

# PIVOTAL

S Y S T E M S

**2020 Annual Report**  
ASX:PVS

# PIVOTAL SYSTEMS CORPORATION

*A DELAWARE CORPORATION*  
*ARBN 626 346 325*

ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED  
31 DECEMBER 2020

# Corporate Directory

Corporate Directory	2
Chairman's Letter	3
Directors' Report	5
Consolidated Statement of Profit or Loss and Other Comprehensive Income	16
Consolidated Statement of Financial Position	17
Consolidated Statement of Changes in Equity	18
Consolidated Statement of Cash Flows	19
Notes to the Consolidated Financial Statements	20
Directors' Declaration	57
Independent Auditor's Report	58
Additional Shareholder Information	61

# Corporate Directory

## Company

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Phone: +1 (510) 770 9125  
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Website: [www.pivotalsys.com](http://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
David Michael	Non-Executive Director
Peter McGregor	Independent Non-Executive Director

## Australian Securities Exchange Representative

Danny Davies

## 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  
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, 15<sup>th</sup> 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.

# Chairman's Letter

Dear Fellow Shareholders,

On behalf of the Board of Directors, I am pleased to present our Annual Report for the year ended 31 December 2020, which was a record year of revenues for the Company despite the global turmoil brought by the COVID-19 pandemic.

The 2020 calendar year marked a substantial turnaround in growth for the global semiconductor industry, with semiconductor equipment sales forecast to have grown 16% versus the prior year to US\$68.9 billion. The driver of the 2020 growth profile is rising demand for semiconductors for datacenter infrastructures and server storage due to the structural changes of the traditional workplace and connectivity under COVID-19. Pivotal's revenues outpaced overall industry growth in sales by a factor of approximately 2.8 times, highlighting the effectiveness of our strategies to grow market share within accounts, generate new customers and diversify into new regions.

During the year some of our customer highlights included:

- Successfully qualified the gas flow controller (GFC) for Etch and Deposition applications at the leading Chinese Foundry.
- Achieved qualification and multiple repeat orders for the standard GFC for Etch at the leading Korean Etch OEM.
- Achieved Multiple repeat orders for the standard GFC at multiple leading Chinese Integrated Device Manufacturers (IDMs) and the leading Original Equipment Manufacturers (OEMs).
- Qualified the Remote GFC with a second OEM in Korea.
- Signed a strategic development agreement with the leading Japanese OEM for an advanced flow control solution targeted at the Atomic Layer Deposition (ALD) market.
- Received timely progress payments from the same Japanese OEM reflecting timely development program execution
- Qualified the standard GFC with a new USA Based Foundry.
- Continuing Qualification of a 2 channel Flow Ratio Controller (FRC) at a leading US based OEM for deposition.

In 2020, Pivotal strengthened its global presence with the Company successfully transitioning to a new contract manufacturer (CM) in Korea. Despite COVID 19 travel restrictions, the company activated this newly established Transformation Center in early Q3 2020 and commenced product shipment of all released Pivotal products. Our Fremont, California facility continued as an auxiliary capability to our Korean CM and has now fully transitioned to become our Pilot Manufacturing Center. Also, despite COVID-19, Pivotal was able to maintain all manufacturing activity in China, Korea, and the United States during the reported period.

We continued to diversify our customer base within all major regions to include Japan, Europe, Taiwan, China, North America and Korea. The number of repeat/qualified customers increased by 12% versus 2019. The total number of new customers evaluating Pivotal's GFCs stood at 6 at years end. The Company generated sales to all major OEMs in 2020 and has strategic development programs ongoing with two.

The Company ended the year with a cash position of US\$7.5 million with US\$2.7 million of debt, and a backlog of confirmed orders awaiting shipment of \$US3.5 million. We were pleased to strengthen our balance sheet during the year ahead of expected increased demand for our products, with the Company successfully closing two capital raisings with combined proceeds of US\$14 million.

Consolidated revenue increased 44% to US\$22.1 million, reflecting an increase in sales due to greater demand for Pivotal's products from end customers and a significant year of growth for the global

## Chairman's Letter

semiconductor industry despite COVID-19. Consolidated gross profit for FY20 increased 41% to US\$2.5 million. Gross profit margins in 2020 of 11.1% were slightly lower than 2019. Throughout the year, the Company optimized production operations, drove overall cost reductions, and improved scalability, which reduced our manufacturing overhead by approximately 50% as we exited the year. These improvements, coupled with the substantial elimination of United States Customs and Border Protection duties resulted in a material improvement in Q4 2020, where the Company recorded gross margins of 29.6%. The Company anticipates these improvements are sustainable in 2021 and we will continue to work with our suppliers to gain even more savings.

Highlighting Pivotal's strong fiscal discipline, the Company's total operating expenses decreased by 3.7% to US\$11.2 million in 2020, despite achieving record revenue growth. Our strong research and development capability and ability to innovate ahead of the curve enabled the company to take advantage of new opportunities brought forward by our world class customers. Highlighting the potential of our R&D function, during the third quarter Pivotal signed an agreement with the leading Japanese OEM to develop the next generation flow controller for its fleet of planned Atomic Layer Deposition (ALD) tools. This agreement provides the Company with a non-recurring engineering fee of US\$1.0 million over the term of the agreement. Total R&D expenditure for the year was US\$3.2 million. While revenue grew by 44% in 2020, inventory decreased 4% to US\$8.4 million, down from US\$8.7 million year ending 2019. Inventory turns improved to 2.2 Q4 2020 versus 2.0 Q4 2019, demonstrating efficient use of assets.

Pivotal's Operating Loss for the year was US\$8.8 million, an improvement of 11.6% versus the prior period. The Company's full-time headcount ended the year at 45, which was stable versus the prior year.

Leading industry group SEMI forecasts global sales of semiconductor manufacturing equipment by original equipment manufacturers is projected to register a new industry record of US\$68.9 billion in 2020 growing to US\$71.9 billion in 2021 and US\$76.1 billion in 2022. In 2021 and 2022, Korea is forecast to lead the world in semiconductor equipment investment with equipment spending in Taiwan also expected to remain robust with most other geographical regions also expected to grow. Accordingly, Pivotal is uniquely placed with industry leading technology and products to capitalize on the overall growth in the market in subsequent periods.

We continue to execute our group corporate strategy to take market share at the leading edge and strong growth will follow. We made excellent progress in achieving this goal during 2020 and expect our market share to continue to grow in 2021 as customers design and qualify Pivotal's GFCs into new semiconductor capital equipment. The Company is well-positioned to capitalize on the expected strong growth in demand for our products and services in 2021 and the sustained industry ramp, with our current manufacturing capacity now sitting at 40,000 units annually.

While COVID-19 still brings uncertainty, the Company continues to progress toward its growth goals. Pivotal maintains that its client-led new product development efforts are the key catalyst for future market share gains.

On behalf of our Board of Directors, I would like to thank the Pivotal team around the world who have worked diligently to achieve the strong growth and success we delivered in 2020 against the backdrop of COVID-19. I would also like to thank our shareholders for their continued support of the Company.

Sincerely,



John Hoffman  
Executive Chairman and Chief Executive Officer  
Pivotal Systems Corporation



# Directors' Report

The directors present their report for Pivotal Systems Corporation (“Pivotal” or “Company”) together with the financial statements on the Consolidated Entity (referred to hereafter as the “Consolidated Entity” or “Group”) consisting of the Company and its subsidiaries for the financial year ended 31 December 2020 and the auditor’s report thereon.

## DIRECTORS

The following persons were directors of the Company during the whole of the financial year and up to 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
David Michael	Non-Executive Director
Peter McGregor	Independent Non-Executive Director

## PRINCIPAL ACTIVITIES

Pivotal designs, develops, manufactures and sells high-performance gas flow control products. This includes the Gas Flow Controller (“GFC”) family of products and Flow Ratio Controllers (“FRC”) for both etch and deposition applications. The Company’s proprietary hardware and software utilizes advanced flow intelligence and proprietary algorithms to enable preventative diagnostic capability resulting in the potential for 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 (“CM”) and assembling facilities in Shenzhen, China and Dongtan, South Korea.

In Q3 2019 Pivotal ended its CM arrangement with Compart Systems in Korea and brought all product manufacturing transformation (“Transformation”) activities temporarily back to its Fremont, California headquarters. In Q2 2020, Pivotal qualified a new CM, H.S. Inc. in Korea for Transformation and in late July 2020 restarted all Transformation activities back in Korea.

## REVIEW OF OPERATIONS AND FINANCIAL RESULTS

### Financial results

Revenue for the financial year ended 31 December 2020 (“FY20”) increased 44% to \$22.07 million (2019: \$15.31 million). This was as a result of the increase in sales due to greater demand even in the challenging macro-environment.

The Group’s gross profit for FY20 increased 41% to \$2.44 million (2019: \$1.73 million). This increase is mainly due to the increase in revenue and the effective cost reduction measures implemented by the Group. In line with prior periods, the Group has also experienced a decrease of sales to integrated device manufacture (IDM) customers to \$1.23 million, which represented 6% of sales in 2020 (2019: \$3.21 million, 21% of sales). These sales are generally at a higher margin.

Margins were also adversely impacted as Pivotal temporarily transitioned Transformation services, the final step in the manufacturing process for GFCs to its facilities in Fremont, California, while it identified and qualified a new contract manufacturer (CM) in Korea. In July 2020, Pivotal successfully engaged a new CM in Korea and it has successfully passed audit with Pivotal’s major customers. A significant benefit of this return of Transformation activities to Korea should continue to be evidenced in future periods by

# Directors' Report

significant improvement in gross margins on product sales resulting from the substantial elimination of United States Customs and Border Protection duties (as discussed below) which had been incurred on the temporary importation into the United States from China of semi-finished product for completion of the manufacturing process. In addition, Pivotal has implemented product cost reduction measures, and will continue to closely monitor profit margin.

During Q3 2020 Pivotal applied for refunds from United States Customs and Border Protection on the aforementioned duties on all imported semi-finished product which were exported following Pivotal's completion of the products to customers outside the US. In Q4 2020 Pivotal received refunds for \$0.92 million. These refunds are net of a 20% fee paid to third-party firm, who assists with the Group's filings, which accounts for most of the difference between what was paid and recovered.

Pivotal has sufficient capacity to meet expected customer demand for Pivotal's GFC commensurate with continued improvement in the semiconductor manufacturing equipment sector since 2020 and beyond.

Total operating expenses for the period were \$11.2 million (2019: \$11.6 million), in line with management expectations, and were of a level to maintain the integrity and quality of operations. The operating loss of \$8.8 million is lower than prior period (2019: \$9.9 million). The Company is working on reducing operating expenses without significantly affecting its ability to innovate and compete in the market.

In addition to the aforementioned engagement of a new CM in Korea for transformation manufacturing processes, Pivotal also engaged a CM in a new repair and upgrade center in Korea. The CM has fully commenced operations for repair of products sold to Korea customers. Pivotal will perform at its Fremont California facility, repairs of products sold to "rest of world" customers. These facilities provide warranty, repair and software upgrades to both IDM and OEM customers.

The Company achieved qualification and multiple repeat orders for the standard GFC for Etch at the leading Korean Etch OEM. Moreover, the Company received multiple repeat orders for the standard GFC at multiple Chinese IDM's for leading Etch Applications, and at the leading Chinese Etch OEM for Etch Applications.

Furthermore, Pivotal shipped a next generation process tool flow control solution to a leading Japanese OEM as covered in the Customer Development Agreement signed in 2018.

Pivotal is also continuing the qualification of new 2 channel Flow Ratio Controllers ("FRC") to a leading US Based OEM for deposition.

Pivotal completed work on its first high flow GFC (50SLM) for potential use in both plasma enhanced chemical vapor deposition ("PECVD") and metal organic chemical vapor deposition ("MOCVD")

The Company successfully closed its RBI Preferred Stock Financing on 20 February 2020, receiving the initial funding of \$10 million. In addition, on 23 December 2020, the Company issued CHES Depositary Interests ("CDIs") for \$4 million to Viburnum Funds, an Australian institutional investor.

The \$8.8 million operating loss represented a decrease of 11.6% compared to the prior period (2019: \$9.91 million).

On 2 July 2020, in accordance with ASX Listing Rule 3.10A, the shares of common stock in the Company ("Common Stock") and certain of the Company's unquoted options that were subject to ASX and/or voluntary escrow restrictions for a period of 24 months from the date of commencement of official quotation of the Company's CDIs on the ASX, were released from such escrow.

During the year, 846,670 Common Stock were issued on the exercise of options issued pursuant to the Company's equity incentive plan.

## **GOING CONCERN**

This financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and settlement of liabilities in the normal course of business.

During the period ended 31 December 2020, the Group incurred a loss after income tax of \$9.1 million



# Directors' Report

(2019: \$9.95 million) and the Group's net cash outflows from operating activities for the period ended 31 December 2020 were \$8.1 million (2019: \$11.5 million).

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

- The securing of a \$10.0 million debt financing facility with Bridge Bank on 27 August 2019 comprising of a \$3.0 million term loan and a \$7.0 million working capital revolving credit line which has not been drawn on at 31 December 2020 (refer note 16).
- The securing of \$13 million Revenue Based Redeemable Preferred Stock (RBI) with Anzu on 30 January 2020. The initial funding of \$10 million was received by Pivotal on 20 February 2020 for the issue of 10,000 RBI's of \$0.00001 par value per share, at a purchase price of USD\$1,000 per share. A subsequent funding of \$3 million is available at Pivotal's option in conjunction with the replacement of Pivotal's Bridge Bank senior term loan line of credit.
- The issuance of 6,124,786 CHESS Depository Interests at an issue price of A\$0.86 per CDI to Viburnum Funds under the institutional placement announced on 21 December 2020. The total amount received was US\$4.0 million. Viburnum Funds is an Australian high conviction, active ownership investment manager and recent investor in the Company. As a result of the share placement, Viburnum holds 7.03% of the Common Stock / CDIs on issue.
- The expansion of market opportunities, as a result of the development and production of new products.

