TESSERENT

2019 ANNUAL REPORT

TESSERENT LIMITED
AND CONTROLLED
ENTITIES

ABN: 13 605 672 928

Contents

FY19 COMPANY HIGHLIGHTS

PIPELINE

$7.5M

Up 168% yoy

PRODUCT PORTFOLIO

17

INCREASED FROM 3 TO 17

AVERAGE CONTRACT VALUE

INCREASED FROM $54K TO $125K

RECEIVED

$288K

R&D TAX CONCESSION

CAPITAL RAISED

$2.5M

NEW AI CYBERSECURITY PARTNERSHIP

DARKTRACE

STRATEGIC ACQUISITION

RIVIUM

CATEGORY GROWTH

SD-WAN $3.2M CONTRACT

TOTAL CONTRACT VALUE

$8M

MANAGEMENT RESTRUCTURE

COMPLETE

CHAIRMAN'S LETTER TO SHAREHOLDERS

Dear Fellow Shareholder,

I am pleased to present the 2019 Annual Report for Tesserent Limited (ASX: TNT) as we reflect on a transformative year for our Company and the steps taken towards our goal of becoming Australia's leading cyber security provider.

Tesserent provides Security-as-a-Service to a wide range of Australian and international customers, including education providers, corporate enterprises, and government customers. Our services include firewall, authentication, anti-virus, anti-malware/spyware, intrusion detection, and security event management, generally provided on a subscription basis.

The past year has seen Tesserent complete a period of restructure, led by our new Chief Executive Officer Julian Challingsworth and complemented by a largely new management team. This enabled us to deliver Tesserent's end-to-end cyber security strategy and continue to drive our Company towards positive cash flow generation. We have made pleasing progress on this through FY19 and we expect to deliver it over the coming 12 months.

In April, we announced the acquisition of experienced Melbourne-based enterprise security specialist Rivium Pty Ltd, which specialises in consulting, implementation and managed services for the enterprise security solution Splunk. This acquisition was integral to our ability to secure high quality customers spanning the government and private sectors and we were pleased to integrate the acquisition in July to position us more strongly for FY20. Rivium will be earnings accretive from day one, helping us to deliver on our strategy.

We continue to pursue several other acquisition opportunities that we believe will help us round out our business offering, and we look forward to informing our Shareholders of any developments on these as they arise.

Tesserent successfully raised $2.5 million from shareholders during the year, including an oversubscribed $1.1 million private placement in March. We have used these funds to complete due diligence on several acquisition opportunities, invest in resources to grow the business and complete a restructuring process which we expect to create positive cash flow for the business during FY2020. We thank our shareholders, both new and existing, for your support in these activities which has helped us deliver on our goals during the year and strengthened the foundations on which we expect to build a profitable business in the future.

I would like to thank my fellow Directors for their support and guidance throughout the year, and our Management, particularly our new CEO Julian Challingsworth for his efforts in FY19, where he has demonstrated a superb capacity to lead our team despite being relatively new to the role. I also thank our staff for their dedication and hard work during the year, which hasn't gone unnoticed.

Tesserent is on track to achieve cashflow positivity and profitability in FY2020 and I know our team will be working hard to achieve that.

I look forward to an exciting year ahead, and sharing that journey with you.

ROBERT LANGFORD
Chairman and Non-executive Director
Tesserent Limited

CHIEF EXECUTIVE OFFICER'S LETTER TO SHAREHOLDERS

Dear shareholders,

While Tesserent has undergone a vast amount of change over the past 12 months, I believe we are now recalibrated and on track to achieve our goals.

With restructuring complete and a well-rounded management team in place, we are moving towards a cash flow positive position in FY2020 and it's been pleasing to see the progress we've made in executing our strategy since I came on board during the year.

We achieved a great deal of growth in FY19, with a solid response to our expanded product portfolio which has grown from three products to now offer 17 products. We've now fully launched our Cyber360 offering which we expect to continue this momentum, aimed at mid-level businesses and offering an end-to-end "service as a security" offering. Our pipeline increased by 168 per cent to $7.5 million in the June quarter of FY19, compared to the corresponding quarter in FY18, and we look forward to building on this further in the coming 12 months.

During the year, Tesserent successfully acquired, and just after year-end, integrated Melbourne-based enterprise security specialist Rivium Pty Ltd. This will add significant capability and additional revenue to Tesserent as well as enabling new services to be launched in FY2020. Rivium is a specialist in the Splunk solution – Splunk captures, indexes, and correlates real-time data in a format that is searchable and from there, it can generate graphs, reports, alerts, dashboards, and other types of visualisations. It helps customers achieve application management, security and compliance, as well as business and web analytics.

Rivium recently placed in the top three from more than 198 teams in a Splunk Boss competition, highlighting the depth of capability and experience Rivium's team brings to Tesserent's cyber security team. Acquiring Rivium was the first step in our aggressive growth strategy to allow Tesserent to become Australia's leading end-to-end cyber security business, and I am pleased with the successful integration. We are excited to have brought this into Tesserent early in FY20 and look forward to delivering it to our existing customers and our expanded offering helping us to attract new ones.

We have developed world-class managed solutions around our partners' technology solutions, enabling us to provide our customers with top coverage at all times. In addition to Splunk, these partners include Palo Alto Networks, a supplier of firewall, endpoint and cloud security solutions, and Darktrace, a leading provider of Artificial Intelligence (AI) solutions to manage risk.

Other highlights of the year included the increase in our average total contract value from $54,000 in FY18 to $125,000 in FY19, which represents growth of more than 130 per cent in 12 months. This was boosted by our largest individual sale to transport company K&S Freighters with a total contract value of $3.2 million, validating our investment in proprietary SD-WAN capabilities.

Part of our work in FY19 involved restructuring our business, which incurred one-off costs that totalled $350,000, but I am confident that this has been short-term financial pain to deliver long-term gain. We will benefit from the cost saving measures employed, which will deliver savings of about 15 per cent.

With this work completed, we are able to focus on building a stable growing business that is cash flow positive on a month-by-month basis in FY20, has the capabilities to deliver end-to-end cyber security services to our customers, is able to recruit the best and brightest candidates in the industry and which delivers strong returns for our shareholders.

We are already showing promising signs for FY20, having completed more firewall sales in the month of July 2019 than we did in the 12 months of FY19, demonstrating the traction we are making in a world that is increasingly in need of market-leading cyber security to protect businesses.

With several other potential acquisitions on the table, I am confident of our future success and I look forward to reporting on our achievements during the coming year.

JULIAN CHALLINGSWORTH
Chief Executive Officer
Tesserent Limited

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 1 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.

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.

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.

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
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STEPHAN SCHEFFER
Chief Financial Officer

Stephan Scheffer is a highly qualified individual with a Bachelor of Accounting & Commerce, and MBA, an Advanced Diploma in Tax & Company Law, a chartered accounting qualification and AICD membership. His professional profile includes in excess of 20 years global experience in various senior financial management and operations management positions, including experience as CFO for two mid-cap ASX Listed companies. He has spent the vast majority of his career with companies that deliver a premium service in a high growth environment.

MATTHEW GLENNAN
General Manager, Sales and Operations

Matthew has more than 6 years' experience at Tesserent, formerly known as Network-Box Australia, Matt started out as a Security Engineer with the company. His role soon developed into that of Account Executive after only a short period of time. In May 2019 Matt was promoted to the position of General Manager Sales & Marketing. Combining a history of technical expertise, security best practice, and customer experience, Matt's role is to help clients get the most out of what Tesserent can offer, by protecting their information and enabling them to focus on their core business.

ROSS MILLER
Head of IT Security Operations

Ross has more than 30 years of technology security/cyber/risk and continuous service improvement experience. Ross started out in a trainee position in IT operations and quickly moved through the ranks into leadership roles. Improvement is a key area of focus for Ross, along with, people, 'ITIL' implementations/maturity, IT Security/Cyber/Risk, IT Operations, Service Delivery, (Lean) Six Sigma, Kaizen, problem solving, process/quality improvement, team leadership, turning negatives into positives and optimism.

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.

