
# TESSERENT

## 2018 ANNUAL REPORT

TESSERENT LIMITED AND CONTROLLED ENTITIES

ABN: 13 605 672 928

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# FY18 COMPANY HIGHLIGHTS

REVENUE
**$5.33M**
UP 21% YOY*

REDUCED OPERATING & PERSONNEL COSTS
**OPEX**
DOWN 11.9%

CASH BALANCE
**$1.72M**
& DEBT FREE

RECEIVED
**$844K**
R&D TAX CONCESSION

CAPITAL RAISED
**$500K**

NEW CYBERSECURITY PARTNERSHIP
**SOPHOS**
GARTNER MAGIC QUADRANT LEADER

CATEGORY GROWTH
**SIEM**

CATEGORY GROWTH
**SD-WAN**

INNOVATIVE PRODUCT DEVELOPMENT
**ZERO TOUCH**
ENABLING STREAMLINED CUSTOMER DEPLOYMENT

INNOVATIVE PRODUCT DEVELOPMENT
**SD-WAN**
PROPRIETARY TECHNOLOGY PLATFORM

**Excluding Customer contracts sold to FZO in FY2017.*

## CHAIRMAN'S LETTER TO SHAREHOLDERS

Dear shareholders,

We welcome you to this year's annual report, which marks the end of the financial year to 30 June 2018 ("FY18"). Tesserent is one of Australia's leading specialists in managed cybersecurity and networking, and I am delighted to update you on our progress over the last financial year.

FY18 of was a year of two halves. The first half of the year Tesserent worked at recovering the revenue gap left by the disposal of Blue Reef assets. Our secure networking and software defined wide area networking (SD-WAN) initiatives delivered strong new revenue from both new and existing customers.

In the second half of the year, I replaced Russell Yardley as Chairman and the board commenced a review of the management structure. This review resulted in Julian Challingsworth being appointed interim CEO in July 2018. Julian started immediately working on the Asta Solutions Pty Ltd (Asta) acquisition. Julian's experience includes serving as a Managing Director and Partner of The Litmus Group for over 10 years and as a board member of PPB Advisory. Julian was a key driver in growing The Litmus Group's multiple business units in Australia and internationally before it was acquired by PPB Advisory.

Julian's appointment underpins Tesserent's growth story to become a global leader as an end-to-end managed security and IT services provider. As Julian discusses in the CEO's letter, the upcoming Asta acquisition forms a key cornerstone of our FY19 growth strategy. Asta first partnered with Tesserent in late 2017, to quickly become a successful CyberBiz channel partner.

Creating leverage through partnerships with leading industry players continues to enhance and expand Tesserent's presence in new and existing markets. Recently we announced a new partnership with leading Australian cloud and IT managed services provider, SXiQ.

We also signed a global partnership with Blockchain Global Limited, and working closely with Asta in this partnership, we'll develop a unique and scalable end-to-end managed security solution that can be replicated in South East Asia for crypto exchanges.

We will continue to invest in strategic partnerships, both locally in Australia and overseas. Tesserent is currently pursuing additional capability in cybersecurity consulting as there are considerable revenue opportunities that may warrant an in-house based capability and potential acquisition.

The board will continue to consider opportunities in all complementary market segments, including the high-growth areas of blockchain, cloud services, and software defined networking.

We have an exciting year of activity scheduled, to accelerate the Tesserent business, and drive shareholder value. On behalf of the Tesserent Board, I'd like to express gratitude to our shareholders for your continued and ongoing support of our growth journey.

Onwards and upwards.

ROBERT LANGFORD
**Chairman and Non-executive Director**
Tesserent Limited

## CHIEF EXECUTIVE OFFICER'S LETTER TO SHAREHOLDERS

Dear shareholders,

The completion of FY18 represents the beginning of an exciting year of rapid growth for Tesserent.

The past year shows consistent activity in new sales, continual reduction in operational costs, strengthened industry partnerships and ending in a solid debt-free position with a cash balance of $1.7M. Key financial metrics include:

- Whilst reported revenue was down 0.9% year-on-year, underlying 21.6% revenue growth year-on-year (excluding customer contracts sold to Family Zone Cyber Security Ltd (ASX:FZO) in FY17) was achieved.
- Received $844K from the ATO in Research and Development tax concessions for the ongoing development and expansion of Tesserent's proprietary technology platform.
- Strategic OEM partnership formed with Gartner Magic Quadrant[1] cybersecurity company, Sophos.
- Sustained reduction in operating and personnel costs by 11.9%.
- Strong growth in SIEM (Security Information and Event Management) revenue due to an increased regulatory environment with introduction of the Notifiable Data Breaches Scheme in February 2018.
- Strong growth in secure networking and SD-WAN (Software Defined Wide Area Networking) technologies.

### THE RIGHT TEAM

I'd like to highlight the effort of co-founder and former CEO Keith Glennan to get Tesserent to where it is today. The solid foundation on which Keith has built Tesserent, both technically and financially, has been essential to the company's evolution today as an MSSP and ASX-listed company. Tesserent's continually expanding client base and consistent reoccurring revenue has provided the perfect launchpad for our next phase of accelerated growth. The managed security services business model provides customers with a smarter, faster and capital efficient approach to optimising critical infrastructure and minimising risk.

I welcome Remko Jacobs to the Tesserent executive team as Chief Customer Officer. Remko, who also has been leading sales at Asta, has over 25 years of experience in senior management roles in the IT Industry across the globe, including executive roles at Infosys Australia (since inception), Cognizant Australia, and Wipro Limited.

The refreshed Tesserent board and executive team are seasoned experts in cybersecurity, IT services, and consulting. We have a proven track-record of success and are capable of delivering on Tesserent's vision to become Australia's leading end-to-end, secure IT service provider. We will continue to build a focused team that can execute, whilst we scale the business and integrate new acquisitions including Asta.

### STRATEGY FOR GROWTH

Tesserent's accelerated growth strategy is to gain further leverage from its capabilities in the growing cybersecurity and IT services markets, and to pursue new opportunities in the high-growth areas of blockchain and software defined networking.

Locally, we are seeing unprecedented allocation of resources on cybersecurity, with the estimated spend in the Asia-Pacific region to reach US$22 billion by 2020[2].

Globally there has been US$13.1B of investment into blockchain infrastructure and applications across multiple industry categories in 2017-18[3].

[1] Gartner Magic Quadrant for Endpoint Protection Platforms, 2018
[2] Department of Prime Minister and Cabinet Cyber Strategy white paper
[3] ICO Data 2018 and 2017

Tesserent has been investing in building scalable capability and capacity to become a leader in the managed security service market. Initiatives include:

- State-of-the-art, ISO27001 certified Security Operations Centre (SOC) in Melbourne
- Proprietary MSSP technology enabling Security-as-a-Service
- Scalable products (Cloud Firewall, SIEM, SD-WAN)
- Additional services (cyber consulting, penetration testing, staff training)

Tesserent has built powerful partnerships with Gartner Magic Quadrant cybersecurity vendors including Palo Alto Networks[4], Cisco Systems[5], Sophos[6], and AlienVault[7], and top-tier regional service providers including SXiQ and Blockchain Global. Tesserent is well positioned to switch from a focus on product development to a focus on delivering turn-key solutions that will accelerate the monetisation of available capacity.

Our exciting roadmap of new blockchain and security solutions will rapidly accelerate the company's path to profitability and underpin share price growth.

EXCITING ACQUISITION

In July 2018, Tesserent announced it had signed a binding terms sheet to acquire Asta Solutions Pty Ltd, a company with a 19-year track record of delivering innovative IT solutions to businesses across Asia Pacific.

The acquisition consideration is based on a multiple of four times normalised EBITDA and is payable in a mix of cash and shares. The acquisition will extend the company's value proposition, its geographical presence (Melbourne, Sydney and Auckland), and significantly increases Tesserent's active customer base. Tesserent expects to seek shareholder approval at an EGM in December 2018.

It's been exciting to work closely with Asta CEO, Bill Angelidis, over the past few months as we prepare for integration, and to hit the ground running with sales, marketing and new product initiatives. The mix of immediate cross-selling potential and our joint capabilities to deliver end-to-end secure IT solutions for customers, will amplify revenue return and position us well to scale all aspects of the business.

I thank you for your support as a Tesserent shareholder and I look forward to a busy and successful year ahead for FY19.

JULIAN CHALLINGSWORTH
**Chief Executive Officer**
Tesserent Limited

[4] Gartner Magic Quadrant for Enterprise Network Firewalls, 2018
[5] Gartner Magic Quadrant for Intrusion Detection and Prevention Systems, 2018
[6] Gartner Magic Quadrant for Endpoint Protection Platforms, 2018
[7] Gartner Magic Quadrant for Security Information and Event Management, 2017


# ABOUT TESSERENT

## ABOUT TESSERENT

### CYBERSECURITY EXPERTS

Tesserent is a specialist in managed cybersecurity and networking. Tesserent provides enterprise-grade managed cybersecurity and networking services to corporate customers in Australia and internationally.

Delivered via the cloud or on premise, Tesserent provides a 24/7 Security-as-a-Service offer to small and large organisations', giving customers peace of mind that their networks and critical data are protected. Tesserent also provides innovative cybersecurity solutions to small-medium businesses via the CyberBiz suite of services.

### PROVEN RETURN ON INVESTMENT

Tesserent's business is dedicated to offering customers a cost-effective, world-class managed security solution. While Tesserent is focused on optimising and securing customer network infrastructure, they're free to focus on their business, knowing that their network is being expertly managed by qualified security engineers.

Tesserent has a proven record of improving return on IT investment, driving efficiency and optimising network performance. Tesserent also bundles services including Security Information and Event Management (SIEM), internet connectivity and colocation to optimise customer network security and deliver a total solution at the most competitive price.

### PARTNERS

- Cybersecurity technology partners: Palo Alto Networks, Cisco Systems, Dell, Sophos, AlienVault, Darktrace, Sandvine, and Cyren.
- Network and data centre partners: Telstra, TPG, Vocus, NEXTDC, and Equinix

### TESSERENT'S PRODUCT AND SERVICES

Tesserent utilises proprietary cybersecurity technology and leading OEM vendor software to deliver a comprehensive range of world-class managed cybersecurity services with 24/7/365 response from a team of security experts, including:

- NETWORK PERIMETER SECURITY
  - Tesserent proprietary and Palo Alto Networks Managed Next-Generation Firewalls
  - Robust security at network boundary
  - CyberBiz Managed Next-Generation Firewall for small-medium business
- INTERNAL NETWORK SECURITY
  - SIEMplicity – Managed Security Information and Event Management
  - Alert management to identify and halt internal threats in their infancy.
- INTERNET CONNECTIVITY
  - Tesserent Secure Internet – Connects customer sites via high speed, secure internet and tailored SD-WAN solutions
  - Australia-wide network utilising all tier-one wholesale carriers, allowing for technology and carrier diversity and deep security integration
- DATA CENTRE AND COLOCATION
  - Secure colocation facilities at Australia's leading co-location data centres
- CONSULTING
  - Penetration testing, cyber risk strategy and governance, security audit, risk assessment, and incident remediation.

## TESSERENT BOARD OF DIRECTORS

Tesserent is pleased to have a Board of Directors with diverse experience across a range of sectors in both the Australian and overseas markets. A brief summary of the Board and their current endeavours is provided below, however detailed information on the credentials and experience of the Board is incorporated within the Director's Report on page 18 of this document.

ROBERT LANGFORD
**Non-Executive Director and Chairman**

Robert has over 40 years of IT experience, starting his career as a Cobol programmer with Royal Insurance in Melbourne, through to roles as senior system architect and project director with Mobil Oil in the UK European mainland during the early 90's. Since 2002 Robert has owned and run various business in Australia ranging from IT to cattle farming. Robert was a founding partner of Tesserent Australia Pty. Ltd.

KEITH GLENNAN
**Executive Director**

Current commercial role: Chief Technology Officer
Keith has been in the IT industry for over 30 years, operating in the managed security business since 2002. Keith was the founding CEO of Tesserent.

GREG BAXTER
**Non-Executive Director**

Current commercial role: Chief Digital Officer at MetLife.
Previously Greg was Global Head of Digital at Citibank and a Partner and U.K. Board member at Booz & Company. Additionally, Greg is a council member of Chatham House, a leading international affairs think tank.

STEVE BERTAMINI
**Non-Executive Director**

Current commercial role: Chief Executive Officer of Al Rajhi Bank.
Steve has extensive finance experience. He is currently CEO of Al Rajhi Bank, a bank with total assets of over 70 billion USD. Steve was formerly CEO of GE Australia and New Zealand and CEO of Consumer Banking at Standard Chartered Bank.

RUSSELL YARDLEY
**Non-Executive Chairman**

Russell has over 35 years of entrepreneurial and corporate experience in the IT sector. Russell is Founder and Chairman of The Resolution, Chairman of Powerhouse Ventures Limited (ASX: PVL), non-executive chairman National eResearch Collaboration Tools and Resources project for the Federal Government, non-executive director for Wunderman Bienalto 2012-current and board member of the Victorian Government Purchasing Board.

*Russell resigned from the Tesserent Board on 8th February 2018.*

PAUL BRANDLING
**Non-Executive Director**

Paul is a non-executive director of Avoka, non-executive director of Infomedia Limited and non- executive director of Integrated Research. Previously Paul was VP and MD of HP South Pacific.

*Paul resigned from the Tesserent Board on 2nd October 2017.*

## TESSERENT EXECUTIVE TEAM

Tesserent's executive team consist of a small, yet dynamic team of industry professionals. Tesserent's executive team are focused on developing and executing a business plan focused on the delivery of significant growth and increased revenues.

JULIAN CHALLINGSWORTH
**Chief Executive Officer**

Julian served as a Managing Director and Partner of The Litmus Group for over 10 years and a board member of PPB Advisory. Julian was a Director of Cordence World Wide a global consulting partnership with 2,800 consultants across 60+ locations. Julian worked with the international team to develop sales and growth strategies for the eight-member firms.

KEITH GLENNAN
**Chief Technology Officer**

Keith has been in the IT industry for over 30 years, operating in the managed security business since 2002. Keith formulated Tesserent's current business strategy and was the founding CEO of Tesserent.

REMKO JACOBS
**Chief Customer Officer**

Leading sales at Tesserent and Asta, Remko has over 25 years of experience in IT Solution/Software Sales and Operational Management roles. Prior to joining Asta in 2016, Remko was the head of Banking, Financial Services & Insurance at Cognizant Australia. Before that Remko was working for Wipro Limited with responsibility across Asia Pacific & Japan growing the BFSI practice substantially in a two-year period. Remko was also part of Infosys Australia's founding team, who grew the organisation into Australia's number one IT consulting company in 2003.

JUSTIN OWEN
**Chief Financial Officer**

Justin is a highly qualified and results driven finance executive with over 25 years' experience and an extensive background in financial and business performance management covering keys skills of stakeholder management, corporate structuring, finance function efficiency, client profitability and costing management. With significant experience as CFO and adviser to ASX listed companies Justin is able to draw on his experience and industry expertise as part of the Tesserent Leadership Team.

DAVID BUERCKNER
**Head of Security Operations**

David has over 30 years' experience in the Information Technology sector, across a wide range of technical and leadership roles. David spent more than 15 years at IBM in key roles including the leadership of the global technical delivery team for BHP. More recently, David has held a variety of operational and delivery leadership roles at Interactive Pty Ltd and has been responsible for large projects such as ISO27001 certification, and the establishment of an internal MPLS network.

## CORPORATE GOVERNANCE

The Company has adopted systems of control and accountability as the basis for the administration of corporate governance. The Board is committed to administering the policies and procedures with openness and integrity, pursuing to the spirit of corporate governance commensurate with the Company's needs.

To the extent applicable, the Company has adopted The Corporate Governance Principles and Recommendations (3rd Edition) as published by the ASX Corporate Governance Council.

In light of Tesserent's size and nature, the Board considers that the current board provides a cost effective and practical method of directing and managing the Company. As Tesserent's activities develop in size, nature, and scope, the size of the Board and the implementation of additional corporate governance policies and structures will be reviewed.

The Company's corporate governance policies and practices are outlined below and the Company's full Corporate Governance Plan is available in a dedicated corporate governance information section of the Company's website www.tesserent.com.

(a) **Code of Conduct –** This policy sets out a statement of the shared values of the Company and how the Company conducts itself and its business.

(b) **Board Charter –** This policy sets out the principles for the operation of the Board and describes the functions of the Board and those functions delegated to management of the Company.

(c) **Selection and Appointment of New Directors Policy –** This policy ensures that the procedure when selecting and appointing new Directors is formal and transparent.

(d) **Board and Senior Executive Evaluation Policy –** This policy sets out the process relating to performance and evaluation of the Board, senior executives and individual Directors.

(e) **Appointment of External Auditor Policy –** This policy summarises the conditions on which the Company will select an external auditor.

(f) **Continuous Disclosure Policy –** This policy sets out certain procedures and measures which are designed to ensure that the Company complies with its continuous disclosure obligations.

(g) **Trading Policy –** This policy is designed to maintain investor confidence in the integrity of the Company's internal controls and procedures and to provide guidance on avoiding any breach of the insider trading laws.

(h) **Shareholder Communications Policy –** This policy sets out practices which the Company will implement to ensure effective communication with its Shareholders.

(i) **Diversity Policy –** This policy sets out the Company's objectives for achieving diversity amongst its Board, management and employees.

(j) **Audit and Risk Management Committee Charter –** This policy sets out the objectives and procedures for the Audit and Risk Management Committee.

(k) Nominations and Remuneration Committee Charter - This policy sets out the objectives and procedures for the Nominations and Remuneration Committee.

