# TESSERENT

**TESSERENT LIMITED AND CONTROLLED ENTITIES**

ABN: 13 605 672 928

# ANNUAL REPORT 2020

**Annual Report 2020**
Tesserent Ltd

# Providing world-class cybersecurity throughout Australia and around the globe.

ABN 13 605 672 928

TESSERENT

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# CHAIRMAN'S LETTER

Geoff Lord

Dear Fellow Shareholders,

**I am pleased to present the 2020 Annual Report for Tesserent Limited (ASX:TNT) ('the Company') that looks back on a year that has seen us achieve exponential growth to become Australia's #1 ASX-listed cybersecurity provider.**

In FY20, we successfully executed our Cyber 360 end-to-end go-to-market strategy, achieved all of our financial targets and completed several high-value strategic acquisitions.

Since the Board refresh in January 2020, Tesserent's revenue has increased significantly. Based on acquisitions in FY20, by 30 June 2020, our annual revenue run rate had grown to $43.8M, and our annual revenue run rate has continued to grow to in excess of $100M at the time of publishing this report.

As well as becoming Australia's #1 ASX-listed cybersecurity firm, we are now the single largest provider of cybersecurity services in the Canberra market. This is particularly relevant with growing uncertainty resulting from macro geopolitical conditions. As a result, securing Federal, State and Local Government departments and agencies remains a key focus for us in FY21.

The strong foundation we have built over the last 12 months provides a solid platform for maximising shareholder value in FY21. Delivering sustainable underlying profitability through the benefits of synergies and cross-sell opportunities from complementary acquisitions, together with building out high-margin annual recurring revenue streams from existing & new delivery models will be key drivers to achieving this.

Another key consideration in FY20 was the global COVID-19 pandemic. Whilst the pandemic has presented significant challenges for all of us, it has also created opportunities as organisations transition to secure mobile and remote workforces. Tesserent has been well placed to provide leadership and support to organisations as they navigate through this transition.

We expect 2021 to be another dynamic and successful year, with several exciting opportunities for the Group, including the strengthening of our Cyber 360 go-to-market strategy and potential expansion into proprietary cyber products and international markets.

On behalf of the Board, I would like to thank and acknowledge the efforts of management and staff who have been committed to the execution and delivery of our business strategy. I would also like to thank our shareholders for their continued support as we cement our place as Australia's #1 ASX-listed cybersecurity firm.

**Geoff Lord**
Chairman

# CO-CHIEF EXECUTIVE OFFICER'S LETTER

Julian Challingsworth

Kurt Hansen

Dear Fellow Shareholders,

It is our pleasure to present the Annual Report for the 12 months ended 30 June 2020 (FY20), which has been a successful and transformational year for Tesserent, becoming Australia's #1 ASX-listed cybersecurity provider through the execution of our Cyber 360 strategy.

Today, with over 150 cybersecurity professionals, Tesserent is the partner of choice to more than 800 Enterprise, Go vernment and Critical Infrastructure clients.

As a result, the Group met all financial objectives including increasing turnover to $43.8M on an annualised basis (with a step-change to over $100M at the time of writing this report) and, for the first time in the Company's history, achieving operational cash flow and earnings positivity in the June quarter (continuing and improving on this trend in FY21).

FY20 also saw the arrival of the COVID-19 pandemic and the subsequent period of uncertainty.

Tesserent responded quickly, with a focus on supporting our people as they transitioned to working from home whilst continuing to deliver uninterrupted services to our customers.

FY21 is shaping up to be another successful and exciting year for Tesserent, with continued organic growth from acquisition synergies as well as potential opportunities for expansion into proprietary cyber products and international markets.

On behalf of Tesserent's Executive Team, we would like to thank the staff for their commitment and dedication, and our clients for their continued support as we cement our place as Australia's #1 ASX-listed cybersecurity firm.

Sincerely,

**Julian Challingsworth**
Co-CEO

**Kurt Hansen**
Co-CEO

## FY20 COMPANY HIGHLIGHTS

- Became ASXs largest cybersecurity firm
- Became largest Canberra-based cybersecurity firm
- Executed Cyber 360
- $43.8M Revenue per annum run rate achieved in FY20
- Achieved quarterly EBITDA profitability for the FY20 June quarter
- Cash flow from operations positive during the FY20 June quarter
- **Completed 3 Acquisitions:** Pure Security, Rivium, North Security
- **150+** Cybersecurity Professionals
- **800+** Customers

# REVIEW OF OPERATIONS

## FY20 IN REVIEW

### BACKGROUND

Increasingly, organisations are coming under cyber-attack from sophisticated state-based actors, hacktivists and cybercriminals.

