Intangible assets, net	9	9,871	9,078
Right of use assets, net	2	1,287	-
Other assets		23	9
Total non-current assets		**11,512**	**9,389**
Total assets		**34,172**	**37,429**
Liabilities			
Current liabilities			
Trade and other payables	10	5,544	5,336
Employee benefits		474	423
Provisions		196	110
Lease liabilities	2	206	-
Total current liabilities		**6,420**	**5,869**
Non-current liabilities			
Lease liabilities	2	1,134	-
Total non-current liabilities		**1,134**	**-**
Total liabilities		**7,554**	**5,869**
Net assets		**26,618**	**31,560**
Equity			
Contributed equity	11	170,898	170,818
Reserves	12	1,334	1,280
Accumulated losses		(145,614)	(140,538)
Total equity		**26,618**	**31,560**

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity
For the half-year ended 30 June 2019

	Contributed equity US$'000	Reserves US$'000	Accumulated losses US$'000	Total equity US$'000
Balance at 1 January 2018	43,263	1,179	(74,435)	(29,993)
Loss after income tax expense for the period	-	-	(63,450)	(63,450)
Other comprehensive loss for the period, net of tax	-	-	-	-
Total comprehensive loss for the period	**-**	**-**	**(63,450)**	**(63,450)**
Transactions with owners in their capacity as owners:				
Shares issued on conversion of preferred stock and warrants, net of costs	102,730	-	-	102,730
Issue of listed ordinary share capital	26,586	-	-	26,586
Share issue costs	(1,761)	-	-	(1,761)
Share-based payments (note 12)	-	55	-	55
Balance at 2 July 2018	**170,818**	**1,234**	**(137,885)**	**34,167**

	Contributed equity US$'000	Reserves US$'000	Accumulated losses US$'000	Total equity US$'000
Balance at 1 January 2019	170,818	1,280	(140,538)	31,560
Loss after income tax expense for the period	-	-	(5,076)	(5,076)
Other comprehensive loss for the period, net of tax	-	-	-	-
Total comprehensive loss for the period	**-**	-	**(5,076)**	**(5,076)**
Transactions with owners in their capacity as owners:				
Shares issue on exercise of options	80	-	-	80
Share-based payments (note 12)	-	54	-	54
Balance at 30 June 2019	**170,898**	**1,334**	**(145,614)**	**26,618**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows
For the half-year ended 30 June 2019

	Note	30 Jun 2019 US$'000	2 Jul 2018 US$'000
Cash flows used in operating activities			
Receipts from customers		5,185	10,719
Payments to suppliers and employees		(10,858)	(9,977)
Payment related to exercise of put option of warrants related to debt discount		-	(315)
Interest income		89	-
Interest paid	5	(67)	(102)
Net cash (used in)/from operating activities		**(5,651)**	**325**
Cash flows used in investing activities			
Payments for property, plant and equipment		(100)	(192)
Payments for capitalized development		(1,941)	(1,771)
Net cash used in investing activities		**(2,041)**	**(1,963)**
Cash flows used in financing activities			
Proceeds from the issue of shares		-	39,540
Payment to selling shareholders, net of costs		-	(12,955)
Payment of share issue costs		-	(1,761)
Proceeds from exercise of options		50	61
Proceeds from issue of preferred stock		-	2,000
Proceeds from exercise of warrants		-	1
Proceeds from bank loans		-	1,917
Repayment of lease liabilities	2	(52)	-
Mandatory deposits held in financing institutions		(100)	-
Net cash (used in)/from financing activities		**(102)**	**28,803**
Net (decrease)/increase in cash and cash equivalents		**(7,794)**	**27,165**
Cash and cash equivalents at the beginning of the financial year		17,489	1,148
Net effect of foreign exchange		10	61
Cash and cash equivalents at the end of the period	6	**9,705**	**28,374**

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements
For the half-year ended 30 June 2019

Note 1. Statement of Compliance

The Half Year Report of Pivotal Systems Corporation ("Pivotal" or "Company") and its subsidiaries (together the "Consolidated Entity" or "Group") is prepared in accordance with Australian Accounting Standard AASB 134 "Interim Financial Reporting". The Half-Year Report does not include notes of the type normally included in an annual financial report and should read in conjunction with the most recent annual financial report and any public announcements made by Pivotal Systems Corporation during the interim period.