**Compliance with and Departures from Recommendations**

The Company's compliance with and departures from the Recommendations during the reporting period are set out on the following pages.

| RECOMMENDATION | | COMPANY'S CURRENT PRACTICE |
|---|---|---|
| 1.1 | A listed entity should disclose:<br>(a) the respective roles and responsibilities of its board and management; and<br>(b) those matters expressly reserved to the board and those delegated to management. | The respective roles and responsibilities of the Board and executives are defined in the Board Charter.<br>There is a clear delineation between the Board's responsibility for the Company's strategy and activities, and the day-to-day management of operations conferred upon the Company's officers. |
| 1.2 | A listed entity should:<br>(a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and<br>provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director. | The procedure for the selection of new Directors is set out in the Selection and Appointment of New Directors Policy. Under this policy, Shareholders are required to be provided with all material information relevant to making an informed decision on whether or not to elect or re-elect a Director. |
| 1.3 | A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment. | The Company has entered into a written agreement with each Director and senior executive. |
| 1.4 | The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board. | The Company Secretary, Oliver Carton, reports directly to the Chairman of the Board. The role of the Company Secretary is outlined in the Board Charter. |
| 1.5 | A listed entity should:<br>(a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;<br>(b) disclose that policy or a summary of it; and<br>(c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them and either:<br>i. the respective proportions of men and women on the board, | The Company has adopted a Diversity Policy.<br>The Company's Diversity Policy requires the Board to establish measurable objectives to assist the Company in achieving gender diversity.<br>The Company does not believe it is appropriate to establish a quota system for measuring gender diversity, and indeed such a quota system could itself lead to discrimination.<br>The Company has asked management to monitor gender diversity in line with the Corporate Governance Council Recommendations and intends to take appropriate action should it be of the view that there is insufficient gender diversity within the business.<br>As at 30 June 2018, there were 2 females employed representing 11% of total employees. There were no woman on the Board of Directors and 1 woman as part of the executive team. |

| RECOMMENDATION | | COMPANY'S CURRENT PRACTICE |
|---|---|---|
| | in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or<br><br>if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act. | |
| 1.6 | A listed entity should:<br><br>(a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and<br><br>disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process. | The Company has adopted a Board and Senior Executive Evaluation Policy.<br><br>A Non-Executive Director will be responsible for the performance evaluation of the Chairman. The process for evaluating the performance of the Board as a whole is the responsibility of the Board under the direction of the Chairman. The Chairman is in charge of conducting individual Director evaluations.<br><br>No evaluation was carried out during the reporting period given there were changes to Board composition. |
| 1.7 | A listed entity should:<br><br>(a) have and disclose a process for periodically evaluating the performance of its senior executives; and<br><br>disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process. | The Company has adopted a Board and Senior Executive Evaluation Policy.<br><br>The Managing Director is subject to annual performance evaluation by the Board. All senior executives of the Company are subject to annual performance evaluations by the Managing Director. As the Managing Director position changed during the period, no performance evaluation was undertaken. |
| 2.1 | The board of a listed entity should:<br><br>(a) have a nomination committee which:<br><br>i. has at least three members, a majority of whom are independent directors; and<br><br>ii. is chaired by an independent director,<br><br>and disclose:<br><br>iii. the charter of the committee;<br><br>iv. the members of the committee; and<br><br>v. as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or | The Company had established a Nominations and Remuneration Committee.<br><br>During the Period the Nominations and Remuneration Committee consisted of three members, all of whom were independent directors.<br><br>The Chair of the Committee was not the Chair of the Board during the period.<br><br>The names of the members of the Committee, details of their qualifications and experience and details of the number of meetings held during the period, are contained in the Directors' Report section of this Annual Report.<br><br>The Committee operated under a Charter which is available on the Company website within the Corporate Governance Section.<br><br>During the period the Board suspended the operations of the Committee as it was determined that the Committee was unnecessary given the size of the Board and the Company's operations. The Board as a whole |

| RECOMMENDATION | | COMPANY'S CURRENT PRACTICE |
|---|---|---|
| | if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively. | undertakes the role of the Committee as set out in its Charter. |
| 2.2 | A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership. | The Board has developed a skills matrix. Given the changes to Board composition during the period, the skills matrix has not been updated. |
| 2.3 | A listed entity should disclose:<br>(a) the names of the directors considered by the board to be independent directors;<br>(b) if a director has an interest, position, association or relationship of the type described above but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and<br>the length of service of each director. | The Board considers that Steve Bertamini and Greg Baxter are independent directors. The Board considers that Keith Glennan and Rob Langford are not independent directors given they are substantial shareholders and Mr Glennan in an employee..<br><br>The date of appointment of each director is disclosed in details of each director in the Directors' Report section of the Annual Report. |
| 2.4 | A majority of the board of a listed entity should be independent directors. | The majority of the Board are not independent Directors for the ASX purposes. |
| 2.5 | The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity. | The roles of the Chairman and Managing Director are exercised by two separate individuals. The Chairman is not considered to be an independent Director for the ASX purposes. |
| 2.6 | A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively. | The Company does not have a formal program for inducting new Directors and providing appropriate professional development opportunities. Given the size and structure of the Board, this program will be adopted on an individual basis for each Director. |
| 3.1 | A listed entity should:<br>(a) have a code of conduct for its directors, senior executives and employees; and<br>disclose that code or a summary of it. | The Company has adopted a Code of Conduct which applies to all Directors, officers, employees, contractors or consultants of the Company as well as a Trading Policy. Each of these has been prepared having regard to the Recommendations. |
| 4.1 | The board of a listed entity should:<br>(a) have an audit committee which: | The Company had established an Audit and Risk Management Committee.<br>During the Period the Audit and Risk Management Committee consisted of three members, all of whom were independent directors. |

| RECOMMENDATION | | COMPANY'S CURRENT PRACTICE |
|---|---|---|
| | i. has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and<br>ii. is chaired by an independent director, who is not the chair of the board,<br>and disclose:<br>iii. the charter of the committee;<br>iv. the relevant qualifications and experience of the members of the committee; and<br>v. in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or<br>if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner. | The Chair of the Committee was not the Chair of the Board during the period.<br>The names of the members of the Committee, details of their qualifications and experience and details of the number of meetings held during the period, are contained in the Directors' Report section of this Annual Report.<br>The Committee operates under a Charter which is available on the Company website within the Corporate Governance Section.<br>During the period the Board suspended the operations of the Committee as it was determined that the Committee was unnecessary given the size of the Board and the Company's operations. The Board as a whole undertakes the role of the Committee as set out in its Charter. |
| 4.2 | The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively. | The Company complies with this Recommendation. |
| 4.3 | A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit. | The Company complies with this Recommendation. |
| 5.1 | A listed entity should:<br>(a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and | The Company is committed to providing timely and balanced disclosure to the market in accordance with its Continuous Disclosure Policy. |

<table>
<tr><th colspan="2">RECOMMENDATION</th><th>COMPANY'S CURRENT PRACTICE</th></tr>
<tr><td></td><td>disclose that policy or a summary of it.</td><td></td></tr>
<tr><td>6.1</td><td>A listed entity should provide information about itself and its governance to investors via its website.</td><td>The Company has a dedicated corporate governance information section on its website.</td></tr>
<tr><td>6.2</td><td>A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.</td><td>The Company has adopted a Shareholder Communications Policy for Shareholders wishing to communicate with the Board.</td></tr>
<tr><td>6.3</td><td>A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.</td><td>All Shareholders are invited to attend the Company's annual meeting, either in person or by representative. The Board regards the annual meeting as an excellent forum in which to discuss issues relevant to the Company and accordingly encourages full participation by Shareholders. Shareholders have an opportunity to submit questions to the Board and to the Company's auditor.</td></tr>
<tr><td>6.4</td><td>A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.</td><td>The Company seeks to recognise numerous modes of communication, including electronic communication, to ensure that its communication with Shareholders is frequent, clear and accessible.</td></tr>
<tr><td>7.1</td><td>The board of a listed entity should:<br>(a) have a committee or committees to oversee risk, each of which:<br>i. has at least three members, a majority of whom are independent directors; and<br>ii. is chaired by an independent director,<br>and disclose:<br>iii. the charter of the committee;<br>iv. the members of the committee; and<br>v. as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or<br>if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.</td><td>During the Period the Company established an Audit and Risk Management Committee.<br>During the Period the Audit and Risk Management Committee consisted of three members, all of whom were independent directors.<br>The Chair of the Committee was not the Chair of the Board during the period.<br>The names of the members of the Committee, details of their qualifications and experience and details of the number of meetings held during the period, are contained in the Directors' Report section of this Annual Report.<br>The Committee operates under a Charter which is available on the Company website within the Corporate Governance Section.<br>During the period the Board suspended the operations of the Committee as it was determined that the Committee was unnecessary given the size of the Board and the Company's operations. The Board as a whole undertakes the role of the Committee as set out in its Charter.<br>.</td></tr>
<tr><td>7.2</td><td>The board or a committee of the board should:</td><td>The Company complies with this Recommendation.</td></tr>
</table>

| RECOMMENDATION | | COMPANY'S CURRENT PRACTICE |
|---|---|---|
| | (a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and<br>disclose, in relation to each reporting period, whether such a review has taken place. | |
| 7.3 | A listed entity should disclose:<br>(a) if it has an internal audit function, how the function is structured and what role it performs; or<br>if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes. | Management is required to design and implement risk management and internal control systems to manage the Company's material business risks and to report to the Board on whether those risks are being managed effectively. |
| 7.4 | A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks. | The Board is responsible for reviewing whether the Company has any material exposure to any economic, environmental and social sustainability risks, and if so, to develop strategies to manage such risks. |
| 8.1 | The board of a listed entity should:<br>(a) have a remuneration committee which:<br>i. has at least three members, a majority of whom are independent directors; and<br>ii. is chaired by an independent director,<br>and disclose:<br>iii. the charter of the committee;<br>iv. the members of the committee; and<br>v. as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or<br>if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive. | During the Period the Company established an Nominations and remuneration Committee.<br>During the Period the Committee consisted of three members, all of whom were independent directors.<br>The Chair of the Committee was not the Chair of the Board during the period.<br>The names of the members of the Committee, details of their qualifications and experience and details of the number of meetings held during the period, are contained in the Directors' Report section of this Annual Report.<br>The Committee operates under a Charter which is available on the Company website within the Corporate Governance Section.<br>During the period the Board suspended the operations of the Committee as it was determined that the Committee was unnecessary given the size of the Board and the Company's operations. The Board as a whole undertakes the role of the Committee as set out in its Charter. |
| 8.2 | A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and | The policies and practices regarding remuneration of Directors is set out in the Selection and appointment of |

| RECOMMENDATION | | COMPANY'S CURRENT PRACTICE |
|---|---|---|
| | the remuneration of executive directors and other senior executives. | new Directors Policy. Full details of Director remuneration is included in annual reports. |
| 8.3 | A listed entity which has an equity-based remuneration scheme should:<br>(a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and<br>disclose that policy or a summary of it. | While the Company has issued options to Independent Directors and some senior executives, it does not have an equity based remuneration scheme. The Company will consider implementation of such a scheme during the current financial year. |

# DIRECTORS' REPORT

Your directors present their report on the consolidated entity (referred to herein as "the Group" or "Tesserent") consisting of Tesserent Limited and its controlled entities for the financial year ended 30 June 2018.

## 1. Directors

The following persons were directors of Tesserent Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

| | |
|---|---|
| Robert Langford | Appointed 8 February 2018 |
| Russell Yardley | Resigned 8 February 2018 |
| Keith Glennan | |
| Gregory Baxter | |
| Stefano (Steve) Bertamini | |
| Paul Brandling | Resigned 2 October 2017 |

## 2. Information on Directors

| | | |
|---|---|---|
| **Robert Langford** | – | Non-Executive Chairman – appointed 8 February 2018 |
| Qualifications | – | Bachelor of Applied Science in Computing<br>Member of the Australian Computer Society |
| Experience | – | Robert has over 40 years of IT experience, starting his career as a Cobol programmer with Royal Insurance in Melbourne, through to roles as senior systems architect and project director with Mobil Oil in the UK European mainland during the early 90's. Since 2002 Robert has owned and run various businesses in Australia ranging from IT to cattle farming. |
| Directorships held in other listed entities during the three years prior to the current year | – | None |

| | | |
|---|---|---|
| **Keith Glennan** | – | Managing Director up to 1 August 2018, becoming Executive Director from that date. |
| Qualifications | – | B. Tech, MACS, MAICD |
| Experience | – | Board member since 2015, Managing Director of Tesserent Australia Pty Ltd (a subsidiary of Tesserent Limited) since 2012. Keith has been working in the IT industry for three decades, and has worked in Australia and the United States for companies such as Hewlett Packard and IBM. He has been involved in the managed security industry since 2002. In late 2012 Keith acquired control of and took the Managing Director role at Tesserent Australia Pty Ltd. In this position he formulated the strategy of developing the MSSP Platform and the current business strategy. |
| Special Responsibilities | – | Chief Executive Officer (CEO) up to 1 August 2018. Appointed to the role of Chief Technology Officer effective 1 August 2018, and resigned from CEO role. Julian Challingsworth appointed Interim CEO 1 August 2018. |
| Directorships held in other listed entities during the three years prior to the current year | – | None |

## DIRECTORS' REPORT

**Gregory Baxter** – Non-Executive Director

Qualifications – BSc MBA

Experience – Board member since 2015. Gregory is currently Chief Digital Officer at MetLife. Previously he was Global Head of Digital at Citibank, leading Citi's digital transformation across businesses and geographies. He specialises in the development and delivery of digital strategy, corporate innovation and business transformation. He has held senior business, consulting and technology roles across Asia, Europe and North America, with a track record of high-impact business results. Previously Gregory was a Partner and U.K. Board member at Booz & Company (formerly Booz Allen Hamilton), where he held leadership roles across the financial services, public sector and digital practices. Prior to this he was a senior project and product manager with IBM, delivering large scale systems integration projects in financial services and managing the product lifecycle of leading market solutions. He is a regular speaker on digital strategy and technology, and the impact of disruptive innovation on business. Gregory is a council (board) member of Chatham House (Royal Institute of International Affairs), a leading international affairs think tank. He holds a BSc from Monash University and a MBA from the University of Melbourne, and has been a guest lecturer on strategy at the University of Oxford, New York University, and American University (Washington).

Directorships held in other listed entities during the three years prior to the current year – None

**Stefano (Steve) Bertamini** – Non-Executive Director

Qualifications – BBA MBA

Experience – Board member since 2015. Steve is currently Chief Executive Officer of Al Rajhi Bank, a bank with total assets in excess of US$90 billion. Steve previously held the position of Group Executive Director and CEO for Global Consumer Banking at Standard Chartered Bank.

Prior to this Steve's roles included:

- Group Executive Director and CEO Consumer Banking at Standard Chartered Bank;
- Chairman & Chief Executive Officer of GE North East Asia;
- Chief Executive Officer and President of GE (China) Co. Ltd;
- Chief Executive Officer of GE Australia and New Zealand;
- President of GE Capital Asia; and
- Managing Director of GE's Consumer Finance business in Asia.

Steve has a BBA, Finance and Management from The University of Texas at Austin and an MBA, Finance and International Banking from University of North Texas.

## DIRECTORS' REPORT

| | | |
|---|---|---|
| Directorships held in other listed entities during the three years prior to the current year | – | None |
| **Russell Yardley** | – | Non-Executive Chairman – resigned 8 February 2018 |
| Qualifications | – | BSc FAICD |
| Experience | – | Appointed Chair in 2015 and resigned 8 February 2018. |
| Directorships held in other listed entities during the three years prior to the current year | – | Chairman Powerhouse Ventures Limited |
| **Paul Brandling** | – | Non-Executive Director – resigned 2 October 2017 |
| Qualifications | – | BSc (Hons), MAICD |
| Experience | – | Board member since 2015 and resigned 2 October 2017. |
| Directorships held in other listed entities during the three years prior to the current year | – | Previously held directorships in Vocus Communications Limited and Integrated Research Limited. |

### 3. Directors' Shareholdings

The table below sets out each Director's relevant interest in shares or options of the Company at the date of this report:

| Director | Number of ordinary shares | Number of options |
|---|---|---|
| Robert Langford | 24,071,282 | - |
| Keith Glennan | 28,761,435 | - |
| Gregory Baxter | 1,406,043 | 1,500,000 |
| Stefano (Steve) Bertamini | 1,406,043 | 1,500,000 |
| **Total** | 55,644,803 | 3,000,000 |

### 4. Company Secretary

Oliver Carton BJuris LLB was appointed Company Secretary on 6 May 2015.

Oliver is a qualified lawyer with over 29 years' experience in a variety of corporate roles. He currently runs his own consulting business, and was previously a Director of the Chartered Accounting firm KPMG where he managed its Corporate Secretarial Group. Prior to that, he was a senior legal officer with ASIC.

# DIRECTORS' REPORT

## 5. Directors' Meetings

The table below sets out the number of meetings held during the 2018 financial year and the number of meetings attended by each Director. During the year,11 Board meetings were held.

| Director | Eligible to attend | Attended |
|---|---|---|
| Robert Langford | 5 | 5 |
| Russell Yardley – resigned 8 February 2018 | 6 | 5 |
| Keith Glennan | 11 | 11 |
| Gregory Baxter | 11 | 11 |
| Stefano (Steve) Bertamini | 11 | 11 |
| Paul Brandling – resigned 2 October 2017 | 3 | 3 |

At the February 2017 Board meeting, the Board resolved to form an Audit and Risk Committee and a Remuneration and Nominations Committee as sub committees of the Board. At the December 2017 Board meeting it was agreed that, due to the size and composition of the Board and sub committees, that the sub committees would be disbanded with responsibility transferring back to the full Board. Prior to the sub committees responsibility being transferred back to the Board, membership of these committees was restricted to Non-executive directors and was as follows:

| Directors | Audit and Risk Committee | Remuneration and Nominations Committee |
|---|---|---|
| Robert Langford[1] | - | - |
| Russell Yardley[2] | Member | Member |
| Gregory Baxter | - | Chair |
| Stefano (Steve) Bertamini | Chair | - |
| Paul Brandling[3] | Member | Member |

(1) Appointed 8 February 2018 – post recommissioning of the sub committees

(2) Resigned 8 February 2018

(3) Resigned 2 October 2017

One Audit and Risk Committee meeting was held during FY2018, prior to the responsibility being transferred to the Board – all members attended.

One Remuneration and Nominations Committee meeting was held during FY2018, prior to responsibility being transferred to the Board – all members attended.

## 6. Review of Operations

### Principal activities

Tesserent provides Internet Security-as-a-Service to a wide range of Australian and international customers, including education providers, corporate enterprises, and government customers. Security-as-a-Service packages security services for a customer's computer infrastructure, including firewall, authentication, anti-virus, anti-malware/spyware, intrusion detection, and security event management, amongst other services. These services are provided on the basis of a subscription fee, most commonly as monthly or annual fees. This revenue model delivers recurring revenues to Tesserent.