As Australia's #1 ASX-listed cybersecurity provider, Tesserent provides its enterprise and government clients with a simplified end-to-end cybersecurity solution that removes the requirement to deal with several vendors to achieve end-to-end protection.

Tesserent utilises a range of products from world-leading cybersecurity vendors, delivering a comprehensive solution to prevent, detect and mitigate potential cyber-attacks.

### BOARD REFRESH

January 2020 saw a Board refresh, with the appointment of Geoff Lord as Non-Executive Chairman, Patrick Flannigan as Non-Executive Director and Kurt Hansen as Executive Director.

Long-serving board members Robert Langford and Stefano Bertamini, together with more recently appointed Steve Caswell, departed and the Company thanked them for their contribution to the Board and efforts to advance the activities of the Company.

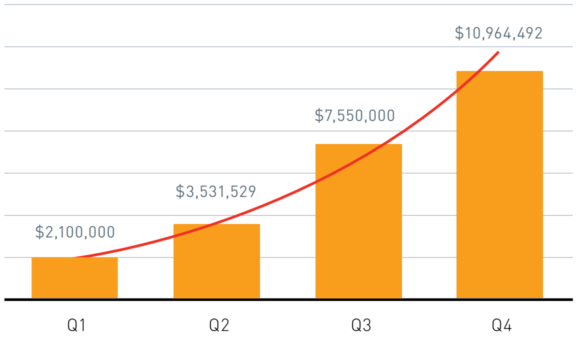
### FY20 FINANCIAL OBJECTIVES ACHIEVED

Following the completion of the Rivium, Pure Security and North Security acquisitions, all financial objectives for FY20 were met or exceeded.

This included:

- Achieving a $43.8M revenue run rate, exceeding the $40M target based on the June quarter revenue annualised
- EBITDA profitable for the June quarter
- Cash Flow from Operations was positive for the month of June

### FY20 Actual Revenue by Quarter




The Company achieved total Group revenues of $22.2M for the year despite some softening of forecast sales resulting from the COVID-19 pandemic.

TNT continued to build its high-value recurring annuity revenues with multi-year, locked-in Managed Security Services (MSS), and Security Operations Centre (SOC) contracts exceeding $11M as at 30 June 2020.

TNT also achieved EBITDA profitability for the FY20 June quarter, and operational cash flow positivity for the first time in its history in June 2020.

## POST FY20 ACTIVITIES

Strategic acquisitions remain a cornerstone of Tesserent's growth strategy. The underlying core philosophy is to acquire quality cybersecurity assets that are complementary to the Group and incrementally Earnings Per Share (EPS) accretive. TNT sees this as an essential element in continuing to deliver future value to its shareholders.

The addition of recently acquired Seer Security, Airloom, Ludus Cybersecurity and iQ3, and continued organic growth in the first quarter of FY21 has boosted Tesserent's annual turnover run rate to in excess of $100M.

Tesserent continues to cement its place as Australia's #1 ASX-listed cybersecurity provider, with 220 employees, across offices in Melbourne, Sydney, Brisbane, Canberra and Singapore. TNT now provides products and services to over 800 clients, including multiple Federal Government departments and critical infrastructure providers, such as electricity distributors and hospitals.

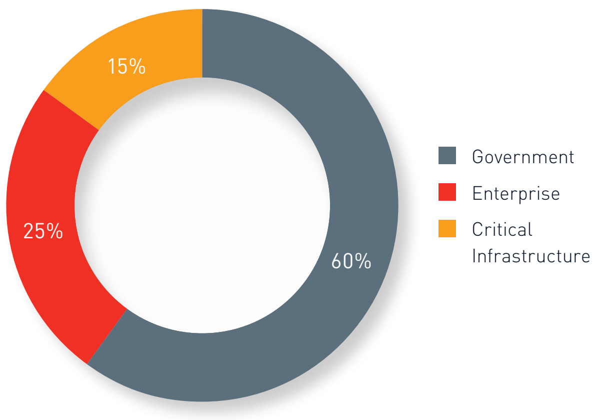



**Figure 1:** Approx. revenue by customer type including iQ3 acquisition (announced 24 September 2020)

## INTEGRATION AND SYNERGIES

Having acquired seven businesses in the past 15 months, organic growth potential from unlocking further cross-selling synergies and accelerating revenue growth is significant.