Functional currency

The financial statements are presented in US dollars, which is the functional and presentational currency of Pivotal Systems Corporation. There has been no change in the functional and presentational currency of the Group.

Rounding of amounts

Amounts in this report have been rounded off to the nearest thousand United States dollars, except share and per share amounts.

Going Concern

As disclosed in the consolidated interim financial statements, the consolidated entity generated a loss after income tax for the period ended 30 June 2019 of $5.1 million (2 July 2018: $63.4 million) and incurred net cash outflows from operating activities of $5.7 million (2 July 2018 net cash inflows of $0.3 million).

The Directors believe that there are reasonable grounds to conclude that the consolidated entity will continue as a going concern, after consideration of the following factors:

- The securing of a $10 million debt financing facility with Bridge Bank on 27 August 2019 comprised of a $3 million term loan and a working capital revolving credit line of $7 million (refer note 17 for further details).
- The expansion of market opportunities as a result of the development and production of new products.

Accordingly, the directors believe the consolidated entity will be able to continue as a going concern and that it is appropriate to adopt the going concern basis of preparation of the consolidated interim financial report.

Note 2. Significant accounting policies

The same accounting policies and methods of computation are followed in these interim financial statements as compared with the most recent annual financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

In the current period, the Group has adopted all of the new and revised accounting standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and the International Financial Reporting Interpretations Committee (IFRIC) that are relevant to its operations and effective for the current reporting period.

The impact of the adoption of the new leasing standard and required accounting policies are disclosed below. No other standards have had any impact on the Group's accounting policies.

Note 2. Significant accounting policies *(continued)*

AASB 16 Leases

AASB 16 Leases supersedes AASB 117 Leases, AASB16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

The Group, as lessee, is required to recognize its leases in the statement of financial position, as the distinction between 'operating' and finance' leases has been removed. The lease liability is measured as the present value of the unavoidable future lease payments to be made over the lease term.

The Group adopted AASB 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedients allowing a) the standard to be applied only to contracts that were previously identified as leases applying AASB 117, and b) the measuring the right-of-use asset on transition as being equal to the amount of the lease liability initially recognised on transition minus accrued payments.

The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The effect of adoption of AASB 16 is as follows:

The impact on the consolidated statement of financial position as at 1 January 2019 is an increase in right-of-use assets of $276,105, an increase in the lease liability of $289,285 and the derecognition of deferred rent of $13,180.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	US$'000
Non-cancellable lease commitments as at 31 December 2018 (undiscounted)	294
Reduction from discounting future, undiscounted lease payments to their net present value at the Groups incremental borrowing rate	(5)
Lease liabilities as at 1 January 2019	**289**

(i) Nature and effect of adoption of AASB 16

The Group has lease contracts for its office premises. Before the adoption of AASB 16, the Group classified each of its leases (as lessee) at the inception date as an operating lease (as it held no finance leases). In an operating lease, the leased property was not capitalised, and the lease payments were recognised as an expense in the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the lease term. Prepaid or accrued rent was recognised under prepaid expenses and accounts payable and accrued liabilities, respectively.

Upon adoption of AASB 16, the Group applied a single recognition and measurement approach for all leases where it is the lessee, except for short-term leases and leases of low-value assets. The Group recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. In accordance with the modified retrospective method of adoption, the Group applied AASB 16 at the date of initial application by measuring the right-of-use assets based on the amount equal to the lease liabilities. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

Note 2. Significant accounting policies *(continued)*

(ii) Summary of new accounting policy

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated according to the pattern in which the asset's future economic benefits are expected to be consumed by the Group over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The present value of the lease liability presented in the financial statements refers to the lease of the Group's headquarters in Fremont, California. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term office premises leases i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below $5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. When the Group has the option to lease the assets for additional terms, it applies judgement in evaluating whether it is reasonably certain to exercise the option to renew, considering all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew.

