DAVIES COLLISON CAVE GROUP

Special Purpose Financial Report for the Year Ended 30 June 2016

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Special Purpose Financial Report

Contents

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Statement of profit or loss and other comprehensive income for the year ended 30 June 2016

	Year Ended 30-Jun-16	Year Ended 30-Jun-15
	$	$
Operating Revenue	82,437,485	73,688,210
Other Income	4,475,280	4,272,822
Operating Expenses		
Patent office and associate fees	(18,607,711)	(17,562,445)
Employee benefit expense	(23,454,439)	(21,834,621)
Travel and entertainment	(2,510,285)	(2,235,231)
Occupancy	(4,442,909)	(3,959,026)
Marketing	(1,536,599)	(1,390,803)
Technology costs	(3,335,527)	(2,960,500)
Other expenses	(5,992,788)	(6,305,981)
Profit for the year	**27,032,507**	**21,712,425**
Other Comprehensive Income for the year	**-**	**-**
Total Comprehensive Income for the year	**27,032,507**	**21,712,425**

Significant accounting policies adopted in the preparation of the Special Purpose Financial Report are set out in the note on pages 5 to 10.

DAVIES COLLISON CAVE GROUP
Special Purpose Financial Report

Statement of profit or loss and other comprehensive income for the year ended 30 June 2016

	30-Jun-16	30-Jun-15
	$	**$**
Current Assets		
Cash and cash equivalents	576,752	359,355
Trade and other receivables	23,439,510	22,633,856
Other	737,718	630,065
Total Current Assets	24,753,980	23,623,276
Non-Current Assets		
Property, Plant and Equipment	2,726,161	2,562,629
Total Non-Current Assets	2,726,161	2,562,629
Total Assets	**27,480,141**	**26,185,905**
Current Liabilities		
Trade and other payables	6,277,429	7,029,623
Provisions	3,313,124	3,259,100
Borrowings	12,617,307	1,237,933
Derivative financial liabilities	-	318,125
Other financial liabilities	948,984	1,412,639
Total Current Liabilities	23,156,844	13,257,420
Non-Current Liabilities		
Provisions	2,564,496	2,151,100
Borrowings	-	9,500,000
Derivative financial liabilities	566,240	511,700
Other financial liabilities	1,192,561	765,685
Total Non-Current Liabilities	4,323,297	12,928,485
Total Liabilities	**27,480,141**	**26,185,905**
Total Equity	-	-

Significant accounting policies adopted in the preparation of the Special Purpose Financial Report are set out in the note on pages 5 to 10.

Notes to the financial statements for the year ended 30 June 2016

1. Significant accounting policies

(a) Statement of compliance

This is an aggregated special purpose financial report that has been prepared at the request of the Directors of QANTM Intellectual Property Ltd for their information and must not be used for any other purpose.

The financial report has been prepared in accordance with the recognition and measurement principles of Australian Accounting Standards and other mandatory professional requirements in Australia. It contains only those disclosures considered necessary by the directors to meet the needs of the directors.

For the purposes of preparing the special purpose financial report, the entity is a for-profit partnership.

The special purpose financial statements have been prepared in accordance with the recognition and measurement requirements specified by all Australian Accounting Standards and Interpretations and AASB 108 'Accounting Policies, Changes in Accounting Estimates and Errors'.

(b) Basis of preparation

The financial statements have been prepared on the basis of historical cost, unless otherwise stated. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. All amounts are presented in Australian dollars unless otherwise stated.

The Davies Collison Cave Group consists of the partnerships of Davies Collison Cave Patent and Trade Mark Attorneys and Davies Collison Cave Law and Davies Collison Cave LLP. For the purposes of this Special Purpose Financial Report they have been aggregated in accordance with the principles of consolidation. Intercompany transactions, balances and unrealised gains on transactions between group members are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies between group members are consistent.

(c) Changes in accounting policies

The principal accounting policies adopted are consistent with those of the previous financial year, unless stated otherwise.

(d) Foreign currencies

The individual financial statements of the Partnership are presented in the currency of the primary economic environment in which the partnership operates (its functional currency). For the purpose of the financial statements, the results and financial position are expressed in Australian dollars ('$'), which is the functional currency of the Partnership and the presentation currency for the financial statements.