Seer Security (Canberra) and Ludus Cybersecurity are to be fully integrated into North Security which is focussed on serving Federal Government and is expected to significantly benefit from the Prime Minister's announced $1.7B cybersecurity investment to defend government and critical infrastructure systems.

Pure Security, with the recently integrated Rivium business and the more recently acquired Airloom business, will remain focussed on supporting private enterprise and state & local government.

Future Cyber 360 capabilities that are required, such as iQ3's Secure Cloud Services and other potential proprietary solutions, will be strategically positioned to complement the above strategy.

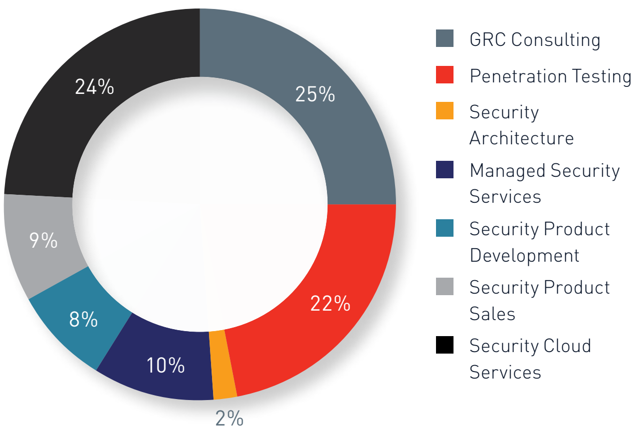



**Figure 2:** Revenue by product & service type including iQ3 Secure Cloud Services (announced 24 September 2020)

On 1 July 2020, the Company completed the first step toward its back-office integration objectives with the financial integration of all Group Companies onto one system, Oracle NetSuite. Key benefits of this include:

- A single integrated financial management system across the business,
- Ability to rapidly integrate new acquisitions into a common core financial platform,
- Ability to optimise and lower transaction processing costs across the expanding group.

1 July also saw Tesserent's original Managed Security Services Provider (MSSP) business successfully rebranded and integrated into the Pure Security business. The MSSP business now operates under a single Pure Security brand. This change has opened the way for synergy benefits, as well as increased cross-selling and upselling opportunities via a single sales and delivery team.

## FUTURE FOCUS

Tesserent, through its Cyber 360 strategy, is focused on continuing to build out a one-stop-shop that provides a complete end-to-end cybersecurity solution for its clients. A primary objective is to maximise shareholder value by increasing earnings margins through the growth of high-margin annuity-based income and the inclusion of proprietary intellectual property in its solutions.

Important goals for the remainder of this current financial year include:

- Deliver our Cyber 360 capabilities to an increasing number of Australian organisations
- Integrate sales activities to maximise synergy efficiencies and drive organic revenue through the realisation of cross-sales
- Focus on capturing market share in three key markets; Government (including Law Enforcement and Defence), Smart Utilities / Smart Cities (Critical Infrastructure) and the upper mid-market and enterprise private sector customers.
- Continue to drive the Company's acquisition strategy to expand on Cyber 360 capabilities and increase shareholder value through incremental EPS growth
- Build out high-value recurring annuity revenue streams
- Expand proprietary intellectual property to drive high-margin product and service offerings
- Explore International expansion opportunities with a focus on Australia's key Five Eyes allies, which consists of the USA, UK, NZ and Canada.

# REVIEW OF OPERATIONS

CONTINUED

## EXPLANATION OF RESULTS

FY20 saw Tesserent become Australia's #1 ASX-listed cybersecurity firm primarily as a result of several substantial acquisitions and important organisational changes. This has led to exponential business growth, creating shareholder value in a number of key areas including a significant uplift in market capitalisation and share price.