Note 2. Significant accounting policies *(continued)*

(iii) Amounts recognised in the statement of financial position and profit and loss

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use asset US$'000	Lease Liability US$'000
As at 31 December 2018	-	-
Initial adoption of AASB 16	276	289
Additions	1,103	1,103
Amortization expense	(92)	-
Payments that reduce the present value of the lease liability (1)	-	(52)
As at 30 June 2019	**1,287**	**1,340**

(1) Total cash outflows for lease payments is $81,000. This amount includes $29,000 interest expense accrual due to discounting the lease liability at the Group's incremental borrowing rate (See Note 5). Payments of interest are classified as cash flows for operating activities in the statement of cash flows.

Set out below are the amounts recognised in profit and loss for the six months ended 30 June 2019:

	30 Jun 2019 US$'000
Amortization expense of right-of-use asset	92
Interest expense on lease liabilities	29
Total amount recognised in profit or loss	121
Disclosure of Lease liabilities:	
Current	206
Non-current	1,134
Total Lease liabilities	1,340

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group as at the end of the reporting period. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

Note 2. Significant accounting policies (continued)

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of profit and loss and other comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-Group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Operating segment

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start-up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors. Further information on operating segments is disclosed in Note 14.

Note 3. Revenue

	30 Jun 2019 US$'000	**2 Jul 2018 US$'000**
Types of goods or services		
Product revenue	8,265	11,195
Provision for sales returns and discounts	(253)	(8)
Net revenue from contracts with customers	**8,012**	**11,187**

Revenues from product sales are recognized when the customer obtains control of the product, which occurs at a point in time, typically upon delivery to the customer.

Note 3. Revenue (*continued)*

The following table reflects net revenue by type of customer:

	30 Jun 2019 US$'000	2 Jul 2018 US$'000
Integrated device manufacturer (IDM)	2,165	4,230
Original equipment manufacturer (OEM)	5,847	6,957
Net revenue from contracts with customers	**8,012**	**11,187**

Disaggregation of revenue

The Group derives its revenue from the transfer of goods and services at a point in time. The table above provides a breakdown of revenue by major business line. The categories above depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic data. As disclosed in Note 14, the Group has one operating segment.

Note 4. Expenses

Loss before income tax includes the following specific expenses:

	30 Jun 2019 US$'000	2 Jul 2018 US$'000
Research & development		
Amortization of capitalized development costs (Note 9)	1,155	1,465
Salary and benefits expense	389	94
Other	199	8
	1,743	1,567
Selling & marketing		
Salary and benefits expense	601	381
Commissions and bonuses	384	850
Travel and outside services	359	254
Other	193	209
	1,537	1,694
General & administrative		
Salary and benefits expense	720	593
Travel and outside services	789	526
IPO Offer Costs	-	725
Other	516	500
	2,025	2,344

Note 5. Other expenses and income

	30 Jun 2019 US$'000	2 Jul 2018 US$'000
Finance income		
Interest income	89	-
Foreign exchange gains	10	61
	99	**61**
Finance expenses		
Interest paid (1)	67	102
Other expense	2	-
	69	**102**
Other financial items		
Loss from financial liabilities measured at fair value through the profit or loss	-	61,976

(1) As of June 30, 2019, interest paid included $29,000 implicit interest paid for the lease liability, according to the incremental borrowing rate under AASB 16, and $38,000 for penalties paid for the cancellation of Certificates of Deposits (CDs) held in financial institutions prior to maturity. As of December 31, 2018, the Group classified its leases (as lessee) as an operating lease, therefore the implicit interest paid was not required to be recognized in the consolidated statement of profit and loss and other comprehensive income.

Note 6. Current assets - cash and cash equivalents

	30 Jun 2019 US$'000	31 Dec 2018 US$'000
Cash at bank	653	17,489
Interest bearing deposits with financial institutions	9,052	-
Cash and cash equivalents	**9,705**	**17,489**

There is no restrictions or limitations on the use of cash and cash equivalents.

The certificates of deposit have a maturity date in December 2019.