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: (a) the respective roles and responsibilities of its board and management; and (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. 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: (a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and 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: (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; (b) disclose that policy or a summary of it; and (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: i. the respective proportions of men and women on the board,	The Company has adopted a Diversity Policy. The Company's Diversity Policy requires the Board to establish measurable objectives to assist the Company in achieving gender diversity. 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. 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. As at 30 June 2019, there were 4 females employed representing 23.5% of total employees. There were no women on the Board of Directors and no women 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 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: (a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and 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. 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. No evaluation was carried out during the reporting period given there were changes to Board composition.
1.7	A listed entity should: (a) have and disclose a process for periodically evaluating the performance of its senior executives; and 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. 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: (a) have a nomination committee which: i. has at least three members, a majority of whom are independent directors; and ii. is chaired by an independent director, and disclose: iii. the charter of the committee; iv. the members of the committee; and 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. During the Period the Nominations and Remuneration Committee consisted of three members, all of whom were independent directors. The Chair of the Committee was not the Chair of the Board during the period. 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. The Committee operated under a Charter which is available on the Company website within the Corporate Governance Section. 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: (a) the names of the directors considered by the board to be independent directors; (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 the length of service of each director.	The Board considers that Steve Bertamini and Greg Baxter are independent directors. The Board considers that Rob Langford is not an independent directors given he is a substantial shareholder. 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: (a) have a code of conduct for its directors, senior executives and employees; and 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: (a) have an audit committee which:	The Company had established an Audit and Risk Management Committee. 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 ii. is chaired by an independent director, who is not the chair of the board, and disclose: iii. the charter of the committee; iv. the relevant qualifications and experience of the members of the committee; and 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 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. 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. The Committee operates under a Charter which is available on the Company website within the Corporate Governance Section. 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: (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.

RECOMMENDATION		COMPANY'S CURRENT PRACTICE
	disclose that policy or a summary of it.	
6.1	A listed entity should provide information about itself and its governance to investors via its website.	The Company has a dedicated corporate governance information section on its website.
6.2	A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	The Company has adopted a Shareholder Communications Policy for Shareholders wishing to communicate with the Board.
6.3	A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	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.
6.4	A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	The Company seeks to recognise numerous modes of communication, including electronic communication, to ensure that its communication with Shareholders is frequent, clear and accessible.
7.1	The board of a listed entity should: (a) have a committee or committees to oversee risk, each of which: i. has at least three members, a majority of whom are independent directors; and ii. is chaired by an independent director, and disclose: iii. the charter of the committee; iv. the members of the committee; and 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 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.	During the Period the Company established an Audit and Risk Management Committee. During the Period the Audit and Risk Management Committee consisted of three members, all of whom were independent directors. The Chair of the Committee was not the Chair of the Board during the period. 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. The Committee operates under a Charter which is available on the Company website within the Corporate Governance Section. 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. .
7.2	The board or a committee of the board should:	This committee was suspended during the reporting period.

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 disclose, in relation to each reporting period, whether such a review has taken place.	
7.3	A listed entity should disclose: (a) if it has an internal audit function, how the function is structured and what role it performs; or 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: (a) have a remuneration committee which: i. has at least three members, a majority of whom are independent directors; and ii. is chaired by an independent director, and disclose: iii. the charter of the committee; iv. the members of the committee; and 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 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. During the Period the Committee consisted of three members, all of whom were independent directors. The Chair of the Committee was not the Chair of the Board during the period. 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. The Committee operates under a Charter which is available on the Company website within the Corporate Governance Section. 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: (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 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 2019.

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	
Keith Glennan	Resigned 14 November 2018
Gregory Baxter	
Stefano (Steve) Bertamini	
Julian Challingsworth	Appointed 14 November 2018

2. Information on Directors

Robert Langford	–	Non-Executive Chairman – appointed 8 February 2018
Qualifications	–	Bachelor of Applied Science in Computing 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. Resigned from the Board on 14 November 2018.
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 the CEO role. Interim CEO appointed 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 an 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

Julian Challingsworth	–	Chief Executive Officer – Appointed 1 August 2018
Qualifications	–	Bachelor of Business , FCPA , GAICD
Experience	–	With a strong professional services and corporate finance background, Julian has a Masters of Organisational Consulting from Ashridge Business School (UK), a Graduate Diploma in IT, Swinburne University (Aust) and a Bachelor of Business, Accounting, RMIT (Aust). Julian is a Non-Executive Director of Online Power and Gas Pty Ltd, a member of Chartered Accountants (CAANZ), Fellow Australian Certified Practicing Accountants (FCPA) and a Graduate Australian Institute of Company Directors (GAICD) Julian joins Tesserent after serving as 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. Julian was a director or 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 8 member firms.
Directorships held in other listed entities during the three years prior to the current year	–	None

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	35,000,000
Keith Glennan	28,761,435	-
Julian Challingsworth	1,000,000	13,000,000
Gregory Baxter	1,406,043	1,000,000
Stefano (Steve) Bertamini	1,406,043	1,000,000
Total	56,644,803	50,000,000

4. Company Secretary

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

DIRECTORS' REPORT

5. Directors' Meetings

The table below sets out the number of meetings held during the 2019 financial year and the number of meetings attended by each Director, 7 Board meetings were held. No Board sub-committee meetings were held.

Director	Eligible to attend	Attended
Robert Langford	7	7
Julian Challingsworth	6	6
Keith Glennan	2	2
Gregory Baxter	7	6
Stefano (Steve) Bertamini	7	6

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.

Group financial performance

The Group recorded a loss after tax of $4,372,821 for the year ended 30 June 2019 (2018: $3,095,670 loss).

Research and Development tax concessions totalling $288,330 were received in FY19. 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.

Subsequent to the end of the year the company secured a loan facility of 4 million dollars, details can be found in Note 5.6 on page 58.

TECHNOLOGY

Tesserent has developed world class managed solutions around our partners technology platforms. By combining the best technology platforms from the world's leading cyber companies and our leading security operations center (SOC) capabilities our customers are provided end to end coverage at all times.

Key technology partners include:

- **Palo Alto Networks** is the world's leading supplier of firewall, endpoint and cloud security products, Tesserent works closely with the team at Palo Alto Networks and manages over 80 solutions for our customers.
- **Splunk** is a global leader in searching, monitoring and analyzing big data from an operations and security perspective. Tesserent plans to launch a Splunk managed security offer in FY2020 and will apply our leading security capability alongside the elite Splunk capabilities that the Rivium acquisition has brought to the group. Splunk is currently used by 92 out of the Fortune 100.
- **DarkTrace** is a leading provider of Artificial Intelligence (AI) solutions to manage risk within a customer's network, the platform is autonomous in learning the normal patterns of an organisation and includes an immune system that stops threats inside your network automatically.
- **Tesserent SD-WAN** Tesserent continues to deploy and expand on its proprietary SD-WAN solutions, as a result we see strong business growth potential as organisations move towards this highly scalable cost-effective solution for their network management.

DIRECTOR'S REPORT

ACCELERATING GROWTH

As part of the growth strategy, Tesserent announced that it would be accelerating business growth through strategic acquisitions; the first acquisition under the new strategy was Rivium, an elite Splunk team with a strong business in supporting clients buy and deploy Splunk solutions.

Rivium possesses an established team that adds a Security Information Event Management (SIEM) and insider threat capability to Tesserent's suite of cybersecurity solutions. The company has offices across Victoria, New South Wales, Queensland and the ACT.

Tesserent announced (in April 2019) that it would purchase 100% of the company for a consideration of $3.25m ($1.495m cash + 17.55m shares at $0.10 per share). It is estimated that an additional $760k will be paid as part of the earnout clause of the Share Purchase Agreement, giving rise to total Goodwill of $3.509m. Tesserent continues to actively pursue acquisition opportunities.

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. 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.

9. Matters Subsequent to the End of the Financial Year

On 3 July 2019 the Company completed the acquisition of Rivium (Pty) Ltd for a total price of $3.25m, to be settled in $1.495m cash and 17.55m Shares at 10 cents per share.

Subsequent to the end of the year the company secured a loan facility of 4 million dollars with Pure Asset Management. Further detail on both these events are included in Note 5.6 to the financial report.

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

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.

DIRECTORS' REPORT

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.

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 2019:

	2019	2018
	$	$
Corporate and indirect Tax services	63,515	45,025
Due diligence services	146,050	-
Total	209,565	45,025

15. Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2019 has been received and can be found on page 21 of the financial report.