Tesserent has also appointed a number of international resellers (Channel partners) that licence the MSSP Platform to deliver Security-as-a-Service to their own customers.

### Group financial performance

The Group recorded a loss after tax of $3,095,670 for the year ended 30 June 2018 (2017: $3,464,036 loss).

## DIRECTORS' REPORT

Ongoing business revenue has risen by 21.6% year-on-year excluding Customer contracts sold to FZO in FY2017. Reported revenue comparisons to FY2017 include sold Customer contracts and is therefore down 0.9%.

Tesserent raised $500K in Q4 in a placement to clients of Phillip Capital Limited at a share price of $0.07 per share. A Share Purchase Plan (SPP) was also offered to existing shareholders providing an opportunity to buy shares at the same price, netting $304K, with the funds received post year end. The SPP closed after the balance date and this raising falls into FY19. Together this brings the total capital raised to $804K.

Research and Development tax concessions totalling $844K were received in FY18. The funds are a result of the on-going development into Tesserent's security and networking technology, and future capabilities, which will continue to differentiate and drive the business.

Through the ongoing optimisation of operations and personnel costs, Tesserent was able to significantly reduce operational expenditure.

Following a review of operations of Tesserent, including the restructure of various strategic OEM supplier agreements and the intended acquisition of Asta, a review of the balance sheet has been undertaken, specifically focused on the intangible assets. This has resulted in a write off of goodwill that was recognised on a previous acquisition. By doing so, this will allow for a more informed assessment of FY19 company performance.

### TECHNOLOGY

Tesserent's core security services continue to experience consistent, strong growth. The annuity base of recurring revenue from 24-36 month customer contracts has created stability and linear growth, with the CyberBiz product category contributing positively. Continued R&D and capitalisation of the Tesserent proprietary platform has resulted in new innovative product features including:

- "Zero Touch" deployment technology, simplifying the networking hardware installation process, enabling rapid customer deployment and configuration.
- Proprietary SD-WAN (Software Defined Wide Area Networking) technology enabling every Tesserent network appliance (including CyberBiz) to act as a secure SD-WAN intelligent device.

Secure networking is an area where Tesserent has been able to generate strong new revenue from both new and existing customers. It also presents a significant opportunity to cross-sell networking solutions across our customer base, generating internal commercialisation efficiencies.

By adapting and expanding to regulatory changes and market demand, Tesserent experienced strong growth in the SIEM (Security Incident and Event Management) product category. Changes to the Australian Privacy Act resulting in the Notifiable Data Breaches Scheme (NDB Scheme) launched in February 2018. The NDB Scheme established requirements for organisations to report and respond to data breaches. Australian businesses with inadequate cybersecurity and personal information data protection, now face the risk of large fines in the event of a data breach.

### ACCELERATING GROWTH

In July 2018, Tesserent appointed Maecenas Capital to refine and drive Tesserent's growth and go to market strategies, optimise funding arrangements, and evaluate potential acquisition opportunities. On 27 July 2018, Tesserent announced it had signed a binding terms sheet to acquire innovative ICT company, Asta Pty Ltd (Asta) subject to shareholder approval. The acquisition consideration is based on a multiple of normalised EBITDA, and is payable in a mix of cash and shares. Tesserent expects to seek shareholder approval at the 2018 AGM. Asta's unaudited revenue for FY18 totals $10.9m and therefore combined revenue between the two companies in FY18 is over $17M. This acquisition will consolidate Tesserent's positioning as a trusted end-to-end provider of secure IT infrastructure and services. The acquisition will extend presence in Melbourne, Sydney and Auckland and increases Tesserent's active customer base from around 200 to around 450.

As part of Tesserent's accelerated growth strategy, Julian Challingsworth has been appointed Chief Executive Officer as of 1 August, 2018. Julian joins Tesserent after serving as a Managing Director and Partner of The Litmus Group for over 10 years and a board member of PPB Advisory. In addition to advising over 20 organisations on growth acceleration strategies in Australia, Asia and Europe, Julian was a key driver in growing Litmus multiple business units in Australia and internationally before it was acquired by PPB Advisory.

# DIRECTORS' REPORT

## 7. Business Strategies, Prospects and Risks for the Future Financial Years

Tesserent's strategy includes continued focus on the following areas:

- expanding the number of Channel partners in Australia and internationally;
- increasing the number of direct sales to organisations, in Australian and internationally, through increased sales and marketing;
- assessing acquisition opportunities; and
- ongoing research and development.

## 8. Subsequent Events

On 27 July 2018 the Company announced that a binding term sheet, subject to conditions precedent, had been signed to acquire ICT company Asta Solutions Pty Ltd (Asta). Asta is an Australian based business with more than 200 clients serviced by over 85 staff from offices in Melbourne, Sydney and Auckland. The purchase price is 4 X EBITDA and expected to result in a purchase price of $3.8m. Purchase consideration will be a combination of cash and equity. It is anticipated that the transaction will complete no later than end of December 2018.

On the 8 July 2018 the Company announced the results of the share purchase plan(SPP), noting that $304,000 had been raised from existing shareholders who participated in the SPP. These funds have been received in full.

Apart from the matters noted above, there have been no matters or circumstances other than those referred to in the financial statements or notes to the financial statements that have arisen since the end of the financial year, that have significantly affected, or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

## 9. Changes in State of Affairs

There were no other significant changes in the state of affairs of the Group other than that referred to in the financial statements or notes thereto.

## 10. Environmental Factors

Tesserent is not subject to any significant environmental regulation under Australian Commonwealth or State law. Tesserent recognises its obligations to its stakeholders (customers, shareholders, employees and the community) to operate in a way that minimises the impact it has on the environment.

## 11. Dividends

No dividends were declared or paid during the financial year.

## 12. Indemnification of Directors, Officers and Auditors

The Directors and Officers of Tesserent Limited are indemnified against liabilities pursuant to agreements with Tesserent Limited. Tesserent Limited has entered into insurance contracts with a third party insurance provider, in accordance with normal commercial practices. Under the terms of the insurance contract, the nature of the liabilities insured against and the amount of premiums paid are confidential. The Group are not aware of any liability that arose under these indemnities as at the date of this report.

During or since the end of financial period, the company has not indemnified or made a relevant agreement to indemnify the auditor against a liability incurred as auditor.

## DIRECTORS' REPORT

### 13. Proceedings on Behalf of Company

No person has applied for leave of court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

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

### 14. Non-audit services

The Board of Directors, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence, as the nature of the services provided does not compromise the general principles relating to auditor independence in accordance with APES 110: *Code of Ethics for Professional Accountants* set by the Accounting Professional and Ethical Standards Board.

The following fees were paid or payable to BDO East Coast Partnership for non-audit services provided during the year ended 30 June 2018:

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Tax services | 45,025 | 99,400 |

### 15. Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2018 has been received and can be found on page 37 of the financial report.

### 16. Options / Deferred shares

At the date of this report, the unissued ordinary shares of Tesserent Limited under option are as follows:

| Grant Date | Date of Expiry | Exercise Price (Cents) | Number under option |
|---|---|---|---|
| 17 November 2015 | 31 August 2019 | 20 | 2,500,000 |
| 17 November 2015 | 31 August 2019 | 24 | 2,500,000 |
| 17 November 2015 | 31 August 2019 | 28.8 | 1,000,000 |
| 27 Jun 2016 | 27 Jun 2019 | 40 | 500,000 |
| 27 Jun 2016 | 27 Jun 2020 | 50 | 500,000 |
| | | | 7,000,000 |

At the date of this report, the unissued ordinary shares of Tesserent Limited under deferred shares are as follows:

| Grant date | Vesting date | Share price at grant date | Number of deferred shares |
|---|---|---|---|
| 9 May 2016 | 8 May 2019 | $0.16 | 700,000 |
| 24 November 2016 | 15 June 2019 | $0.14 | 600,000 |
| 24 November 2016 | 3 October 2018 | $0.14 | 450,000 |
| 24 November 2016 | 3 October 2019 | $0.14 | 750,000 |
| | | | 2,500,000 |

## DIRECTORS' REPORT

Option and deferred share holders do not have any rights to participate in any issues of shares or other interests of the company or any other entity.

There have been no options granted or deferred shares issued over unissued shares or interests of any controlled entity within the Group during or since the end of the reporting period.

For details of options issued and deferred shares granted to directors and executives as remuneration, refer to the remuneration report.

No person entitled to exercise the option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

# REMUNERATION REPORT - AUDITED

## Remuneration Policy

The directors present the consolidated entity's 2018 audited remuneration report which details the remuneration information for Tesserent Limited's executive director, non-executive directors and other key management personnel.

For the purposes of this report, Key Management Personnel (KMP) are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the business, directly or indirectly, as an executive.

The names and positions of KMP in the Group during the whole of the financial year unless otherwise stated are:

| Name | Position | Appointment Date | Resignation Date |
|---|---|---|---|
| Keith Glennan | Managing Director | | |
| Robert Langford | Non-Executive Chairman | 8 February 2018 | |
| Russell Yardley | Non-Executive Chairman | | 8 February 2018 |
| Steve Bertamini | Non-Executive Director | | |
| Gregory Baxter | Non-Executive Director | | |
| Paul Brandling | Non-Executive Director | | 2 October 2017 |
| Karen Negus[1] | Head of Sales and Marketing | | |
| David Buerckner | Head of Security Operations | | |
| Justin Owen[2] | Chief Financial Officer | 1 July 2017 | |

(1) Karen Negus resigned 2 July 2018.

(2) Justin Owen undertakes the CFO role on a permanent part time basis, providing this service via an unrelated company. From 1 July 2017 these services were provided by a company controlled by Justin Owen.

## Principles used to determine nature and amount of remuneration

The broad principles for determining the nature and amount of remuneration of KMP has historically been agreed by the Board. In February 2017 the Board implemented a Nominations and Remuneration Committee, however in a subsequent Board held December 2017 the Directors agreed that due to the size and structure of the Board and sub committees that the sub committee responsibility would transition to the Board and the sub committees would be disbanded.

An annual review of the Board and sub committee structure will be undertaken annually by the Board with changes made as deemed appropriate to the size, structure and needs of the Company.

The Committee / Board can obtain professional advice where necessary to ensure that the Group attracts and retains talented and motivated directors and employees who can enhance performance through their contribution and leadership. No external advice regarding remuneration policy was obtained in the current year.

The guiding principles for determining the nature and amount of remuneration for KMP of the Group is as follows:

- remuneration should include an appropriate mix of fixed and performance based components,
- components of remuneration should be understandable, transparent and easy to communicate; and
- Remuneration Committee / Board to review KMP packages annually by reference to the Group's performance, executive performance and comparable information from industry sectors.

The Remuneration and Nominations Committee / Board sets out to link remuneration polices with the achievement of financial and personal objectives.

**Group financial performance**

The earnings of the Group for the three years ending 30 June 2018 are summarised as follows:

| Financial performance[1] | 2018 | 2017 | 2016 |
|---|---|---|---|
| Sales revenue – external customers | 5,327,957 | 5,375,117 | 4,713,558 |
| Earnings before interest, tax, depreciation, amortisation and impairment(EBITDA) | (1,529,345) | (2,883,644) | (130,658) |
| Loss after income tax | (3,095,670) | (3,464,036) | (218,654) |
| Basic loss per share (cents) | (2.62) | (2.99) | (0.29) |
| Share price at year end (cents) | 0.06 | 0.09 | 0.165 |

1 Three years of financial information provided as company only listed in February 2016.

No dividends were paid or declared during these financial years

**Components of remuneration**

Non-executive directors are remunerated with fees within the aggregate limit as approved by shareholders.

| Name | Annual Approved Fee |
|---|---|
| Robert Langford[1] | $90,000 |
| Russell Yardley[2] | $90,000 |
| Steve Bertamini | $45,000 |
| Gregory Baxter | $45,000 |
| Paul Brandling[3] | $45,000 |

(1) Appointed 8 February 2018
(2) Resigned 8 February 2018
(3) Resigned 2 October 2017

The executive directors and other KMP are remunerated based upon market value of the position and the range of skills and experience they bring to the company and is split between fixed and performance linked remuneration.

Fixed remuneration consists of base remuneration and employer contributions to superannuation funds.

Performance linked remuneration includes short-term incentives and is designed to reward the Managing Director (MD) and other KMP's for meeting and exceeding their financial and personal objectives.

In February 2017 the Board established a Nominations and Remuneration Committee which was subsequently disbanded in FY2018 with responsibility transferring back to the Board. Previously the Nominations and Review Committee and now the Board has the responsibility of setting the Key Performance Indicators (KPI's) for the MD and have input to the KPI's for the executives. KPI's generally include measures relating to the Group, the relevant business unit and the individual. At the conclusion of the year the Board will assess the performance of the MD, and the MD assesses the performance of the individual executives against their targets. The MD's recommendations were presented to the Nominations and Remuneration Committee and now the Board for approval.

The Board has implemented a Director Option Plan. The Option Plan is aimed at incentivising the Directors in retaining key strategic skills. The options have been granted to the Directors vesting over three years with exercising prices of $0.20, $0.24 and $0.288. Refer to tables on page 32 for options affecting remuneration in the current and future reporting period.

At the 2017 Annual General Meeting (AGM), 97.3% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2017. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

**Consolidated entity performance and link to remuneration**

**2018**

Keith Glennan

Performance measures for Keith Glennan were set by the Board to reflect key measures impacting the growth in revenue, profitability and shareholder value. Mr Glennan was entitled to a bonus of 100% of his base salary and was set as follows:

- Growth in Total Contract Value over the 12 month period ending 30 June 2018 – 50% weighting

  Most contracts sold and renewed are for period up to three years, with total contract value (TCV) representing the future revenue to be recognised over the three year period. For businesses based on annuity revenue, this represents a leading indicator for future revenue to be recognised.

- Growth in TCV associated with new product CyberBiz – 30% weighting

  The Group launched CyberBiz as a new product in FY18, with growth in TCV recognised as the basis in success for the launch of the product.

- Growth in share price – 20% weighting

  Growth in share price represents the underlying measure in growth in shareholder value.

David Buerckner

- Cash bonus up to $20,000 including superannuation based on the outcome of annual performance review with CEO – weighting 100%.

Karen Negus

- Cash bonus up to $30,000 including superannuation based on the outcome of annual performance review with CEO – weighting 100%.
- Participation in the Tesserent sales commission plan with commission based on sales performance.

There were no other performance based remuneration measures.

**2017**

Keith Glennan

Entitlement to receive a bonus of 100% of base salary based on agreed performance measures. There were no performance based measures set for Keith Glennan for FY2017.

David Buerckner

- Cash bonus up to $20,000 including superannuation based on the outcome of annual performance review with CEO – weighting 100%.

Karen Negus

- Cash bonus up to $30,000 including superannuation based on the outcome of annual performance review with CEO – weighting 100%.

There were no other performance based remuneration measures.

In respect of the current financial year, bonus payments were made to key management personnel and are outlined on pages 29 and 30.

## Details of Remuneration

Details of remuneration of the Directors and KMP of the Group are set out in the following tables.

### 2018 Directors' Remuneration

| | Short Term | | Post Employment | Long Term Benefits | Share Based Payments | Total | Total Performance Related | Options as a % of Total |
|---|---|---|---|---|---|---|---|---|
| | Salary/Fees | Bonus | Super-annuation | Long Service Leave | Options | | | |
| | $ | $ | $ | $ | $ | $ | % | % |
| R Langford[1] | 37,500 | - | - | - | - | 37,500 | - | - |
| R Yardley[2] | 60,000 | - | - | - | (19,459) | 40,541 | - | (48.0) |
| K Glennan | 269,975 | 135,000 | 23,425 | 4,710 | - | 433,110 | 31.2 | - |
| G Baxter[4] | 45,000 | - | - | - | 10,151 | 55,151 | - | 18.4 |
| S Bertamini[4] | 45,000 | - | - | - | 10,151 | 55,151 | - | 18.4 |
| P Brandling[3] | 10,274 | - | 976 | - | (12,290) | (1,040) | - | 1,181.7 |
| **Total** | **467,749** | **135,000** | **24,401** | **4,710** | **(11,447)** | **620,413** | **-** | **-** |

1 Appointed 8 February 2018
2 Resigned 8 February 2018. Remuneration is payable up to date of resignation with balance forfeited
3 Resigned 2 October 2018 Remuneration is payable up to date of resignation with balance forfeited
4 Equity to the value of $26,250 taken in lieu of cash
There were no non monetary benefits provided

### 2018 Executive Remuneration

| | Short Term | | Post Employment | Long Term Benefits | Share Based Payments | Total | Total Performance Related | Deferred Shares as a % of Total |
|---|---|---|---|---|---|---|---|---|
| | Salary/Fees | Bonus | Super-annuation | Long Service Leave | Deferred Shares | | | |
| | $ | $ | $ | $ | $ | $ | % | % |
| D Buerckner | 183,000 | - | 17,385 | 3,496 | 83,408 | 287,289 | - | 29.0 |
| K Negus | 205,831 | - | 19,554 | 3,495 | 63,918 | 292,798 | - | 21.8 |
| J Owen[1] | 175,617 | - | - | - | - | 175,617 | - | - |
| **Total** | **564,448** | **-** | **36,939** | **6,991** | **147,326** | **755,704** | **-** | **-** |

1 Appointed 1 July 2017
There were no non monetary benefits provided

### Director and Executive Remuneration

| | | | | | | |
|---|---|---|---|---|---|---|
| **Total** | **1,032,197** | **135,000** | **61,340** | **11,701** | **135,879** | **1,376,117** |

## 2017 Directors' Remuneration

| | Short Term | | Post Employment | Long Term Benefits | Share Based Payments | Total | Total Performance Related | Options as a % of Total |
|---|---|---|---|---|---|---|---|---|
| | Salary/Fees | Bonus | Super-annuation | Long Service Leave | Options | | | |
| | $ | $ | $ | $ | $ | $ | % | % |
| R Yardley | 90,000 | - | - | - | 59,658 | 149,658 | - | 39.9 |
| K Glennan | 269,975 | - | 23,425 | 8,682 | - | 302,082 | - | - |
| G Baxter | 45,000 | - | - | - | 29,829 | 74,829 | - | 39.9 |
| S Bertamini | 45,000 | - | - | - | 29,829 | 74,829 | - | 39.9 |
| P Brandling | 41,096 | - | 3,904 | - | 29,829 | 74,829 | - | 39.9 |
| **Total** | **491,071** | **-** | **27,329** | **8,682** | **149,145** | **676,227** | **-** | **-** |