In preparing the financial statements of the Partnerships' transactions in currencies other than the partnership's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Nonmonetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

Notes to the financial statements for the year ended 30 June 2016

1. Significant accounting policies (continued)

For the purpose of presenting these aggregated financial statements, the assets and liabilities of foreign operations are translated into Australian dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

(e) Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue recognition relating to the provision of services is determined with reference to the stage of completion of the transaction at the end of the reporting period and where outcome of the contract can be estimated reliably. Stage of completion is determined with reference to the services performed to date as a percentage of total anticipated services to be performed. Where the outcome cannot be estimated reliably, revenue is recognised only to the extent that related expenditure is recoverable.

Dividend revenue is recognised when the right to receive a dividend has been established (provided that it is probable that the economic benefits will flow to the Partnership and the amount of income can be measured reliably)

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Partnership and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Revenue from trust distributions is recognised when the right to receive a distribution has been established (provided that it is probable that the economic benefits will flow to the Partnership and the amount of income can be measured reliably). Other revenue, including commission revenue, is recognised when it is received or when the right to receive payment is established.

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

(f) Accrued Revenue

Accrued revenue represents costs incurred and profit recognised on client assignments and services that are in progress at balance date. Accrued revenue is valued at net realisable value after providing for any foreseeable losses. Accrued revenue older than 90 days is reviewed and any accrued revenue not thought to be recoverable is written off.

(g) Cash and cash equivalents

Cash and cash equivalents include cash on hand and at banks, short-term deposits with an original maturity of three months or less held at call with financial institutions, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

(h) Trade and Other Receivables

Trade and other receivables include amounts due from customers for services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Refer to Note 2(m) for further discussion on the determination of impairment losses.

Unearned income is recognised as a liability when received and is recognised as revenue once a patent service has been provided or completed.

(i) Trade and Other Payables

Trade and other payables represent the liabilities for goods and services received that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 90 days of recognition of the liability.

Notes to the financial statements for the year ended 30 June 2016

1. Significant accounting policies (continued)

(j) Financial instruments

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Financial liabilities

Financial liabilities include trade payables, other creditors and loans from third parties including inter-Partnership balances.

Non-derivative financial liabilities are recognised at amortised cost using the effective interest method.

Trade accounts payable comprise the original debt less principal payments plus where applicable any accrued interest.

The amortised cost of a financial asset or a financial liability is the amount initially recognised minus principal repayments, plus or minus cumulative amortisation of any difference between the initial amount and the maturity amount and minus any write-down for impairment.

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

The carrying amount of financial assets is reviewed annually the Partners' to assess whether there is any objective evidence that a financial asset is impaired.

Where such objective evidence exists, the Partnership recognises impairment losses.

(k) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

Depreciation rates

Class of fixed asset	**Depreciation rates**	**Depreciation basis**
Leasehold improvements at cost	6.67% - 16.67%	Straight line
Plant and equipment at cost	5% - 37.5%	Straight line
Furniture, fixtures and fittings at cost	5% - 20. %	Straight line
Computer equipment at cost	20% - 33.3%	Straight line
Computer equipment under lease	20% - 33.3%	Straight line

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Notes to the financial statements for the year ended 30 June 2016

1. Significant accounting policies (continued)

(l) Intangibles

Intangible assets acquired separately

Intangible assets with finite lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

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 that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset are recognised in profit or loss when the asset is derecognised.

(m) Impairment of assets

Assets with an indefinite useful life are not amortised but are tested annually for impairment in accordance with AASB 136 ‘Impairment of Assets’. Assets subject to annual depreciation or amortisation are reviewed for impairment whenever events or circumstances arise that indicates that the carrying amount of the asset may be impaired.

An impairment loss is recognised where the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset is defined as the higher of its fair value less costs to sell and value in use.