16. Options

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
18 May 2018	31 August 2019	$0.200	1,000,000
18 May 2018	31 August 2019	$0.240	1,000,000
18 May 2018	31 August 2019	$0.288	1,000,000
18 May 2018	8 May 2020	$0.500	500,000

DIRECTORS' REPORT

14 December 2018	30 November 2021	$0.100	1,000,000
14 December 2018	30 November 2021	$0.125	1,000,000
14 December 2018	30 November 2021	$0.150	1,000,000
14 December 2018	1 July 2020	$0.000	13,000,000
12 February 2019	3 December 2020	$0.050	10,000,000
19 February 2019	19 March 2020	$0.050	22,000,000
29 March 2019	19 March 2020	$0.100	11,300,000
29 March 2019	1 March 2020	$0.100	100,000
29 March 2019	1 March 2020	$0.125	100,000
29 March 2019	1 March 2020	$0.150	100,000
18 April 2019	19 March 2021	$0.100	1,100,000
18 April 2019	29 March 2021	$0.100	500,000
18 April 2019	18 April 2021	$0.075	3,000,000
			67,700,000

At the date of this report, there are no unissued ordinary shares of Tesserent Limited under deferred shares.

Option and deferred shareholders 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 2019 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		28 February 2018
Robert Langford	Non-Executive Chairman		
Steve Bertamini	Non-Executive Director		
Gregory Baxter	Non-Executive Director		
David Buerckner	Head of Security Operations		18 April 2019
Ross Miller	Head of Security Operations	29 April 2019	
Matthew Glennan	General Manager Sales & Marketing	1 May 2019	
Julian Challingsworth	CEO	1 August 2018	
Justin Owen	Chief Financial Officer		27 November 2018
Stephan Scheffer	Chief Financial Officer	1 December 2018	
Karen Negus	Head of Marketing		2 July 2018

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.

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

The 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.

REMUNERATION REPORT – AUDITED

Group financial performance

The earnings of the Group for the three years ending 30 June 2019 are summarised as follows:

Financial performance[1]	2019	2018	2017
Sales revenue – external customers	5,260,272	5,327,957	5,375,117
Earnings before interest, tax, depreciation, amortisation and impairment(EBITDA)	(3,842,692)	(1,529,345)	(2,883,644)
Loss after income tax	(4,372,821)	(3,095,670)	(3,464,036)
Basic loss per share (cents)	(2.90)	(2.62)	(2.99)
Share price at year end (cents)	5.00	6.00	9.00

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	$90,000
Steve Bertamini	$45,000
Gregory Baxter	$45,000

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 2018 the Board established a Nominations and Remuneration Committee which was subsequently disbanded in FY2019 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 CEO 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 CEO, and the CEO assesses the performance of the individual executives against their targets. The CEO'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 $0.05, $0.10, $0.125, $0.15, $0.20, $0.24 and $0.288. Refer to tables on page 15 for options affecting remuneration in the current and future reporting period.

At the 2018 Annual General Meeting (AGM), 90.2% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2018. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

REMUNERATION REPORT - AUDITED

Consolidated entity performance and link to remuneration

2019

Julian Challingsworth

Performance measures for Julian Challingsworth were set by the Board to reflect key measures impacting the growth in revenue and market capitalisation. Mr Challingsworth is entitled to bonuses set as follows:

No	Definition	Rights	Date of Issue	Vesting Conditions	Expiry Date
1	Options exercisable at nil consideration	Right to acquire 2,000,000 Shares	Within 1 month of shareholder approval	Completion of acquisitions adding in excess of $10m in annual revenue	1 July 2020
2	Options exercisable at nil consideration	Right to acquire 1,000,000 Shares	Within 1 month of shareholder approval	Subject to Series 2 Options not vesting Completion of acquisitions adding between $1m and $10m in annual revenue	1 July 2020
3	Options exercisable at nil consideration	Right to acquire 3,000,000 Shares	Within 1 month of shareholder approval	The Company achieving a market capitalisation in excess of $50m for 5 consecutive trading days	1 July 2020
4	Options exercisable at nil consideration	Right to acquire 3,000,000 Shares	Within 1 month of shareholder approval	The Company achieving a market capitalisation in excess of $75m for 5 consecutive trading days	1 July 2020
5	Options exercisable at nil consideration	Right to acquire 4,000,000 Shares	Within 1 month of shareholder approval	The Company achieving a market capitalisation in excess of $100m for 5 consecutive trading days	1 July 2020
6	Options exercisable at $0.015 per option	The number that is 5% of amount of capital raised from investors during the period divided by $0.15	Within 1 month of shareholder approval	Recipient to manage raising funds through issues of capital	1 July 2020

REMUNERATION REPORT - AUDITED

Matthew Glennan

- Performance measures were set by the CEO to assist with alignment of business growth objectives

Incentive Item	Value of incentive
Sales: Commission on all sales other than those sales where an existing customer contract automatically rolls over without a new contract being signed	2% of total contract value (TCV)
Sales team effectiveness: team collectively hitting 80% of sales target	$15,000 or the option of that amount in ASX:TNT shares at a 10% discount to the 5-day volume-weighted average price ("VWAP")
Sales hygiene: team is complying with sales pipeline policies and key deliverables by July 1, 2019 (subject to completion of Ethan Glessich's deliverable being available or other policies as mutually agreed)	$15,000 or the option of that amount in ASX:TNT shares at a 10% discount to the 5-day VWAP
Tesserent Australia P/L cash break even on a normalised/proforma basis	$50,000 in ASX:TNT shares at a 10% discount to the 5-day VWAP
Signing of 6 customer contracts for the provision of products related to the ASD Essential Eight or key management products	$50,000
Signing of 6 customers onto three-year managed services contracts for the provision of Darktrace products	$25,000
Signing of 5 customer contracts for the provision of SIEM or Splunk products	$25,000

Matthew did not achieve any of the bonuses in the current financial year.

There were no other performance-based remuneration measures.

2018

Keith Glennan (former KMP)

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 2019 – 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 (former KMP)

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

Karen Negus (former KMP)

- 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.

REMUNERATION REPORT - AUDITED

Details of Remuneration

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

2019 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/ Deferred Options			
	$	$	$	$	$	$	%	%
R Langford	109,747	-	-	-	160,945	270,692	-	59.5
K Glennan[1]	181,912	-	25,000	-	-	206,912	-	-
G Baxter	45,000	-	-	-	-	45,000	-	-
S Bertamini	45,000	-	-	-	-	45,000	-	-
J Challingsworth[2]	170,300	-	15,403	-	111,319	297,022	-	24.8
Total	**551,959**	**-**	**40,403**	**-**	**272,264**	**864,626**	**-**	**-**

1 Resigned 28 February 2019
2 Appointed 1 August 2018. J Challingsworth was issued 1 million shares in the company as a sign on bonus, with a fair value of $50,000. This is included in Share Based Payments in the table above.
There were no non-monetary benefits provided

2019 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]	152,930	-	13,961	-	-	166,891	-	-
K Negus[2]	28,415	-	1,317	-	-	29,732	-	-
J Owen[3]	77,990	-	-	-	-	77,990	-	-
S Scheffer[4]	107,245	-	10,122	256	-	117,623	-	-
M Glennan[5]	28,200	-	2,533	1,815	51,800	84,348	-	61.4
R Miller[6]	27,879	-	2,648	65	-	30,592	-	-
Total	**422,659**	**-**	**30,581**	**2,136**	**51,800**	**507,176**	**-**	**-**

1 Resigned 18 April 2019
2 Resigned 27 July 2018
3 Resigned 28 November 20198
4 Appointed 1 December 2018
5 Appointed 1 May 2019
6 Appointed 18 April 2018
There were no non-monetary benefits provided

Director and Executive Remuneration						
Total	**974,618**	**-**	**70,984**	**2,136**	**324,064**	**1,371,802**

REMUNERATION REPORT - AUDITED

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 Yardley	60,000	-	-	-	(19,459)	40,541	-	(48.0)
K Glennan	269,975	135,000	23,425	4,710	-	433,110	31.2	-
G Baxter	45,000	-	-	-	10,151	55,151	-	18.4
R Langford	37,500	-	-	-	-	37,500	-	-
S Bertamini	45,000	-	-	-	10,151	55,151	-	18.4
P Brandling	10,274	-	976	-	(12,290)	(1,040)	-	1,181.7
Total	**467,749**	**135,000**	**24,401**	**4,710**	**(11,447)**	**620,413**	**-**	**-**

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
J.Owen	175,617	-	-	-	-	175,617	-	-
K Negus	205,831	-	19,554	3,495	63,918	292,798	-	21.8
Total	**564,448**	**-**	**36,939**	**6,991**	**147,326**	**755,704**	**-**	**-**

Director and executive remuneration

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

REMUNERATION REPORT - AUDITED

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

	Fixed remuneration		At risk- STI		At risk - LTI	
Name	2019	2018	2019	2018	2019	2018
Non-Executive Directors:						
R Langford	100%	100%	-	-	-	-
G Baxter	100%	100%	-	-	-	-
S Bertamini	100%	100%	-	-	-	-
Executive Director						
K Glennan	100%	50%	-	50%	-	-
J Challingsworth	100%	n/a	-	n/a	-	n/a
Other Key Management Personnel						
D Buerckner	100%	91%	-	9%	-	-
K Negus	100%	87%	-	13%	-	-
J Owen	100%	100%	-	-	-	-
S Scheffer	100%	n/a	-	n/a	-	n/a
M Glennan	100%	n/a	-	n/a	-	n/a
R Miller	100%	n/a	-	n/a	-	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. It is envisaged that all bonuses will become effective in the 2020 financial year.