As a result of these acquisitions and organisational changes, significant upfront, one-off costs were incurred (Figure 3) without the full-year financial benefits being recognised in the FY20 statutory accounts (Figure 4). The FY20 statutory results are therefore backward-looking and are not a current reflection of the Company's current or go-forward financial position.

| | ($000) | ($000) |
|---|---|---|
| **Statutory NPAT loss** | | **$7,311** |
| Share Based Payments and Option Expenses | $1,465 | |
| **NPAT loss (excluding non-cash expense)** | | **$5,846** |
| Interest costs | $824 | |
| Depreciation | $483 | |
| Depreciation accelerated IP write-off (TREX) | $786 | |
| Right of Use Asset Amortisation (AASB16) | $600 | |
| Acquisition costs expensed | $1,296 | |
| Amortisation of PPA | $441 | |
| **Underlying EBITDA Loss (excluding non-cash expenses)** | | **$1,416** |

**Figure 3:** One-off costs incurred on IP write-off and historic acquisition costs

| | FY20 Actual | |
|---|---|---|
| Existing Core Business | Gross Revenue ($000) | EBITDA* ($000) |
| TNT SOC, Rivium, Pure Security and North | $20,223 | ($4,177) |
| **Total** | **$20,223** | **($4,177)** |

**Figure 4:** FY20 Actual Results for Core Business

* EBITDA is Statutory NPAT, adjusted for Interest costs, Depreciation, Depreciation accelerated IP write off (TREX), Right of Use Asset Amortisation and Amortisation of PPA, all noted in the table in Figure 3.

Had the full-year benefit of these acquisitions (Rivium, Pure Security and North) been realised, FY20 notional results would have been materially improved. This is demonstrated in Figure 3 which shows Q4 FY20 revenue and EBITDA annualised. The Q4 EBITDA milestone of $17.7K, whilst modest, was a significant first step on an expected, continuing trend of growing profitability with the core business during FY21.

| Existing Core Business (Q4 Results on an annualised basis) | Annualised Revenue ($000) | Annualised EBITDA ($000) |
|---|---|---|
| TNT SOC, Rivium, Pure Security and North | $43,857 | $71 |

**Figure 5:** Q4 FY20 Revenue and EBITDA during the June 2020 quarter annualised

In addition, the Company has announced four additional acquisitions since 30 June 2020.

| New Acquisitions Announced after 30 June 2020 | Revenue ($000) | EBITDA ($000) |
|---|---|---|
| Seer Security (Completed) | $7,637 | $2,737 |
| Airloom (Completed) | $27,156 | $2,693 |
| Ludus Cybersecurity (Completed) | $1,227 | $350 |
| iQ3 (Announced) | $26,000 | $3,000 |
| **Total** | **$62,020** | **$8,780** |

**Figure 6:** FY20 Unaudited Actual Results for New Acquisitions announced post 30 June 2020. The Revenue and EBITDA represents unaudited financial results for the entities for the 30 June 2020 financial year.

Including the new acquisitions, at the time of publishing this document, the Company:

- has a FY21 forward revenue run-rate of in excess of circa $100M
- is cash-flow positive
- is operationally profitable on a month to month basis, and
- has the ambition to get an annual turnover run rate to in excess of $150M by June 30, 2021

The additional acquisitions are fully funded using a combination of the Company's Pure Asset Management Debt Facility and existing cash reserves.

### Key Highlights

- FY20 Financial Objectives achieved:
  - $43.8M Revenue per annum run rate achieved in FY20
  - Achieved quarterly EBITDA profitability for the FY20 June quarter
  - Cash flow from operations positive during the FY20 June quarter

- Acquisitions:
  - Phase 1 Acquisitions:
    - Rivium (completed FY20)
    - Pure Security (completed FY20)
    - North Security (completed FY20)
    - Seer Security (completed FY21)
  - Phase 2 Acquisitions:
    - Airloom (completed FY21)
    - Ludus Cybersecurity (completed FY21)
    - iQ3 (SPA signed FY21)

- First Acquisition Integration milestones achieved, including:
  - First cross-sales achieved
  - Single Finance Platform, Oracle NetSuite, rolled out across the Group
  - Rivium and the Tesserent MSSP/SOC absorbed into Pure Security
- Became ASX's largest cybersecurity firm
- Became largest Canberra-based cybersecurity firm

# ABOUT TESSERENT

## TESSERENT TODAY

As Australia's #1 ASX-listed cybersecurity provider, Tesserent's Cyber 360 strategy radically simplifies cybersecurity for our clients, helping them achieve full end-to-end protection for their digital assets.