For presentation purposes, cash and cash equivalents includes cash at bank, deposits held at call with financial institutions and other short term, highly liquid instruments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Note 7. Current assets - trade and other receivables

	30 Jun 2019 US$'000	31 Dec 2018 US$'000
Trade receivables (1)	6,398	3,570
Other receivables	259	300
	6,657	**3,870**

(1) Trade receivables increased due to shipments made closer to the end of the quarter which will be collected after the reporting date.

Note 8. Current assets - inventories

	30 Jun 2019 US$'000	31 Dec 2018 US$'000
Raw materials	4,192	5,187
Work in progress	1,564	845
Finished goods	811	804
Inventories - gross	6,567	**6,836**
Less: Provision for impairment	(739)	(489)
Inventories - net	**5,828**	**6,347**

Note 9. Non-current assets - intangible assets

	30 Jun 2019 US$'000	31 Dec 2018 US$'000
Patent – at cost	50	50
Less: Accumulated amortization	(50)	(42)
	-	**8**
Capitalized development - at cost	20,801	18,845
Less: Accumulated amortization	(10,930)	(9,775)
	9,871	**9,070**
Net written down value intangible assets	**9,871**	**9,078**

Note 9. Non-current assets - intangible assets *(continued)*

	Patent US$'000	Capitalized Development US$'000	Total US$'000
Balance at 1 January 2019	**8**	**9,070**	**9,078**
Additions	-	1,956	1,956
Amortization expense	(8)	(1,155)	(1,163)
Balance at 30 June 2019	**-**	**9,871**	**9,871**

Note 10. Current liabilities - trade and other payables

	30 Jun 2019 US$'000	31 Dec 2018 US$'000
Trade payables and accruals	3,663	4,522
Accrued expenses	1,881	814
	5,544	**5,336**

Note 11. Equity - Contributed equity

	30 Jun 2019 Number	30 Jun 2019 US$'000	31 Dec 2018 Number	31 Dec 2018 US$'000
Ordinary shares – common stock	111,437,634	170,898	110,998,864	170,818

(a) Movements in ordinary shares on issue

	Shares	US$'000
Balance as at 1 January 2019	**110,998,864**	**170,818**
Shares issued on exercise of options	438,770	80
Balance 30 June 2019	**111,437,634**	**170,898**

(b) Terms and conditions of contributed equity

Ordinary Shares

The holders of ordinary shares participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have a par value of $0.00001 and the Company has a limited amount of authorized capital of 370,000,000 shares, 250,000,000 of which are designated "Common Stock" and 120,000,000 of which are designated "Common Prime Stock".

Note 11. Equity - Contributed equity (*continued*)

On a show of hands the holders of Common Stock are entitled for one vote for each share of common stock held at the meetings of stockholders (and written actions in lieu of meetings). There shall be no cumulative voting. They are also entitled to receive, when, as and if declared by the Board, out of any assets of the Company legally available therefor, any dividends as may be declared from time to time by the Board.

The holders of Common Prime Stock are not entitled to any voting rights or powers, except as otherwise required by law. They are also not entitled to share in any dividends or other distributions of cash, property or shares of the Company as may be declared by the Board on the Common Stock.

In connection with the Company's IPO of CDIs which were issued on 2 July 2018, with each CDI representing an interest in one share of Common Stock, certain stockholders entered into an escrow agreement with the Company under which the stockholder agreed, among other things, to certain restrictions and prohibitions for a period of time (the "Lock-Up Period"), from engaging in transactions in the shares of Common Stock (including Common Stock in the form of CDIs), shares of Common Stock that may be acquired upon exercise of a stock option, warrant or other right, and shares of Common Stock that arise from such Common Stock (collectively, the "Restricted Securities"). The Restricted Securities shall automatically be converted into shares of Common Prime Stock, on a one for one basis if the Company determines, in its sole discretion, that the stockholder breached any term of the stockholder's escrow agreement or breached the official listing rules of the ASX relating to the Restricted Securities. Any shares of Common Stock converted to Common Prime Stock under these terms should be automatically converted back into shares of Common Stock, on a one for one basis, upon the earlier to occur of (i) the expiration of the Lock-Up Period in the escrow agreement or the (ii) breach of the listing rules being remedied, as applicable.