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

Name	Cash bonus paid/payable		Cash bonus forfeited	
	2019	2018	2019	2018
Executive Director				
K Glennan	-	50%	-	50%
Other Key Management Personnel				
D Buerckner	-	-	-	100%
K Negus	-	-	-	100%

REMUNERATION REPORT – AUDITED

Details of Share Based Compensation

Options

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	$0.240	$.0539	100
Steve Bertamini	17 Nov 15	500,000	31 Aug 18	31 Aug 19	$0.288	$.0423	-
Gregory Baxter	17 Nov 15	500,000	31 Aug 17	31 Aug 19	$0.240	$.0539	100
Gregory Baxter	17 Nov 15	500,000	31 Aug 18	31 Aug 19	$0.288	$.0423	-
R Langford	14 Dec 18	1,000,000	8 Feb 18	30 Nov 21	$0.100	$.0520	-
R Langford	14 Dec 18	1,000,000	8 Feb 19	30 Nov 21	$0.125	$.0520	-
R Langford	14 Dec 18	1,000,000	8 Feb 20	30 Nov 21	$0.150	$.0520	-
R Langford	12 Feb 19	10,000,000	8 Feb 19	3 Dec 20	$0.050	$.0480	-
R Langford	19 Feb 19	22,000,000	19 Mar 19	19 Mar 20	$0.050	$.0500	-
J Ch'ingsworth	14 Dec 18	13,000,000	14 Dec 18	1 Jul 20	$0.000	$.0520	-

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 2019.

2019

Name and grant date	Balance at 1 Jul 2018 Unvested	Granted as compensation	Vested	Exercised	Lapsed / forfeited during the year	% forfeited during the year	Balance at 30 June 2019 Unvested
S Bertamini							
17 Nov 15	500,000	-	500,000	-	-	-	-
G Baxter							
17 Nov 15	500,000	-	500,000	-	-	-	-
R Langford							
14 Dec 18	-	1,000,000	1,000,000	-	-	-	-
14 Dec 18	-	1,000,000	1,000,000	-	-	-	-
14 Dec 18	-	1,000,000	-	-	-	-	1,000,000
12 Feb 19	-	10,000,000	-	-	-	-	10,000,000
19 Feb 19	-	22,000,000	-	-	-	-	22,000,000
J Ch'sworth							
14 Dec 18	-	2,000,000	-	-	-	-	2,000,000
14 Dec 18	-	1,000,000	-	-	-	-	1,000,000
14 Dec 18	-	3,000,000	-	-	-	-	3,000,000
14 Dec 18	-	3,000,000	-	-	-	-	3,000,000
14 Dec 18	-	4,000,000	-	-	-	-	4,000,000

REMUNERATION REPORT - AUDITED

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

2019

	Balance 1 July 2018 $	Value Granted $	Value Exercised $	Value Lapsed $	Balance 30 Jun 2019 $
Steve Bertamini	81,424	-	-	-	81,424
Gregory Baxter	81,424	-	-	-	81,424
Paul Brandling	60,255	-	-	(60,255)	-
Russell Yardley	120,509	-	-	(120,509)	-
R Langford	-	160,945	-	-	160,945
J Challingsworth	-	61,319	-	-	61,319

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

2019

KMP	Deferred Shares	% Vested	AASB 2 Expense $	Grant Date	Share price at Grant Date $	Vesting Date	Exercise Price
M Glennan	1,000,000	100	51,800	10 May 2019	0.05	1 July 2019	0.04
D Buerckner	450,000	100	25,646	24 November 2016	0.14	3 October 2018	Nil
D Buerckner	750,000	0	(58,691)	24 November 2016	0.14	3 October 2019	Nil

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	-	33,916	24 November 2016	0.14	3 October 2018	Nil
D Buerckner	750,000	-	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	600,000	-	32,862	24 November 2016	0.14	15 June 2019	Nil

REMUNERATION REPORT - AUDITED

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 2019.

2019

Rights to deferred shares									
		Balance 1 Jul 18	Granted during year	Vested		Forfeited		Balance 30 Jun 19 Unvested	Maximum value yet to vest*
	Year granted	No.	No.	No.	%	No.	%	No.	$
N Conolly[1]	2016	700,000	-	-	-	700,000	100.00	-	-
D Buerckner[2]	2017	1,200,000	-	450,000	37.50	750,000	62.50	-	-
K Negus[3]	2017	600,000	-	-	-	600,000	100.00	-	-
M Glennan	2019	-	1,000,000	-	-	-	-	1,000,000	51,800

1 Nick Conolly resigned 30 November 2016. Rights to deferred shares have been forfeited due to expiry.
2 David Beurckner resigned 29 April 2019 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.
3 Karen Negus has resigned 2 July 2018 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.

2018

Rights to deferred shares									
		Balance 1 Jul 17	Granted during year	Vested		Forfeited		Balance 30 Jun 18 Unvested	Maximum value yet to vest*
	Year granted	No.	No.	No.	%	No.	%	No.	$
N Conolly[4]	2016	1,400,000	-	700,000	50.00	-	-	700,000	31,941
D Buerckner	2017	1,500,000	-	300,000	20.00	-	-	1,200,000	55,136
K Negus	2017	960,000	-	360,000	37.50	-	-	600,000	31,511

4 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 was recognised in the prior year profit or loss. The vesting date of the deferred shares has not changed.

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, former 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
- Resigned 14 November 2019
- Termination by provision of two months' notice by either the Executive or the Company

REMUNERATION REPORT - AUDITED

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.
- Resigned 18 April 2019
- Termination by provision of two months' notice by either the Executive or the Company

Justin Owen, former Chief Financial Officer

- Permanent part time contract with CFO Effect Pty Ltd commencing 1 July 2018.
- Monthly retainer-based remuneration of $9,650, plus additional fee for other projects undertaken.
- Resigned 27 November 2018
- Termination by provision of one months' notice by either CFO Effect Pty Ltd or the Company.

Julian Challingsworth, Chief Executive Officer

- Permanent employment contract commencing 1 August 2018.
- Fixed remuneration of $200,000 inclusive of superannuation.
- Sales commission per table on page 10.
- Issuance of 1,000,000 sign on bonus shares.
- Short term bonus of $75,000 payable in shares at $0.05 each at the discretion of the Board
- Termination by provision of twelve months' notice by either the Executive or the Company.

Stephen Scheffer, Chief Financial Officer

- Termination by provision of one months' notice by either the Executive or the Company.
- Full-time employment contract commencing 1 December 2018, terminating after 12 months unless extended by mutual consent.
- Fixed remuneration of $200,000 inclusive of compulsory superannuation and packaged benefits.
- Issuance of $25,000 shares on 1 July 2019 subject to a 180day escrow period after allocation.
- The Employee's Employment may be terminated without cause by either the Employer or the Employee with the provision of one month's notice in writing or, in the case of the Employer, the period of notice required to be given under the FW Act (whichever is greater).

Matthew Glennan, General Manager, Sales and Operations

- Permanent contract commencing 7 January 2013 and updated subsequently on 10 May 2019 when appointed to General Manager, Sales and Operations.
- Fixed annual remuneration of $160,000 plus superannuation, plus allowances, plus incentives
- The Employee's Employment may be terminated without cause by either the Employer or the Employee with the provision of one month's notice in writing or for a period agreed to by both parties in writing.

Ross Miller, Head of Security Operations

- Permanent employment contract commencing 29 April 2019.
- Fixed annual remuneration of $175,200 inclusive of compulsory superannuation and packaged benefits.
- The Employee's Employment may be terminated without cause by either the Employer or the Employee with the provision of one month's notice in writing or, in the case of the Employer, the period of notice required to be given under the FW Act (whichever is greater)

REMUNERATION REPORT - AUDITED

KMP Shareholding 2019

	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[1]	
R Langford	24,071,282[1]	-	-	-	-	24,071,282
K Glennan	28,761,435	-	-	-	(28,761,435)	-
G Baxter	1,406,043	-	-	-	-	1,406,043
S Bertamini	1,406,043	-	-	-	-	1,406,043
D Buerckner	300,000	450,000	-	-	(750,000)	-
K Negus	600,000	-	-	-	(600,000)	-
J Owen	110,000	-	-	-	(110,000)	-
J Challingsworth	-	1,000,000	-	-	-	1,000,000
M Glennan	-	-	-	-	740,740	740,740

1) Represents former KMP's who resigned during the year or KMP's appointed during the year.