There were no non monetary benefits provided

## 2017 Executive Remuneration

| | Short Term | | Post Employment | Long Term Benefits | Share Based Payments | Total | Total Performance Related | Deferred Shares as a % of Total |
|---|---|---|---|---|---|---|---|---|
| | Salary/Fees | Bonus | Super-annuation | Long Service Leave | Deferred Shares | | | |
| | $ | $ | $ | $ | $ | $ | % | % |
| D Buerckner[1] | 124,901 | 13,699[5] | 13,039 | 2,592 | 71,455 | 225,686 | 6.7 | 31.7 |
| N Conolly[2] | 75,592 | - | 7,158 | - | 306,687 | 389,437 | - | 78.8 |
| K Hansen[3] | 180,929 | - | 13,699 | - | 77,500 | 272,128 | - | 28.5 |
| K Negus | 152,195 | 22,830[5] | 16,471 | 3,531 | 72,571 | 267,598 | 9.3 | 27.1 |
| **Total** | **533,617** | **36,529** | **50,367** | **6,123** | **528,213** | **1,154,849** | **-** | **-** |

1 Appointed 3 October 2016
2 Resigned 30 November 2016
3 Ceased employment 21 March 2017
4 Performance related remuneration is continuity of employment
5 Cash bonus paid on outcome of annual performance review
There were no non monetary benefits provided

## Director and executive remuneration

| | | | | | | |
|---|---|---|---|---|---|---|
| **Total** | **1,024,688** | **36,529** | **77,696** | **14,805** | **677,358** | **1,831,076** |

The proportion of remuneration linked to performance and the fixed proportion are as follows:

| | Fixed remuneration | | At risk- STI | | At risk - LTI | |
|---|---|---|---|---|---|---|
| Name | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** |
| *Non-Executive Directors*: | | | | | | |
| R Langford | 100% | n/a | - | n/a | - | n/a |
| R Yardley | 100% | 100% | - | - | - | - |
| G Baxter | 100% | - | - | - | - | - |
| S Bertamini | 100% | - | - | - | - | - |
| P Brandling | 100% | - | - | - | - | - |
| *Executive Director* | | | | | | |
| K Glennan | 50% | 50% | 50% | 50% | - | - |
| *Other Key Management Personnel* | | | | | | |
| D Buerckner | 91% | 91% | 9% | 9% | - | - |
| N Conolly | n/a | 100% | n/a | - | n/a | - |
| K Hansen | n/a | 100% | n/a | - | n/a | - |
| K Negus | 87% | 87% | 13% | 13% | - | - |
| J Owen | 100% | n/a | - | - | - | - |

Cash bonuses are dependent on meeting defined performance measures or the outcome of annual performance reviews. The amount of the bonus is determined by having regard to the satisfaction of performance measures and weightings as described above in the section “Consolidated entity performance and link to remuneration”. The maximum bonus values are established by the Board and reviewed annually, payable by agreement between the employee and the Board.

The proportion of the cash bonus paid/payable or forfeited is as follows:

| Name | Cash bonus paid/payable | | Cash bonus forfeited | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| *Executive Director* | | | | |
| K Glennan | 50% | - | 50% | 100% |
| *Other Key Management Personnel* | | | | |
| D Buerckner | - | 75% | 100% | 25% |
| K Negus | - | 83% | 100% | 17% |

### Details of Share Based Compensation

### Options

There were no options issued in the current financial year.

The terms and conditions of each grant of options affecting remuneration in the current or future reporting periods are as follows:

| KMP | Grant date | No of options | Vesting and exercise date | Expiry date | Exercise price | Value per option at grant date | % Vested |
|---|---|---|---|---|---|---|---|
| Steve Bertamini | 17 Nov 15 | 500,000 | 31 Aug 17 | 31 Aug 19 | $0.24 | $0.0539 | 100 |
| Steve Bertamini | 17 Nov 15 | 500,000 | 31 Aug 18 | 31 Aug 19 | $0.288 | $0.0423 | n/a |
| Gregory Baxter | 17 Nov 15 | 500,000 | 31 Aug 17 | 31 Aug 19 | $0.24 | $0.0539 | 100 |
| Gregory Baxter | 17 Nov 15 | 500,000 | 31 Aug 18 | 31 Aug 19 | $0.288 | $0.0423 | n/a |

The number of options over ordinary shares in the company provided as remuneration to key management personnel is shown below. The options carry no dividends or voting rights. The options will vest if the option holder remains employed by the company at the relevant vesting date.

The table below shows a reconciliation of options held by each KMP from the beginning to the end of FY 2018.

**2018**

| Name and grant date | Balance at 1 Jul 2017 Unvested | Granted as compensation | Vested | Exercised | Lapsed / forfeited during the year | % forfeited during the year | Balance at 30 June 2018 Unvested |
|---|---|---|---|---|---|---|---|
| S Bertamini | | | | | | | |
| 17 Nov 15 | 500,000 | - | 500,000 | - | - | - | - |
| 17 Nov 15 | 500,000 | - | - | - | - | - | 500,000 |
| G Baxter | | | | | | | |
| 17 Nov 15 | 500,000 | - | 500,000 | - | - | - | - |
| 17 Nov 15 | 500,000 | - | - | - | - | - | 500,000 |
| P Brandling | | | | | | | |
| 17 Nov 15 | 500,000 | - | 500,000 | - | - | - | - |
| 17 Nov 15 | 500,000 | - | - | - | 500,000 | 50 | - |
| R Yardley | | | | | | | |
| 17 Nov 15 | 1,000,000 | - | 1,000,000 | - | - | - | - |
| 17 Nov 15 | 1,000,000 | - | - | - | 1,000,000 | 50 | - |

Value of options granted as remuneration that have been granted, exercised or lapsed during the year.

**2018**

| | Balance 1 July 2017 $ | Value Granted $ | Value Exercised $ | Value Lapsed $ | Balance 30 Jun 2018 $ |
|---|---|---|---|---|---|
| Steve Bertamini | 81,424 | - | - | - | 81,424 |
| Gregory Baxter | 81,424 | - | - | - | 81,424 |
| Paul Brandling | 81,424 | - | - | (21,169) | 60,255 |
| Russell Yardley | 162,848 | - | - | (42,339) | 120,509 |

The fair value of options granted as remuneration and as shown in the above table has been determined in accordance with Australian Accounting Standards, using the Black-Scholes method of calculation and will be recognised as an expense over the relevant vesting period to the extent that conditions necessary for vesting are satisfied.

**Deferred Shares**

Rights to deferred shares are outlined in the respective employment agreements for each Executive KMP. The shares vest once the performance conditions are met. On vesting each right automatically converts into one ordinary share. The executives do not receive any dividend and are not entitled to vote in relation to the rights during the vesting period. If an executive ceases employment before the rights vest and is not deemed a good leaver the rights will be forfeited.

The fair value of the rights is determined based on the market price of the company's shares at the grant date.

The terms and conditions of deferred shares affecting remuneration in the current or future reporting periods are as follows

**2018**

| KMP | Deferred Shares | % Vested | AASB 2 Expense $ | Grant Date | Share price at Grant Date $ | Vesting Date | Exercise Price |
|---|---|---|---|---|---|---|---|
| D Buerckner | 300,000 | 100 | 12,748 | 24 November 2016 | 0.14 | 3 October 2017 | Nil |
| D Buerckner | 450,000 | n/a | 33,916 | 24 November 2016 | 0.14 | 3 October 2018 | Nil |
| D Buerckner | 750,000 | n/a | 36,744 | 24 November 2016 | 0.14 | 3 October 2019 | Nil |
| K Negus | 360,000 | 100 | 31,056 | 24 November 2016 | 0.14 | 15 June 2018 | Nil |
| K Negus[2] | 600,000 | n/a | 32,862 | 24 November 2016 | 0.14 | 15 June 2019 | Nil |

1 Nick Conolly resigned 30 November 2016 and was deemed a good leaver as per the terms of his employment contract. On this basis his rights are not forfeited, however as per the requirements of AASB 2 all performance criteria have been met and therefore the cost of his deferred shares have been recognised in the prior year profit or loss . The vesting date of the deferred shares has not changed.

2 Karen Negus has resigned post year end and has therefore forfeited deferred shares

**2017**

| KMP | Deferred Shares | % Vested | AASB 2 Expense $ | Grant Date | Share price at Grant Date $ | Vesting Date | Exercise Price |
|---|---|---|---|---|---|---|---|
| N Conolly[1] | 700,000 | 100 | 96,000 | 9 May 2016 | 0.16 | 8 May 2017 | Nil |
| N Conolly[1] | 700,000 | n/a | 104,011 | 9 May 2016 | 0.16 | 8 May 2018 | Nil |
| N Conolly[1] | 700,000 | n/a | 106,676 | 9 May 2016 | 0.16 | 8 May 2019 | Nil |
| K Hansen[2] | 500,000 | n/a | 77,500 | 22 October 2016 | 0.155 | 30 November 2016 | Nil |
| D Buerckner | 300,000 | n/a | 29,252 | 24 November 2016 | 0.14 | 3 October 2017 | Nil |
| D Buerckner | 450,000 | n/a | 20,527 | 24 November 2016 | 0.14 | 3 October 2018 | Nil |
| D Buerckner | 750,000 | n/a | 21,946 | 24 November 2016 | 0.14 | 3 October 2019 | Nil |
| K Negus | 240,000 | 100 | 33,600 | 24 November 2016 | 0.14 | 15 June 2017 | Nil |
| K Negus | 360,000 | n/a | 19,344 | 24 November 2016 | 0.14 | 15 June 2018 | Nil |
| K Negus | 600,000 | n/a | 19,627 | 24 November 2016 | 0.14 | 15 June 2019 | Nil |

1 Nick Conolly resigned 30 November 2016 and was deemed a good leaver as per the terms of his employment contract. On this basis his rights are not forfeited, however as per the requirements of AASB 2 all performance criteria have been met and therefore the cost of his deferred shares have been recognised in the current year profit or loss . The vesting date of the deferred shares has not changed.
2 Kurt Hansen ceased employment 21 March 2017. 500,000 shares vested prior to ceasing employment with the remainder of deferred shares being forfeited.

### Rights to deferred shares

The table below shows a reconciliation of deferred shares held by each executive KMP from the beginning to the end of FY 2018.

**2018**

| | Year granted | Balance 1 Jul 17 No. | Granted during year No. | Vested No. | Vested % | Forfeited No. | Forfeited % | Balance 30 Jun 18 Unvested No. | Maximum value yet to vest* $ |
|---|---|---|---|---|---|---|---|---|---|
| N Conolly[1] | 2016 | 1,400,000 | - | 700,000 | 50.0 | - | - | 700,000 | 31,941 |
| D Buerckner | 2017 | 1,500,000 | - | 300,000 | 20.0 | - | - | 1,200,000 | 55,136 |
| K Negus[2] | 2017 | 960,000 | - | 360,000 | 37.5 | - | - | 600,000 | 31,511 |

1 Nick Conolly resigned 30 November 2016 and was deemed a good leaver as per the terms of his employment contract. On this basis his rights are not forfeited, however as per the requirements of AASB 2 all performance criteria have been met and therefore the cost of his deferred shares were recognised in the prior year profit or loss. The vesting date of the deferred shares has not changed.
2 Karen Negus has resigned post year end and therefore has forfeited rights to unvested deferred shares at the date of resignation
* The maximum value of the deferred shares yet to vest has been determined as the amount of the grant date fair value of the rights that is yet to be expensed. The minimum value of the deferred shares yet to vest is nil as the shares will be forfeited if the vesting conditions are not met.

**2017**

| | Year granted | Balance 1 Jul 16 No. | Granted during year No. | Vested No. | Vested % | Forfeited No. | Forfeited % | Balance 30 Jun 17 Unvested No. | Maximum value yet to vest* $ |
|---|---|---|---|---|---|---|---|---|---|
| N Conolly[1] | 2016 | 2,100,000 | - | 700,000 | 33.3 | - | - | 1,400,000 | 117,243 |
| K Hansen[2] | 2016 | 1,750,000 | - | - | - | 1,750,000 | 100 | - | - |
| K Hansen | 2017 | - | 3,000,000 | 500,000 | 16.7 | 2,500,000 | 83.3 | - | - |
| D Buerckner | 2017 | - | 1,500,000 | - | - | - | - | 1,500,000 | 138,545 |
| K Negus | 2017 | - | 1,200,000 | 240,000 | 20.0 | - | - | 960,000 | 95,429 |

1 Nick Conolly resigned 30 November 2016 and was deemed a good leaver as per the terms of his employment contract. On this basis his rights are not forfeited, however as per the requirements of AASB 2 all performance criteria have been met and therefore the cost of his deferred shares were recognised in the FY2017 profit or loss. The vesting date of the deferred shares has not changed.
2 Kurt Hansen ceased employment 21 March 2017. Prior year rights to deferred shares were forfeited following a renegotiated package where the additional rights were granted. 500,000 rights vested prior to ceasing employment with the balance of 2,500,000 forfeited on resignation.
* The maximum value of the deferred shares yet to vest has been determined as the amount of the grant date fair value of the rights that is yet to be expensed. The minimum value of the deferred shares yet to vest is nil as the shares will be forfeited if the vesting conditions are not met.

### Service Agreements

The contracts for service between the Group and specified executives are formalised in service agreements. The major provisions in the agreements relating to remuneration are set out below:

Keith Glennan, Chief Executive Officer

- Permanent employment contract commencing 1 July 2015
- Fixed remuneration of $270,000 including superannuation and director fees along with allowances of $23,400
- Opportunity to receive a bonus up to 100% of base salary based on achievement of KPI's as set by Chairman or Board. An accrual of $135,000 inclusive of superannuation has been taken up for FY2018.
- Termination by provision of two months' notice by either the Executive or the Company

David Buerckner, Head of Security Operations

- Permanent employment contract commencing 3 October 2016
- Fixed remuneration of $200,385 including superannuation
- Opportunity to receive an annual bonus up to $20,000 inclusive of superannuation based on outcome of annual review undertaken by CEO. No bonus was paid or accrued for the current year.
- Termination by provision of two months' notice by either the Executive or the Company

Karen Negus, Head of Sales and Marketing

- Permanent employment contract commencing 15 June 2016 and updated 1 April 2017 when appointed to Head of Sales and Marketing.
- Fixed remuneration of $200,385 inclusive of superannuation
- Sales commission of $25,000 inclusive of superannuation
- Opportunity to receive an annual bonus up to $30,000 inclusive of superannuation based on outcome of annual review undertaken by CEO.
- Termination by provision of one months' notice by either the Executive or the Company.

Justin Owen, Chief Financial Officer

- Permanent part time contract with CFO Effect Pty Ltd commencing 1 July 2017.
- Monthly retainer based remuneration of $9,650, plus additional fee for other projects undertaken.

Termination by provision of one months' notice by either CFO Effect Pty Ltd or the Company.

**KMP Shareholding 2018**

| | Balance at Beginning of year | Deferred shares vested as remuneration during year | Issued on exercise of options during year | Other changes during year | | Balance at end of year |
|---|---|---|---|---|---|---|
| | | | | On Market | Other | |
| R Langford | 24,071,282[1] | - | - | - | - | 24,071,282 |
| R Yardley | 641,666 | - | - | (639,114) | (2,552)[2] | - |
| K Glennan | 31,711,435 | - | - | 50,000 | (3,000,000)[3] | 28,761,435 |
| G Baxter | 1,200,000 | - | - | - | 206,043[4] | 1,406,043 |
| S Bertamini | 1,200,000 | - | - | - | 206,043[4] | 1,406,043 |
| P Brandling | 1,200,000 | - | - | (183,196) | (1,016,804)[2] | - |
| D Buerckner | - | 300,000 | - | - | - | 300,000 |
| K Negus | 240,000 | 360,000 | - | - | - | 600,000 |
| J Owen | - | - | - | 110,000 | - | 110,000 |

1) shares held at appointment date
2) shares held at resignation date
3) shares sold off market
4) shares received as share based payment for Director fee remuneration

### KMP Shareholding 2017

| | Balance at Beginning of year | Deferred shares vested as remuneration during year | Issued on exercise of options during year | Other changes during year | | Balance at end of year |
|---|---|---|---|---|---|---|
| | | | | On Market | Other | |
| R Yardley | 600,000 | - | - | 41,666 | - | 641,666 |
| K Glennan | 31,451,435 | - | - | 260,000 | - | 31,711,435 |
| G Baxter | 1,200,000 | - | - | - | - | 1,200,000 |
| S Bertamini | 1,200,000 | - | - | - | - | 1,200,000 |
| P Brandling | 1,200,000 | - | - | - | - | 1,200,000 |
| K Hansen | 30,000 | 500,000 | - | 30,000 | (560,000)[1] | - |
| D Buerckner | - | - | - | - | - | - |
| K Negus | - | 240,000 | - | - | - | 240,000 |

1) shares held at resignation date

### Transactions with KMP and/or their related party

There were no transactions conducted between the Group and KMP or their related parties, apart from those disclosed above relating to equity compensation, that were conducted other than in accordance with normal employee, customer or supplier relationships on terms no more favourable than those reasonably expected under arm's length dealings with unrelated persons.

### End Remuneration Report

This directors' report, incorporating the remuneration report, is signed in accordance with a resolution of the Board of Directors:

Robert Langford, Chairman

30 September 2018

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Fax: +61 3 9602 3870
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Level 18, 727 Collins Street
Melbourne VIC 3008
GPO Box 5099 Melbourne VIC 3001
Australia

**DECLARATION OF INDEPENDENCE BY DAVID GARVEY TO THE DIRECTORS OF TESSERENT LIMITED**

As lead auditor of Tesserent Limited for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Tesserent Limited and the entities it controlled during the period.