Cyber 360 utilises a range of products from world-leading cybersecurity vendors, delivering comprehensive, tailored solutions to prevent, detect and mitigate potential cyber-attacks. This is delivered through our 150+ cybersecurity professionals across offices in Melbourne, Sydney, Brisbane, Canberra and Singapore.

Tesserent's Cyber 360 strategy provides products, services and strategic advice to more than 800 Enterprise, Government and Critical Infrastructure clients, including:

1. Consulting - Strategy and Implementation
2. Governance, Risk and Compliance (GRC)
3. Security Architecture and Integration
4. Security Testing and Technical Assurance
5. Identity and Access Management (IAM)
6. Managed Security Services (24x7)
7. Digital Forensics and Incident Response
8. Training and Advice

## HISTORY

Following its Initial Public Offering (IPO) in 2016, Tesserent operated primarily as a Managed Security Services Provider (MSSP) delivering services from its ISO-certified Security Operations Centre (SOC) to medium-sized enterprises, local government and educational institutions.

FY19 saw the introduction of Tesserent's new Cyber 360 strategy, which included growth through strategic acquisitions. A January 2020 Board refresh, which included the appointment of Geoff Lord as Non-executive Chairman, Patrick Flannigan as Non-executive Director and Kurt Hansen as Executive Director, was a key element in driving Tesserent's new strategy.

Strategic acquisitions include:

1. **Rivium** specialises in consulting, implementation and managed services for the enterprise security solution Splunk. Completed in July 2019.
2. **Pure Security** complements Tesserent's offerings with penetration testing, secure application development and security advisory services. Completed in December 2019.
3. **North Security** brings expertise in cybersecurity, Governance, Risk and Compliance (GRC), project management and digital transformation to Australian Federal Government departments and agencies including Defence and Law Enforcement. Completed in March 2020.
4. **Seer Security** provides specialist high-security services and delivery capabilities to Australian Federal Government departments and agencies including Defence and Law Enforcement. Completed in August 2020.
5. **airloom**, a Sydney-based cybersecurity firm with a focus on security architecture and cloud migration services. Completed September 2020.
6. **Ludus Cybersecurity** rounds out Tesserent's standing as the largest end-to-end cybersecurity services provider in the Canberra market. Completed in September 2020
7. **iQ3** Secure Cloud Services materially complements Tesserent's Cyber 360 strategy and represents a significant step forward in Tesserent's ability to provide a full end-to-end cyber service, and has a significant presence in the NSW Government. Completed in October 2020.

# BOARD OF DIRECTORS

Geoff Lord

Julian Challingsworth

Kurt Hansen

Gregory Baxter

Patrick Flannigan

## GEOFF LORD

**Non-Executive Chairman**

Geoff is the Founder and CEO of the Belgravia Group, a privately held investment group which since being established in 1990 has grown to employ more than 10,000 people in businesses spanning sports, fitness, leisure, clothing and more.

In addition, Geoff is the former Founder and Chairman of UXC Limited, one of Australia's largest IT services businesses. After being founded in 2002 as a $5m business, UXC grew under Geoff's leadership to be acquired in 2016 by NYSE-listed Computer Sciences Corporation (now DXC Technology) in a deal valued at A$427.6m.

Other board positions held by Geoff include the Melbourne Business School and SME finance business Judo Bank. He has also shown a significant passion for sports and clubs, having served as Chairman of Hawthorn Football Club and Melbourne Victory. Geoff is the largest shareholder in Tesserent and has acted as an advisor to the board since early 2019.

## JULIAN CHALLINGSWORTH

**Co-Managing Director and Co-Chief Executive Officer**

Julian joined Tesserent after serving as Managing Director and a Partner of The Litmus Group for over 10 years and a board member and Partner 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 Worldwide, 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.

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 member of Chartered Accountants (CAANZ), Fellow Australian CPA (FCPA) and a Graduate, Australian Institute of Company Directors (GAICD).

## KURT HANSEN

**Co-Managing Director and Co-Chief Executive Officer**

Kurt has over 20 years of IT industry experience driving sales and delivery transformation and impressive business growth across many IT and Security organisations in Australia and New Zealand.