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

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

REMUNERATION REPORT - AUDITED

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 in the below table and 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.

Related Party	Loan balances due to the entity	Loan balances payable by the entity
Greg Baxter	-	48,750
Stefano Bertamini	-	48,750
Robert Langford	-	7,500

Loan balances payable above relate to unpaid directors fees

End Remuneration Report

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

Julian Challingsworth,
Managing Director
30 September 2019

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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 2019, 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 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2019

		Consolidated	
	Note	**2019** **$**	**2018** **$**
Revenue from continuing operations	2.2	5,260,272	5,327,957
Other income	2.2	107,266	1,103,803
Software licence and connectivity fees		(2,279,416)	(2,372,554)
Employee benefits expense		(3,140,727)	(2,662,491)
Depreciation and amortisation expense	3.5,3.6	(316,993)	(277,594)
Goodwill impaired	3.6	-	(777,375)
Intellectual property assets impaired	3.6	-	(67,736)
Finance costs		(57,326)	(68,777)
Occupancy costs		(442,872)	(458,351)
Communication costs		(445,735)	(595,152)
Consulting and legal costs		(1,463,141)	(568,993)
Travel		(77,032)	(78,135)
Bad and doubtful debts	2.3	(39,183)	(51,185)
Call Option Investment impairment	3.8	(165,809)	-
Other expenses		(1,322,124)	(1,174,244)
		(9,750,358)	(9,152,587)
Loss before income tax		(4,382,820)	(2,720,827)
Tax Benefit/(Expense)	2.6	9,999	(374,843)
Net loss for the year		(4,372,821)	(3,095,670)
Other comprehensive income		-	-
Total comprehensive income for the year		(4,372,821)	(3,095,670)
Basic loss per share (cents)	2.4	(2.90)	(2.62)
Diluted loss per share (cents)	2.4	(2.90)	(2.62)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019

	Note	Consolidated 2019 $	Consolidated 2018 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4.3	999,660	1,717,221
Trade and other receivables	3.1	218,767	344,194
Prepayments		292,263	260,065
Inventories	3.7	276,620	55,693
Current tax asset	2.6	137,335	361,256
Other financial assets	3.8	1	-
TOTAL CURRENT ASSETS		1,924,646	2,738,429
NON-CURRENT ASSETS			
Other financial assets	3.8	-	165,810
Plant and equipment	3.5	510,309	623,882
Intangible assets	3.6	977,510	733,848
Deferred tax asset	2.6	149,618	139,619
Other non-current assets		257,229	257,229
TOTAL NON-CURRENT ASSETS		1,894,667	1,920,388
TOTAL ASSETS		3,819,313	4,658,817
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	3.2	1,765,342	1,210,577
Other financial liabilities	3.9	137,991	61,212
Contract liabilities	2.2	614,691	678,792
Provisions	3.3	228,315	269,266
TOTAL CURRENT LIABILITIES		2,746,339	2,219,847
NON-CURRENT LIABILITIES			
Other financial liabilities	3.9	281,714	352,157
Provisions	3.3	430,299	365,117
TOTAL NON-CURRENT LIABILITIES		712,013	717,274
TOTAL LIABILITIES		3,458,352	2,937,121
NET ASSETS		360,960	1,721,696

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019

	Note	Consolidated 2019 $	2018 $
EQUITY			
Issued capital	4.4	13,754,507	10,875,937
Reserves	5.2	772,900	639,385
Accumulated losses		(14,166,447)	(9,793,626)
TOTAL EQUITY		360,960	1,721,696

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2019

	Issued capital	Reserves	Accumulated losses	Total equity
	$	$	$	$
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
Balance at 1 July 2018	10,875,937	639,385	(9,793,626)	1,721,696
Comprehensive income				
Loss for the year	-	-	(4,372,821)	(4,372,821)
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	(4,372,821)	(4,372,821)
Transactions with owners, in their capacity as owners, and other transfers				
Shares issued during the year	2,975,933	(153,633)	-	2,822,300
Capital raising costs	(97,363)	-	-	(97,363)
Shares and options granted during the year	-	287,148	-	287,148
Total transactions with owners and other transfers	2,878,570	133,515	-	3,012,085
Balance at 30 June 2019	13,754,507	772,900	(14,166,447)	360,960

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2019

	Note	Consolidated 2019 $	Consolidated 2018 $
Cash flows from operations			
Receipts from customers (inclusive of GST)		5,415,067	5,922,560
Payments to suppliers and employees (inclusive of GST)		(8,266,862)	(8,219,859)
		(2,851,795)	(2,297,299)
Other Income		26,382	-
Interest received		15,989	27,804
Interest and other finance costs paid		-	(6,439)
Research & development tax concession		288,330	844,010
Proceeds from transaction restructure		-	150,000
Net cash outflow from operating activities	5.5	(2,521,094)	(1,281,924)
Cash flows from investing activities			
Purchase of plant and equipment		(27,776)	(84,633)
Proceeds on disposal of plant and equipment		-	199,779
Purchase of intangibles – development costs capitalised		(418,453)	(370,516)
Payment of deferred settlement liability for software additions		(133,874)	(215,428)
Proceeds from deferred consideration on sale of software		-	250,000
Net cash outflow from investing activities		(580,103)	(220,798)
Cash flows from financing activities			
Proceeds from issuing of shares		2,481,000	392,550
Payments for issuing of shares		(97,364)	(33,255)
Net cash inflow from financing activities		2,383,636	359,295
Net decrease in cash and cash equivalents		(717,561)	(1,143,427)
Cash and cash equivalents at the beginning of the financial year		1,717,221	2,860,648
Cash and cash equivalents at the end of the financial year	4.3	999,660	1,717,221

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

1. Introduction to the Report

Statement of Compliance for profit entity

These general purpose financial statements of Tesserent Limited and its controlled entities (together the 'Company', 'Group', or 'Consolidated Entity') 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 2019.

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 for-profit 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 2019 the consolidated entity has recorded a loss before income tax of $4,382,820 (2018: loss $2,720,827) and has a net asset position of $360,960 (2018: $1,721,696). Cash outflows from operating activities for the period ended 30 June 2019 were $2,521,094 (2018: $1,281,924).

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

On 27/09/2019 the consolidated entity entered into 36 month term working capital facility agreement with PURE Asset Management Pty Ltd with an interest rate of 11.5% per annum. On 28/09/2019 the consolidated entity received $1,912,000 as a drawdown on the facility.

In addition, the consolidated entity is expecting to fund its ongoing operations as follows:

- The consolidated entity has cash reserves at 30 June 2019 of $999,660 and trade receivables of $218,767.
- The consolidated entity is expecting to shortly receive a research & development receivable of $137,335.
- The consolidated entity is expecting an improvement in financial performed in the 30 June 2020 financial year and the directors have approved a budget reflecting an improved financial performance.
- The consolidated entity acquired Rivium Pty Ltd on 3 July 2019 and the directors have approved a budget for FY20 that includes a positive contribution of cash flows from operating activities associated with Rivium Pty Ltd.

Based on the above, the directors have prepared a cash flow forecasts for the next 12 months from the date of signing the financial report that indicates the consolidated entity will have sufficient cash assets to be able to meets its debts as and when they are due. Therefore, the directors are of the opinion that the basis upon which the financial statements are prepared 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
Judgements on accounting for intangible assets	3.6	43
Income Taxation	2.6	36
Share-based payments	5.1	53
Impairment of non-financial assets other than Goodwill and other indefinite life intangible assets	3.6	43
Contract Liabilities	2.2	32

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.

New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 9 Financial Instruments

The consolidated entity has adopted AASB 9 from 1 July 2018. The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income ('OCI'). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

AASB 15 Revenue from Contracts with Customers

The consolidated entity has adopted AASB 15 from 1 July 2018. The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. This is described further in the accounting policies below. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period.

The directors have assessed the impact of AASB 9 and AASB 15 and determined that it does not have a material impact on the financial statements.

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 consolidated entity for the reporting period ended 30 June 2019.