Note 12. Share-based payments

Share based payment reserve

The reserve is used to recognize the value of equity benefits provided to employees, consultants and directors as part of their remuneration, and other parties as part of their compensation for services.

	Share options Number	Share Based Payment Reserve US$'000
Opening reserve 1 January 2019	14,771,387	1,280
Expense in the period	-	54
Granted	-	-
Exercised	(438,770)	-
Forfeited	(97,188)	-
Expired	(13,244)	-
Closing reserve 30 June 2019	**14,222,185**	**1,334**

Note 12. Share-based payments (*continued*)

	30 Jun 2019 US$'000	2 Jul 2018 US$'000
Share based payment expense:		
Options issued to directors, employees and consultants	54	55
	54	**55**

The Company grants stock options to its employees, directors, and consultants for a fixed number of shares with an exercise price equal to the fair value of the shares at the date of grant.

The expected dividend yield for all options granted during these periods was nil. The expected life of the share options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome.

Note 13. Net Loss per share

Basic net loss per share has been computed by dividing the net loss by the weighted-average number of shares of common stock outstanding during the period. Diluted net loss per share is calculated by dividing net loss by the weighted-average number of shares of common stock and potential dilutive securities outstanding during the period.

Because the Company is in a net loss position, diluted net loss per share excludes the effects of common stock equivalents consisting of stock options, preferred shares and warrants, which are all anti-dilutive. The total number of shares subject to stock options, preferred shares, and warrants were excluded from consideration in the calculation of diluted net loss per share.

	30 Jun 2019 US$'000	2 Jul 2018 US$'000
Net loss attributable to ordinary equity holders	(5,076)	(63,450)
Net loss attributable to ordinary equity holders for diluted loss per share	(5,076)	(63,450)
	Number	**Number**
Weighted average number of ordinary shares for basic loss per share	111,237,115	16,408,456
Effect of dilution of share options, preferred stock and warrants	-	-
Weighted average number of ordinary shares adjusted for the effect of dilution	111,237,115	16,408,456
	$ per share	**$ per share**
Basic and diluted loss per share	(0.05)	(3.87)

Note 14. Operating segments

For operating purposes, the Group is organized into one main operating segment, focused on the technological design, development, manufacture and sale of high-performance gas flow controllers.

All the activities of the Group are interrelated, and each activity is dependent on the others. Accordingly, all significant operating disclosures are based upon analysis of the Group as one segment. The financial results from this segment are equivalent to the financial statements of the Group as a whole.

Pivotal Systems Corporation derives all of the revenue of the Group and maintains a majority of assets in the United States.

Geographically, the Group has the following revenue information based on the location of its customers.

	30 Jun 2019 US$'000	2 Jul 2018 US$'000
North America	2,690	2,427
Asia	5,322	8,760
	8,012	**11,187**

The following customers accounted for more than 10% of revenues:		
Customer A	49%	45%
Customer B	22%	14%
Customer C	19%	37%
	90%	96%

Note 15. Financial instruments - Fair value

All financial assets and financial liabilities are measured at amortised cost which is equivalent to the fair value.

Note 16. Related party transactions

Subsidiaries

The Consolidated half-year financial statements include the half-year financial statements of Pivotal Systems Corporation and the following subsidiaries:

Name	Country of incorporation	Beneficial interest 30 Jun 2019	Beneficial interest 31 Dec 2018
Pivotal Systems Korea, Ltd	Republic of Korea	100%	100%
Pivotal SaleCo, Inc.	United States of America	100%	100%

Note 16. Related party transactions (continued)

Key management personnel

The following table presents the compensation of the persons that were identified as key management personnel of Pivotal Systems Corporation during the half year:

		30 Jun 2019 US$
John Hoffman	Chief Executive Officer- Chairman	175,000
Joseph Monkowski	Chief Technical Officer	150,000
Ryan A. Benton	Independent Non-Executive Director	42,500
Kevin Landis	Non-Executive Director	-
Peter McGregor	Independent Non-Executive Director	42,500
David Michael	Non-Executive Director	-
		410,000

Other related parties

Other related parties identified by the Group comprise:

- Firsthand Venture Investors, a substantial shareholder of the Company, represented on the board of directors by its nominee, Kevin Landis;
- Anzu Partners LLC, a company of which David Michael is a partner and director;
- Anzu Pivotal, LLC, a substantial shareholder of the Company, and Anzu Industrial Capital Partners LP, both of which David Michael is a partner and director; and
- Silicon Valley Investor Holdings Pty Ltd, a company which is controlled by Kevin Landis.