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

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Events surrounding the ongoing COVID-19 outbreak have resulted in a reduction in economic activity across the world. The severity and duration of these economic repercussions are still largely unknown and ultimately will depend on many factors, including the speed and effectiveness of the containment efforts throughout the globe. We have observed demand increases in some areas of our business that support the stay-at-home economy, such as products used in data center infrastructure, notebook computers, 5G, Industry 4.0 and IOT. At the same time SEMI has improved its 2020 industry forecast to 6% growth in 2020 and over 10% growth in 2021. The extent to which COVID-19 will impact demand for our products depends on future developments, which are highly uncertain and very difficult to predict, including new information that may emerge concerning the severity of the coronavirus and actions to contain and treat its impacts. While our sites are currently operational, our facilities could be required to temporarily curtail production levels or temporarily cease operations based on future additional government mandates.

From the start of the COVID-19 outbreak, we proactively implemented preventative protocols intended to safeguard our team members, contractors, suppliers, customers, distributors, and communities, and ensure business continuity in the event government restrictions or severe outbreaks impact our operations at certain sites. We remain committed to the health and safety of our team members, contractors, suppliers, customers, distributors, and communities, and government policies and recommendations designed to slow the spread of COVID-19.

While certain COVID-19 vaccines have recently been approved and have become available for use in the United States and certain other countries, we are unable to predict when those vaccines will become widely available, how widely utilized the vaccines will be, whether they will be effective in preventing the spread of COVID-19, and when or if normal economic activity and business operations will resume.

There were no other significant changes in the state of affairs of the Group during the financial year.

# Directors' Report

## DIVIDENDS

No dividends were paid or declared during the year ended 31 December 2020 and the Company does not intend to pay any dividends for the year ended 31 December 2020 (2019: \$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 Dollars.

## 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.

## DELAWARE LAW, CERTIFICATE OF INCORPORATION AND BYLAWS

As a foreign company registered in Australia, the Company is not subject to Chapters 6, 6A, 6B and 6C of the Corporations Act dealing with the acquisition of shares (including substantial shareholdings and takeovers). Under the provisions of Delaware General Corporation Law ("DGCL"), shares are freely transferable subject to restrictions imposed by US federal or state securities laws, by the Company's certificate of incorporation or bylaws, or by an agreement signed with the holders of the shares at issue. The Company's amended and restated certificate of incorporation and bylaws do not impose any specific restrictions on transfer. However, provisions of the DGCL, the Company's Certificate of Incorporation and the Company's Bylaws could make it more difficult to acquire the Company by means of a tender offer (takeover), a proxy contest or otherwise, or to remove incumbent officers and Directors of the Company. These provisions could discourage certain types of coercive takeover practices and takeover bids that the Board may consider inadequate and to encourage persons seeking to acquire control of the Company to first negotiate with the Board. The Company believes that the benefits of increased protection of its ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure the Company outweigh the disadvantages of discouraging takeover or acquisition proposals because, among other things, negotiation of these proposals could result in an improvement of their terms. Also refer to section 15 of the Additional Shareholder Information section of this Annual Report for further specific details on restrictions to registration of transfers in the Company's Bylaws.

## MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On 19 January, 2021, the loan funds received by the Group, under the United States Government Small Business Administration Payroll Protection Program (PPP), as part of the CARES Act in response to the COVID-19 pandemic, was fully forgiven. Under the PPP, the Group received approximately US\$0.9 million in loan principal proceeds. All principal and interest payable under the terms of the loan were forgiven.

On 18 February 2021, 70,262 shares were issued on the exercise of options issued pursuant to the Company's equity incentive plan.

# Directors' Report

Other than the above, no other matter or circumstance has arisen since 31 December 2020 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.

## 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 the 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.

## ENVIRONMENTAL REGULATION

The Group is not subject to any significant environmental regulation under United States of America legislation. The Group is committed to the sustainable management of environmental, health, and safety (EHS) concerns as a core business principle. This includes ensuring compliance with all applicable government standards and regulations and providing a safe and healthy workplace, while reducing our environmental footprint. We integrate health, safety, and environmental considerations into all aspects of our business, including product design and services, to provide productive and responsible solutions by:

- Striving for zero accidents through the application of an EHS Management System.
- Implementing pollution prevention control strategies.
- Committing to continual improvement for our customers, Company, and Group's personnel.

The Board of Directors considers that adequate systems are in place to manage the Group's obligations and is not aware of any breach of environmental requirements as they relate to the Group.

## CORPORATE GOVERNANCE

During FY20, the Company, as a Delaware incorporated corporation, sought to achieve substantive compliance with the governance recommendations set out in the 'Corporate Governance Principles and Recommendations 4th Edition', published by the ASX Corporate Governance Council (the ASX Principles). The Company's Corporate Governance Statement can be viewed at [www.pivotalsys.com/investors/](http://www.pivotalsys.com/investors/). The Corporate Governance Statement sets out the extent to which Pivotal has followed the ASX Corporate Governance Council's Recommendations during the year ended 31 December 2020.

## SHARE OPTIONS

Options to acquire shares of Common Stock in the Company were granted during the financial year. The number of options outstanding as at the date of this report, and all other movements in share options, are disclosed in Note 21 to the financial statements.

## SECURITIES ON ISSUE

The Company had the following securities on issue as at 31 December 2020:

	Common Stock	Preferred Stock
Shares of common stock <sup>1</sup>	120,240,769	-
Shares of preferred stock (i.e. RBI Preferred Stock)	-	10,000
Options over shares of common stock	16,734,199	-

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<sup>1</sup> Shares of Common Stock are equivalent to 120,240,769 CHES Depositary Interests.

# Directors' Report

## INFORMATION ON DIRECTORS

### **John Hoffman**                              **Executive Chairman and Chief Executive Officer**

John Hoffman has over 25 years of global high technology management experience building growth organizations in both the semiconductor and information technology markets.

Prior to joining Pivotal Systems, John was a Senior VP with Spencer Trask Ventures, a New York based venture capital firm. While at Spencer Trask, John was primarily involved in the solar and integrated circuit efforts of the firm. Prior to Spencer Trask, John was the Chief Executive Officer of RagingWire Enterprise Solutions, an Inc 500 fastest growing private company. John reorganized the company and enabled record growth in revenue and profitability during his tenure. Prior to RagingWire, John worked in various general manager roles at Applied Materials for 18 years. He was the President of the billion dollar “Etch Product Business Group”, VP and GM of the Process Control and Diagnostic Business Group and the General Manager of the Customer Service Division which grew by over 300% during his tenure.

*Special responsibilities:*                      Chairman of the Board

*Other directorships:*                              None

### **Dr. Joseph Monkowski**                              **Executive Director and Chief Technical Officer**

Joseph Monkowski has extensive experience in the semiconductor industry focused on providing process equipment and metrology solutions for next generation device manufacturing.

Prior to joining Pivotal, Joseph was the SVP of Business Development for Advanced Energy Industries, where he led the company's M&A strategy to expand its product portfolio and position the company as a market leader in the semiconductor subsystems space. Previously, he held senior executive positions at Pacific Scientific, Photon Dynamics and Lam Research, where he served as EVP and CTO. During his career, Monkowski led efforts to design and build a number of leading CVD and plasma etch systems, winning the R&D 100 award and multiple Semiconductor International Best Product awards. He has authored numerous patents and publications.

*Special responsibilities:*                              None

*Other directorships:*                              None

### **Ryan Benton**    **Independent Non-Executive Director**

Ryan joined the Board in 2015 bringing over 25 years of finance, operations, and transaction experience. Ryan is the CFO of Tempo Automation and previously served as CFO of Revasum, Inc. (ASX: RVS), BrainChip Holdings Ltd (ASX: BRN) and as CEO and Board Member at Exar Corporation (NYSE: EXAR), which was acquired by MaxLinear Corporation (NASDAQ: MXL) in May 2017. Previous roles included senior and consulting positions at ASM International NV (NASDAQ: ASMI), and eFunds Corporation (NASDAQ: EFDS).

*Special responsibilities:*                              Chairman of the Audit and Risk Management Committee  
Member of the Remuneration and Nomination Committee

# Directors' Report

## INFORMATION ON DIRECTORS *(continued)*

### **Kevin Landis**                      **Non-Executive Director**

Kevin joined the Board in 2012 and is the CEO and CIO of Firsthand Capital Management, an investment management firm he founded in 1994. Firsthand Capital Management is the investment adviser to Firsthand Technology Value Fund, Inc. (NASDAQ: SVVC), a publicly traded venture capital fund. Kevin has over two decades of experience in engineering, market research, product management and investing in the technology sector. Kevin is Firsthand's nominee director to the board of Pivotal Systems Corporation.

*Special responsibilities:*                      Member of the Audit and Risk Management Committee  
Member of the Remuneration and Nomination Committee

*Other directorships:*                      Non-executive director - Revasum, Inc. (ASX: RVS), Hera Systems, Inc., IntraOp Medical Corp., QMAT, Inc. and Silicon Genesis Corp. and Wrightspeed, Inc.

### **David Michael**                      **Non-Executive Director**

David Michael is Managing Director at Anzu Partners, an investment partnership which invests in innovative industrial technology companies. In addition to his role at Pivotal Systems, he is also Board member of Nuburu (industrial lasers), and Terapore (nanofiltration membranes for ultrapure water and other applications).

Mr. Michael was formerly Senior Partner and Managing Director of The Boston Consulting Group (BCG), where his career spanned numerous leadership roles across the firm. He formerly led BCG's Greater China business and their Asia Technology Practice. He served a range of clients in semiconductors, components, hardware, software, and services. He was based for 7 years in Silicon Valley and for 16 years in Greater China. He remains a Senior Advisor to the firm.

*Special responsibilities:*                      Member of the Audit and Risk Management Committee  
Member of the Remuneration and Nomination Committee

*Other directorships:*                      Non-executive director - Taiwan Cement Corporation (XTAI:1101), Nuburu, Axsun, and Terapore

### **Peter McGregor**                      **Independent Non-Executive Director**

Peter McGregor was appointed a non-executive director on 23 August 2018 and has over 30 years' experience in senior finance and management roles, including having been Chief Executive Officer of technology company, Think Holdings, Chief Financial Officer of the ASX50 transport company, Asciano, and a partner in the Investment Banking firm of Goldman Sachs JBWere.

He also spent time as a Managing Director within the Institutional Banking & Markets division of Commonwealth Bank and was Chief Operating Officer of ASX-listed Australian Infrastructure Fund. Peter is an experienced company Director, having served as Chairman of the Port of Geelong and as a Director of Melbourne, Gold Coast and Darwin Airports.

*Special responsibilities:*                      Chairman of the Remuneration and Nomination Committee  
Member of the Audit and Risk Management Committee

*Other directorships:*                      Non-executive Director - Imricor Medical Systems, Inc.

# Directors' Report

## SECURITIES HELD BY DIRECTORS AND KEY MANAGEMENT PERSONNEL

The directors and key management personnel of the Company are shown together with their holdings of shares of common stock and options, held directly or indirectly as at 31 December 2020:

	Common Stock	Options	Common Stock	Options
	Direct		Indirect	
John Hoffman	1,481,870	4,386,669	-	-
Dr. Joseph Monkowski	1,445,683	4,383,646	-	-
Ryan Benton	195,000	201,000	-	-
Kevin Landis <sup>(1)</sup>	-	-	231,535	-
David Michael	-	-	-	-
Peter McGregor	-	100,000	-	-
Dennis Mahoney	-	1,000,000	-	-
	<b>3,122,553</b>	<b>10,071,315</b>	<b>231,535</b>	<b>-</b>

<sup>(1)</sup> Common stock held by Silicon Valley Investor Holdings Pty Ltd, of which Kevin Landis is the majority shareholder.

## REMUNERATION REPORT

### EXECUTIVE COMPENSATION

This section discusses the principles underlying our policies and decisions with respect to the compensation of our named executive officers, and all material factors relevant to an analysis of these policies and decisions. Our named executive officers for the year ended 31 December 2020 were:

John Hoffman	Executive Chairman, President and Chief Executive Officer; and
Dr Joseph Monkowski	Executive Director and Chief Technical Officer
Timothy D. Welch	Chief Financial Officer (retired on 5 June 2020)
Dennis Mahoney	Chief Financial Officer (appointed on 5 June 2020)

### COMPONENTS OF EXECUTIVE COMPENSATION

The principal components of our executive compensation are base salary, cash bonuses and long-term incentives. Our Remuneration and Nomination Committee considers that each component of executive compensation must be evaluated and determined with reference to competitive market data, individual and corporate performance, our recruiting and retention goals and other information we deem relevant.

Our executive officers are also eligible to participate in our 401(k) retirement plan as well as medical and other benefit plans.

The terms of each named executive officer's compensation are derived from the employment agreements the Company has entered into with them.

The components of the executive compensation packages for our named executive officers for the year ended 31 December 2020 are as follows:



# Directors' Report

## REMUNERATION REPORT *(continued)*

*John Hoffman      Executive Chairman, President and Chief Executive Officer*

Mr. Hoffman received a fixed remuneration package of \$375,000 and is eligible to participate in various customary employee benefit plans of Pivotal. Pursuant to Mr. Hoffman's Retention Agreement, dated 11 May 2018, if Mr. Hoffman is terminated by the Company without cause or if he resigns for good reason and Mr. Hoffman signs a general release of claims in favor of the Company and complies with certain other requirements, the Company must pay Mr. Hoffman severance in an amount equal to twelve months of his base salary, twelve months of health insurance cover and 100% of his annual target bonus for the period in which termination occurs. All of Mr. Hoffman's unvested Options are subject to acceleration of vesting upon a change of control of the Company, and certain of his Options vest only subject to achievement of specified performance metrics and a time-based vesting schedule.