For the purposes of impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(n) Provisions

Provisions are recognised when the Partnership has a present obligation (legal or constructive) as a result of a past event, it is probable that the Partnership will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(o) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases

Assets held under finance leases are initially recognised as assets of the Partnership at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Partnership’s general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Notes to the financial statements for the year ended 30 June 2016

1. Significant accounting policies (continued)

(o) Leases (continued)

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(p) Employee benefits

(i) Short and long-term employee benefit

A liability is recognised or benefits accruing to employees in respect of wages and salaries, annual leave, long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of short-term employee benefits, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of long term employee benefits are measured at the present value of the estimated future cash outflows to be made by the Partnership in respect of service provided by the employees up to reporting date.

(ii) Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

(q) Borrowing costs

Borrowing costs can include interest, amortisation of discounts or premiums relating to borrowings, ancillary costs incurred in connection with arrangement of borrowings, foreign exchange losses net of hedged amounts on borrowings.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are 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.

(r) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(s) Taxation

The partnership income is reported as part of the Partners' personal income tax assessment.

Notes to the financial statements for the year ended 30 June 2016

1. Significant accounting policies (continued)

(t) New and revised AASBs affecting amounts reported and/or disclosures in the financial statements

The Partnership has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period as listed below.

- AASB 2015-3 'Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality'

The adoption of the above Accounting Standards and Interpretations has not had any material impact on the amounts reported in this financial report but may affect the accounting for future transactions or arrangements. Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted. Refer below.

Standards and interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the following Australian Accounting Standards and Interpretations listed below have recently been issued or amended but are not yet mandatory, have not been early adopted by the partnership for the annual reporting period ended 1 July 2016.

Standard/Interpretation	Effective for the annual reporting period beginning on or after	Expected to be initially applied in the financial year ending
AASB 16 'Leases' replace AASB 117 Leases	1 January 2019	31 December 2019
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2018	31 December 2018
AASB 15 'Revenue from Contracts with Customers' and AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15'	1 January 2018	31 December 2017
AASB 2014-4 'Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation'	1 January 2016	31 December 2016
AASB 2015-1 'Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle'	1 January 2016	31 December 2016
AASB 2015-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101'	1 January 2016	31 December 2016

These Standards and Interpretations will be first applied in the financial report of the Partnership that relates to annual reporting period beginning after the effective date of each pronouncement.

The Partners have yet to assess the financial impact that the adoption of these Standards and Interpretations in future periods will have on the financial statements of the partnership.

(u) Critical accounting judgements and key sources of uncertainty

The critical accounting judgement for the Partnership relates to the recognition of revenue in respect of services that span across multiple reporting periods.

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Independent Auditor's Review Report to the directors of QANTM Intellectual Property Ltd

Report on the Financial Report

We have reviewed the accompanying financial report, being a special purpose financial report, of Davies Collison Cave Group, which comprises the statement of financial position as at 30 June 2016 and the statement of profit or loss and comprehensive income for the year then ended and notes comprising a summary of significant accounting policies as set out on pages 3 to 10.

Partners' Responsibility for the Financial Report

The partners of Davies Collison Cave Group are responsible for the preparation and fair presentation of the financial report and have determined that the basis of preparation described in Note 1 is appropriate to meet the recognition and measurement requirements of Australian Accounting Standards and is appropriate to meet the needs of the directors of QANTM Intellectual Property Ltd. The partners' responsibility also includes such internal control as the partners determine is necessary for the preparation and fair presentation of the 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 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, anything has come to our attention that causes us to believe that the financial report is not presented fairly, in all material respects, in accordance with the recognition and measurement requirements of Australian Accounting Standards as described in Note 1. As the auditor, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a 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.

Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the financial report of Davies Collison Cave Group does not present fairly, in all material respects, the financial position as at 30 June 2016 and of their financial performance for the year ended on that date in accordance with the recognition and measurement requirements of Australian Accounting Standards as described in Note 1.

Basis of Accounting and Restriction on Distribution and Use

Without modifying our conclusion, we draw attention to Note 1 to the financial report, which describes the basis of accounting. The financial report has been prepared at the request of the directors of QANTM Intellectual Property Ltd for their use. As a result, the financial report may not be suitable for another purpose. Our report is intended solely for the directors of QANTM Intellectual Property Ltd and should not be distributed to or used by parties other than the directors of QANTM Intellectual Property Ltd.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Chris Biermann
Partner
Chartered Accountants
Melbourne, 30 August 2016