Kurt is currently the CEO at Pure Security. Previous roles include executive, senior management and operational positions at Check Point Software Technologies, F5 Networks, AirData, Symbol Technologies, Telstra Wholesale, Cisco Systems, and Ericsson. Prior to commencing his corporate career, Kurt worked as a general service officer in the Royal Australian Signal Corps.


## GREGORY BAXTER

**Non-Executive Director**

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).

## PATRICK FLANNIGAN

**Non-Executive Director**

Patrick, a significant investor in Tesserent Ltd, is former Head of Construction and Non-Executive Director of NBN Co, roles he held from 2009-2011 and 2013-2019 respectively. As Head of Construction he oversaw the large-scale network construction project as it commenced its rollout across Australia, as well as the complex relationships associated with it.

Prior to this, Patrick co-founded ASX-listed infrastructure provider Service Stream Limited (ASX:SSM) where he served as CEO from 2003-2009. More recently Patrick founded Utility Services Group (USG). USG employs approximately 2,000 people nationally, servicing linear infrastructure in the electricity, gas, water and telecommunications sectors.

Patrick is currently a trustee for the Melbourne Olympic Park Trust and has also served as a director of the Australian Grand Prix Corporation.

See pages 22 to 24 for further information

# EXECUTIVE TEAM

Julian Challingsworth

Kurt Hansen

Peter Fearns

Nathan Knox

Robert Silver

## JULIAN CHALLINGSWORTH

**Co-Managing Director and Co-Chief Executive Officer**

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Kurt is currently the CEO at Pure Security. Previous roles include executive, senior management and operational positions at Check Point Software Technologies, F5 Networks, AirData, Symbol Technologies, Telstra Wholesale, Cisco Systems, and Ericsson. Prior to commencing his corporate career, Kurt worked as a general service officer in the Royal Australian Signal Corps.

## PETER FEARNS

**Group CFO, Tesserent**

Peter has over 20 years' experience managing finance functions in the information technology, infrastructure and professional services sectors, covering both public listed and private companies and including extensive back-office integration experience from previous executive roles at UXC and ANZ Banking Group. During his time at UXC, Peter oversaw the integration of 35+ separate businesses under the UXC corporate umbrella and is a welcome addition to the TNT Executive Team.

Peter commences November 2020.

## NATHAN KNOX

**Head of Synergies, Tesserent**

With a background in similar roles at ASX100 Companies and Government agencies including NBN Co, Coles and Woolworths, Nathan is well suited to spearhead the Company's synergies strategy.

Nathan commenced October 2020.

## ROBERT SILVER

**CEO, Rivium**

With over 25 years of experience in the IT industry, Robert has held a number of senior management roles in system integration and professional services companies in Sydney and Melbourne. His experience spans a broad range of industry vendors with a strong focus on datacentre technologies servicing all levels of government and commercial enterprises. More recently, Robert has over a decade of experience with Splunk and operational intelligence solutions focussing on regulatory audit and compliance, operations and application management and enterprise security.


George Katavic


Scott Ceely


Chris Hagios


George Stewart


Craig Humphreys

## GEORGE KATAVIC

**CEO, north - security.digital**

George has more than 25 years of experience with consulting organisations in the Federal Government market. George founded BCT, a specialist in Defence and National Security consulting which later became part of UXC in 2006. From that time George was responsible for building UXC Consulting in the ACT, combining 6 disparate and small brands which evolved into the largest Australian owned Consulting organisation in the ACT. With over 200 staff including over 100 cybersecurity staff, UXC was largest cyber consulting organisation in the Federal Market. Prior to his current role with north, George was the Managing Partner of DXC Consulting in the ACT. He co-founded north in 2018 which has cemented itself as a leader in the cyber field in the ACT.

George commenced December 2019.

## SCOTT CEELY

**CEO, Seer Security**

Scott has worked in cybersecurity roles for over 20 years, with 13 of those in the Australian Federal Government. His government roles spanned the National Intelligence Community, the Department of Prime Minster and Cabinet and he also served as a diplomat at the Embassy of Australia in Washington DC. After leaving government, Scott built the Asia-Pacific branch of Context Information Security, before starting Seer Security in 2016. Scott holds a Bachelor Engineering in Computer Engineering and a Master of Management majoring in Technology and Innovation.

Scott commenced July 2020.