David Garvey
Partner

**BDO East Coast Partnership**

Melbourne, 30 September 2018

BDO East Coast Partnership ABN 83 236 985 726 is a member of a national association of independent entities which are all members of BDO Australia Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO East Coast Partnership and BDO Australia Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation, other than for the acts or omissions of financial services licensees.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 30 JUNE 2018

| | Note | Consolidated 2018 $ | 2017 $ |
|---|---|---|---|
| Revenue from continuing operations | 2.2 | 5,327,957 | 5,375,117 |
| Other income | 2.2 | 1,103,803 | 1,788,886 |
| | | | |
| Software licence and connectivity fees | | (2,372,554) | (2,347,575) |
| Employee benefits expense | | (2,662,491) | (4,127,401) |
| Depreciation and amortisation expense | | (277,594) | (617,303) |
| Goodwill written off | 3.6 | (777,375) | - |
| Intellectual property assets written off | 3.6 | (67,736) | - |
| Finance costs | | (68,777) | (8,152) |
| Occupancy costs | | (458,351) | (688,074) |
| Communication costs | | (595,152) | (507,645) |
| Consulting and legal costs | | (568,993) | (734,695) |
| Travel | | (78,135) | (170,231) |
| Bad and doubtful debts | 2.3 | (51,185) | (40,916) |
| Other expenses | | (1,174,244) | (1,148,549) |
| | | (9,152,587) | (10,390,541) |
| | | | |
| **Loss before income tax** | | (2,720,827) | (3,226,538) |
| Tax expense | 2.6 | 374,843 | 237,498 |
| **Net loss for the year** | | (3,095,670) | (3,464,036) |
| Other comprehensive income | | - | - |
| **Total comprehensive income for the year** | | (3,095,670) | (3,464,036) |
| | | | |
| Basic earnings per share (cents) | 2.4 | (2.62) | (2.99) |
| Diluted earnings per share (cents) | 2.4 | (2.62) | (2.99) |

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AS AT 30 JUNE 2018

| | Note | Consolidated 2018 $ | Consolidated 2017 $ |
|---|---|---|---|
| **ASSETS** | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 4.3 | 1,717,221 | 2,860,648 |
| Trade and other receivables | 3.1 | 344,194 | 799,568 |
| Prepayments | | 259,231 | 160,698 |
| Inventories | | 55,693 | 25,981 |
| Current tax asset | 2.6 | 361,256 | 765,430 |
| Other assets | | 834 | 834 |
| TOTAL CURRENT ASSETS | | 2,738,429 | 4,613,159 |
| NON-CURRENT ASSETS | | | |
| Other financial assets | 3.8 | 165,810 | - |
| Plant and equipment | 3.5 | 623,882 | 694,727 |
| Intangible assets | 3.6 | 733,848 | 867,572 |
| Deferred tax asset | 2.6 | 139,619 | 514,462 |
| Other non-current assets | | 257,229 | 298,598 |
| TOTAL NON-CURRENT ASSETS | | 1,920,388 | 2,375,359 |
| TOTAL ASSETS | | 4,658,817 | 6,988,518 |
| **LIABILITIES** | | | |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 3.2 | 1,210,577 | 1,277,767 |
| Other financial liabilities | 3.9 | 61,212 | - |
| Unearned income | | 678,792 | 709,463 |
| Provisions | 3.3 | 269,266 | 646,464 |
| TOTAL CURRENT LIABILITIES | | 2,219,847 | 2,633,694 |
| NON-CURRENT LIABILITIES | | | |
| Other financial liabilities | 3.9 | 352,157 | - |
| Provisions | 3.3 | 365,117 | 206,541 |
| TOTAL NON-CURRENT LIABILITIES | | 717,274 | 206,541 |
| TOTAL LIABILITIES | | 2,937,121 | 2,840,235 |
| NET ASSETS | | 1,721,696 | 4,148,283 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AS AT 30 JUNE 2018

| | Note | Consolidated 2018 $ | Consolidated 2017 $ |
|---|---|---|---|
| **EQUITY** | | | |
| Issued capital | 4.4 | 10,875,937 | 10,140,892 |
| Reserves | 5.2 | 639,385 | 705,347 |
| Accumulated losses | | (9,793,626) | (6,697,956) |
| TOTAL EQUITY | | 1,721,696 | 4,148,283 |

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 30 JUNE 2018

| | Issued capital<br>$ | Reserves<br>$ | Accumulated losses<br>$ | Total equity<br>$ |
|---|---|---|---|---|
| **Balance at 1 July 2016 (restated)** | 9,917,792 | 235,877 | (3,233,920) | 6,919,749 |
| **Comprehensive income** | | | | |
| Loss for the year | - | - | (3,464,036) | (3,464,036) |
| Other comprehensive income for the year | - | - | - | - |
| **Total comprehensive income for the year** | - | - | (3,464,036) | (3,464,036) |
| **Transactions with owners, in their capacity as owners, and other transfers** | | | | |
| Shares issued during the year | 223,100 | (223,100) | - | - |
| Shares and options granted during the year | - | 692,570 | - | 692,570 |
| **Total transactions with owners and other transfers** | 223,100 | 469,470 | - | 692,570 |
| **Balance at 30 June 2017** | 10,140,892 | 705,347 | (6,697,956) | 4,148,283 |
| | | | | |
| **Balance at 1 July 2017** | 10,140,892 | 705,347 | (6,697,956) | 4,148,283 |
| **Comprehensive income** | | | | |
| Loss for the year | - | - | (3,095,670) | (3,095,670) |
| Other comprehensive income for the year | - | - | - | - |
| **Total comprehensive income for the year** | - | - | (3,095,670) | (3,095,670) |
| **Transactions with owners, in their capacity as owners, and other transfers** | | | | |
| Shares issued during the year | 768,300 | (204,400) | - | 563,900 |
| Capital raising costs | (33,255) | - | - | (33,255) |
| Shares and options granted during the year | - | 138,438 | - | 138,438 |
| **Total transactions with owners and other transfers** | 735,045 | (65,962) | - | 669,083 |
| **Balance at 30 June 2018** | 10,875,937 | 639,385 | (9,793,626) | 1,721,696 |

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 30 JUNE 2018

| | Note | Consolidated 2018 $ | Consolidated 2017 $ |
|---|---|---|---|
| **Cash flows from operations** | | | |
| Receipts from customers (inclusive of GST) | | 5,922,560 | 6,385,337 |
| Payments to suppliers and employees (inclusive of GST) | | (8,219,859) | (9,144,143) |
| | | (2,297,299) | (2,758,806) |
| Income tax paid | | - | (17,905) |
| Interest received | | 27,804 | 31,983 |
| Interest and other finance costs paid | | (6,439) | (8,152) |
| Research & development tax concession | | 844,010 | - |
| Proceeds from transaction restructure | | 150,000 | - |
| **Net cash outflow from operating activities** | 5.5 | (1,281,924) | (2,752,880) |
| **Cash flows from investing activities** | | | |
| Purchase of plant and equipment | | (84,633) | (728,897) |
| Proceeds on disposal of plant and equipment | 2.3 | 199,779 | 457,126 |
| Purchase of intangibles – development costs capitalised | | (370,516) | (260,040) |
| Payment of deferred settlement liability for software additions | | (215,428) | - |
| Proceeds from deferred consideration on sale of software | | 250,000 | - |
| Acquisitions of business, net of cash paid out | | - | (500,000) |
| Payout on sale of customer contracts | | - | (164,401) |
| Proceeds from sale of available-for-sale financial assets | | - | 429,000 |
| Proceeds from disposal of business | | - | 3,000,000 |
| **Net cash (outflow)/inflow from investing activities** | | (220,798) | 2,232,788 |
| **Cash flows from financing activities** | | | |
| Proceeds from issuing of shares | | 392,550 | - |
| Payments for issuing of shares | | (33,255) | - |
| **Net cash inflow from financing activities** | | 359,295 | - |
| **Net decrease in cash and cash equivalents** | | (1,143,427) | (520,092) |
| Cash and cash equivalents at the beginning of the financial year | | 2,860,648 | 3,380,740 |
| **Cash and cash equivalents at the end of the financial year** | 4.3 | 1,717,221 | 2,860,648 |

The above Statement of Cash Flows should be read in conjunction with the accompanying notes

# NOTES TO THE FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 30 JUNE 2018

## 1. Introduction to the Report

**Statement of Compliance**

These general purpose financial statements of Tesserent Limited and its controlled entities have been prepared in accordance with the Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001. The consolidated financial statements comply with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The financial statements were authorised for issue by the Board of Directors on 30 September 2018.

**Basis of Preparation**

Except for cash flow information, the financial statements have been prepared on an accruals 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.

**General Information**

Tesserent Limited is a listed public company limited by shares and domiciled in Australia. Its registered office and place of business are:

| **Registered office** | **Principal place of business** |
|---|---|
| Level 5 | Level 5 |
| 990 Whitehorse Road | 990 Whitehorse Road |
| Box Hill VIC 3128 | Box Hill VIC 3128 |

**Going concern**

For the year ended 30 June 2018 the consolidated entity incurred a loss of $3,095,670 (2017: loss $3,464,036), including the write down of intangible assets of $845,111, and had cash outflows from operating activities of $1,281,924 (2017 outflows from operating activities: $2,752,880).

These financial statements have been prepared on the basis that the consolidated entity is a going concern, which contemplates the continuity of its business, realisation of assets and settlement of its liabilities in the normal course of business.

To this end the consolidated entity is expecting to fund its ongoing operations as follows:

- The consolidated entity has cash reserves at 30 June 2018 of $1.717 million and trade receivables of $344,194.
- Subsequent to balance date the consolidated entity raised additional capital via the issue of shares of $411,000.
- The consolidated entity is expecting to shortly receive a research & development receivable of $361,256.
- The directors have provided a commitment in writing to the company to provide working capital via loan funding in the amount of $300,000 if the need arises, or $75,000 per director.
- Additionally, if the need arises, the directors have agreed that they would take remuneration in form of equity.
- Included in current liabilities of $2,210,577 are amounts for deferred revenue of $678,792 which is not a liability immediately payable.

- The Company is expecting an improvement in financial performance in the 30 June 2019 financial year and the directors have approved a budget reflecting an improved financial performance. The directors also have a plan to reduce operating costs if the need arises.
- The company has a history of successfully raising capital, and if the need arises, the directors are confident that additional capital can be raised from existing and new shareholders.

Based on the above and cash flow forecasts prepared, the directors are of the opinion that the consolidated entity is well position to meet its objectives and obligations going forward and therefore that the basis upon which the financial statements are prepare is appropriate in the circumstances.

**Critical accounting estimates and assumptions**

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

| Accounting estimates and judgments | Note | Page |
|---|---|---|
| Impairment of goodwill | 3.6 | 58 |
| Taxation | 2.6 | 51 |

**Significant accounting policies**

The significant accounting policies adopted in the preparation of the financial statements are set out below. Other significant policies are contained in the notes to the financial statements to which they relate. The financial statements are for the Group consisting of Tesserent Limited (company) and its controlled entities.

i. **Principles of Consolidation**

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent Tesserent Limited and all of the subsidiaries. Subsidiaries are entities the parent controls. A list of the subsidiaries is provided in Note 5.1.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. Intercompany transactions, balances and unrealised gains or losses on transactions between group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

ii. **Foreign currency translation**

***Functional and presentation currency***

The consolidated financial statements are presented in Australian dollars (AUD), which is also the functional currency of the Company.

***Foreign currency transactions and balances***

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from re-measurement of monetary items at year end exchange rates are recognised in profit or loss.

***Foreign operations***

In the Group's financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than the AUD are translated into AUD upon consolidation. The functional currency of the entities in the Group has remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into AUD at the closing rate at the reporting date. Income and expenses have been translated into AUD at the average rate over the reporting period. Exchange differences are changed or credited to other comprehensive income and recognised in the currency translation reserve in equity.

iii. **New Accounting Standards and Interpretations not yet adopted by the Group**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the company for the reporting period ended 30 June 2018.

Accounting Standards issued by the AASB that are not yet mandatorily applicable to the Group, together with an assessment of the potential impact of such pronouncements on the Group when adopted in future periods, are discussed below:

a. AASB 9*: Financial Instruments* and associated Amending Standards (applicable to annual reporting periods beginning on or after 1 January 2018).
The Standard will be applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, revised recognition and de-recognition requirements for financial instruments and simplified requirements for hedge accounting.

   The Group does not hold any complex financial assets or liabilities. Further, the Group does not engage in any hedge accounting and as such, the Directors do not anticipate that the adoption of AASB 9 will have a material impact on the Group's financial instruments.

b. AASB 15: *Revenue from Contracts with Customers* (applicable to annual reporting periods beginning on or after 1 January 2018, as deferred by AASB 2015-8: *Amendments to Australian Accounting Standards – Effective Date of AASB 15*).
When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Except for a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers.
The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

   i. Identify the contract(s) with a customer
   ii. Identify the performance obligations in the contract(s)
   iii. Determine the transaction price
   iv. Allocate the transaction price to the performance obligations in the contract(s); and
   v. Recognise revenue when (or as) the performance obligations are satisfied.

   While the directors are still assessing the impact AASB 15 will have on the Group's income recognition under contracts for services, it is expected that there will be no change to the recognition of sales revenue which will continue to be recognised over the life of a contract as the Group's performance obligations are satisfied over time rather than on deployment. These performance obligations under their contracts are not likely to be distinct and hence will be grouped together as part of a single contract. This has been applied to all current contracts and agreements in place and revenue recognised on this basis. Further analysis will be completed prior to the half year 31 December 2018 financial report being released.

c. AASB 16: Leases (applicable to annual reporting periods beginning on or after 1 January 2019).
When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117: *Leases* and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases.

   The main changes introduced by the new Standard include:

   i. Recognition of a right to use asset and liability for leases (excluding short term leases with less than 12 months tenure and lease relating to low value assets)

ii. Depreciation of right to use assets in line with AASB 116 Property , Plant and Equipment in profit or loss and unwinding of the liability in principal and interest components

iii. Variable lease payments that depend on an index or a rate are included in the initial measurement of the lease liability using the index or rate at the commencement date; and

iv. Additional disclosure requirements.

The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with AASB 108 or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application.

The standard will affect primarily the accounting for the Group's operating leases. As at reporting date the Group has non-cancellable operating lease commitments of $2,053,010, see Note 4.5. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's result and classification of cash flows. Some of the commitments maybe covered by the exemption for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under AASB16.

## 2. Business Result for the Year

This section provides the information that is most relevant to understanding the financial performance of the Group during the financial year and, where relevant, the accounting policies applied and the critical judgements and estimates made.

### 2.1 Segment information

**Identification of reportable segments**

An operating segment is a component of an entity that engages in business activities from which it may earn revenue and incur expenses, whose operating results are regularly reviewed by the Group's Chief Operating Decision Maker (CODM) in order to effectively allocate Group resources and assess performance.

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer (CEO) in the capacity of CODM. Two operating segments have been identified: IT Security Managed Services and Software Licensing.

The CEO reviews Profit before tax. The accounting policies adopted for internal reporting to the CEO are consistent with those adopted in the financial statements.

| 2018 | IT Security Managed Services $ | Software Licensing $ | Inter Segment Eliminations $ | Totals $ |
|---|---|---|---|---|
| **Revenues** | | | | |
| Sales to external customers | 5,033,889 | 294,068 | - | 5,327,957 |
| Inter segment sales | 33,820 | 384,030 | (417,850) | - |
| Total sales revenue | 5,067,709 | 678,098 | (417,850) | 5,327,957 |
| Onerous provision write back | - | 399,279 | - | 399,279 |
| Transaction restructure fee | 150,000 | - | - | 150,000 |
| Research & development tax concession | 457,741 | - | - | 457,741 |
| Other revenue | 96,783 | - | - | 96,783 |
| **Total revenue** | **5,772,233** | **1,077,377** | **(417,850)** | **6,431,760** |
| **Profit/(loss) before income tax expense** | **(2,858,959)** | **138,132** | **-** | **(2,720,827)** |
| **Total segment assets** | **11,356,346** | **686,832** | **(7,384,361)** | **4,658,817** |
| **Total segment liabilities** | **2,793,901** | **143,220** | **-** | **2,937,121** |

| 2017 | IT Security Managed Services $ | Software Licensing $ | Inter Segment Eliminations $ | Totals $ |
|---|---|---|---|---|
| **Revenues** | | | | |
| Sales to external customers | 5,043,856 | 331,261 | - | 5,375,117 |
| Inter segment sales | 7,530 | 359,763 | (367,293) | - |
| Total sales revenue | 5,051,386 | 691,024 | (367,293) | 5,375,117 |
| Gain on sale of intellectual property | 571,794 | - | - | 571,794 |
| Gain on sale of customer contracts | 569,694 | - | - | 569,694 |
| Research & development tax concession | 446,398 | - | - | 446,398 |
| Other revenue | 201,000 | - | - | 201,000 |
| **Total revenue** | **6,840,272** | **691,024** | **(367,293)** | **7,164,003** |
| **Profit/(loss) before income tax expense** | **(3,680,868)** | **454,330** | **-** | **(3,226,538)** |
| **Total segment assets** | **12,777,316** | **1,348,460** | **(7,137,258)** | **6,988,518** |
| **Total segment liabilities** | **2,233,724** | **606,511** | **-** | **2,840,235** |

**Intersegment transactions**

An internally determined transfer price is set for all intersegment sales. This price is reset quarterly and is based on what would be realised in the event the sale was made to an external party at arm's length. All such transactions are eliminated on consolidation of the Group's financial statements.

Corporate charges are allocated to reporting segments based on the segments' overall proportion of revenue generation within the Group. The Board of Directors believes this is representative of likely consumption of head office expenditure that should be used in assessing segment performance and cost recoveries.

Intersegment loans payable and receivable are initially recognised at the consideration received/to be received net of transaction costs. If intersegment loans receivable and payable are not on commercial terms, these are not adjusted to fair value based on market interest rates. This policy represents a departure from that applied to the statutory financial statements.

| | Consolidated 2018 $ | Consolidated 2017 $ |
|---|---|---|
| Revenue from external customers attributable to: | | |
| Australia | 5,033,889 | 4,943,686 |
| International | 294,068 | 431,431 |
| Total | 5,327,957 | 5,375,117 |

## 2.2 Revenue

### Recognition and measurement

The Group recognises revenue when it is probable that the economic benefit will flow to the entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

### Sale of Goods

Sale of goods revenue is recognised at the point of sale, which is where the customer has taken delivery of the goods, the risks and rewards are transferred to the customer and there is a valid sales contract. Amounts disclosed as revenue are net of sales returns and trade discounts.