*Dr. Joseph Monkowski      Executive Director and Chief Technical Officer*

Dr. Monkowski received a fixed remuneration package of \$325,000 and is eligible to participate in various customary employee benefit plans of Pivotal. Pursuant to Dr. Monkowski's Retention Agreement, dated 11 May 2018, if Dr. Monkowski is terminated by the Company without cause or if he resigns for good reason and Mr. Hoffman signs a general release of claims in favor of the Company and complies with certain other requirements, the Company must pay Dr. Monkowski severance in an amount equal to twelve months of his base salary, twelve months of health insurance cover and 100% of his annual target bonus for the period in which termination occurs. All of Dr. Monkowski's unvested Options are subject to acceleration of vesting upon a change of control of the Company, and certain of his Options vest only subject to achievement of specified performance metrics and a time-based vesting schedule.

*Timothy D. Welch      Chief Financial Officer (retired on 5 June 2020)*

Mr. Welch received a fixed remuneration package of \$250,000 and was eligible to participate in various customary employee benefit plans of Pivotal. The options issued to Mr. Welch vested only subject to a time-based vesting schedule.

*Dennis Mahoney      Chief Financial Officer (appointed on 5 June 2020)*

Mr. Mahoney received a fixed remuneration package of \$250,000 and is eligible to participate in various customary employee benefit plans of Pivotal. All of Mr. Mahoney's unvested Options are subject to acceleration of vesting upon a change of control of the Company. In addition, all of his Options vest subject to a time-based vesting schedule.

## **NON-EXECUTIVE COMPENSATION**

The Board is responsible for determining and reviewing compensation arrangements for each non-executive director. The non-executive directors for the year ended 31 December 2020 were as follows:

Ryan Benton  
Kevin Landis  
David Michael  
Peter McGregor

The Company has entered into a non-executive director agreement with Mr. Benton whereby he is entitled to receive US\$70,000 per annum for his role as a non-executive director, and a further US\$15,000 per annum as chair of the Audit and Risk Committee.

# Directors' Report

## REMUNERATION REPORT (continued)

The Company has also entered into a non-executive director agreement with Mr. McGregor whereby he is entitled to receive US\$70,000 per annum as a non-executive director, and a further US\$15,000 per annum as chair of the Remuneration and Nomination Committee.

Mr. Landis and Mr. Michael do not receive compensation for their services as a non-executive director.

### REMUNERATION TABLE

Remuneration earned by key management personnel during 2020 and 2019 is summarized as follows:

2020	Salary and Fees US\$	Cash bonus (1) US\$	401k & other benefits US\$	Share based payment US\$	Total US\$
John Hoffman	375,000	-	27,037	222,965	625,002
Joseph Monkowski	325,000	-	26,817	222,965	574,782
Ryan Benton	85,000	-	-	1,353	86,353
Kevin Landis	-	-	-	-	-
David Michael	-	-	-	-	-
Peter McGregor	85,000	-	-	25,024	110,024
Timothy Welch	63,295	-	11,696	19,995	94,986
Dennis Mahoney	216,333	-	1,333	184,723	402,389
	<u>1,149,628</u>	<u>-</u>	<u>66,883</u>	<u>677,025</u>	<u>1,893,536</u>

2019	Salary and fees US\$	Cash bonus (1) US\$	401k & other benefits US\$	Share based payment US\$	Total US\$
John Hoffman	362,500	-	30,308	9,260	402,068
Joseph Monkowski	312,000	-	25,552	7,834	345,386
Ryan Benton	85,000	-	-	31,009	116,009
Kevin Landis	-	-	-	-	-
David Michael	-	-	-	-	-
Peter McGregor	85,000	-	-	-	85,000
Omesh Sharma (2)	459,325	-	20,120	-	479,445
	<u>1,303,825</u>	<u>-</u>	<u>75,980</u>	<u>48,103</u>	<u>1,427,908</u>

(1) No cash bonuses were awarded during the 2020 and 2019.

(2) Remuneration is reported for Mr. Sharma up to his resignation date of 5 June 2019. He continued to work with the company until 31 July 2019.

### END OF REMUNERATION REPORT

# Directors' Report

## MEETINGS ATTENDED BY BOARD

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director was as follows:

	Board of Directors		Audit & Risk Management Committee		Remuneration & Nomination Committee	
	Eligible	Attendance	Eligible	Attendance	Eligible	Attendance
John Hoffman	18	18	-	-	-	-
Joseph Monkowski	18	18	-	-	-	-
Ryan Benton	18	18	5	5	3	3
Kevin Landis	18	17	5	5	3	3
David Michael	18	18	5	5	3	3
Peter McGregor	18	18	5	5	3	3

## INDEMNITY AND INSURANCE OF DIRECTORS AND OFFICERS

The Company has entered into customary indemnification agreements under which it has indemnified directors and officers of the Company for losses incurred, or claims made and associated expenses incurred, in their capacity as a director or officer, for which they may be held personally liable, subject to certain limitations and exceptions.

## INDEMNITY AND INSURANCE OF AUDITOR

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

## NON-AUDIT SERVICES

Details of amounts paid or payable to the auditor for non-audit services provided during the year are outlined in Note 28 to the financial statements.

## PROCEEDINGS ON BEHALF OF THE COMPANY

No proceedings have been brought or intervened in on behalf of the Company.

On behalf of the directors



John Hoffman  
Director and Chief Executive Officer

25 February 2021 (Fremont PST), 26 February 2021 (Sydney AEST)

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

	Note	2020 US\$'000	2019 US\$'000
Revenue	2	22,065	15,309
Cost of goods sold		(19,625)	(13,579)
<b>Gross profit</b>		<b>2,440</b>	<b>1,730</b>
<b>Expenses</b>			
Research & development	3	(3,228)	(3,521)
Selling & marketing	3	(3,548)	(3,180)
General & administrative	3	(4,424)	(4,935)
<b>Total expenses</b>		<b>(11,200)</b>	<b>(11,636)</b>
<b>Operating loss</b>		<b>(8,760)</b>	<b>(9,906)</b>
Finance income	4	-	168
Finance expenses	4	(273)	(217)
Other income	4	158	-
Other expenses	4	(233)	-
<b>Net loss before income tax expense</b>		<b>(9,108)</b>	<b>(9,955)</b>
Income tax expense	5	-	-
<b>Net loss for the year</b>		<b>(9,108)</b>	<b>(9,955)</b>
<b>Other comprehensive income</b>			
Other comprehensive income for the year, net of tax		-	-
<b>Total comprehensive loss for the year attributable to the members of Pivotal Systems Corporation.</b>		<b>(9,108)</b>	<b>(9,955)</b>
<b>Loss per share attributable to the members of Pivotal Systems Corporation</b>		<b>US\$ per share</b>	<b>US\$ per share</b>
Basic and diluted loss per share	6	(0.08)	(0.09)

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 31 December 2020

	Note	2020 US\$'000	2019 US\$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	8	7,539	5,446
Trade and other receivables	9	7,734	5,823
Inventories	10	8,402	8,746
Other assets	11	314	314
<b>Total current assets</b>		<b>23,989</b>	<b>20,329</b>
<b>Non-current assets</b>			
Property, plant and equipment	12	1,166	307
Intangible assets	13	11,999	10,304
Right of use assets	14	954	1,192
Other assets		27	23
<b>Total non-current assets</b>		<b>14,146</b>	<b>11,826</b>
<b>Total assets</b>		<b>38,135</b>	<b>32,155</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	15	5,261	4,970
Employee benefits	18	547	443
Provisions	19	140	189
Borrowings	16	1,604	2,756
Lease liabilities	17	261	225
<b>Total current liabilities</b>		<b>7,813</b>	<b>8,583</b>
<b>Non-current liabilities</b>			
Lease liabilities	17	770	1,031
Borrowings	16	1,089	-
<b>Total non-current liabilities</b>		<b>1,859</b>	<b>1,031</b>
<b>Total liabilities</b>		<b>9,672</b>	<b>9,614</b>
<b>Net assets</b>		<b>28,463</b>	<b>22,541</b>
<b>Equity</b>			
Contributed equity	21	185,200	171,315
Reserves	23	2,864	1,719
Accumulated losses		(159,601)	(150,493)
<b>Total equity</b>		<b>28,463</b>	<b>22,541</b>

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

## Consolidated Statement of Changes in Equity For the year ended 31 December 2020

	Contributed equity US\$'000	Reserves US\$'000	Accumulated losses US\$'000	Total equity US\$'000
<b>Balance at 1 January 2019</b>	<b>170,818</b>	<b>1,280</b>	<b>(140,538)</b>	<b>31,560</b>
Loss after income tax expense for the year	-	-	(9,955)	(9,955)
Other comprehensive loss for the year, net of tax	-	-	-	-
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>-</b>	<b>(9,955)</b>	<b>(9,955)</b>
<i>Transactions with owners in their capacity as owners:</i>				
Shares issue on exercise of options (note 21)	502	-	-	502
Share issue costs	(5)	-	-	(5)
Share-based payments (note 23)	-	439	-	439
<b>Balance at 31 December 2019</b>	<b>171,315</b>	<b>1,719</b>	<b>(150,493)</b>	<b>22,541</b>
<b>Balance at 1 January 2020</b>	<b>171,315</b>	<b>1,719</b>	<b>(150,493)</b>	<b>22,541</b>
Loss after income tax expense for the year	-	-	(9,108)	(9,108)
Other comprehensive loss for the year, net of tax	-	-	-	-
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>-</b>	<b>(9,108)</b>	<b>(9,108)</b>
<i>Transactions with owners in their capacity as owners:</i>				
Shares issued (note 21)	4,000	-	-	4,000
Shares issue on exercise of options (note 21)	142	-	-	142
RBI Preferred Stock issued (note 21)	10,000	-	-	10,000
Share issue costs	(257)	-	-	(257)
Share-based payments (note 23)	-	1,145	-	1,145
<b>Balance at 31 December 2020</b>	<b>185,200</b>	<b>2,864</b>	<b>(159,601)</b>	<b>28,463</b>

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



## Consolidated Statement of Cash Flows For the year ended 31 December 2020

	Note	2020 US\$'000	2019 US\$'000
<b>Cash flows used in operating activities</b>			
Receipts from customers		20,900	13,066
Payments to suppliers and employees		(28,920)	(24,562)
Interest received		-	161
Interest paid		(242)	(162)
Other cash flows from operating activities		159	-
<b>Net cash used in operating activities</b>	<b>8</b>	<b>(8,103)</b>	<b>(11,497)</b>
<b>Cash flows used in investing activities</b>			
Payments for property, plant and equipment		(841)	(112)
Payments for capitalized development expenses		(2,647)	(3,484)
<b>Net cash used in investing activities</b>		<b>(3,488)</b>	<b>(3,596)</b>
<b>Cash flows from financing activities</b>			
Proceeds from the issue of common stock	21	4,000	-
Payment of share issue costs		(140)	-
Proceeds from the issue of preferred stock	21	10,000	-
Proceeds from the exercise of options	21	142	473
Proceeds from bank loans	16	907	3,000
Repayment of bank loans	16	(1,000)	(250)
Transaction costs related to the loans and borrowings		-	(26)
Reduction in Lease liabilities	17	(225)	(154)
<b>Net cash from financing activities</b>		<b>13,684</b>	<b>3,043</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>2,093</b>	<b>(12,050)</b>
Cash and cash equivalents at the beginning of the financial year		5,446	17,489
Net effect of foreign exchange		-	7
<b>Cash and cash equivalents at the end of the year</b>	<b>8</b>	<b>7,539</b>	<b>5,446</b>

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

# Notes to the Consolidated Financial Statements

## Note 1. Significant accounting policies

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out either in the respective notes or below. These policies have been consistently applied to all the periods presented, unless otherwise stated. The financial statements are for the Group including Pivotal Systems Corporation and its subsidiaries, referred to as “Pivotal”, “Company” or “Group”.

### Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (“AASB”). The financial statements also comply with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. The financial statements comprise the consolidated financial statements of the Group which is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

#### *Historical cost convention*

The consolidated financial statements, except for the cash flow information, have been prepared on an accrual basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

#### *Critical accounting estimates*

The preparation of the consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed throughout the financial statements.

### 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.

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; and
- 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.

# Notes to the Consolidated Financial Statements

## Note 1. Significant accounting policies (continued)

### Basis of consolidation (*continued*)

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.

### Rounding of amounts

Amounts in this report have been rounded off to the nearest thousand United States dollars unless otherwise stated.

### Functional currency

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

### Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items held at fair value are reported at the exchange rate at the date when the fair values were determined.

Exchange differences arising on the translation of monetary items are recognized in profit or loss.

Exchange differences arising on the translation of non-monetary items are recognized directly in other comprehensive income to the extent that the underlying gain or loss is directly recognized in other comprehensive income; otherwise the exchange difference is recognized in profit or loss.

### Going Concern

This financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and settlement of liabilities in the normal course of business.

During the period ended 31 December 2020, the Group incurred a loss after income tax of \$9.1 million (2019: \$9.95 million) and the Group's net cash outflows from operating activities for the period ended 31 December 2020 were \$8.1 million (2019: \$11.5 million).