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:

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 $1,815,959, 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 after tax. The accounting policies adopted for internal reporting to the CEO are consistent with those adopted in the financial statements.

2019	IT Security Managed Services $	Software Licensing $	Inter Segment Eliminations $	Totals $
Revenues				
Sales to external customers	4,935,657	324,615	-	5,260,272
Inter segment sales	-	343,630	(343,630)	-
Total sales revenue	4,935,657	668,245	(343,630)	5,260,272
Research & development tax concession	137,335	-	-	137,335
Other revenue	(30,554)	485	-	(30,069)
Total revenue and other income	**5,042,438**	**668,730**	**(343,630)**	**5,367,538**
Profit/(loss) after income tax expense	**(4,467,898)**	**95,077**	**-**	**(4,372,821)**
Total segment assets	**3,016,688**	**802,625**	**-**	**3,819,313**
Total segment liabilities	**3,294,416**	**163,936**	**-**	**3,458,352**

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 and other income	**5,772,233**	**1,077,377**	**(417,850)**	**6,431,760**
Profit/(loss) after 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**

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.

2.2 Revenue

Recognition and measurement

The consolidated entity recognises revenue as follows:

Revenue from contracts with customers

Revenue is recognised at an amount that reflects the consideration to which the consolidated entity is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the consolidated entity: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are recognised as a refund liability.

Contract liabilities represent the consolidated entity's obligation to transfer goods or services to a customer and are recognised when a customer pays consideration, or when the consolidated entity recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the consolidated entity has transferred the goods or services to the customer.

Sale of goods

Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery. 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.

Interest Revenue

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

	Consolidated	
	2019	2018
	$	$
Revenue from continuing operations		
Sales revenue	5,260,272	5,327,957
	5,260,272	5,327,957
Other income		
Transaction restructure fee[1]	-	150,000
Onerous provision writeback	-	399,279
Research and development tax concession	137,335	457,741
Interest	15,989	27,803
Reversal of R&D over accrual in prior year	(72,925)	-
Other	26,867	68,980
	107,266	1,103,803

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.

	Consolidated	
	2019	2018
	$	$
Revenue from external customers attributable to:		
Australia	5,032,171	5,033,889
International	228,101	294,068
Total	5,260,272	5,327,957

2.3 Loss for the year

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

	Consolidated	
	2019	2018
	$	$
Employee benefits expense		
Defined contribution superannuation expense	192,003	200,119
Research and development costs	315,714	614,149
Bad and doubtful debts expense		
Trade receivables	39,183	51,185
Occupancy costs		
Minimum lease payments	411,733	359,847

2.4 Losses per share

Basic losses per share

Basic losses 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	
	2019 Cents	**2018 Cents**
From continuing operations attributable to the ordinary equity holders of the company	(2.90)	(2.62)
Total basic losses per share attributable to the ordinary equity holders of the company	**(2.90)**	**(2.62)**

Diluted losses per share

Diluted losses per share adjusts the figures used in the determination of basic losses 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	
	2019 Cents	**2018 Cents**
From continuing operations attributable to the ordinary equity holders of the company[1]	(2.90)	(2.62)
Total diluted losses per share attributable to the ordinary equity holders of the company[1]	**(2.90)**	**(2.62)**

1There are 67,700,000 options that have not been taken into account in determining diluted EPS because their effect is anti-dilutive.

Reconciliation of losses used in calculating earnings per share

	Consolidated	
	2019 $	**2018 $**
Basic earnings per share		
Loss attributable to the ordinary equity holders of the company used in calculating basic earnings per share:		
From continuing operations	(4,372,821)	(3,095,670)
Diluted earnings per share		
Loss attributable to the ordinary equity holders of the company used in calculating basic earnings per share:		
From continuing operations	(4,372,821)	(3,095,670)

Weighted average number of shares used as the denominator

	Consolidated	
	2019 Number	**2018 Number**
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	150,950,488	118,368,498
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	150,950,488	118,368,498

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.

2019

There were no business combination transactions impacting Tesserent Limited for the year ended 30 June 2019 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	
	2019	**2018**
	$	**$**
Loss from continuing operations before income tax benefit/(expense)	(4,382,820)	(2,720,827)
Prima facie tax rate of 27.5% (2018: 27.5%)	1,205,275	748,227
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Share based payments not deductible	(157,313)	(2,444)
Impairment of goodwill	-	(213,778)
Amortisation of intellectual property not deductible	-	(18,628)
Current year tax losses not recognised	(937,009)	(680,437)
Other (non-deductible) / assessable	(113,333)	(195,222)
Prior year adjustments	81,488	(11,911)
Tax offset for R&D claim	(69,109)	(650)
Income tax benefit/(expense)	9,999	(374,843)

Income Tax comprises of;		
Current Tax Loss	937,009	680,437
Deferred Tax Movements	71,489	362,932
Adjustments to current tax for		
Unrecognised temporary differences in prior periods	(81,488)	11,911
Current year tax losses not recognised	(937,009)	(680,437)
Income tax benefit/(expense)	9,999	(374,843)

ii. Deferred tax balances

Deferred tax comprises of temporary differences attributable to:		
Share issue costs	165,945	155,994
Provisions	168,589	160,481
Intangible assets	(176,813)	(104,803)
Other	(8,103)	(72,053)
	149,618	139,619

Movement in balances

	Tax losses	**Share issue costs**	**Provisions**	**Intangible assets**	**Other**	**Total**
As at 1 July 2017	**85,776**	**233,991**	**224,908**	**-**	**(30,213)**	**514,462**
Charged 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**
Charged to profit or loss	-	9,951	8,108	(72,010)	63,950	9,999
As at 30 June 2019	**-**	**165,945**	**168,589**	**(176,813)**	**(8,103)**	**149,618**

Carried forward tax losses of $8,709,637 have not brought to account as a deferred tax asset of $2,395,150. 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. The directors are of the opinion that 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

	2019	2018
	$	$
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

	2019	2018
	$	$
Current tax asset	137,335	361,256
	137,335	361,256

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 allowance for expected credit losses. The consolidated entity has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

	Consolidated	
	2019	**2018**
	$	**$**
CURRENT		
Trade receivables	279,135	253,779
Allowance for expected credit losses	(60,368)	(21,185)
	218,767	232,594
Other receivables	-	111,600
	-	111,600
Total current trade and other receivables	218,767	344,194
Unimpaired past due loans and receivables		
Past due under 30 days	107,128	59,628
Past due 30 days to under 60 days	21,934	97,547
Past due 60 days to under 90 days	5,815	4,916
Past due 90 days and over	68,027	21,467
Total unimpaired past due loans and receivables	202,904	183,558
Total unimpaired loans and receivables	218,767	344,194
Unimpaired past due as a percentage of total unimpaired loans and receivables	93%	53%
Unimpaired past due 30 days and over as a percentage of total unimpaired loans and receivables	44%	36%
Reconciliation of allowance for expected credit losses		
Opening allowance	21,185	33,000
Additional allowance	127,767	21,185
Write back of allowance	(88,584)	-
Receivables written off as uncollectible	-	(33,000)
Closing allowance	60,368	21,185

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 year which are unpaid. The carrying amounts of trade and other payables are assumed to be the same fair values due to their short-term nature.

	Consolidation	
	2019	**2018**
	$	**$**
CURRENT		
Trade payables	908,794	609,146
Sundry payables and accrued expenses	856,548	601,431
	1,765,342	1,210,577

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.

	Consolidated	
	2019	2018
	$	$
CURRENT		
Employee Benefits	197,384	269,266
Other Provisions	30,931	-
	228,315	269,266
NON-CURRENT		
Employee Benefits	32,053	74,420
Make good – premises	75,000	75,000
Lease Incentive	323,246	215,697
	430,299	365,117

Movement in Provisions

	Employee Benefits	Other Provisions	Make Good Premises	Lease Incentive
	$	$	$	$
Opening Balance	343,686	-	75,000	215,697
Recognised in profit or loss during period	(114,249)	30,931	-	107,549
Closing Balance	229,437	30,931	75,000	323,246

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
2019						
Opening net book value	71,110	10,182	434,544	-	108,046	623,882
Additions	635	18,063	-	-	9,078	27,776
Disposals	-	-	-	-	-	-
Depreciation charge	(13,324)	(15,294)	(65,435)	-	(47,296)	(141,349)
Net book amount	58,421	12,951	369,109	-	69,828	510,309
2019						
Cost	113,935	370,335	512,033	16,177	442,062	1,454,542
Accumulated depreciation	(55,514)	(357,384)	(142,924)	(16,177)	(372,234)	(944,233)
Net book amount	58,421	12,951	369,109	-	69,828	510,309

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)	-	-	-	-	(783)
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

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.

Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Software

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

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	Total
2019	$	$	$	$
Opening net book value	-	22,607	711,241	733,848
Additions – capitalised development costs	-	-	418,453	418,453
Amortisation charges	-	-	(174,791)	(174,791)
Impairment	-	-	-	-
Balance 30 June 2019	-	22,607	954,903	977,510
2019				
Cost	-	22,607	1,252,592	1,275,199
Accumulated amortisation	-	-	(297,689)	(297,689)
Net book amount	-	22,607	954,903	977,510

Consolidated	Goodwill	Intellectual property	Software	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 2018 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.

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 2019 there had been no write downs and all inventories are stated at cost. (2018:$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 but has been written down to an impaired value of $1. The Group has impaired the call option investment by $165,809 (2018:nil).

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	
	2019	**2018**
	$	**$**
Call Option Investment	165,810	-
Impairment Provision	(165,809)	-
Current Assets	1	-
Call Option Investment	-	165,810
Non-Current Assets	-	165,810

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	
	2019	**2018**
	$	**$**
Current	137,991	61,212
Non-current	281,714	352,157
Total	419,705	413,369

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 (2018:$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.

	2019		2018	
	Weighted average interest rate	**Balance**	**Weighted average interest rate**	**Balance**
	%	**$**	**%**	**$**
Cash at bank	1.47	999,980	1.47	1,717,221
Net exposure to cash flow interest rate risk		999,980		1,717,221

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

	2019	**2018**
Increase in interest rates	10,851	18,863
Decrease in interest rates	(10,851)	(18,863)

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 – 2019	**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	908,794	-	-	-	908,794
Other payables	103,224	-	-	-	103,224
Accrued expenses	753,325	-	-	-	753,325
Deferred settlement liability	137,991	70,443	211,286	-	419,720
	1,903,334	70,443	211,286	-	2,185,063

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

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	
	2019 $	**2018 $**
Cash at bank	999,660	867,221
Term deposits	-	850,000
	999,660	1,717,221

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			
	2019 Shares	**2018 Shares**	**2019 $**	**2018 $**
Ordinary shares – fully paid	183,043,123	126,041,546	13,754,507	10,875,937

Movements in ordinary share capital

2018

Details	Date	Shares	Issue Price $	$
Balance	1 Jul 2017	116,774,600		10,140,892
Shares issued to employees	23 Oct 2017	300,000	0.140	42,000
Shares issued to employees	16 May 2018	700,000	0.160	112,000
Shares issued to directors	18 May 2018	412,086	0.910	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	0.070	500,000
Capital raise costs				(33,255)
Shares issued to employees	21 Jun 2018	360,000	0.140	50,400
Balance		126,041,546		10,875,937

2019

Details	Date	Shares	Issue Price $	$
Shares issued pursuant to capital raising	14 Aug 2018	4,342,837	0.070	304,000
Shares issued to employees	31 Dec 2018	2,950,000	0.056	166,500
Shares issued to employees	12 Feb 2019	300,000	0.047	14,130
Equity settled expense	19 Feb 2019	1,128,000	0.050	56,400
Shares issued pursuant to capital raising	28 Feb 2019	10,000,000	0.050	500,000
Capital raise costs	18 Mar 2019			(66,000)
Equity settled expense	18 Mar 2019	1,452,000	0.050	72,600
Shares issued pursuant to capital raising	18 Mar 2019	20,548,000	0.050	1,027,400
Shares issued pursuant to capital raising	22 Mar 2019	5,700,000	0.050	285,000
Shares issued pursuant to capital raising	25 Mar 2019	5,100,000	0.050	255,000
Shares issued pursuant to capital raising	28 Mar 2019	500,000	0.050	25,000
Capital raise costs	28 Mar 2019			(16,363)
Exercise of Share Options	2 Apr 2019	240,000	0.050	12,000
Capital raise costs	1 May 2019			(15,000)
Shares issued to employees	1 May 2019	440,740	0.056	24,902
Shares issued pursuant to capital raising	1 May 2019	3,600,000	0.055	198,000
Shares issued pursuant to capital raising	16 May 2019	700,000	0.050	35,000
		183,043,123		13,754,507

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	
	2019	**2018**
	$	**$**
Within one year	493,909	580,234
Later than one year but not later than five years	251,255	823,333
	745,164	1,403,567

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	
	2019	**2018**
	$	**$**
Within one year	371,427	237,051
Later than one year but not later than five years	1,444,532	1,700,090
Greater than five years	-	115,869
	1,815,959	2,053,010

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)
TNT Cyber Services Pty Ltd – incorporated 27 March 2019

Apart from Tesserent UK Ltd all companies operate in Australia.

Options

Details of options held by Key Management Personnel at 30 June 2019 are set out below

2019 Options

KMP	No of options	Vesting and exercise date	Exercise price
Steve Bertamini	500,000	31 Aug 17	$0.240
Steve Bertamini	500,000	31 Aug 18	$0.288
Gregory Baxter	500,000	31 Aug 17	$0.240
Gregory Baxter	500,000	31 Aug 18	$0.288
Robert Langford	1,000,000	8 Feb 18	$0.100
Robert Langford	1,000,000	8 Feb 19	$0.125
Robert Langford	1,000,000	8 Feb 20	$0.150
Robert Langford	10,000,000	8 Feb 19	$0.050
Robert Langford	22,000,000	19 Mar 19	$0.050
Julian Challingsworth	2,000,000	14 Dec 18	$0.000
Julian Challingsworth	1,000,000	14 Dec 18	$0.000
Julian Challingsworth	3,000,000	14 Dec 18	$0.000
Julian Challingsworth	3,000,000	14 Dec 18	$0.000
Julian Challingsworth	4,000,000	14 Dec 18	$0.000

2018 Options

KMP	No of options	Vesting and exercise date	Exercise price
Steve Bertamini	500,000	31 Aug 17	$0.240
Steve Bertamini	500,000	31 Aug 18	$0.288
Gregory Baxter	500,000	31 Aug 17	$0.240
Gregory Baxter	500,000	31 Aug 18	$0.288

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

Shares

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

2019

Date	Name	Number of Shares	Amount Paid
31/12/18	Julian Challingsworth[1]	1,000,000	-

2018

Date	Name	Number of Shares	Amount Paid
24/05/18	Steve Bertamini[2]	206,043	18,750
24/05/18	Greg Baxter[2]	206,043	18,750

1) Issued as part of sign bonus
2) Issued as part of director fee remuneration

Payables – Loans from related parties

The Group has loans from related parties in the current year (2018:$nil) as follows;

Related Party	*Loan balances due to the entity*	*Loan balances payable by the entity*
Greg Baxter	-	48,750
Stefano Bertamini	-	48,750
Robert Langford	-	7,500

Loan balances payable above relate to unpaid directors fees

Key management personnel remuneration

	Consolidated	
	2019	**2018**
	$	**$**
Short-term salary/fees	974,618	1,032,197
Short-term-bonus	-	135,000
Post-employment benefits	70,984	61,340
Long term benefits	2,136	11,701
Share based payments	324,064	135,879
	1,371,802	1,376,117

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 in 2019, an independent valuation was prepared using the Black-Scholes model. In valuing the options, a risk-free rate of 1.40-1.97%, a volatility rate of 80%, dividend yield of 0%, share price of $0.048-0.06 and time to expiry of four years were used. The 80% 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

Set out below are summaries of options movements during the year;

2019

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	-	-	1,500,000	1,000,000
17 Nov 15	31 Aug 19	0.288	1,000,000	-	-	-	1,000,000
9 May 16	8 May 19	0.40	500,000	-	-	500,000	-
9 May 16	8 May 20	0.50	500,000	-	-	500,000	-
14 Dec 18	30 Nov 21	0.10	-	1,000,000	-	-	1,000,000
14 Dec 18	30 Nov 21	0.125	-	1,000,000	-	-	1,000,000
14 Dec 18	30 Nov 21	0.15	-	1,000,000	-	-	1,000,000
12 Feb 19	3 Dec 20	0.05	-	10,000,000	-	-	10,000,000
19 Feb 19	19 Mar 20	0.05	-	22,000,000	-	-	22,000,000
14 Dec 18	1 July 20	0.00	-	13,000,000	-	-	13,000,000
Total			**7,000,000**	**48,000,000**	**-**	**5,000,000**	**50,000,000**
Weighted average exercise price			$0.263	$0.1000	$0.0000	$0.0000	$0.1400