### Rendering of services

Revenue derived through licensing arrangements for customers who subscribe to Tesserent's security infrastructure platform (for the provision of Security-as-a-Service) is recognised as the services are provided over the licensing period. The company has determined that these services are provided evenly over the term of the contract.

Revenue derived from the rental of hardware by customers is recognised consistently over the licensing period, in line with service delivery.

Revenue derived from the connectivity and related support services (including installation and setup of hardware) is recognised at the time the service is provided. On the basis that monthly unused support services do not accumulate, the company recognises revenue evenly over the term of the contract, in line with service delivery.

### Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

| | Consolidated 2018 $ | Consolidated 2017 $ |
|---|---|---|
| **Revenue from continuing operations** | | |
| Sales revenue | 5,327,957 | 5,375,117 |
| | 5,327,957 | 5,375,117 |
| | | |
| **Other income** | | |
| Transaction restructure fee[1] | 150,000 | - |
| Onerous provision writeback | 399,279 | - |
| Research and development tax concession | 457,741 | 446,398 |
| Interest | 27,803 | 29,387 |
| Gain on sale of intellectual property | - | 571,794 |
| Gain on sale of customer contracts | - | 569,694 |
| Other | 68,980 | 171,613 |
| | 1,103,803 | 1,788,886 |

1) The Company entered into a transaction restructure agreement with Family Zone Cyber Security Limited (ASX:FZO) agreeing to a variation of the existing Asset Sale Agreement. The restructure fee was recognised over the term of the restructured payment plan and has been recognised as cash received in operating activities within the statement of cash flows.

### 2.3 Loss for the year

Loss before income tax from continuing operations includes the following specific expenses

| | Consolidated | |
|---|---|---|
| | **2018** | **2017** |
| Employee benefits expense | | |
| - Defined contribution superannuation expense | 200,119 | 298,111 |
| - Research and development costs | 614,149 | 1,050,348 |
| Bad and doubtful debts expense | | |
| - Trade receivables | 51,185 | 40,916 |
| Occupancy costs | | |
| - Minimum lease payments | 359,847 | 418,567 |
| Profit on disposal of plant and equipment | - | 151,635 |

### 2.4 Earnings per share

**Basic earnings per share**
Basic earnings per share is calculated by dividing the loss attributable to the owners of Tesserent Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

| | Consolidated | |
|---|---|---|
| | **2018 Cents** | **2017 Cents** |
| From continuing operations attributable to the ordinary equity holders of the company | (2.62) | (2.99) |
| **Total basic earnings per share attributable to the ordinary equity holders of the company** | **(2.62)** | **(2.99)** |

**Diluted earnings per share**
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

| | Consolidated | |
|---|---|---|
| | **2018 Cents** | **2017 Cents** |
| From continuing operations attributable to the ordinary equity holders of the company[1] | (2.62) | (2.99) |
| **Total diluted earnings per share attributable to the ordinary equity holders of the company[1]** | **(2.62)** | **(2.99)** |

[1]There are 7,000,000 options and 2,500,000 unvested deferred shares that have not been taken into account in determining diluted EPS because their effect is anti-dilutive.

**Reconciliation of earnings used in calculating earnings per share**

| | Consolidated | |
|---|---|---|
| | **2018 $** | **2017 $** |
| Basic earnings per share | | |
| Loss attributable to the ordinary equity holders of the company used in calculating basic earnings per share: | | |
| From continuing operations | (3,095,670) | (3,464,036) |
| Diluted earnings per share | | |
| Loss attributable to the ordinary equity holders of the company used in calculating basic earnings per share: | | |
| From continuing operations | (3,095,670) | (3,464,036) |

*Weighted average number of shares used as the denominator*

| | Consolidated | |
|---|---|---|
| | 2018 Number | 2017 Number |
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | 118, 368,498 | 115,738,337 |
| Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share | 118, 368,498 | 115,738,337 |

### 2.5 Business combinations

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is obtained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured in each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to business combinations, other than those associated with the issue of a financial instrument, are recognised as expenses in profit or loss when incurred.

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

**Goodwill**

Goodwill recognised as part of a business combination transaction is recognised in accordance with the accounting policy note in section 3.6.

***2018***

There were no business combination transactions impacting Tesserent Limited for the year ended 30 June 2018 or in the prior year.

## 2.6 Taxation

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

**Current tax**

Current tax assets are measured at the amounts expected to be paid to be recovered from the relevant taxation authority.

**Deferred tax**

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

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised 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. With respect to non-depreciable items of property, plant and equipment measured at fair value and items of investment property measured at fair value, the related deferred tax liability or deferred tax asset is measured on the basis that the carrying amount of the asset will be recovered entirely through sale.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only 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 utilised. Tax losses have not been recognised in the current year.

**Offsetting balances**

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (i) a legally enforceable right of set-off exists; and (ii) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Tesserent Limited and its Australian subsidiaries have applied the tax consolidation legislation, which means that these entities are taxed as a single entity. As a consequence, the deferred tax assets and deferred tax liabilities of these entities have been offset in the consolidated financial statements.

i. Reconciliation of income tax expense to prima facie tax payable

| | **Consolidated** | |
|---|---|---|
| | **2018** | **2017** |
| | **$** | **$** |
| Loss from continuing operations before income tax expense | (2,720,827) | (3,226,538) |
| Prima facie tax rate of 27.5% (2017:27.5%) | 748,227 | 887,298 |
| Tax effect of amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Share based payments not deductible | (2,444) | (46,762) |
| Amortisation customer contracts not deductible | - | (8,966) |
| Impairment of goodwill | (213,778) | - |
| Amortisation of intellectual property not deductible | (18,628) | (96,312) |
| Current year tax losses not recognised | (680,437) | (773,418) |
| Restate temporary differences | - | 69,497 |
| Other non-deductible / assessable | (195,222) | (124,744) |
| Prior year adjustments | (11,911) | 17,439 |

| | | |
|---|---|---|
| Tax offset for R&D claim | (650) | (161,530) |
| Income tax expense | (374,843) | (237,498) |
| | | |
| Income tax comprises of: | | |
| Current tax | 680,437 | 333,304 |
| Deferred tax | 362,932 | 115,680 |
| Adjustments to current tax for: | | |
| unrecognised temporary differences in prior periods | 11,911 | 17,439 |
| Restatement of deferred tax balances to current tax rate | - | 69,497 |
| Current year tax losses not recognised | (680,437) | (773,418) |
| Income tax expense | (374,843) | (237,498) |

ii. Deferred tax balances

| | | |
|---|---|---|
| Deferred tax comprises of temporary differences attributable to: | | |
| Tax losses | - | 85,776 |
| Share issue costs | 155,994 | 233,991 |
| Provisions | 160,481 | 224,908 |
| Intangible assets | (104,803) | - |
| Other | (72,053) | (30,213) |
| | 139,619 | 514,462 |

*Movement in balances*

| | Tax losses | Share issue costs | Provisions | Intangible assets | Other | Total |
|---|---|---|---|---|---|---|
| **As at 1 July 2016** | **122,644** | **340,351** | **336,439** | **-** | **(132,146)** | **667,288** |
| Charged | | | | | | |
| - to profit or loss | (36,868) | (106,360) | (111,531) | - | 101,933 | (152,826) |
| **As at 30 June 2017** | **85,776** | **233,991** | **224,908** | **-** | **(30,213)** | **514,462** |
| Charged to | | | | | | |
| - to profit or loss | (85,776) | (77,997) | (64,427) | (104,803) | (41,840) | (374,843) |
| **As at 30 June 2018** | **-** | **155,994** | **160,481** | **(104,803)** | **(72,053)** | **139,619** |

Carried forward tax losses of $5,386,930 have not brought to account as a deferred tax asset of $1,481,406. Based on the value of tax losses incurred, the directors' have formed an opinion that the business was not in a position to satisfy the criteria for recognising these losses as a deferred tax asset. These losses remain available for the Group to use in the future.

Under normal circumstances, the benefits of deferred tax losses not brought to account can only be realised in the future if:

- assessable income is derived of a nature, and of an amount sufficient to enable the benefit from the deductions to be realised
- conditions for deductibility imposed by law are complied with; and
- no changes in tax legislation adversely affect the realisation of the benefit from the deductions.

The directors on a regular basis will assess the recognition of the deferred tax assets.

iii. Franking credits

| | Consolidated | |
|---|---|---|
| | 2018 | 2017 |
| | $ | $ |
| Franked dividends | - | - |
| Franking credits available for subsequent financial years based on a tax rate of 27.5% | 25,673 | 25,673 |
| | 25,673 | 25,673 |

iv. Research and development

| | Consolidated | |
|---|---|---|
| | 2018 | 2017 |
| | $ | $ |
| Current tax asset | 361,256 | 765,430 |

The Group undertakes eligible research and development (R&D) activities and is therefore entitled to claim an R&D offset under the R&D tax incentive as administered by The Australian Taxation Office and the Department of Industry, Innovation and Science.

**Key estimate and judgment: Taxation**

The Group is subject to income taxes in Australia. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Diversity in practice exists around the accounting treatment of refundable R&D incentives, because the Australian Accounting Standards do not specifically address R&D incentives. The Group has decided to record R&D refundable tax incentives as other income.

## 3. Operating Assets and Liabilities

### 3.1 Trade and other receivables

**Recognition and measurement**

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

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. The amount of the impairment loss is recognised in profit or loss within impairment losses on loans and receivables. When a trade receivable for which an impairment allowance had been recognised becomes uncollectable in as subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the impairment losses on loans and receivables in profit or loss.

| | Consolidated | |
|---|---|---|
| | 2018<br>$ | 2017<br>$ |
| CURRENT | | |
| Trade receivables | 253,779 | 382,734 |
| Provision for impairment | (21,185) | (33,000) |
| | 232,594 | 349,734 |
| Other receivables | 111,600 | 449,834 |
| | 111,600 | 449,834 |
| Total current trade and other receivables | 344,194 | 799,568 |
| *Unimpaired past due loans and receivables* | | |
| Past due under 30 days | 59,628 | 68,516 |
| Past due 30 days to under 60 days | 97,547 | 165,708 |
| Past due 60 days to under 90 days | 4,916 | 18,746 |
| Past due 90 days and over | 21,467 | 77,038 |
| Total unimpaired past due loans and receivables | 183,558 | 330,008 |
| Total unimpaired loans and receivables | 344,194 | 799,568 |
| Unimpaired past due as a percentage of total unimpaired loans and receivables | 53% | 41% |
| Unimpaired past due 30 days and over as a percentage of total unimpaired loans and receivables | 36% | 33% |
| *Reconciliation of provision for impairment* | | |
| Opening provision | 33,000 | 13,020 |
| Additional provision | 21,185 | 19,980 |
| Write back of provision | - | |
| Receivables written off as uncollectible | (33,000) | - |
| Closing provision | 21,185 | 33,000 |

### 3.2 Trade and other payables

**Recognition and measurement**

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The carrying amounts of trade and other payables are assumed to be the same as their fair values due to their short term nature.

| | Consolidated | |
|---|---|---|
| | **2018** | **2017** |
| | **$** | **$** |
| CURRENT | | |
| Trade payables | 609,146 | 720,392 |
| Sundry payables and accrued expenses | 601,431 | 557,375 |
| | 1,210,577 | 1,277,767 |

### 3.3 Provisions

**Recognition and measurements**

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

**Employee Benefits**

The current portion of this liability includes all of the accrued annual leave and the unconditional entitlements to long service leave where employees have completed the required period of service.

*Long service leave*

The liability for long service leave is measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted to their net present value at the end of the reporting period using corporate bond rates.

*Retirement benefit obligations*

The Group makes payments to employees' superannuation funds in line with the relevant superannuation legislation. Contributions made are recognised as expenses when they arise.

*Bonus schemes*

The Group recognises a liability and an expense for bonuses on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

**Onerous contracts**

The Group has previously recognised a provision for contractual services to be provided to the Group which were taken up as part of business combination transactions in the prior year. The Group is contractually obliged to make payment for these services within 12 months of the end of the current financial year.

| | Consolidated | |
|---|---|---|
| | **2018** | **2017** |
| | **$** | **$** |
| CURRENT | | |
| Employee benefits | 269,266 | 231,904 |
| Onerous contracts | - | 414,560 |
| | 269,266 | 646,464 |
| NON-CURRENT | | |
| Employee benefits | 74,420 | 34,352 |
| Onerous contracts | - | 1,005 |
| Make good - premises | 75,000 | 75,000 |
| Lease incentive | 215,697 | 96,183 |
| | 365,117 | 206,540 |

*Movement in provisions*

| | Employee benefits | Onerous contracts | Make good premises | Lease incentive |
|---|---|---|---|---|
| Opening balance | 266,256 | 415,565 | 75,000 | 96,183 |
| Recognised in profit or loss during period | 77,430 | (415,565) | - | 119,514 |
| Closing balance | 343,686 | - | 75,000 | 215,697 |

## 3.4 Contingent liabilities

As at the reporting date, there were no material claims or disputes of a contingent nature against the Company and its subsidiaries.

## 3.5 Plant and equipment

**Recognition and measurement**

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss. A formal assessment of recoverable amount is made when impairment indicators are present.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised 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. All other repairs and maintenance are recognised as expenses in profit or loss during the financial period in which they are incurred.

**Depreciation**

The depreciable amount of all fixed assets is depreciated on a straight-line basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

| Class of Fixed Asset | Depreciation Rate |
|---|---|
| Furniture & Fixtures | 10% to 100% |
| Leasehold improvements | 14.3% |
| Hardware employed | 66.67% |
| Plant & equipment | 7.5% to 66.67% |
| Equipment leased to external parties | 40% |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

| Consolidated | Furniture & Fixtures | Hardware employed | Leasehold improvement | Equipment for lease | Plant & Equipment | Total |
|---|---|---|---|---|---|---|
| **2018** | | | | | | |
| Opening net book value | 85,836 | 20,370 | 475,886 | - | 112,635 | 694,727 |
| Additions | 2,535 | 6,321 | 24,067 | - | 51,710 | 84,633 |
| Disposals | (783) | - | - | - | - | (738) |
| Depreciation charge | (16,478) | (16,509) | (65,409) | - | (56,299) | (154,695) |
| Net book amount | 71,110 | 10,182 | 434,544 | - | 108,046 | 623,882 |
| **2018** | | | | | | |
| Cost | 113,300 | 352,272 | 512,033 | 16,177 | 432,984 | 1,426,766 |
| Accumulated depreciation | (42,190) | (342,090) | (77,489) | (16,177) | (324,938) | (802,884) |
| Net book amount | 71,110 | 10,182 | 434,544 | - | 108,046 | 623,882 |

| Consolidated | Furniture & Fixtures | Hardware employed | Leasehold improvement | Equipment for lease | Plant & Equipment | Total |
|---|---|---|---|---|---|---|
| **2017** | | | | | | |
| Opening net book value | 40,497 | 256,129 | 124,510 | - | 139,964 | 561,100 |
| Additions | 134,295 | 153,501 | 487,966 | - | 58,910 | 834,672 |
| Disposals | (77,618) | (246,013) | (122,808) | - | (20,135) | (466,574) |
| Depreciation charge | (11,338) | (143,247) | (13,782) | - | (66,104) | (234,471) |
| Net book amount | 85,836 | 20,370 | 475,886 | - | 112,635 | 694,727 |
| **2017** | | | | | | |
| Cost | 112,062 | 345,952 | 487,966 | 16,177 | 381,272 | 1,343,429 |
| Accumulated depreciation | (26,226) | (325,582) | (12,080) | (16,177) | (268,637) | (648,702) |
| Net book amount | 85,836 | 20,370 | 475,886 | - | 112,635 | 694,727 |

### 3.6 Intangibles

**Recognition and measurement**

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the de-recognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

**Goodwill**

Goodwill on acquisition of subsidiaries or businesses is included in intangible assets.

Goodwill is carried at cost less any accumulated impairment losses. Goodwill is calculated as the excess of the sum of:

i) the consideration transferred;

ii) any non-controlling interest (determined under either the full goodwill or proportionate interest method); and

iii) the acquisition date fair value of any previously held equity interest;

over the acquisition date fair value of net identifiable assets acquired.

Goodwill and intangible assets with an indefinite useful life are tested for impairment annually and are allocated to the Group's cash-generating units or groups of cash-generating units, representing the lowest level at which goodwill is monitored and not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity disposed of.

**Impairment of assets**

An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows of other assets or groups of assets (CGUs).

The Group has impaired goodwill by $777,375 and intellectual property by $67,736 in 2018 (2017: nil).

**Reconciliation**

Reconciliations of the written down values at the beginning and end of the current financial period are set out below:

| Consolidated | Goodwill | Intellectual property | Software | Customer contracts | Total |
|---|---|---|---|---|---|
| **2018** | $ | $ | $ | $ | $ |
| Opening net book value | 777,375 | 90,197 | - | - | 867,572 |
| Additions | - | 146 | - | - | 146 |
| Additions – acquisitions[1] | - | - | 463,769 | - | 463,769 |
| Additions – capitalised development costs | - | - | 370,370 | - | 370,370 |
| Amortisation charges | - | - | (122,898) | - | (122,898) |
| Impairment[2] | (777,375) | (67,736) | - | - | (845,111) |
| Balance 30 June 2018 | - | 22,607 | 711,241 | - | 733,848 |
| **2018** | | | | | |
| Cost | - | 22,607 | 834,139 | - | 856,746 |
| Accumulated amortisation | - | - | (122,898) | - | (122,898) |
| Net book amount | - | 22,607 | 711,241 | - | 733,848 |

(1) On 5th July 2017 Tesserent IP Pty Ltd acquired a perpetual licence deed for Software IP. Terms were provided by the vendor whereby payments totalling USD675,000 are to be paid over a 5-year period. In recognising the intangible asset value, the Company has completed a present value of the payments using a discount rate of 15.08%. A corresponding liability has also been recognised and disclosed as current and non-current other financial liabilities. The recognised intangible is being amortised over 5 years.