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

- The securing of a \$10.0 million debt financing facility with Bridge Bank on 27 August 2019 comprising of a \$3.0 million term loan and a \$7.0 million working capital revolving credit line which has not been drawn on at 31 December 2020 (refer note 16).
- The securing of \$13 million Revenue Based Redeemable Preferred Stock (RBI) with Anzu on 30 January 2020. The initial funding of \$10 million was received by Pivotal on 20 February 2020 for the issue of 10,000 RBI's of \$0.00001 par value per share, at a purchase price of USD\$1,000 per share. A subsequent funding of \$3 million is available at Pivotal's option in conjunction with the replacement of Pivotal's Bridge Bank senior term loan line of credit.

# Notes to the Consolidated Financial Statements

## Note 1. Significant accounting policies (*continued*)

### Going Concern (*continued*)

- The issuance of 6,124,786 CHESS Depository Interests at an issue price of A\$0.86 per CDI to Viburnum Funds under the institutional placement announced on 21 December 2020. The total amount received was US\$4.0 million. Viburnum Funds is an Australian high conviction, active ownership investment manager and recent investor in the Company. As a result of the share placement, Viburnum holds 7.03% of the issued Common Stock / CDIs of the Company.
- The expansion of market opportunities as a result of the development and production of new products.

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

### Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is current when it is expected to be realized or intended to be sold or consumed in normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realized within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is current when it is expected to be settled in normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

### Financial Assets

The Company's financial assets are comprised by Accounts Receivable and Other Receivables which are initially measured at fair value and subsequently measured at amortized cost. Financial assets are derecognized when the rights to receive cash flows have expired which is generally when payment has been received. When there is no reasonable expectation of recovering part of all of a financial asset, its carrying value is written off.

The Company recognizes a loss allowance for expected credit losses of financial assets. The measurement of the loss allowance depends on the Company's assessment of credit risk at the end of each reporting period based on reasonable and supportable information that is available without undue cost of effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, the Company evaluates if a 12-month expected credit loss allowance shall be estimated.

### New, revised or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new, revised or amended 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 year commencing 1 January 2020.

# Notes to the Consolidated Financial Statements

## Note 1. Significant accounting policies *(continued)*

### New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

## Note 2. Revenue from contracts with customers

	2020 US\$'000	2019 US\$'000
Product revenue (recognised at a point in time)	22,365	15,564
Provision for sales returns	(300)	(255)
<b>Net revenue from contracts with customers</b>	<b>22,065</b>	<b>15,309</b>

The following table reflects net revenue by type of customer:

	2020 US\$'000	2019 US\$'000
Integrated device manufacturer (IDM)	1,228	3,214
Original equipment manufacturer (OEM)	20,837	12,095
<b>Net revenue from contracts with customers</b>	<b>22,065</b>	<b>15,309</b>

### *Accounting policy for revenue recognition*

The Group earns revenue from contracts with customers, primarily through the design, development, manufacture and sale of gas flow controllers. Our contracts are priced based on the specific negotiations with each customer.

Pivotal accounts for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable.

Pivotal recognizes revenue from product sales when the customer obtains control of the Group's product, which occurs at a point in time, typically upon delivery to the customer. Taxes collected from customers relating to product sales and remitted to governmental authorities are excluded from revenues. The Group expenses incremental costs of obtaining a contract as and when incurred because the expected amortization period of the asset that the Group would have recognized is one year or less.

Revenues from product sales are recorded at the net sales price (transaction price), which includes estimates of variable consideration for which reserves are established and which result from discounts, returns, and other allowances that are offered within contracts between the Group and its customers.

Revenue is disaggregated by type of customer and by geography as we believe it best depicts how the nature, amount, timing, and uncertainty of our revenue and cash flows are affected by economic factors.

# Notes to the Consolidated Financial Statements

## Note 2. Revenue from contracts with customers *(continued)*

Revenues by geography are based on the shipping address of the customer. Refer to Note 7 Operating segment for disaggregation of revenue by geography.

The timing of revenue recognition may differ from the time of billing to the customers. Generally, the payment terms of the Group's offerings range from 30 to 90 days of the invoice date. Receivables primarily relate to the Group's right to consideration for performance obligations completed and billed at the reporting date for which Pivotal has an unconditional right to consideration before it invoices the customer. Such amounts are commonly referred to as trade receivables. Refer to Note 13 Financial assets and liabilities. When another party is involved in the provision of goods or services to a customer, Pivotal is generally the principal in its transactions and therefore reports gross revenue based on the billed amounts to its customers.

Contract liabilities consist of advance consideration received from customers and billings in excess of revenue recognized and deferred revenue, which precede the Group's satisfaction of the associated performance obligation(s). The Group's contract liabilities primarily result from customer payments received upfront for performance obligations that are satisfied at a point in time. Contract liabilities are recognized as revenue when the goods are delivered to our customer. The Group does not have contract liabilities as of 31 December 2020 (2019: Nil).

Due to the relationship between the Group's performance and the customer's payment, Pivotal typically does not have conditional rights to consideration in exchange for goods or services transferred to a customer. Generally, Pivotal has the right to bill the customer as goods are delivered and services are provided, which results in the Group's right to payment being unconditional. Therefore, our balance sheet does not present contract assets.

Due to the nature of the product, each contract with a customer has distinct performance obligations that are capable of being distinct on their own and within the context of the contract. Additionally, based on the contract terms, which generally include performance obligations subject to cancellation terms, the Group does not have material unsatisfied performance obligations as of 31 December 2020 (2019: Nil).

### *Determination of transaction price*

Transaction price includes estimates of variable consideration which may result from discounts, returns and other allowances for which reserves are established. When applicable, these reserves are based on the amounts earned or to be claimed on the related sales and are classified as reductions of accounts receivable. Where appropriate, these estimates take into consideration a range of possible outcomes that are probability-weighted for relevant factors such as Pivotal's historical experience, current contractual and statutory requirements, specific known market events and trends, industry data and forecasted customer buying and payment patterns. The amount of variable consideration that is included in the transaction price may be constrained and is included in the net sales price only to the extent that it is probable that a significant reversal in the amount of the cumulative revenue recognized will not occur in a future period. Actual amounts of consideration ultimately received may differ from the Group's estimates. If actual results in the future vary from the Group's estimates, Pivotal will adjust these estimates, which would affect net product revenue and earnings in the period such variances become known.



# Notes to the Consolidated Financial Statements

## Note 3. Expenses

Net Loss before income tax includes the following specific expenses:

	2020 US\$'000	2019 US\$'000
<b>Research &amp; development</b>		
Amortization of capitalized development costs (Note 13)	1,661	2,281
Salary and benefits	841	776
Impairment of capitalized development costs (Note 13)	48	22
Other	678	442
	<b>3,228</b>	<b>3,521</b>
<b>Selling &amp; marketing</b>		
Salary and benefits	1,286	1,265
Commissions and bonuses	1,133	733
Travel and outside services	674	752
Other	455	430
	<b>3,548</b>	<b>3,180</b>
<b>General &amp; administrative</b>		
Salary and benefits	1,643	1,725
Travel and outside services	1,503	1,613
Bad debt expense	-	600
Other	1,278	997
	<b>4,424</b>	<b>4,935</b>

### Accounting policy for expenses

#### Research costs

Expenditure on research activities, undertaken with the prospect of obtaining new technical knowledge and understanding, is recognized in the statement of profit or loss and other comprehensive income as an expense when it is incurred.

#### Commissions and Bonuses

Commissions and Bonuses are mainly comprised of commissions paid for the initial contract with a customer and for contract renewals and are classified as selling and marketing expenses in the consolidated statement of profit or loss and other comprehensive income. Renewal commissions are considered to be commensurate with the initial contract commissions. As a result, Pivotal amortizes the commission costs, for a new contract or a contract renewal, over the initial contract term, which is less than a year. Additionally, Pivotal applies the practical expedient of expensing sales commissions as incurred considering that the amortization period is one year or less.

#### Other expenses

Other expenses classified according to their function, as selling & marketing or general & administrative, include expenses mainly related with facilities, materials, depreciation, and share-based payment transactions.

# Notes to the Consolidated Financial Statements

## Note 4. Other Income and Expenses

	2020 US\$'000	2019 US\$'000
<b>Other income</b>		
Gain on insurance proceeds (1)	158	-
	<b>158</b>	<b>-</b>
<b>Other expenses</b>		
Other expenses (2)	233	-
	<b>233</b>	<b>-</b>
<b>Finance income</b>		
Interest income	-	161
Foreign exchange gains	-	7
	<b>-</b>	<b>168</b>
<b>Finance expense</b>		
Foreign exchange loss	2	-
Interest expense (3)	271	217
	<b>273</b>	<b>217</b>

- (1) Insurance proceeds received due to a claim related with the theft of certain equipment. The net carrying value of the stolen assets was zero at the time of the event.
- (2) Expenses incurred for services provided by the duty drawback brokerage specialist, based on refunds received.
- (3) As of 31 December 2020, interest expense included \$84,282 (2019: \$78,101) implicit interest paid for the lease liability, according to the incremental borrowing rate under AASB 16, \$187,221 (2019: \$101,431) related to borrowings and Nil (2019: \$38,000) for penalties paid for the cancellation of Certificates of Deposits (CDs) held in financial institutions prior to maturity.

### **Accounting policy for finance income and expense**

#### **Finance income**

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

#### **Finance Expense**

Finance costs that are attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

# Notes to the Consolidated Financial Statements

## Note 5. Income tax expense

	2020 US\$'000	2019 US\$'000
Deferred tax	-	-
Current tax	-	-
<b>Aggregate income tax expense</b>	<b>-</b>	<b>-</b>
Effective tax rate:	0.00%	0.00%
Net Loss before income tax expense	(9,108)	(9,955)
<b>Tax at the statutory tax rate of 21% (2019: 21%)</b>	<b>(1,913)</b>	<b>(2,091)</b>
<i>Tax effect amounts which are not deductible/(taxable) in calculating taxable income:</i>		
Temporary differences	(303)	(34)
Permanent differences	155	104
Unutilized losses carried forward	2,060	2,021
Effect on unutilized losses of future reduction in tax rate to 21%	-	-
<b>Income tax expense</b>	<b>-</b>	<b>-</b>

Based on historical losses and the expectation of future losses, management cannot conclude that it is more likely than not that the net deferred tax assets will be fully realizable. Accordingly, the Group has provided a full valuation allowance against its net deferred tax assets for the financial years ended 31 December 2020 and 31 December 2019.

As of 31 December 2020, the Group had federal and state net operating loss carry forwards of approximately \$49.0 million and \$6.5 million (2019: \$39.1 million and \$5.2 million), respectively, available to reduce future taxable income, if any. The net operating loss carry forwards will expire beginning 2032 through 2040 for California income tax purposes. Beginning in 2018 Federal net operating losses are carried forward indefinitely.

As of 31 December 2020, the Group had federal and state research credit carry forwards of \$0.6 million (2019: \$0.4 million) and \$1.4 million (2019: \$1.2 million). Federal tax credits begin to expire in 2037. The state tax credits have no expiration date.

Utilization of the net operating loss carry forwards and credits may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986, as amended and similar state provisions. The annual limitation may result in the expiration of net operating losses and credits before utilization.

### **Accounting policy for Income tax**

The income tax expense for the year comprises current income tax expenses and deferred tax expenses.

Current income tax expense charged to the profit or loss is the expected tax payable on taxable income for the current period. Current tax liabilities are measured as the amounts expected to be paid to the relevant tax authority using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

# Notes to the Consolidated Financial Statements

## Note 5. Income tax expense (continued)

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realized, or the liability is settled, and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are only recognized to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilized.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

### *Critical accounting judgements, estimates and assumptions*

The Group is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on the Group's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

## Note 6. 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 Group 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 were excluded from consideration in the calculation of diluted net loss per share.

	2020 US\$'000	2019 US\$'000
Net loss attributable to ordinary equity holders of Pivotal Systems Corporation used in calculating basic and diluted loss per share:	(9,108)	(9,955)
	Number	Number
Weighted average number of ordinary shares for basic and diluted loss per share	113,901,635	111,132,123
	US\$	US\$
Basic and diluted loss per share	(0.08)	(0.09)

# Notes to the Consolidated Financial Statements

## Note 7. 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 the majority of the assets in the United States.

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

	2020 US\$'000	2019 US\$'000
Asia	3,954	9,533
North America	18,111	5,776
	<b>22,065</b>	<b>15,309</b>

The following customers accounted for more than 10% of revenues:

Customer A	58%	48%
Customer B	25%	15%
Customer C	13%	28%
	<b>96%</b>	<b>91%</b>

## Note 8. Current assets - cash and cash equivalents

	2020 US\$'000	2019 US\$'000
Cash at bank	7,539	5,446
<b>Cash and cash equivalents</b>	<b>7,539</b>	<b>5,446</b>

### *Minimum cash requirement*

Pursuant to the covenants of the Bridge Bank credit facility, the Company is committed to maintain a \$2.0M minimum cash balance. There are no restrictions or other limitations on the use of cash and cash equivalents.

As of December 31, 2020, \$0.6M of the total cash balance is being held in a separate account established for the purpose of redeeming Preferred RBI shares at a future date. The funds from this account will not be used for normal business activities (See Note 21).