Transactions with related parties

Anzu Partners, LLC, an entity of which David Michael is a director, provided US based public relations services to the Group totaling $7,500 during the period (2018: $Nil).

Anzu Partners, LLC, purchased 3 million shares from Firsthand Venture Investors on April 8 2019.

Other than the compensation of key management personnel, and the transactions outlined above, there were no other transactions with related parties.

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting dates.

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting dates.

Note 17. Events after the reporting period

On 27 August 2019, the Group closed a US$10 million business financing agreement with Bridge Bank, a division of Western Alliance Bank (NYSE: WAL). The new $10.0 million facility is comprised of:

- US$7.0 million working capital revolving credit line (“**Revolving Credit Line**”)
- US$3.0 million term loan line of credit (“**Term Loan**”)

The amount of liquidity available under the US$7.0 million Revolving Credit Line is based upon the Company’s balances and composition of eligible customer receivables and inventory, as well as other factors. Amounts borrowed under the Revolving Credit Line mature and become due and payable in 24 months, unless extended by the parties.

The US$3.0 million Term Loan provides funds for the funding of working capital and other corporate purposes for three years, at which time amounts funded under the Term Loan then become payable in 36 equal monthly installments.

Hari Prasad Sarda v. Pivotal Systems Corporation

On July 14, 2019, Mr. Sarda filed a complaint in the United States District Court Northern District of California, against the Group and is seeking declaratory relief. Mr. Sarda seeks to enforce and exercise an option to purchase 1,100,000 shares of Common Stock allegedly granted on April 29, 2013 at an exercise price of $0.25 per share and alleges that the Group refused to accept the offer to exercise the option claiming that the options were subject to termination per the Groups terms. The Group believes it has defenses to Mr. Sarda’s claim and intends to vigorously defend the claim.

Other subsequent events

On 8 July 2019, LHC Capital Partners Pty Ltd, a substantial shareholder of Pivotal Systems Corporation, increased their shareholding from 12.90% to 14.17%.

On 1 August 2019, 2,595,000 share options with an exercise price of AUD $1.60 were issued to employees.

On 1 August 2019, 49,791 shares were issued on the exercise of options.

Other than the above, no other matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the Group’s operations, the results of those operations, or the Group’s state of affairs in future financial years.

Directors' Declaration
For the half-year ended 30 June 2019

In accordance with a resolution of the directors of Pivotal Systems Corporation, the directors of the Company declare that:

1. The interim financial statements and notes thereto comply with Australian Accounting Standard *AASB 134 Interim Financial Reporting*;

2. The interim financial statements and notes thereto, give a true and fair view of the Group's financial position as at 30 June 2019 and of the performance for the half-year ended on that date; and

3. In the directors' opinion there are reasonable grounds to believe that Pivotal Systems Corporation will be able to pay its debts as and when they become due and payable.

On behalf of the directors

John Hoffman Executive Chairman and Chief Executive Officer	Joseph Monkowski Chief Technology Officer and Executive Director

29 August 2019 (Fremont PDT), 30 August 2019 (Sydney AEST)

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Pivotal Systems Corporation

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Pivotal Systems Corporation (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2019, 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 half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the financial report does not present, in all material respects, the financial position of the Group as at 30 June 2019, and its financial performance and its cash flows for the half-year ended on that date in accordance with Accounting Standard AASB 134 *Interim Financial Reporting*.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Accounting Standard *AASB 134 Interim Financial Reporting* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not presented fairly, in all material respects, in accordance with Accounting Standard AASB 134 *Interim Financial Reporting*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the Australian professional accounting bodies.

BDO East Coast Partnership

BDO

Martin Coyle
Partner

Sydney, 30 August 2019