(2) The company has undertaken a detailed review of all intangible assets at the CGU level. In conjunction with this review, the restructure of various OEM supplier arrangements and the recently announced acquisition the goodwill capitalised on previous acquisitions has been written off.

| Consolidated | Goodwill | Intellectual property | Software | Customer contracts | Total |
|---|---|---|---|---|---|
| **2017** | $ | $ | $ | $ | $ |
| Opening net book value | 777,375 | 82,601 | 3,420,197 | 205,589 | 4,485,762 |
| Additions | - | 7,596 | 252,444 | - | 260,040 |
| Accumulated amortisation | | - | (353,111) | (29,603) | (382,714) |
| Disposal | - | - | (3,319,530) | (175,986) | (3,495,516) |
| Balance 30 June 2017 | 777,375 | 90,197 | - | - | 867,572 |
| | | | | | |
| **2017** | | | | | |
| Cost | 777,375 | 90,197 | - | - | 867,572 |
| Accumulated amortisation | - | - | - | - | - |
| Net book amount | 777,375 | 90,197 | - | - | 867,572 |

**Impairment testing**

For the purpose of impairment testing, intangible assets with indefinite lives are allocated to the consolidated entity's cash generating units (CGU's) as follows:

| | Consolidated | |
|---|---|---|
| | 2018 | 2017 |
| | $ | $ |
| Goodwill – software licencing | - | 777,375 |
| | - | 777,375 |

The Group tests whether there has been any impairment of the goodwill on an annual basis with the most recent review being completed as at 30 June 2018. In conjunction with this review the performance of the CGU and associated future cashflows, which have been impacted by the restructure of various OEM supplier arrangements, the goodwill capitalised on previous acquisition has been written off.

**Key estimate and judgment**

The recoverable amount of the CGU's is determined based on value-in-use calculations, determined by discounting future cash flows to be generated from the continuing use of the business. Management's determination of cash flow projections and gross margins are based on past performance and future expectations which require the use of assumptions.

The calculations use cash flow projections based on actuals covering year 1. The present value of future cash flows for each CGU for years two to five have been calculated using a terminal growth rate of 2% and a pre-tax discount rate of 21.74% has been used to determine a value in use.

### 3.7 Inventory

Inventory is stated at the lower of cost and net realisable value. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable 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.

As at 30 June 2018 there had been no write downs and all inventories are stated at cost. (2017:$nil)

### 3.8 Other financial assets

Call option investment

*Recognition and measurement*

The call option represents an investment whereby the company has the right but not obligation to acquire the underlying asset. Where this option is exercised by providing notice, the option investment is offset against the predeterminable purchase price of the underlying asset. Where the option is exercised via notice, the counterparty has the right to cancel the option upon notice however must refund the full cost of the option.

The call option has initially been recognised at cost less any impairment. The carrying amount of the option is reviewed annually by the directors to ensure it is not in excess of its recoverable amount. The carrying value of the call option investment has been assessed by the directors to represent fair value.

Where the intention of the company is to exercise the option within 12 months of the balance date, the investment will be recorded as a current asset. If the intention is to exercise after 12 months, the investment will be recorded as a non-current asset.

| | Consolidated | |
|---|---|---|
| | 2018 | 2017 |
| | $ | $ |
| Non-current assets | 165,810 | - |
| Call Option investment[1] | 165,810 | - |

1) During the period the company purchased a call option providing Tesserent with the right but not obligation to acquire a cyber security business based in the United Kingdom. The option expires 21 December 2019 and if exercised prior to expiry the amount paid for the option is offset against the purchase price of the business. If the counterparty decides not to proceed with the sale, the call option investment is redeemed in full by the counterparty.

### 3.9 Other financial liabilities

Deferred settlement liability

*Recognition and measurement*

Deferred settlement liability is recognised when the company has a legal or constructive obligation, as a result of a past event, for which an outflow of economic benefits will result and that outflow can be reliably measured. Future payments are discounted to their net present value at contract commencement using a discount rate of 15.08%.

The difference between actual payments and the discounted amount is recognised as a finance cost.

Where the discounted payment is due within 12 months of the balance date, the deferred settlement liability will be recorded as a current liability. The balance is represented as non-current.

| | Consolidated | |
|---|---|---|
| | 2018 | 2017 |
| | $ | $ |
| Current | 61,212 | - |
| Non-current | 352,157 | - |

## 4. Capital Management

The Group's objective when managing capital is to:

- Safeguard their ability to continue as a going concern, so that they can provide returns to shareholders; and
- Maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

For the purpose of analysis the Group defines capital as fully paid ordinary shares.

### 4.1 Borrowings

**Recognition and measurement**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

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

The Group has no borrowings for the current year (2017:$nil)

### 4.2 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency 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 minimise 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, foreign exchange and other price risks, ageing analysis for credit risk.

**Market risk**

*Foreign currency risk*

The Group undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measure using sensitivity analysis and cash flow forecasting. The risk is not significant as the Group has an immaterial amount of transactions denominated in foreign currency.

*Interest rate risk*

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates.

The table below outlines the variance interest rate on cash at bank.

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **Weighted average interest rate** | **Balance** | **Weighted average interest rate** | **Balance** |
| | **%** | **$** | **%** | **$** |
| Cash at bank | 1.47 | 1,717,221 | 1.31 | 2,860,648 |
| Net exposure to cash flow interest rate risk | | 1,717,221 | | 2,860,648 |

*Sensitivity analysis*

A change of 100 basis points in interest rates at the reporting date would have increased/decreased equity and profit/loss for the period by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for the comparative period.

*Impact on profit/loss for the period*

| | 2018 | 2017 |
|---|---|---|
| Increase in interest rates | 18,863 | 21,869 |
| Decrease in interest rates | (18,863) | (21,869) |

*Credit risk*

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date of recognised financial assets is the carrying amount of those assets, net of any provisions for impairment of those assets, as disclosed in consolidated statement of financial position and notes to the consolidated financial statements.

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to customers including receivables and committed transactions.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisations, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Refer to Note 3.1 for schedule of unimpaired past due receivables.

The Group does not have any significant credit risk to any single counterparty given the large number of customers.

*Liquidity risk*

Prudent liquidity risk management requires the Group to maintain sufficient liquid assets and available borrowing facilities to be able to pay debts as and when they become due and payable.

The Group manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Amounts presented below represent the future undiscounted principal and interest cash flows.

*Maturity analysis*

| **Consolidated – 2018** | **1 year or less** | **Between 1 and 2 years** | **Between 2 and 5 years** | **Over 5 years** | **Remaining contractual maturities** |
|---|---|---|---|---|---|
| | **$** | **$** | **$** | **$** | **$** |
| *Non-interest bearing* | | | | | |
| Trade payables | 609,146 | - | - | - | 609,146 |
| Other payables | 60,827 | - | - | - | 60,827 |
| Accrued expenses | 540,604 | - | - | - | 540,604 |
| Deferred settlement liability | 61,212 | 70,443 | 281,714 | - | 413,369 |
| | 1,271,789 | 70,443 | 281,714 | - | 1,623,946 |

| **Consolidated – 2017** | **1 year or less** | **Between 1 and 2 years** | **Between 2 and 5 years** | **Over 5 years** | **Remaining contractual maturities** |
|---|---|---|---|---|---|
| | **$** | **$** | **$** | **$** | **$** |
| *Non-interest bearing* | | | | | |
| Trade payables | 720,392 | - | - | - | 720,392 |
| Other payables | 243,144 | - | - | - | 243,144 |
| Accrued expenses | 314,231 | - | - | - | 314,231 |
| | 1,277,767 | - | - | - | 1,277,767 |

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

*Fair value of financial instruments*

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

### 4.3 Cash and cash equivalents

**Recognition and measurement**

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturity dates of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

| | Consolidated | |
|---|---|---|
| | **2018** | **2017** |
| | **$** | **$** |
| Cash at bank | 867,221 | 2,788,469 |
| Term deposits | 850,000 | 72,179 |
| | 1,717,221 | 2,860,648 |

### 4.4 Contributed equity

**Recognition and measurement**

Ordinary fully paid shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are show in equity as a deduction, net of tax, from the proceeds.

All issued ordinary shares are fully paid. Holders of these shares are entitled to dividends as declared from time to time and are entitled to one vote per share at General meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

| | Consolidated | | | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | **Shares** | **Shares** | **$** | **$** |
| Ordinary shares – fully paid | 126,041,546 | 116,774,600 | 10,875,937 | 10,140,892 |

**Movements in ordinary share capital**

| Details | Date | Shares | Issue price $ | $ |
|---|---|---|---|---|
| **2017** | | | | |
| Balance | 1 Jul 2016 | 115,334,600 | | 9,917,792 |
| Shares issued to employees | 30 Nov 2016 | 500,000 | 0.16 | 77,500 |
| Shares issued to employees | 8 May 2017 | 700,000 | 0.16 | 112,000 |
| Shares issued to employees | 15 Jun 2017 | 240,000 | 0.14 | 33,600 |
| | | 116,774,600 | | 10,140,892 |
| **2018** | | | | |
| Balance | | 116,774,600 | | 10,140,892 |
| Shares issued to employees | 23 Oct 2017 | 300,000 | | 42,000 |
| Shares issued to employees | 16 May 2018 | 700,000 | 0.16 | 112,000 |
| Shares issued to directors | 18 May 2018 | 412,086 | 0.91 | 37,500 |
| Equity settled expense | 18 May 2018 | 352,000 | 0.075 | 26,400 |
| Shares issued pursuant to capital raising | 4 Jun 2018 | 7,142,860 | 0.07 | 500,000 |
| Capital raise costs | | | | (33,255) |
| Shares issued to employees | 21 Jun 2018 | 360,000 | | 50,400 |
| | | 126,041,546 | | 10,875,937 |

### 4.5 Commitments

**Information Technology and Communication (ITC) service commitments**

The Group enters into contracts for the provision of ITC services with suppliers for which there are minimum spend requirements. Service commitments contracted at the end of the reporting period but which are not recognised as liabilities, are as follows:

| | Consolidated | |
|---|---|---|
| | **2018** | **2017** |
| | **$** | **$** |
| Within one year | 580,234 | 397,383 |
| Later than one year but not later than five years | 823,333 | 382,775 |
| | 1,403,567 | 780,158 |

**Lease commitments**

The Group leases its offices under a non-cancellable operating lease. Commitments in relation to this lease contracted for at the end of each reporting period but not recognised as liabilities, are as follows:

| | Consolidated | |
|---|---|---|
| | **2018** | **2017** |
| | **$** | **$** |
| Within one year | 237,051 | 222,723 |
| Later than one year but not later than five years | 1,700,090 | 1,477,852 |
| Greater than five years | 115,869 | 575,158 |
| | 2,053,010 | 2,275,733 |

### 4.6 Dividends

No dividends were paid or declared for the current or prior period.

## 5. Other

### 5.1 Related party transactions

**Controlled entities**

The consolidated financial statements include the financial statements of Tesserent Limited and its controlled entities.

The 100% controlled entities are as follows:

Tesserent Australia Pty Ltd – acquired 15 July 2015
Tesserent Wholesale Pty Ltd – acquired 15 July 2015
Tesserent IP Pty Ltd (Previously 443 IP Pty Ltd) – acquired 15 July 2015
Tesserent UK Ltd – incorporated in the UK 20 May 2015 (dormant)

Apart from Tesserent UK Ltd all companies operate in Australia.

**Options**

On 17 November 2015 the company issued the Chairman and each Non-Executive Director at that time with a total of 7,500,000 options over unissued shares. Unvested options would lapse if the Chairman or Director resigned prior to vesting date of the options. Details of options are set out below:

**2018**

| Director | Options exercisable from 31 August 2016 | Options exercisable from 31 August 2017 | Options exercisable from 31 August 2018 |
|---|---|---|---|
| Steve Bertamini | 500,000 | 500,000 | 500,000 |
| Gregory Baxter | 500,000 | 500,000 | 500,000 |
| Paul Brandling[1] | 500,000 | 500,000 | - |
| Russell Yardley[1] | 1,000,000 | 1,000,000 | - |
| | | | |
| Exercise price | $0.200 | $0.240 | $0.288 |

1) Resigned prior to option vesting date

**2017**

| Director | Options exercisable from 31 August 2016 | Options exercisable from 31 August 2017 | Options exercisable from 31 August 2018 |
|---|---|---|---|
| Steve Bertamini | 500,000 | 500,000 | 500,000 |
| Gregory Baxter | 500,000 | 500,000 | 500,000 |
| Paul Brandling | 500,000 | 500,000 | 500,000 |
| Russell Yardley | 1,000,000 | 1,000,000 | 1,000,000 |
| | | | |
| Exercise price | $0.200 | $0.240 | $0.288 |

The options have been valued and accounted for in accordance with the requirements of AASB 2 *Share-based Payments.*

During the current period, directors or parties related to the directors subscribed for shares in the company as follows:

| Date | Name | Number of Shares | Amount Paid |
|---|---|---|---|
| 24/05/18 | Steve Bertamini[1] | 206,043 | 18,750 |
| 24/05/18 | Greg Baxter[1] | 206,043 | 18,750 |

1) Issued as part of director fee remuneration

There were no shares subscribed for by directors or parties related to the directors in the prior year.

**Payables – Loans from related parties**

The Group has no loans from related parties in the current year (2017:$nil)

**Key management personnel remuneration**

| | Consolidated | |
|---|---|---|
| | 2018 | 2017 |
| | $ | $ |
| Short-term salary/fees | 1,032,197 | 1,024,688 |
| Short-term-bonus | 135,000 | 36,529 |
| Post-employment benefits | 61,340 | 77,696 |
| Long term benefits | 11,701 | 14,805 |
| Share based payments | 135,879 | 677,358 |
| | 1,376,117 | 1,831,076 |

**Share based payments**

Equity-settled share-based compensation benefits are provided to employees and directors.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees and directors in exchange for the rendering of services.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

To determine the value of options issued, an independent valuation was prepared using the Black-Scholes model. In valuing the options a risk-free rate of 2%, a volatility rate of 40%, dividend yield of 0%, share price of $0.20 and time to expiry of four years were used. The 40% volatility rate was determined by reference to a broad set of ASX-listed comparable companies. The value as determined was amortised over the vesting period of the option.

Set out below are summaries of options movements during the year

**2018**

| Grant date | Expiry date | Exercise price $ | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the year |
|---|---|---|---|---|---|---|---|
| 17 Nov 15 | 31 Aug 19 | 0.20 | 2,500,000 | - | - | - | 2,500,000 |
| 17 Nov 15 | 31 Aug 19 | 0.24 | 2,500,000 | - | - | - | 2,500,000 |
| 17 Nov 15 | 31 Aug 19 | 0.288 | 2,500,000 | - | - | 1,500,000 | 1,000,000 |
| 9 May 16 | 8 May 18 | 0.30 | 500,000 | - | - | 500,000 | - |
| 9 May 16 | 8 May 19 | 0.40 | 500,000 | - | - | - | 500,000 |
| 9 May 16 | 8 May 20 | 0.50 | 500,000 | - | - | - | 500,000 |
| **Total** | | | **9,000,000** | **-** | **-** | **2,000,000** | **7,000,000** |
| Weighted average exercise price | | | $0.269 | $0.00 | $0.00 | $0.291 | $0.263 |

**2017**

| Grant date | Expiry date | Exercise price $ | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the year |
|---|---|---|---|---|---|---|---|
| 17 Nov 15 | 31 Aug 19 | 0.20 | 2,500,000 | - | - | - | 2,500,000 |
| 17 Nov 15 | 31 Aug 19 | 0.24 | 2,500,000 | - | - | - | 2,500,000 |
| 17 Nov 15 | 31 Aug 19 | 0.288 | 2,500,000 | - | - | - | 2,500,000 |
| 9 May 16 | 8 May 18 | 0.30 | 500,000 | - | - | - | 500,000 |
| 9 May 16 | 8 May 19 | 0.40 | 500,000 | - | - | - | 500,000 |
| 9 May 16 | 8 May 20 | 0.50 | 500,000 | - | - | - | 500,000 |
| **Total** | | | **9,000,000** | **-** | **-** | **-** | **9,000,000** |
| Weighted average exercise price | | | $0.269 | $0.400 | $0.00 | $0.00 | $0.269 |

Value of deferred share rights is based on the market price of the share at rights issue date.

Set out below are summaries of deferred share rights movements during the year

**2018**

| Grant date | Vesting date | Share price at grant date $ | Balance at the start of the year | Granted | Shares issued | Expired/ forfeited/ other | Balance at the end of the year |
|---|---|---|---|---|---|---|---|
| 9 May 16 | 8 May 18 | 0.16 | 700,000 | - | 700,000 | - | - |
| 9 May 16 | 8 May 19 | 0.16 | 700,000 | - | - | - | 700,000 |
| 24 Nov 16 | 3 Oct 17 | 0.14 | 300,000 | - | 300,000 | - | - |
| 24 Nov 16 | 3 Oct 18 | 0.14 | 450,000 | - | - | - | 450,000 |
| 24 Nov 16 | 3 Oct 19 | 0.14 | 750,000 | - | - | - | 750,000 |
| 24 Nov 16 | 15 Jun 18 | 0.14 | 360,000 | - | 360,000 | - | - |
| 24 Nov 16 | 15 Jun 19 | 0.14 | 600,000 | - | - | - | 600,000 |
| **Total** | | | **3,860,000** | **-** | **(1,360,000)** | **-** | **2,500,000** |

**2017**

| Grant date | Vesting date | Share price at grant date $ | Balance at the start of the year | Granted | Shares issued | Expired/ forfeited/ other | Balance at the end of the year |
|---|---|---|---|---|---|---|---|
| 9 May 16 | 8 May 17 | 0.16 | 700,000 | - | (700,000) | - | - |
| 9 May 16 | 8 May 18 | 0.16 | 700,000 | - | - | - | 700,000 |
| 9 May 16 | 8 May 19 | 0.16 | 700,000 | - | - | - | 700,000 |
| 16 Jun 16 | 30 Jun 17 | 0.17 | 250,000 | - | - | (250,000) | - |
| 16 Jun 16 | 30 Jun 18 | 0.17 | 500,000 | - | - | (500,000) | - |
| 16 Jun 16 | 30 Jun 19 | 0.17 | 1,000,000 | - | - | (1,000,000) | - |
| 22 Oct 16 | 30 Nov 16 | 0.155 | - | 500,000 | (500,000) | - | - |
| 22 Oct 16 | 31 Mar 17 | 0.155 | - | 250,000 | - | (250,000) | - |
| 22 Oct 16 | 30 Jun 17 | 0.155 | - | 750,000 | - | (750,000) | - |
| 22 Oct 16 | 30 Sep 17 | 0.155 | - | 250,000 | - | (250,000) | - |
| 22 Oct 16 | 31 Dec 17 | 0.155 | - | 250,000 | - | (250,000) | - |
| 22 Oct 16 | 31 Mar 18 | 0.155 | - | 250,000 | - | (250,000) | - |
| 22 Oct 16 | 30 Jun 18 | 0.155 | - | 750,000 | - | (750,000) | - |
| 24 Nov 16 | 3 Oct 17 | 0.14 | - | 300,000 | - | - | 300,000 |
| 24 Nov 16 | 3 Oct 18 | 0.14 | - | 450,000 | - | - | 450,000 |
| 24 Nov 16 | 3 Oct 19 | 0.14 | - | 750,000 | - | - | 750,000 |
| 24 Nov 16 | 15 Jun 17 | 0.14 | - | 240,000 | (240,000) | - | - |
| 24 Nov 16 | 15 Jun 18 | 0.14 | - | 360,000 | - | - | 360,000 |
| 24 Nov 16 | 15 Jun 19 | 0.14 | - | 600,000 | - | - | 600,000 |
| **Total** | | | **3,850,000** | **5,700,000** | **(1,440,000)** | **(4,250,000)** | **3,860,000** |

### 5.2 Reserves

**Recognition and measurement**

The share-based payment reserve is used to recognise:

- the fair value of options issued to Directors and employees which have not been exercised;
- the fair value of shares issued to Directors and employees; and
- other share-based payment transactions.