### *Accounting policy for cash and cash equivalents*

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less or that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

## Notes to the Consolidated Financial Statements

### Note 8. Current assets - cash and cash equivalents *(continued)*

#### *Reconciliation of Cash Outflow from Operating Activities with Net Loss for the year*

	2020 US\$'000	2019 US\$'000
<i>Loss for the year</i>	(9,108)	(9,955)
Depreciation expense, not capitalized	383	256
Amortization expense for development costs and patents	1,661	2,289
Amortization expense for ROU Assets	238	205
Impairment of capitalized development costs	48	22
Share based payment expense	1,145	439
Interest accrual	30	-
Loss on sale of equipment	1	3
Foreign exchange loss/(gain)	1	(7)
<i>Change in operating assets and liabilities</i>		
Increase in trade and other receivables	(1,910)	(1,954)
Increase in inventories	345	(2,474)
Increase in other current assets	(5)	(20)
(Decrease)/Increase in trade and other payables	(986)	(401)
Increase in employee benefits	103	20
Increase/(decrease) in provisions	(49)	80
<b><i>Net Cash Outflow from operating activities</i></b>	<b>(8,103)</b>	<b>(11,497)</b>

# Notes to the Consolidated Financial Statements

## Note 9. Trade receivables

	2020 US\$'000	2019 US\$'000
Trade receivables	7,529	5,813
Other receivables	785	610
<b>Total receivables</b>	<b>8,314</b>	<b>6,423</b>
Less: Provision for impairment	(580)	(600)
<b>Receivables - net</b>	<b>7,734</b>	<b>5,823</b>

### *Accounting policy for trade and other receivables*

Trade receivables and other receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less any provision for expected credit loss. Trade receivables generally have 30 to 90-day payment terms.

Collectability of trade receivables is reviewed on an ongoing basis in accordance with the expected credit loss (“ECL”) model. The Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and other receivables. Payment is usually received between 45 and 90 days. No interest is charged on outstanding trade and other receivables.

The ECL assessment completed by the Group as at 31 December 2020 has resulted in a credit loss of \$0.58M which has been recognized in the consolidated statement of profit or loss and other comprehensive (2019: \$0.6M).

The Group also write-off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery (e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivable are over two years past due, whichever occurs earlier).

## Note 10. Current assets - inventories

	2020 US\$'000	2019 US\$'000
Raw materials	3,520	7,394
Work in progress	1,127	1,054
Finished goods	4,372	827
<b>Inventories - gross</b>	<b>9,019</b>	<b>9,275</b>
Less: Provision for impairment	(617)	(529)
<b>Inventories - net</b>	<b>8,402</b>	<b>8,746</b>



# Notes to the Consolidated Financial Statements

## Note 10. Current assets - inventories (*continued*)

### *Accounting policy for inventories*

Raw materials, work in progress and finished goods are stated at the lower of cost and net realizable value on a 'first in first out' basis. Cost comprises of direct materials and delivery costs, direct labor, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

The Group's inventories are concentrated in high-technology parts and components that may be specialized in nature or subject to rapid technological obsolescence. These factors are considered in estimating required reserves to state inventories at the lower of cost or net realizable value.

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

### *Critical accounting judgements, estimates and assumptions*

The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in cost of goods sold.

## Note 11. Current assets - other assets

	2020 US\$'000	2019 US\$'000
Prepaid expenses	314	314
	<u>314</u>	<u>314</u>

Prepaid expenses are current assets that are created by paying for an expense that will not be incurred until a future period. These expenses include but are not limited to the prepayment of rent, insurance, and other services.

## Notes to the Consolidated Financial Statements

### Note 12. Non-current assets - property, plant and equipment

	2020 US\$'000	2019 US\$'000
Leasehold improvements - at cost	201	61
Less: Accumulated depreciation	(81)	(21)
<b>Net book value leasehold improvements</b>	<b>120</b>	<b>40</b>
Plant and equipment - at cost	2,853	1,813
Less: Accumulated depreciation	(1,807)	(1,546)
<b>Net book value plant and equipment</b>	<b>1,046</b>	<b>267</b>
<b>Net book value property, plant and equipment</b>	<b>1,166</b>	<b>307</b>

	Leasehold improvements US\$'000	Plant & equipment US\$'000	Total US\$'000
<b>Balance at 1 January 2019</b>	<b>18</b>	<b>284</b>	<b>302</b>
Additions	30	266	296
Cost of disposals	-	(5)	(5)
Accumulated depreciation of assets disposed of	-	2	2
Depreciation expense	(8)	(280)	(288)
<b>Balance at 31 December 2019</b>	<b>40</b>	<b>267</b>	<b>307</b>
Additions	139	753	892
Transfer of written down value from Intangible Asset	-	430	430
Costs of assets impaired	-	(149)	(149)
Accumulated depreciation of assets impaired	-	148	148
Depreciation expense	(59)	(403)	(462)
<b>Balance at 31 December 2020</b>	<b>120</b>	<b>1,046</b>	<b>1,166</b>

	2020 US\$'000	2019 US\$'000
<b><i>Reconciliation of depreciation expense</i></b>		
Depreciation allocated to capitalized development costs	79	31
Depreciation expensed to research & development costs	26	14
Depreciation expensed to selling & marketing	86	127
Depreciation expensed to general & administrative	35	33
Depreciation expensed to cost of goods sold	236	83
<b>Total depreciation expense</b>	<b>462</b>	<b>288</b>

# Notes to the Consolidated Financial Statements

## Note 12. Non-current assets - property, plant and equipment (continued)

### *Accounting policy for property, plant and equipment*

Plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the assets carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Plant and equipment are depreciated, and leasehold improvements are amortized, over their estimated useful lives using the straight-line method.

The expected useful lives of the assets are as follows:

Plant & equipment	2-5 years
Leasehold improvements	over the remaining lease term

The residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date or when there is an indication that they have changed.

A carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement profit or loss and other comprehensive income.

### *Critical accounting judgements, estimates and assumptions*

#### *Estimation of useful lives of assets*

The Group determines the estimated useful lives and related depreciation and amortization charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortization charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

## Notes to the Consolidated Financial Statements

### Note 13. Non-current assets - intangible assets

	2020 US\$'000	2019 US\$'000
Patent - at cost	50	50
Less: Accumulated amortization	(50)	(50)
	-	-
Capitalized development - at cost	25,709	22,361
Less: Accumulated amortization	(13,710)	(12,057)
	11,999	10,304
<b>Net written down value intangible assets</b>	<b>11,999</b>	<b>10,304</b>

	Patent US\$'000	Capitalized Development US\$'000	Total US\$'000
<b>Balance at 1 January 2019</b>	8	9,070	9,078
Additions	-	3,537	3,537
Impairment of costs	-	(22)	(22)
Amortization expense	(8)	(2,281)	(2,289)
<b>Balance at 31 December 2019</b>	-	<b>10,304</b>	<b>10,304</b>
Additions	-	3,834	3,834
Transfer of written down value to Property, plant and equipment	-	(430)	(430)
Impairment of costs	-	(48)	(48)
Amortization expense	-	(1,661)	(1,661)
<b>Balance at 31 December 2020</b>	-	<b>11,999</b>	<b>11,999</b>

#### *Accounting policy for intangible assets*

##### *Development costs*

Development costs on an individual project are recognized as an intangible asset when the Group can demonstrate:

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

# Notes to the Consolidated Financial Statements

## Note 13. Non-current assets - intangible assets (*continued*)

The costs that are eligible for capitalization of development costs are the following:

- Hardware and Software engineers' compensation for time directly attributable to coding the software.
- An allocated amount of direct costs, such as overhead related to programmers and the facilities they occupy.
- Costs associated with testing the software for market (i.e. alpha, beta tests).
- Borrowing costs.
- Patents acquisition and registration costs (patents, application fees, and legal fees).
- Other direct developing costs that are incurred to bring the hardware with embedded software to market.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. Development costs are amortized on a straight-line basis over the finite life based on the period of expected future sales from the related project which is 5 years. Amortization is recorded in profit or loss.

During the period of development, the asset is tested for impairment annually. At the end of the year, the Group has considered indicators of impairment of the intangible assets and determined there were none.

### *Patents and trademarks*

Significant costs associated with patents and trademarks are deferred and amortized on a straight-line basis over the period of their expected benefit, being their finite life of 5 years.

### ***Critical accounting judgements, estimates and assumptions***

#### *Capitalized development costs*

The Group capitalizes development costs for a project in accordance with the accounting policy. Initial capitalization of cost is based on management's judgement that technological and economic feasibility is confirmed. In determining the amounts to be capitalized, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of the benefits.

#### *Impairment of intangible assets*

The Group assesses impairment of intangible assets other than goodwill at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

# Notes to the Consolidated Financial Statements

## Note 14. Right-of-use assets

	31 Dec 2020 US\$'000	31 Dec 2019 US\$'000
Right-of-use assets	1,397	1,397
Less: Accumulated amortization	(443)	(205)
Right-of-use assets, net	<u>954</u>	<u>1,192</u>

Amounts recognised in the statement of financial position and profit and loss

- (1) Total cash outflows for lease payments is \$224,560. This amount includes \$84,282 interest expense accrual due to discounting the lease liability at the Group's incremental borrowing rate (See Note 4). 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 year ended 31 December 2020:

	31 Dec 2020 US\$'000	31 Dec 2019 US\$'000
Amortization expense of right-of-use asset	238	205
Interest expense on lease liabilities	84	78

### *Accounting policy for 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 amortization 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 amortized 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.

## Note 15. Trade and other payables

	31 Dec 2020 US\$'000	31 Dec 2019 US\$'000
Trade and other payables	5,036	4,914
Deferred revenues	225	56
	<u>5,261</u>	<u>4,970</u>

### *Accounting policy for trade and other payables*

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortized cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

# Notes to the Consolidated Financial Statements

## Note 16. Borrowings

	31 Dec 2020 US\$'000	31 Dec 2019 US\$'000
Current borrowings	1,604	2,756
Non-current borrowings	1,089	-
	<u>2,693</u>	<u>2,756</u>
Bridge Bank Loan	1,786	2,756
SBA Loan	907	-
Total Borrowings	<u>2,693</u>	<u>2,756</u>

(1) Bridge Bank Loan

	SBA loan US\$'000	Bridge Bank US\$'000	Total US\$'000
<b>Balance as at 1 January 2019 (1)</b>	-	3,000	3,000
Interest accrued on facility	-	55	55
Interest paid on facility	-	(49)	(49)
Repayment of facility (1)	-	(250)	(250)
<b>Balance as at 31 December 2019</b>	<u>-</u>	<u>2,756</u>	<u>2,756</u>
Financial liability with Western Alliance (2)	907	-	907
Interest accrued on facility	-	187	187
Interest paid on facility	-	(157)	(157)
Repayment of facility	-	(1,000)	(1,000)
<b>Balance as at 31 December 2020</b>	<u>907</u>	<u>1,786</u>	<u>2,693</u>

(1) Bridge Bank Loan

On 27 August 2019, the Company closed a US\$10.0 million business financing agreement with Bridge Bank, a division of Western Alliance Bank (NYSE: WAL). The facility is secured by all the assets of the Company and is comprised of:

- US\$7.0 million working capital revolving credit line (“Revolving Credit Line”); and
- US\$3.0 million term loan (“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 Revolving Credit Line bears interest at a rate equal to 1% above the Prime Rate, floating on the average outstanding balance. As of December 31, 2020, there are currently no amounts drawn under the Revolving Credit Line.



# Notes to the Consolidated Financial Statements

## Note 16. Borrowings (continued)

The US\$3.0 million Term Loan provides funds for capital expenditures and other corporate purposes and is payable in thirty-six (36) equal monthly installments of principal, plus all accrued interest commencing in October 2019. The term loan bears interest at a rate equal to 1.5% above the Prime Rate, floating on the average outstanding balance and has a US\$75,000 fee payable upon the earlier of payoff or final principal payment.

The Prime Rate for both, the Revolving Credit Line and the Term Loan, has a floor of 5.25%. The transaction costs payable upon execution of the facility were US\$25,000.

On 3 September 2019, the Company drew down the Term Loan for US\$3.0 million. Pivotal has been making periodic payment to the term loan and the balance as of December 31, 2020 is \$1.8 million.

### (2) SBA Loan

In response to the potential adverse impact on the Company of the COVID-19 pandemic, on 21 April 2020, the Company signed loan documents with Western Alliance Bank and received funding of US\$0.9 million from the United States Government Small Business Administration (“SBA”), Payroll Protection Program (“PPP”) which is part of a program created by the Coronavirus Aid, Relief, and Economic Security Act, “CARES Act”, which provides financial relief from the COVID-19 emergency.

This loan bears interest at a fixed rate equal to 1.0% per annum and is payable every month beginning December 2020. This loan, guaranteed by the SBA, matures in 2 years. SBA may forgive this loan if all employees are kept on the payroll for eight weeks and the money is used for payroll, rent, mortgage interest, or utilities.

In January 2021, the Company received notification of the forgiveness of the SBA Loan (See Note 27).

The Company is in compliance with the financial covenants of its borrowing facilities outstanding as of 31 December 2020.

### **Accounting policy for Borrowings**

Loans and borrowings are initially recognized at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortized cost using the effective interest method.

Borrowing costs are capitalized as part of the cost of a qualifying asset when it takes a substantial period of time to get ready for its intended use or sale. The Group capitalized borrowing costs for an internally generated intangible asset in the development phase since 2015. The interest capitalization rate is applied only to costs that themselves have been capitalized as development costs.

For all the borrowings, the fair values are not materially different from their carrying amounts, since the interest payable on those borrowings are close to current market rates.

# Notes to the Consolidated Financial Statements

## Note 17. Lease liabilities

	31 Dec 2020 US\$'000	31 Dec 2019 US\$'000
Lease liabilities - Current	261	225
Lease liabilities - Non-current	770	1,031
Lease liabilities	<u>1,031</u>	<u>1,256</u>
<b>Balance as at 1 January 2019</b>		289
Additions		1,121
Payments that reduce the present value of the lease liability		<u>(154)</u>
<b>Balance as at 31 December 2019</b>		<u>1,256</u>
Payments that reduce the present value of the lease liability		<u>(225)</u>
<b>Balance as at 31 December 2020</b>		<u>1,031</u>

### *Accounting policy for 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, and variable lease payments that depend on an index or a rate. 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.