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			$0.2690	$0.0000	$0.0000	$0.2910	$0.2630

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

2019

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	-	-	-	-	-
9 May 16	8 May 19	0.16	700,000	-	-	700,000	-
24 Nov 16	3 Oct 17	0.14	-	-	-	-	-
24 Nov 16	3 Oct 18	0.14	450,000	-	450,000	-	450,000
24 Nov 16	3 Oct 19	0.14	750,000	-	-	750,000	-
24 Nov 16	15 Jun 18	0.14	-	-	-	-	-
24 Nov 16	15 Jun 19	0.14	600,000	-	-	600,000	-
Total			**2,500,000**	**-**	**(450,000)**	**2,050,000**	**450,000**

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**

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	
	2019	2018
	$	$
Share based payment reserve		
Opening balance	639,385	705,347
Share based compensation recognised during the year	287,148	138,438
Shares issued to employees	(153,633)	(204,400)
Closing balance	772,900	639,385

5.3 Parent entity information

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

	2019	2018
	$	$
Statement of financial position		
Current assets	1,013,679	1,951,554
Non-current assets	1,297,219	305,429
Total assets	**2,310,898**	**2,256,983**
Current liabilities	(124,059)	378,245
Total liabilities	**(124,059)**	**378,245**
Issued share capital	13,268,555	9,266,691
Reserves	330,304	639,385
Accumulated loss	(11,163,902)	(8,027,338)
Total equity	**2,434,957**	**1,878,738**

Included with non-current assets is a net intercompany receivable of $12,408,143 that the directors have impaired in the current year.

Loss for the year	**14,382,458**	**5,764,689**

Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2019 or 2018.

Guarantees entered into by the parent entity

The parent entity did not have any guarantees as at 30 June 2019 or 2018.

5.4 Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by BDO ECP, the auditor of the company

	Consolidated	
	2019	2018
	$	$
Audit services	93,000	89,000
Corporate and indirect tax services	63,515	42,025
Due diligence services	146,050	-
Total	302,565	131,025

5.5 Cash flow information

a) Reconciliation of cash flow from operating activities

	Consolidated	
	2019	2018
	$	$
Loss after tax for the year	(4,372,821)	(3,095,670)
Depreciation and amortisation	316,993	277,594
Goodwill written off	-	777,375
Intellectual property assets written off	-	67,736
Share based payments	572,047	175,938
Bad Debts	39,183	51,185
Call Option impairment	165,809	-
Decrease in trade and other receivables	125,427	88,260
Increase in prepayments	(32,198)	(98,533)
Increase in inventory	(220,927)	(29,711)
Decrease in current tax asset	223,921	404,174
Decrease in other assets	165,810	41,370
Decrease in deferred tax assets	(9,999)	374,843
Increase/(decrease) in trade and other liabilities	545,531	(67,192)
Decrease in contract liabilities	(64,101)	(30,671)
Decrease in current provisions	(40,951)	(377,198)
Increase in non-current provision	65,182	158,576
Net cash outflow from operating activities	(2,521,094)	(1,281,924)

5.6 Events occurring after the reporting period

On 3 July 2019 the Company completed the acquisition of Rivium (Pty) Ltd for a total price of $3.250m, to be settled in $1.495m cash and 17.550m Shares at 10 cents per share. Details are as per table below:

Acquisition of Rivium Pty Ltd

	$
Net assets acquired	500,392
Goodwill	2,526,808
Acquisition-date fair value of the total consideration	3,027,200
Representing:	
Cash paid to vendor	1,495,000
Issued share capital	772,200
Earnout estimate in shares	760,000
	3,027,200

Accounting for the Rivium Pty Ltd acquisition and any purchase price allocation will be finalised for release of the 31 December 2019 interim financial report.

Pure Asset Management Pty Ltd Financing Facility

Subsequent to the end of the year the company secured a loan facility of 4 million dollars with Pure Asset Management.

The loan facility will be split evenly in two separate tranches of $2 million, with the first available for general working capital and the second available for lender approved acquisition opportunities from 1 November 2019 onwards.

The Tranche One Working Capital Facility will be available for draw down upon financial close of the facility, with an interest rate of 11.5% per annum. The Tranche Two Acquisition Facility will enable Tesserent to draw up to $2 million on 45 days' notice at any time after November 2019 upon lender approval of the acquisition. An interest rate of 9.90% per annum will apply to the Acquisition Facility.

Finance Facility Terms are as follows:

Amount	A$4.0m in two tranches: Working Capital Facility: A$2.0m Acquisition Facility: A$2.0m. Drawable from 1 November 2019, subject to Lender approval of any target acquisition.
Term	Working Capital Facility: 36 months from utilisation. Acquisition Facility: 36 months from utilisation.
Warrants	Associated with the Working Capital Facility, the Lender will be issued with Warrants to acquire 15,000,000 Tesserent shares upon utilisation of the Working Capital Facility, A further 10,000,000 Warrants may be issued subject to shareholder approval. Warrants associated with the Working Capital Facility will have an exercise price which is the lower of: • A$0.08; and • The Theoretical Ex Rights Price (TERP) of any future capital raise requiring shareholder approval to increase shares on issue in Tesserent by greater than 15%.

Warrants	In the instance the Company elects to draw the Acquisition Facility, the Company will seek shareholder approval to entitle the Lender to be issued with Warrants equal to the dollar amount divided by an amount equal to 125% of the VWAP for the 30-day period ending on the Utilisation Date of the Acquisition Facility Loan. Warrants associated with the Acquisition Facility have an exercise price which is the lower of: • 125% of the VWAP for the 30-day period preceding the first utilization date under the Acquisition Facility Loan; or • The TERP of any future capital raise requiring shareholder approval to increase shares on issue in Tesserent by greater than 15%.
Covenants and representations	The Company is required to provide certain standard representations, undertakings and covenants in favour of the Lender.

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 22 to 59, 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 2019 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 2019.

d) the remuneration disclosures included at pages 8 to 21 of the Directors Report (Audited Remuneration Report) for the year ended 30 June 2019 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,

Julian Challingsworth

Director
Melbourne, 30 September 2019

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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 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the 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 Tesserent Limited, 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 2019 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.

Going Concern

Key audit matter	*How the matter was addressed in our audit*
Refer to Note 1 "Going Concern" of the accompanying financial report. The Group's use of the going concern basis of preparation and the associated extent of uncertainty is important to understanding the financial statements as whole. Frequent discussions were held with management about the going concern assessment and, for these reasons, we consider it a key audit matter. 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. The Group's assessment of going concern was based on future cash flow forecasts. The preparation of these forecasts incorporated a number of assumptions and judgements. 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. 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.	Our audit procedures included, amongst others: • Reviewing cash-flow forecasts and challenging management's assumptions around future revenue, operating costs, and associated cash flows. • 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. • Assessing management's accuracy to forecast based on previous years' actual results and our knowledge of the Group. • Sensitising cash flow forecasts based on actual results compared to budget. • Assessing the validity of cash inflows from financing activities, including receipt of funds from financing facility disclosed in note 5.6 of the financial report. • Reviewing subsequent events as they pertain to actual financial performance and cash levels of the Group. • Assessing the adequacy of the Group's disclosures within the financial statements.

Revenue recognition

Key audit matter	*How the matter was addressed in our audit*
Refer to Note 2.2 of the accompanying financial report. For the year ended 30 June 2019 the Group recognised \$5,260,272 (2018: \$5,327,957) of revenue from contracts with customers. The Group has various revenue streams which are a key driver of performance.	Our audit procedures included, amongst others: • Understanding and documenting the processes and controls used by the Group in recording revenue. • Assessing the Group's accounting policy for revenue to ensure it complies with the Australian Accounting Standards. • Performing analytical procedures to understand movements and trends in revenue for comparisons against expectations.

Revenue recognition was identified as a key audit matter due to the significance of revenue to the financial report, first time adoption of AASB 15 *Revenue from Contracts with Customers*. The Group has contract liability arrangements with customers that require management estimate and judgements.	• Tracing a sample of revenue transactions to supporting documentation. • Assessing the value of contract liabilities recognised at the year end. • 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 in the Group's annual report for the year ended 30 June 2019, but does not include the financial report and the auditor's report thereon, which we obtained prior to the date of this auditor's report, and the additional Shareholders Information, 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 accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information 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 additional Shareholder information, 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_responsibilities/ar3.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 8 to 20 of the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Tesserent Limited, for the year ended 30 June 2019, 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, 30 September 2019

TESSERENT

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