The cost of shares and options over shares issued to Directors and employees are measured as set out in the related parties note in section 5.1.

| | Consolidated | |
|---|---|---|
| | 2018 | 2017 |
| | $ | $ |
| **Share based payment reserve** | | |
| Opening balance | 705,347 | 235,877 |
| Share based compensation recognised during the year | 138,438 | 692,570 |
| Shares issued to employees | (204,400) | (223,100) |
| Closing balance | 639,385 | 705,347 |

### 5.3 Parent entity information

The individual financial statements for the parent entity show the following aggregate amounts:

| | Consolidated | |
|---|---|---|
| | 2018 | 2017 |
| | $ | $ |
| **Statement of financial position** | | |
| Current assets | 1,951,554 | 1,798,641 |
| Non-current assets | 305,429 | 5,467,177 |
| **Total assets** | **2,256,983** | **7,265,818** |
| | | |
| Current liabilities | 378,245 | 164,204 |
| **Total liabilities** | **378,245** | **164,204** |
| | | |
| Issued share capital | 9,266,691 | 8,531,645 |
| Reserves | 639,385 | 705,347 |
| Accumulated loss | (8,027,338) | (2,135,378) |
| **Total equity** | **1,878,738** | **7,101,614** |

Included with non-current assets is a net intercompany receivable of $4,576,765 that the directors have impaired in the current year.

| | | |
|---|---|---|
| **Loss for the year** | **5,764,689** | **1,343,544** |

**Contingent liabilities of the parent entity**

The parent entity did not have any contingent liabilities as at 30 June 2018 or 2017.

**Guarantees entered into by the parent entity**

The parent entity did not have any guarantees as at 30 June 2018 or 2017.

### 5.4 Remuneration of auditors

| | Consolidated | |
|---|---|---|
| | **2018** | **2017** |
| | **$** | **$** |
| Audit and assurance services | 89,000 | 96,000 |
| Tax services | 45,025 | 99,400 |
| Total remuneration | 134,025 | 195,400 |

### 5.5 Cash flow information

a) Reconciliation of cash flow from operating activities

| | Consolidated | |
|---|---|---|
| | **2018** | **2017** |
| | **$** | **$** |
| Loss after tax for the year | (3,095,670) | (3,464,036) |
| Depreciation and amortisation | 277,594 | 617,303 |
| Goodwill written off | 777,375 | - |
| Intellectual property assets written off | 67,736 | - |
| Share based payments | 175,938 | 692,570 |
| Bad and doubtful debts | 51,185 | 40,916 |
| Profit on sale of plant and equipment | - | (29,751) |
| Profit on sale software intellectual property | - | (571,794) |
| Profit on sale customer contracts | - | (569,694) |
| Loss on sale of shares | - | 13,446 |
| Decrease/(increase) in trade and other receivables | 88,260 | (35,640) |
| Increase in prepayments | (98,533) | (71,631) |
| Increase in inventory | (29,711) | (61,171) |
| Decrease/(increase) in current tax asset | 404,174 | (483,156) |
| Decrease/(increase) in other assets | 41,370 | (133,361) |
| Decrease in deferred tax assets | 374,843 | 197,412 |
| (Decrease)/increase in trade and other liabilities | (67,192) | 527,396 |
| (Decrease)/increase in unearned income | (30,671) | 771,785 |
| Decrease in current provisions | (377,198) | (193,474) |
| Increase in non-current provision | 158,576 | - |
| Net cash outflow from operating activities | (1,218,924) | (2,752,880) |

**5.6 Events occurring after the reporting period**

On 27 July 2018 the Company announced that a binding term sheet, subject to conditions precedent, had been signed to acquire ICT company Asta Solutions Pty Ltd (Asta). Asta is an Australian based business with more than 200 clients serviced by over 85 staff from offices in Melbourne, Sydney and Auckland. The purchase price is 4 times EBITDA and expected to result in a purchase price of $3.8m. Purchase consideration will be a combination of cash and equity. It is anticipated that the transaction will complete no later than end of December 2018.

On the 8 July 2018 the Company announced the results of the share purchase plan(SPP), noting that $304,000 had been raised from existing shareholders who participated in the SPP. These funds have been received in full.

Apart from the matters noted above, the directors are not aware of any other significant events since the end of the reporting period.

## DIRECTORS' DECLARATION

In the opinion of the Directors' of Tesserent Limited

a) the financial statements and notes, as set out on pages 38 to 71, are in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the year ended on that date; and

   (ii) complying with Accounting Standards and the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

   (iii) as stated in note 1, the consolidated financial statements also comply with International Financial Reporting Standards

b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

c) the Directors' have been given the declarations required by s 295A of the *Corporations Act 2001* for the financial year ended 30 June 2018.

d) the remuneration disclosures included at pages 26 to 36 of the Directors Report (Audited Remuneration Report) for the year ended 30 June 2018 comply with section 300A of the *Corporations Act 2001*

Signed in accordance with a resolution of the Directors' made pursuant to section 295(5) of the *Corporations Act 2001*.

On behalf of the Directors,

Robert Langford

Chairman

Melbourne, 30 September 2018

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Fax: +61 3 9602 3870
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Melbourne VIC 3008
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Australia

**INDEPENDENT AUDITOR'S REPORT**

To the members of Tesserent Limited

# Report on the Audit of the Financial Report

## Opinion

We have audited the financial report of Tesserent Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, 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 the *Corporations Act 2001*, including:

(i) Giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and

(ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

## 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 *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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. We have determined the matters described below to be the key audit matters to be communicated in our report.

BDO East Coast Partnership ABN 83 236 985 726 is a member of a national association of independent entities which are all members of BDO Australia Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO East Coast Partnership and BDO Australia Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation, other than for the acts or omissions of financial services licensees.

## Impairment of Goodwill

| *Key audit matter* | *How the matter was addressed in our audit* |
|---|---|
| *Refer to Note 3.6 Intangibles of the accompanying financial statements.*<br><br>At the beginning of the financial year, the Group had intangible assets of $867,572, consisting of goodwill of $777,375 and intellectual property of $90,197.<br><br>The Group is required to perform an annual impairment test of indefinite life intangible assets in accordance with Australian Accounting Standards. The assessment of impairment of the Group's intangible asset balances incorporates significant judgment in respect of several factors such as discount rates, revenue growth and cost assumptions.<br><br>The impairment assessment resulted in a non-cash impairment of goodwill of $867,572 and intellectual property of $67,736, associated with the Software Licensing cash-generating-unit.<br><br>Given the level of judgment involved by the Group in preparing the model that assessed impairment and the quantum of the impairment charge recognised, we determined that this was a key audit matter. | Our audit procedures included, amongst others:<br><br>• Considering the appropriateness of the methodology applied by the Group in performing the impairment assessment, including the process undertaken and rationale supporting the impairment recognised.<br><br>• Evaluating the assumptions and methodologies used by management, in particular those relating to the forecasted cash flows and discount rate.<br><br>• Challenging management's assumptions used in the impairment assessment, including those relating to forecast revenue, costs, capital expenditure, discount rate and corroborated the key market related assumptions to external data.<br><br>• Assessing the historical accuracy of forecasting and performed a sensitivity analysis on the discount rate, forecasted revenue and terminal growth assumptions on the Cash Generating Unit.<br><br>• Reviewing the adequacy of the Group's disclosures in the financial statements surrounding the impairment of indefinite life intangible assets. |

## Going Concern

| *Key audit matter* | *How the matter was addressed in our audit* |
|---|---|
| *Refer to Note 1 Going concern of the accompanying financial statements.*<br><br>The Group has incurred losses and negative operating cash flows for the year ended 30 June 2018.<br><br>The Group's use of the going concern basis of preparation and the associated extent of uncertainty is a key audit matter. We used a high level of judgement to evaluate the Group's assessment of its ability to continue operating as a going concern.<br><br>In Note 1 "Going concern" of the financial report, the Directors have documented their considerations and have determined that the going concern basis of preparation is the appropriate basis of accounting.<br><br>The Group's assessment of going concern was based on future cash flow forecasts. The preparation of these | Our audit procedures included, amongst others:<br><br>• Reviewing cash-flow forecasts and challenging management's assumptions around future revenue, operating costs, and associated cash flows.<br><br>• Analysing the impact of reasonable possible changes in cash flow forecasts and their timing by applying sensitivities to key inputs including future revenue and operating costs.<br><br>• Assessing management's accuracy to forecast based on previous years' actual results and our knowledge of the Group.<br><br>• Considering the impact of management's assumption around reduction of operating costs. |

| *Key audit matter* | *How the matter was addressed in our audit* |
|---|---|
| forecasts incorporated a number of assumptions and judgments. The Directors have concluded that the range of possible outcomes considered in arriving at this judgment does not give rise to a material uncertainty casting significant doubt on the Group's ability to continue as a going concern.<br><br>We assessed the Group's forecasts, including the Directors' assumptions regarding the timing of future cash flows and operating results which are uncertain by nature. This assessment required significant audit attention in determining the appropriate conclusion surrounding going concern. | • Sensitising cash flow forecasts based on actual results compared to budget.<br>• Assessing the director's ability to raise sufficient funds to support operations based on historic success of capital raising.<br>• Considering the Directors' willingness to provide funding, if necessary.<br>• Reviewing subsequent events as they pertain to actual financial performance and cash levels of the Group.<br>• Assessing the adequacy of the Group's disclosures within the financial statements. |

## Other information

The directors are responsible for the other information. The other information comprises the information contained in the Directors' Report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the Annual Report, which is expected to be made available to us after that date.

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 identified above 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 on the other information that we obtained prior to the date of this auditor's report, 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.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and will request that it is corrected. If it is not corrected, we will seek to have the matter appropriately brought to the attention of users for whom our report is prepared.

## Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or 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:

http://www.auasb.gov.au/auditors_files/ar2.pdf

This description forms part of our auditor's report.

## Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 11 to 21 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Tesserent Limited, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**BDO East Coast Partnership**

David Garvey
Partner

Melbourne, 1 October 2018

## ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

The following additional information is required by the Australian Stock Exchange Ltd in respect of listed public companies only. The following information is current as at 5 October 2018.

### 1. Shareholding

#### a. Distribution of shareholders

| Range | Total holders | Units | % of Issued capital |
|---|---|---|---|
| 1 – 100 | 15 | 364 | 0.00 |
| 101 – 1000 | 8 | 2,770 | 0.00 |
| 1,001 – 10,000 | 207 | 1,588,955 | 1.22 |
| 10,001 – 100,000 | 323 | 12,080,326 | 9.27 |
| 100,001 – 500,000 | 100 | 22,709,748 | 17.42 |
| 500,001 – 1,000,000 | 15 | 9,815,483 | 7.53 |
| 1,000,001 – 10,000,000 | 15 | 40,502,727 | 31.06 |
| 10,00,001 – 9,999,999,999 | 2 | 43,684,010 | 33.50 |
| **Total** | **685** | **130,384,383** | **100.00** |

#### b. The number of shareholdings held in less than marketable parcels is 108.

#### c. Substantial Shareholders

| Shareholder | Number of Ordinary Fully Paid Shares Held | % Held of Issued Ordinary Capital |
|---|---|---|
| Keith Glennan[1] | 28,975,720 | 22.22 |
| Robert Langford[2] | 24,275,567 | 18.62 |

1- Mr Glennan holds shares through Grand Floridian Pty Ltd <KM & AS Glennan Family Account> and Grand Floridian Pty Ltd <The Broadmoor Super Account>

2- Mr Langford holds shares through RTSF Super Pty Ltd <Raging Thunder Superfund Account> and T B C (Australia) Pty Ltd <Langford Family No 3 Account>

#### d. Voting Rights

The voting rights attached to each class of equity security are as follows:

**Ordinary shares**

Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

**Options**

All options issued by the Company have no voting rights.

### e. 20 Largest Shareholders – Ordinary Shares

| | | Number of Ordinary Fully Paid Shares Held | % Held of Issued Ordinary Capital |
|---|---|---|---|
| 1. | GRAND FLORIDIAN PTY LTD | 27,000,000 | 20.71 |
| 2. | RTSF SUPER PTY LTD <RAGING THUNDER SUPERFUND A/C> | 16,684,010 | 12.80 |
| 3. | T B C (AUSTRALIA) PTY LTD <LANGFORD FAMILY NO 3 A/C> | 7,591,557 | 5.82 |
| 4. | PBCF INVESTMENTS PTY LTD | 6,445,455 | 4.94 |
| 5. | TRACY SMYTH <TRACY CONSULTING A/C> | 5,302,500 | 4.07 |
| 6. | MR STEVEN MAXWELL LYNCH | 4,538,707 | 3.48 |
| 7. | PACRIM INVESTMENT CONSULTANTS PTY LTD <PACRIM CONSULTING FUND A/C> | 2,501,490 | 1.92 |
| 8. | MR DOMINIC MARINELLI <MONTE ACQUAVIVA A/C> | 2,345,308 | 1.80 |
| 9. | GREG BAXTER <GDB AUSTRALIA A/C> | 1,620,328 | 1.24 |
| 10. | SPB CAPITAL LIMITED | 1,620,328 | 1.24 |
| 11. | GANT SUPER PTY LTD <QUAY SUPER FUND A/C> | 1,617,182 | 1.24 |
| 12. | JAMPLAT PTY LTD | 1,500,000 | 1.15 |
| 13. | GRAND FLORIDIAN PTY LTD | 1,194,285 | 0.92 |
| 14. | COFFS HARBOUR INVESTMENTS PTY LTD <THE COFFS HARBOUR INV A/C> | 1,118,783 | 0.86 |
| 15. | MR ERIC BARTOLOMEO JANSEN + MS SANDRA LEE BLACKBURN <JANSEN SUPER FUND A/C> | 1,050,000 | 0.81 |
| 16. | FAYAZ MEGHANI | 1,040,000 | 0.80 |
| 17. | MR PAUL JAMES BRANDLING <THE BRANDLING FAMILY A/C> | 1,016,804 | 0.78 |
| 18. | GRAND FLORIDIAN PTY LTD <THE BROADMOOR SUPER A/C> | 781,435 | 0.60 |
| 19. | NARA PARK PTY LTD | 767,500 | 0.59 |
| 20. | ANTONY PETER O'BRIEN | 763,418 | 0.59 |
| | | **86,499,090** | **66.34** |

### 2. Number and class of restricted securities and securities subject to voluntary escrow

| Description | Number on issue |
|---|---|
| Escrowed $0.20 Options vesting 31/08/16 expiring 31/08/19 | 2,500,000 |
| Escrowed $0.24 Options vesting 31/08/17 expiring 31/08/19 | 2,500,000 |
| Escrowed $0.288 Options vesting 31/08/18 expiring 31/08/19 | 1,000,000 |
| Escrowed $0.30 Options vesting 9/05/18 expiring 8/05/19 | 500,000 |
| Escrowed $0.30 Options vesting 9/05/19 expiring 8/05/20 | 500,000 |

### 3. Unquoted securities

There are 7,000,000 unquoted securities being the escrowed options set out in section 2 above and remain unexercised. The holders of these securities include the directors, and the number of the securities each person holds is set out in the Directors' Report.

### 4. Use of cash

Since the date of listing on the ASX to the end of the reporting period Tesserent used its cash and assets readily convertible into cash in a way consistent with its business objectives.

## CORPORATE DIRECTORY

### Directors

| | |
|---|---|
| Robert Langford | Non-Executive Chairman |
| Keith Glennan | Executive Director |
| Gregory Baxter | Non-Executive Director |
| Stefano (Steve) Bertamini | Non-Executive Director |

### Company Secretary

Oliver Carton

E-mail: investor@tesserent.com

### Registered Office

Level 5, 990 Whitehorse Road, Box Hill VIC 3128 AUSTRALIA

### Principal Place of Business

Level 5, 990 Whitehorse Road, Box Hill VIC 3128 AUSTRALIA

### Share Register

Computershare Investor Services Pty Limited

Yarra Falls

452 Johnston Street Abbotsford VIC 3067

### Auditor

BDO East Coast Partnership

Collins Square, Tower 4, Level 18, 727 Collins Street, Melbourne VIC 3008

### Solicitor

Kelly Hazell Quill Lawyers Pty Ltd

Level 15, 440 Collins Street Melbourne VIC 3000

### Stock Exchange Listing

Tesserent Limited are listed on the Australian Securities Exchange

(ASX Code: TNT)

# TESSERENT

## INVESTOR ENQUIRIES

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