# Notes to the Consolidated Financial Statements

## Note 18. Current provisions - employee benefits

	2020 US\$'000	2019 US\$'000
Provision for annual leave	547	443
	<b>547</b>	<b>443</b>
<i>Movement in provision for annual leave:</i>		
Opening balance	443	423
Additions	269	276
Leave taken	(165)	(256)
Closing balance	<b>547</b>	<b>443</b>

### *Accounting policy for employee benefits*

Provisions for wages and salaries, including non-monetary benefits and annual leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the balances are settled.

## Note 19. Current provisions - warranty provision

	2020 US\$'000	2019 US\$'000
Provision for warranty	140	189
	<b>140</b>	<b>189</b>
<i>Movement in provision for warranty:</i>		
Opening balance	189	110
Additions	352	189
Expired warranties	(401)	(110)
Closing balance	<b>140</b>	<b>189</b>

### *Accounting policy for provisions*

The provision represents the estimated warranty claims in respect of products sold which are still under warranty at the reporting date. The provision is estimated based on historical warranty claim information, sales levels and any recent trends that may suggest future claims could differ from historical amounts.

### *Critical accounting judgements, estimates and assumptions*

In determining the level of provision required for warranties the Group has made judgements in respect of the expected performance of the products, the number of customers who will actually claim under the warranty and how often, and the costs of fulfilling the conditions of the warranty. The provision is based on estimates made from historical warranty data associated with similar products and services.

# Notes to the Consolidated Financial Statements

## Note 20. Financial assets and liabilities

Set out below is an overview of financial assets (other than cash and short term deposits) and financial liabilities held by the Group as at 31 December 2020:

	2020 US\$'000	2019 US\$'000
<b>Financial assets</b>		
Trade and other receivables	7,734	5,823
<b>Total financial assets</b>	<b>7,734</b>	<b>5,823</b>
<b>Current</b>		
	7,734	5,823
<b>Non-current</b>		
	-	-
<b>Total financial assets</b>	<b>7,734</b>	<b>5,823</b>
<b>Financial liabilities</b>		
Trade and other payables	5,261	4,970
Borrowings	2,693	2,756
	<b>7,954</b>	<b>7,726</b>
<b>Current</b>		
	6,865	7,726
<b>Non-current</b>		
	1,089	-
<b>Total financial liabilities</b>	<b>7,954</b>	<b>7,726</b>

### **Fair value hierarchy.**

The Group classified the fair value of the financial instruments according to the following fair value hierarchy based on the amount of observable inputs used to value the instruments:

- Level 1 - Values based on unadjusted quoted prices available in active markets for identical assets or liabilities as of the reporting date.
- Level 2 - Values based on inputs, including quoted prices, time value and volatility factors, which can be substantially observed or corroborated in the marketplace. Prices in Level 2 are either directly or indirectly observable as of the reporting date.
- Level 3 - Values based on prices or valuation techniques that are not based on observable market data.

# Notes to the Consolidated Financial Statements

## Note 21. Equity - Contributed equity

	2020 Number	2020 US\$'000	2019 Number	2019 US\$'000
Shares of Common Stock (a)	120,240,769	175,400	113,269,313	171,315
Shares of Preferred Stock (b)	10,000	9,800	-	-
	<b>120,250,769</b>	<b>185,200</b>	<b>113,269,313</b>	<b>171,315</b>

### (a) Movements in Shares of Common Stock

	Shares Number	US\$'000
Balance as at 1 January 2020	113,269,313	171,315
Common Shares issued on exercise of options (Note 23)	846,670	142
Common Shares issued to institutional investor (Note 1)	6,124,786	4,000
Share issue costs	-	(57)
Balance as at 31 December 2020	<b>120,240,769</b>	<b>175,400</b>

### (b) Movements in Shares of Preferred Stock

	Shares Number	US\$'000
Balance as at 1 January 2020	-	-
Preferred Shares issued to RBI Financing	10,000	10,000
Share issue costs due to RBI Financing	-	(200)
Balance as at 31 December 2020	<b>10,000</b>	<b>9,800</b>

### Terms and conditions of contributed equity

#### Shares of Common Stock in the Company (Common Stock)

The holders of Common Stock 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 Common Stock 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".

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 therefore, 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.

# Notes to the Consolidated Financial Statements

## Note 21. Equity - Contributed equity (continued)

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.

On 2 July 2020 the Lock-Up Period ended and all the Restricted Securities were released from escrow. No Restricted Securities were converted into shares of Common Prime Stock.

### *Preferred Shares (RBI Financing)*

The authorized capital of the Company includes 13,000 shares of Preferred Stock, \$1,000 par value per share, 13,000 of which have been designated RBI Preferred Stock.

On 20 February 2020, the Company received US\$10.0 million funding from the issue of 10,000 RBI Preferred Stock to Anzu Industrial RBI USA LLC. The issue costs related with this financing were US\$0.2 million. The Company has the ability to raise a further US\$3.0 million under the RBI Preferred Stock Agreement ("Agreement"), on repayment of the Bridge Bank facility and on the Company meeting certain trailing revenue requirements. Anzu is entitled to a non-cumulative priority preference dividend of 2%, payable at the Company's discretion.

As per the Agreement, the "First Redemption" of RBI Preferred Stock will be redeemable based on the aggregate amounts attributed to the prior 10 months (4% of net revenues/month). Please refer to the discussion on the RBI facility in the "Going Concern Section". After the first redemption, following redemptions of RBI Preferred Shares will occur on a quarterly basis and will be based on an amount equal to 4% of Pivotal's previous financial quarter revenues. The "First Redemption" is anticipated to be in Q2 2021 for revenue periods May 2020 through February 2021. The number of RBI Preferred Shares to be redeemed during the quarter is based on the established share price, as defined in the Agreement. If the Company fails to make an anticipated redemption, Anzu may send notice to state that the anticipated redemption has not been made. The Company would have a 30-day period to make the anticipated redemption. If the anticipated redemption is not made at the end of the period, the RBI Preferred Share price would increase to the greater of the current share price plus \$1,000, or \$3,000.

The Company shall deposit an amount equal to 4% of the financial quarter revenues into a bank account to be used for no other purpose than to redeem shares of RBI Preferred Shares pursuant to the Agreement.

While the total value payable is 'fixed' based on quarterly revenue, the number of RBI Preferred Shares to be redeemed decreases if an anticipated redemption is not made.

The Company has no contractual obligation to make the RBI Preferred Shares redemptions. In the event of a failure to make an anticipated redemption, the Company may indefinitely delay or defer cash settlement at the increased settlement price.

## Notes to the Consolidated Financial Statements

### Note 21. Equity - Contributed equity (continued)

There is no fixed term to the redemption period on the RBI Preferred Shares. The Company will redeem the RBI Preferred Shares in case of insolvency, liquidation or similar bankruptcy; an event of default; a change of control or if the Company disposes all or substantially all its assets, property or business.

The RBI Preferred Shares do not carry any voting rights other than one vote per share (or per shareholder in a show of hands) during a period in which a dividend or part of a dividend in respect to RBI Preferred Shares is in arrears (declared but not paid), or during the winding up of the Company.

RBI Preferred Shares also carry voting rights of one vote per share, on a proposal:

- that affects rights attached to RBI Preferred Shares;
- to wind up the Company; or
- for the disposal of the property, business and undertaking of the Company.

The RBI Preferred Shares carry voting rights of one vote per share, on a resolution to approve:

- The terms of a share buy-back arrangement, other than the buy-back of RBI Preferred Shares; or
- A reduction in share capital of the Company, other than a reduction with respect to RBI Preferred Shares.

#### *Accounting policy for contributed equity*

Shares of common stock and preferred shares are classified as equity.

Incremental costs directly attributable to the issue of new common shares or preferred shares are shown in equity as a deduction, net of tax, from the proceeds.

### Note 22. Capital management

Capital managed by the Board comprises contributed equity totaling \$185.2 million (2019: \$171.3 million). When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity. Managed capital is disclosed on the face of the statement of financial position and comprises contributed equity and reserves.

Management may adjust the capital structure to take advantage of favorable costs of capital or higher returns on assets. As the market is constantly changing, management may issue new shares or sell assets to raise cash, change the amount of dividends to be paid to shareholders (if at all) or return capital to shareholders.

During the financial year ending 31 December 2020, management did not pay a dividend and does not expect to pay a dividend in the foreseeable future.

The Company encourages employees to be shareholders through the Long Term Incentive Plan.

There were no changes in the Group's approach to capital management during the year. Risk management policies and procedures are established with regular monitoring and reporting.

Neither the Group nor its subsidiaries are subject to externally imposed capital requirements.



# Notes to the Consolidated Financial Statements

## Note 23. 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.

	WAEP \$	Share options Number	Share Based Payment Reserve US\$'000
<b>Opening reserve 1 January 2019</b>	0.31	14,771,387	1,280
Expense in the period		-	439
Granted	1.07	2,705,000	-
Exercised	(0.22)	(2,270,449)	-
Forfeited	(0.40)	(727,498)	-
Expired	(4.62)	(9,198)	-
<b>Closing reserve 31 December 2019</b>	<b>0.46</b>	<b>14,469,242</b>	<b>1,719</b>
Expense in the period		-	1,145
Granted	0.96	4,435,000	-
Exercised	(0.22)	(846,670)	-
Forfeited	(0.90)	(1,309,372)	-
Expired	(12.93)	(14,001)	-
<b>Closing reserve 31 December 2020</b>	<b>0.57</b>	<b>16,734,199</b>	<b>2,864</b>

### *Share based payment expense:*

	2020 US\$'000	2019 US\$'000
Options issued to directors, employee and consultants	1,145	439
	<b>1,145</b>	<b>439</b>

The Company grants stock options to its employees, directors, and consultants for a fixed number of shares with an exercise price equal to or greater than the fair value of the common stock at the date of grant and expire no later than 10 years from the date of grant.

The 2003 Equity Incentive Plan expired in 2012 however 4,408 (2019: 18,409) unexercised options are still outstanding as at 31 December 2020.

The 2012 Equity Incentive Plan (the "Plan") adopted on 29 June 2012 last amended on 20 June 2019 authorized the Company to grant incentive stock options and non-statutory stock options to employees, directors, and consultants for up to 16,729,791 (2019: 22,226,575) shares of common stock. Incentive Stock Options (ISO) may be granted only to employees. Nonqualified stock options may be granted to employees, directors and consultants. The Company issues new shares of common stock upon the exercise of stock options.

## Notes to the Consolidated Financial Statements

### Note 23. Share-based payments *(continued)*

The Share Plan grants are based on employee's contribution and commitment to the Company over a period of several years plus the ability of the employees to impact and influence the outcome and direction of the organization in the future. The shares under the Share Plan which are not yet vested will be accounted for as non-cash expense over the remainder of the vesting period.

#### Option Pricing Model

The fair value of the equity-settled share options granted throughout the year is estimated as at the date of grant using a Black Scholes Option Pricing Model. The following tables list the inputs to the models used for the valuation of options granted in the years ended 31 December 2020 and 2019.

	Grant date						
	2-Mar-20	1-May-20	22-May-20	2-Jul-20	17-Sep-20	26-Oct-20	19-Nov-20
Number of options issued	195,000	400,000	2,400,000	305,000	10,000	35,000	60,000
Fair value at measurement date US\$	0.40	0.48	0.35	0.35	0.44	0.32	0.40
Share price at grant date US\$	1.02	0.71	0.85	0.76	0.84	0.57	0.75
Exercise price US\$	1.02	0.89	0.96	0.88	0.74	0.50	0.78
Expected volatility	51%	73%	68%	67%	71%	72%	75%
Vesting conditions	Type 2	Type 1	Type 8	Type 1	Type 9	Type 1	Type 1

	Grant date					
	15-Apr-19	1-Aug-19	1-Aug-19	2-Sep-19	2-Mar-20	2-Mar-20
Number of options issued	100,000	955,000	1,640,000	10,000	1,000,000	30,000
Fair value at measurement date US\$	0.30	0.41	0.40	0.382	0.40	0.40
Share price at grant date US\$	1.08	0.99	0.99	0.99	1.02	1.02
Exercise price US\$	1.33	1.10	1.10	1.02	1.02	1.02
Expected volatility	76%	66%	66%	66%	51%	51%
Vesting conditions	Type 6	Type 1	Type 2	Type 1	Type 1	Type 7

# Notes to the Consolidated Financial Statements

## Note 23. Share-based payments *(continued)*

### Vesting conditions

- Type 1 25% of the options vest 12 months from vesting date, with the remaining 75% vesting on a monthly basis over the following 36 months.
- Type 2 Options vest on a monthly basis over 48 months from vesting start date.
- Type 3 Options vest on a monthly basis over 36 months from vesting start date.
- Type 4 Options vest in four equal tranches subject to (a) the achievement individually of Milestones and (b) each tranche vesting 25% per year on each anniversary of the grant date, and subject to Single-Trigger change of control conditions.
  
- Type 5 Options vest in two equal tranches subject to achievement of certain Milestones and each tranche vesting 25% per year on each anniversary of the grant date.
- Type 6 Options vest on a quarterly basis over the three-year period from vesting start date.
- Type 7 Options vest on a monthly basis over 24 months from vesting start date.
- Type 8 Options vest on a yearly basis over 3 years from vesting start date.
- Type 9 Options vest in seven tranches subject to the achievement of cumulative milestones.

The weighted average remaining contractual life for the share options outstanding at 31 December 2020 is 5.92 years (2019: 6.01 years). The weighted average fair value of options granted during the year was \$0.96 (2019: \$0.39). The range of exercise prices for options outstanding at the end of the current and prior year was \$0.1 to \$17.7.

The expected dividend yield for all options granted during these periods was nil. 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.

### *Accounting policy for share-based payments*

The Company provides benefits to employees (including Directors) in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions) via the 2017 Omnibus Incentive Plan (“the Plan”).

The terms of the share options are as determined by the Board. The cost of these equity-settled transactions to employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using a Black & Scholes model.

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

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

## Notes to the Consolidated Financial Statements

### Note 23. Share-based payments (*continued*)

At each subsequent reporting date until vesting, the cumulative charge to the statement of profit or loss and other comprehensive income is the product of (i) the grant date fair value of the award; (ii) the current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and (iii) the expired portion of the vesting period.

The charge to the statement of profit or loss and other comprehensive income for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding credit to equity.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. If a non-vesting condition is within the control of the Company or the employee, the failure to satisfy the condition is treated as a cancellation. If a non-vesting condition within the control of neither the Company nor employee is not satisfied during the vesting period, any expense for the award not previously recognized is recognized over the remaining vesting period, unless the award is forfeited.

#### *Critical accounting judgements, estimates and assumptions*

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Black Scholes option pricing model, using the assumptions noted above. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities in the next annual reporting period but may impact expenses and equity.

### Note 24. Contingent liabilities and contingent assets

The Group has no material contingent liabilities or contingent assets as at 31 December 2020 (2019: Nil).

### Note 25. Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and other price risks, ageing analysis for credit risk and liquidity risk.

Risk management is carried out by senior finance executives ("Finance"). Risk management includes identification and analysis of the risk exposure of the Group and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the Group's operating units. Finance reports to the Board on a quarterly basis.

## Notes to the Consolidated Financial Statements

### Note 25. Financial Risk Management (*continued*)

The Group financial instruments consist mainly of deposits with banks, accounts receivables and payables, lease liabilities and borrowings.

	2020 US\$'000	2019 US\$'000
<i>Financial assets</i>		
Cash and cash equivalents	7,539	5,446
Trade and other receivables	7,734	5,823
	<b>15,273</b>	<b>11,269</b>
<i>Financial liabilities</i>		
Trade and other payables	5,261	4,970
Lease liabilities	1,301	1,256
Borrowings	2,693	2,756
	<b>9,255</b>	<b>8,982</b>

#### *Interest rate risk*

The Group's exposure to interest rate risk occurs through its deposits and borrowings with banks which are exposed to variable interest rates. The Group does not use derivatives to mitigate this exposure. The Group adopts a policy of ensuring that as far as possible it maintains excess cash and cash equivalents in interest bearing accounts. The average interest rate on cash balances is 0.1% (2019: 1.4%).

2020	Less than 6 months US\$'000	6 to 12 months US\$'000	Between 1 and 2 years US\$'000	Greater than 2 years US\$'000	Total contractual cashflow US\$'000
Trade and other payables	5,261	-	-	-	5,261
Lease Liabilities	127	136	294	474	1,031
Borrowings	903	802	988	-	2,693
	<b>6,291</b>	<b>938</b>	<b>1,282</b>	<b>474</b>	<b>8,985</b>

2019	Less than 6 months US\$'000	6 to 12 months US\$'000	Between 1 and 2 years US\$'000	Greater than 2 years US\$'000	Total contractual cashflow US\$'000
Trade and other payables	4,970	-	-	-	4,970
Lease Liabilities	107	117	558	474	1,256
Borrowings	500	500	1,000	756	2,756
	<b>5,577</b>	<b>617</b>	<b>1,558</b>	<b>1,230</b>	<b>8,982</b>

# Notes to the Consolidated Financial Statements

## Note 25. Financial Risk Management (*continued*)

### *Credit Risk*

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's cash and cash equivalents and receivables from customers.

#### Cash and cash equivalents

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have an acceptable credit rating.

#### Trade and other receivables

The Group operates primarily in developing, manufacturing and selling of high-performance gas flow controllers and has trade receivables. There is risk that these receivables may not be recovered and the Group monitors its receivables balances and collections on a monthly basis to mitigate any risk. The Group monitors the expected credit loss model and values trade and other receivables accordingly (see Note 13).

Set out below is the information about the credit risk exposure on the Group's trade and other receivables.

2020	Trade and other receivables				Total
	<30 days	30-60 days	61-90 days	>91 days	
Estimated total carrying amount	4,574	1,462	19	1,679	7,734
2019					
Estimated total carrying amount	4,474	582	6	761	5,823

The expected credit losses on trade and other receivables was estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors and the general economic conditions of the industry in which the debtors operate. The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience and historical collection rates. As of at 31 December 2020, the expected credit loss is \$0.58M (2019: \$0.6M) which is related to a specific new client.

### *Currency Risk*

The Group is exposed to fluctuations in foreign currencies arising from the purchase of goods and services in currencies other than the transacting entity's functional currency. Operations in the Republic of Korea result in transactions being incurred in South Korean Won. As a result, the Group's statement of financial position can be affected by movements in the USD/KRW exchange rate when translating to the USD functional currency, however this is considered negligible.

# Notes to the Consolidated Financial Statements

## Note 26. Related party transactions

### *Subsidiaries*

The Consolidated financial statements include the financial statements of Pivotal Systems Corporation and its wholly owned subsidiary Pivotal Systems Korea, Ltd. Incorporated in the Republic of Korea.

### *Key management personnel*

The following persons were identified as key management personnel of Pivotal during the financial year ended 31 December 2020:

John Hoffman	Executive Chairman and Chief Executive Officer
Dr. Joseph Monkowski	Executive Director and Chief Technical Officer
Dennis Mahoney	Chief Financial Officer (appointed 5 June 2020)
Timothy D. Welch	Chief Financial Officer (resigned 5 June 2020)
Ryan Benton	Independent Non-Executive Director
Kevin Landis	Non-Executive Director
Peter McGregor	Independent Non-Executive Director
David Michael	Non-Executive Director

2020	Short term employee benefits (Salary and fees) US\$	Post employee benefits (401k & other benefits) US\$	Share based payment US\$	Total US\$
John Hoffman	375,000	27,037	222,965	625,002
Joseph Monkowski	325,000	26,817	222,965	574,782
Ryan Benton	85,000	-	1,353	86,353
Kevin Landis	-	-	-	0
David Michael	-	-	-	0
Peter McGregor	85,000	-	25,024	110,024
Timothy Welch	63,295	11,696	19,995	94,986
Dennis Mahoney	216,333	1,333	184,723	402,389
	<b>1,149,628</b>	<b>66,883</b>	<b>677,025</b>	<b>1,893,536</b>

2019	Short term employee benefits (Salary and fees) US\$	Post employee benefits (401k & other benefits) US\$	Share based payment US\$	Total US\$
John Hoffman	362,500	30,308	9,260	402,068
Dr. Joseph Monkowski	312,000	25,552	7,834	345,386
Ryan Benton	85,000	-	31,009	116,009
Kevin Landis	-	-	-	-
David Michael	-	-	-	-
Peter McGregor	85,000	-	-	85,000
Omesh Sharma	459,325	20,120	-	479,445
	<b>1,303,825</b>	<b>75,980</b>	<b>48,103</b>	<b>1,427,908</b>



## Notes to the Consolidated Financial Statements

### Note 26. Related party transactions (*continued*)

#### *Shares and other equity instruments held by key management personnel*

The table below notes the common shares and options held directly or indirectly by the directors and other key management personnel of the Company:

	Common Stock	Options	Common Stock	Options
	Direct		Indirect	
John Hoffman	1,481,870	4,386,669	-	-
Dr. Joseph Monkowski	1,445,683	4,383,646	-	-
Ryan Benton	195,000	201,000	-	-
Kevin Landis <sup>(1)</sup>	-	-	231,535	-
David Michael	-	-	-	-
Peter McGregor	-	100,000	-	-
Dennis Mahoney	-	1,000,000	-	-
	<b>3,122,553</b>	<b>10,071,315</b>	<b>231,535</b>	<b>-</b>

<sup>(1)</sup> Common stock held by Silicon Valley Investor Holdings Pty Ltd, of which Kevin Landis is the majority shareholder.

#### *Share options granted to key management personnel*

	Class of underlying shares	2020 Number Granted	2019 Number Granted
John Hoffman	Ordinary	1,200,000	-
Dr. Joseph Monkowski	Ordinary	1,200,000	-
Peter McGregor	Ordinary	-	100,000
Dennis Mahoney	Ordinary	1,000,000	-
		<b>3,400,000</b>	<b>100,000</b>

#### *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.

# Notes to the Consolidated Financial Statements

## Note 26. Related party transactions (*continued*)

### *Transactions with related parties*

Anzu Partners, LLC, an entity of which David Michael is a director, provided US based public relation services to the Group and due diligence services related to the issuance of preferred shares (RBI financing) totaling US\$104,309 during the current year (2019: US\$17,250).

On 20 February 2020, the Group received US\$10.0 million funding from the issue of 10,000 RBI Preferred Stock to Anzu Industrial RBI USA LLC. This entity is owned by Anzu Partners LLC (See Note 21).

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

### *Receivable from and payable to related parties*

As at 31 December 2020, payables of US\$21,250 were owed to Ryan Benton (2019: US\$21,250), US\$21,250 to Peter Mc Gregor (2019: US\$21,250), and \$1,250 to Anzu Partners LLC.

There were no other 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 27. Events after the reporting period

On 19 January 2021, the loan funds received by the Group, under the United States Government Small Business Administration Payroll Protection Program (PPP), as part of the CARES Act in response to the COVID-19 pandemic, was fully forgiven. Under the PPP, the Group received approximately US\$0.9 million in loan principal proceeds. All principal and interest payable under the terms of the loan were forgiven. (See Note 16).

On 18 February 2021, 70,262 shares were issued on the exercise of options issued pursuant to the Company's equity incentive plan.

Other than the above, no other matter or circumstance has arisen since 31 December 2020 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.

# Notes to the Consolidated Financial Statements

## Note 28. Auditor's remuneration

During the financial year, the following fees were paid or payable for audit and other services provided by BDO Audit Pty Ltd and BDO affiliates.

	2020 US\$	2019 US\$
<b>Audit services</b>		
Audit and review of the financial statements	153,123	129,373
	<b>153,123</b>	<b>129,373</b>
<b>Services provided by BDO affiliates:</b>		
Taxation services	8,020	41,433
	<b>161,143</b>	<b>170,806</b>

## Note 29. Parent Entity Information

	2020 US\$'000	2019 US\$'000
Current assets	23,989	20,329
Non-current assets	14,146	11,826
<b>Total assets</b>	<b>38,135</b>	<b>32,155</b>
Current liabilities	7,813	8,583
Non-current liabilities	1,859	1,031
<b>Total liabilities</b>	<b>9,672</b>	<b>9,614</b>
<b>Net assets</b>	<b>28,463</b>	<b>22,541</b>
Contributed equity	185,200	171,315
Reserves	2,864	1,719
Accumulated losses	(159,601)	(150,493)
<b>Total shareholders' equity</b>	<b>28,463</b>	<b>22,541</b>
Loss of the parent entity	(9,108)	(9,955)
Total comprehensive income of the parent entity	(9,108)	(9,955)

The parent entity has no contingent liabilities at the end of the financial year (2019: Nil).

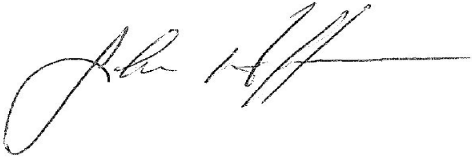
No guarantees have been entered into by the parent entity in relation to the debts of its subsidiaries as a 31 December 2020 (2019: Nil).

## Directors' Declaration

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

1. The financial statements and notes thereto, comply with Australian Accounting Standards;
2. The financial statements and notes thereto, give a true and fair view of the Group's financial position as at 31 December 2020 and of the performance for the 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

A handwritten signature in black ink, appearing to read 'John Hoffman', with a long horizontal line extending to the right.

John Hoffman  
Executive Chairman and Chief Executive Officer

25 February 2021 (Fremont PST), 26 February 2021 (Sydney AEST)

## INDEPENDENT AUDITOR'S REPORT

To the members of Pivotal Systems Corporation

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of Pivotal Systems Corporation (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2020, 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, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with Australian Accounting Standards, including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2020 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards.

#### Basis for opinion

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 ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (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.

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

#### 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. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Revenue Recognition

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>As disclosed in Note 2, the Group recognised revenue of \$22.1 million for the year ended 31 December 2020 (2019: \$15.3 million).</p> <p>The recognition of revenue was considered as a key audit matter as it is a key performance measure; and there is significant judgement in recognising revenue in accordance with AASB 15: Revenue from Contracts with Customers, specifically, in determining when performance obligations are met.</p>	<p>We evaluated revenue recognition in accordance with AASB 15: Revenue from Contracts with Customers.</p> <p>Our procedures, included, amongst others:</p> <ul style="list-style-type: none"> <li>• Critically evaluated the revenue recognition policies for all material sources of revenue and from our detailed testing performed, ensured that revenue was being recognised appropriately, in line with Australian Accounting Standards and policies disclosed within the financial statements;</li> <li>• Substantively tested a sample of revenue transactions throughout the financial year, tracing sales invoices to supporting sales documentation, shipping documentation and cash receipts;</li> <li>• Assessing the recoverability of trade receivables to ensure revenue recognised was recoverable; and</li> <li>• Performing detailed cut-off testing to ensure that revenue transactions around the year end had been recorded in the correct period including obtaining customer confirmations where required.</li> </ul>

## Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 31 December 2020, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and 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 and fair presentation of the financial report in accordance with Australian Accounting Standards and for such internal control as the directors determine is necessary to enable the preparation of the financial report that 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 has 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 the 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.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at:

[https://www.auasb.gov.au/admin/file/content102/c3/ar1\\_2020.pdf](https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf)

This description forms part of our auditor's report.

**BDO Audit Pty Ltd**

A handwritten signature in black ink that reads 'Gareth Few'. Above the signature, the letters 'BDO' are written in a smaller, cursive script.

Gareth Few  
Director

Sydney, 26 February 2021

## Additional Shareholder's Information

### SHAREHOLDER INFORMATION AS AT 26 JANUARY 2021

Additional Shareholder Information required by the Australian Securities Exchange (ASX) Listing Rules is set out below. Unless otherwise stated, information below is current as at 26 January 2021.

In accordance with the ASX Corporate Governance Council's, Corporate Governance Principles and Recommendations (4<sup>rd</sup> edition), the 2020 Corporate Governance Statement, as approved by the Board, is available on the Company's website at: <https://www.pivotalsys.com/investors>. The Corporate Governance Statement sets out the extent to which Pivotal has followed the ASX Corporate Governance Council's 35 specific Recommendations of general application and 3 additional Recommendations applicable in certain cases, to the extent applicable to Pivotal (4<sup>rd</sup> edition) during the 2020 financial year.

The Company's securities have been listed for quotation in the form of CHESS Depositary Interests, or CDIs, on the ASX and trade under the symbol "PVS" since 2 July 2018. Legal title to the shares of common stock (Shares) underlying the CDIs is held by CHESS Depositary Nominees Pty Ltd (CDN), a wholly owned subsidiary of the ASX. 1 CDI represents the beneficial interest in 1 Share.

As at the date of this report, 115,195,943 CDIs are issued and held by 455 CDI holders which represents 115,195,943 underlying Shares. 5,044,826 Shares are held by 44 shareholders who have not elected to hold Company securities in the form of CDIs.

Assuming all Shares were held as CDIs, the Company would have 120,240,769 CDIs on issue.

#### 1. Substantial shareholders

The number of CDIs (assuming all Shares are held as CDIs) held by substantial shareholders and their associates as advised to the ASX are set out below:

Name	Number CDIs	% of total CDIs
Anzu Partners, LLC	16,725,588	13.91
Firsthand Venture Investors	42,239,506	35.13
Perennial Value Mgt	8,483,950	7.06
Enterprise Partners Mgt	7,677,125	6.38
Viburnum Funds	15,731,250	13.08

#### 2. Number of security holders and securities on issue

Pivotal has issued the following securities:

- (a) 5,144,826 fully paid shares of Common Stock held by 44 shareholders;
- (b) 115,195,943 CDIs held by 455 CDI holders;
- (c) 10,000 unquoted Redeemable RBI Preferred Stock held by ANZU INDUSTRIAL RBI USA LLC;
- (d) 16,729,791 unquoted options exercisable at various prices held by 50 option holders.

Details of the Top 20 Shareholders are set out in section 6 below.



### 3. Voting rights

#### Shares of common stock

At a meeting of the Company's stockholders, every stockholder present, in person or by proxy is entitled to one vote for each share of common stock held on the record date for the meeting on all matters submitted to a vote of stockholders.

#### CDIs

CDI holders are entitled to one vote for every one CDI they hold on the record date for the meeting on all matters submitted to a vote of stockholders. To vote, holders of CDIs must instruct CDN, as the legal owner of the CDIs, to vote the shares of common stock underlying their CDIs in a particular manner.

#### Options

Option holders do not have any voting rights on the options held by them. Shares of common stock issued to option holders on exercise of their options will have the same voting rights as the holder of shares of common stock.

#### Redeemable RBI Preferred Stock

RBI Preferred Stockholders will not be entitled to vote at any general meeting of the Company except in the following circumstances:

- On a proposal:
  - that affects rights attached to RBI Preferred Stock;
  - to wind up the Company; or
  - for the disposal of the whole of the property, business and undertaking of the Company;
- On a resolution to approve:
  - the terms of a share buy-back agreement;
  - a reduction of the share capital of the Company,other than a resolution to approve a buy-back or reduction of capital with respect to RBI Preferred Stock;
- During a period in which a dividend or part of a dividend in respect of an RBI Preferred Stock is in arrears; or
- During the winding-up of the Company.

At a general meeting of the Company at which RBI Preferred Stockholders may vote, they are entitled:

- to one vote on a show of hands; and
- to one vote for each RBI Preferred Stock on a poll.

RBI Preferred Stockholders will have the same rights as holders of shares of Common Stock/CDIs in the Company to receive notices, reports and audited accounts from the Company and to attend general meetings.

## 4. Distribution schedules of security holders

Category	Fully Paid Shares of Common Stock		
	Total Shareholders	Number of Shares	%
1 - 1,000	157	1,043	0.00
1,001 - 5,000	153	12,647	0.01
5,001 - 10,000	72	20,936	0.02
10,001 - 100,000	88	538,050	0.45
100,001 and over	29	119,668,093	99.52
<b>Total</b>	<b>499</b>	<b>120,240,769</b>	<b>100</b>

Category	Chess Depository Interests (CDIs)		
	Total CDI Holders	Number of CDIs	%
1 - 1,000	141	72,263	0.06
1,001 - 5,000	149	410,308	0.36
5,001 - 10,000	69	526,978	0.46
10,001 - 100,000	78	2,442,509	2.12
100,001 and over	18	111,743,885	97.00
<b>Total</b>	<b>455</b>	<b>115,195,943</b>	<b>100.00</b>

Category	Unquoted Options		
	Total Option Holders	Number of Options	%
1 - 1,000	0	-	0%
1,001 - 5,000	1	5,000	0%
5,001 - 10,000	5	43,063	0%
10,001 - 100,000	23	1,280,209	8%
100,001 and over	21	15,401,519	92%
<b>Total</b>	<b>50</b>	<b>16,729,791</b>	<b>100%</b>

Note that the Unquoted Options as stated above have various exercise prices and expiry dates.

## 5. Unmarketable parcel of shares

The number of CDI Holders holding less than a marketable parcel of CDIs (being A\$500) is nil based on the Company's closing CDI price of A\$ 0.98.

## 6. Twenty largest holders of quoted equity securities

Chess Depository Interests only

Details of the 20 largest CDI Holders by registered CDI holding are as follows.

	Name	No. of CDIs	%
1	HSBC Custody Nominees (Australia) Limited	54,191,787	47.04
2	Citicorp Nominees Pty Limited	16,764,536	14.55
3	National Nominees Limited	10,547,597	9.16
4	Enterprise Partners Management LLC	7,677,125	6.66
5	J P Morgan Nominees Australia Pty Limited	4,502,182	3.91
6	BNP Paribas Nominees Pty Ltd	4,244,584	3.68
7	UBS Nominees Pty Ltd	4,067,013	3.53

	<b>Name</b>	<b>No. of CDIs</b>	<b>%</b>
8	Viburnum Funds Pty Ltd	4,056,575	3.52
9	CS Third Nominees Pty Limited	3,674,000	3.19
10	BNP Paribas Nominees Pty Ltd	375,000	0.33
11	Mr Omesh Sharma	274,089	0.24
12	Tokyo Electron Europe Limited	268,818	0.23
13	Ms Kerstin Ann Schneider	250,000	0.22
14	Silicon Valley Investor Holdings Pty Ltd	231,535	0.20
15	Surinderpal Bains	170,000	0.15
16	Tyler D Heerwagen	161,458	0.14
17	Merrill Lynch (Australia) Nominees Pty Limited	157,029	0.14
18	Triple Image Films Pty Limited	134,746	0.12
19	Fred W Hacker	100,000	0.09
19	Jerauld Cutini	100,000	0.09
20	Richard Germain And Nina Germain	98,000	0.09
	Total	112,046,074	97.27
	Balance of register	3,149,869	2.73
	Grand total	115,195,943	100.00

#### **Fully Paid Shares of Common Stock and CDIs combined**

Details of the 20 largest Shareholders by registered shareholding on the basis that all shares of common stock on issue are held as CDIs are as follows.

	<b>Name</b>	<b>No. of Shares</b>	<b>%</b>
1	Chess Depository Nominees Pty Limited	115,195,943	95.80
2	Joseph Monkowski	1,445,683	1.20
3	John Hoffman	1,441,870	1.20
4	Hoseung Chang	388,670	0.32
5	Jiuyi Cheng	250,000	0.21
6	Ryan Benton	195,000	0.16
7	Adam Monkowski & Melanie A Gossheider	170,972	0.14
8	Rajbinder Bains	170,000	0.14
9	Sophia L Shtilman	150,000	0.12
10	Carter Crum	134,955	0.11
11	Susan D Ton	125,000	0.10
12	Travis Owens	100,000	0.08
13	James T Franklin	97,065	0.08
14	Joseph Bronson	83,146	0.07
15	Ray Malone	75,000	0.06
16	Kyle D Rom	49,791	0.04
17	William Rothrock	37,083	0.03
18	Mukund Venkatesh	36,590	0.03
19	Gabriel Segovia	25,000	0.02
20	Anne R Reynolds	20,000	0.02
	Total	120,191,768	99.96
	Balance of register	49,001	0.04
	Grand total	120,240,769	100.00

*Subject to rounding*

7. The name of the entity's secretary (in the case of a trust, the name of the responsible entity and its secretary).

The Company has not formally appointed a Company Secretary but has appointed Company Matters Pty Ltd to provide it with general company secretarial services. Mr. Danny Davies has been appointed as the Company's ASX Representative pursuant to ASX Listing Rule 12.6.

8. The address and telephone number of the Company's registered office in Australia; and of its principal administrative office.

The Company's registered office in the USA is:

C/- Incorporating Services Ltd, 3500 South Dupont Highway, Dover, Delaware 19901 USA

The Company's Principal place of business is:

Suite 100, 48389 Fremont Blvd, Fremont, CA 94538 USA.

T: +1 (510) 770 9125

The Company's registered Australian office is:

Company Matters Pty Ltd

Level 12, 680 George Street, Sydney NSW 2000

T: +61 (02) 8280 7355

9. The address and telephone number of each office at which a register of securities, register of depositary receipts or other facilities for registration of transfers is kept.

United States registry

American Stock Transfer and Trust Company, LLC

6201, 15th Avenue

Brooklyn, NY 11219 USA

Telephone: +1 (718) 921 8386

Australian registry

Link Market Services

Level 12, 680 George Street

Sydney NSW 2000 Australia

T: +61 1300 554 474

10. The Company's securities are not traded on any other exchange other than the ASX.

11. There are no restricted securities or securities subject to voluntary escrow on issue.

**12. Review of operations and activities**

A detailed review of operations and activities is reported in the 2020 Annual Report.

**13. On market buy-back**

There is no current on market buy-back.

**14. Statement regarding use of cash and assets.**

During the period between 1 January 2020 and 31 December 2020, the Company has used its cash and assets readily convertible to cash that it had at the time of ASX admission in a way consistent with its business objectives set out in the Prospectus dated June 22, 2018.

## 15. Other

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.

Pivotal is not subject to Chapters 6, 6A, 6B and 6C of the Corporations Act 2001 (Cth) dealing with the acquisition of its shares (including substantial holdings and takeovers).

### Anti-takeover provisions of Delaware Law, Certificate of Incorporation and Bylaws

Provisions of the Delaware General Corporation Law, the Company's Certificate of Incorporation and the Company's Bylaws could make it more difficult to acquire the Company by means of a tender offer (takeover), a proxy contest or otherwise, or to remove incumbent officers and Directors of the Company. These provisions (summarised below) could discourage certain types of coercive takeover practices and takeover bids that the Board may consider inadequate and to encourage persons seeking to acquire control of the Company to first negotiate with the Board. The Company believes that the benefits of increased protection of its ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure the Company outweigh the disadvantages of discouraging takeover or acquisition proposals because, among other things, negotiation of these proposals could result in an improvement of their terms.

The Company's bylaws do not contain any limitations on the acquisition of securities, except that clause 9 of Article XI, Section 11.1. of the bylaws provides as follows:

“The Corporation may refuse to acknowledge or register any transfer of shares of the Corporation's capital stock (including shares in the form of CDIs) held or acquired by a stockholder (including shares of the Corporation's capital stock that may be acquired upon exercise of a stock option, warrant or other right) or shares of the Corporation's capital stock which attach to or arise from such shares which are not made:

- a. in accordance with the provisions of Regulation S of the Securities Act of 1933 (U.S.), as amended to date and the rules and regulations promulgated thereunder (the “U.S. Securities Act”) (Rule 901 through Rule 905 and preliminary notes);
- b. pursuant to registration under the U.S. Securities Act; or
- c. pursuant to an available exemption from registration.”

## 16. Restriction on purchases of CDIs by U.S. persons

Pivotal Systems is incorporated in the State of Delaware and none of its securities have been registered under the U.S. Securities Act of 1933 or the laws of any state or other jurisdiction in the United States. Trading of Pivotal Systems' CHES Depository Interests (“CDIs”) on the Australian Securities Exchange is not subject to the registration requirements of the U.S. Securities Act in reliance on Regulation S under the U.S. Securities Act and a related ‘no action’ letter issued by the U.S. Securities and Exchange Commission to the ASX in 2000. As a result, the CDIs are “restricted securities” (as defined in Rule 144 under the U.S. Securities Act) and may not be sold or otherwise transferred except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act. For instance, U.S. persons who are qualified institutional buyers (“QIBs”, as defined in Rule 144A under the U.S. Securities Act) may purchase CDIs in reliance on the exemption from registration provided by Rule 144A. To enforce the transfer restrictions, the CDIs bear a FOR Financial Product designation on the ASX. This designation restricts CDIs from being sold on ASX to U.S. persons except those who are QIBs. In addition, hedging transactions with regard to the CDIs may only be conducted in compliance with the U.S. Securities Act.