## CHRIS HAGIOS

**CEO, airloom**

Chris is the founder and Managing Director of airloom. Chris has over 20 years of start-up and high growth technology company experience leading consulting, product, marketing and sales teams. He brings innovation and success in mobile, cloud and the cybersecurity industries with his unique business sense, technical acumen and vision for the future protecting enterprise data. This has contributed to the building of a world-class cybersecurity team at airloom.

Chris commenced August 2020.

## GEORGE STEWART

**CEO, Ludus Cyber Security**

George is a cybersecurity professional with deep consulting experience delivering offensive security services and with an extensive background in security engineering. His consulting career has spanned federal government, defence, finance, critical infrastructure, technology and Fortune 50 companies. George has held positions including as an executive, technical consultant, software engineer and ICT manager.

George commenced August 2020.

## CRAIG HUMPHREYS

**CEO, iQ3**

Craig is an IT veteran having held leadership positions in both Australian and multi-national organisations over the past 25 years. He founded iQ3 in Sydney in 2010 with a strong vision to address the dynamic landscape of IT and the growing appetite for consuming IT as a Service. Building a team of professionals and establishing a significant position delivering Cloud services to a large number of Government organisations, as well as Australian and multi-national corporate clients, saw iQ3 ranked 28th in BRW's fast 100 in 2015. iQ3 has continued its strong growth to date by establishing operations in Brisbane, Melbourne and Singapore.

Craig commenced October 2020.

# CORPORATE GOVERNANCE STATEMENT

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 when it is in operation.
k. **Nominations and Remuneration Committee Charter** – This policy sets out the objectives and procedures for the Nominations and Remuneration Committee when it is in operation.

## DEPARTURES FROM RECOMMENDATIONS

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

| RECOMMENDATION | COMPANY'S CURRENT PRACTICE |
|---|---|
| 1.1 A listed entity should disclose:<br>a. the respective roles and responsibilities of its board and management; and<br>b. those matters expressly reserved to the board and those delegated to management. | The respective roles and responsibilities of the Board and executives are defined in the Board Charter.<br>There is a clear delineation between the Board's responsibility for the Company's strategy and activities, and the day-to-day management of operations conferred upon the Company's officers. |
| 1.2 A listed entity should:<br>a. undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and<br>b. provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director. | The procedure for the selection of new Directors is set out in the Selection and Appointment of New Directors Policy. Under this policy, Shareholders are required to be provided with all material information relevant to making an informed decision on whether or not to elect or re-elect a Director. |
| 1.3 A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment. | The Company has entered into a written agreement with each Director and senior executive. |
| 1.4 The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board. | The Company Secretary, Oliver Carton, reports directly to the Chairman of the Board. The role of the Company Secretary is outlined in the Board Charter. |
| 1.5 A listed entity should:<br>a. have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;<br>b. disclose that policy or a summary of it; and<br>c. disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them and either:<br>i. the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or<br>ii. 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. | The Company has adopted a Diversity Policy.<br>The Company's Diversity Policy requires the Board to establish measurable objectives to assist the Company in achieving gender diversity.<br>The Company does not believe it is appropriate to establish a quota system for measuring gender diversity, and indeed such a quota system could itself lead to discrimination.<br>The Company has asked management to monitor gender diversity in line with the Corporate Governance Council Recommendations and intends to take appropriate action should it be of the view that there is insufficient gender diversity within the business.<br>As at 30 June 2020, there were 25 females employed representing 18% of total employees. There were no women on the Board of Directors and no women as part of the executive team. |

# CORPORATE GOVERNANCE STATEMENT

CONTINUED

| RECOMMENDATION | COMPANY'S CURRENT PRACTICE |
|---|---|
| 1.6 A listed entity should:<br>a. have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and<br>b. disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process. | The Company has adopted a Board and Senior Executive Evaluation Policy.<br>A Non-Executive Director will be responsible for the performance evaluation of the Chairman. The process for evaluating the performance of the Board as a whole is the responsibility of the Board under the direction of the Chairman. The Chairman is in charge of conducting individual Director evaluations.<br>No evaluation was carried out during the reporting period given there were significant changes to Board composition with three new appointments and three resignations. |
| 1.7 A listed entity should:<br>a. have and disclose a process for periodically evaluating the performance of its senior executives; and<br>b. disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process. | The Company has adopted a Board and Senior Executive Evaluation Policy.<br>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 with the appointment of a Joint Managing Director, no performance evaluation was undertaken. |
| 2.1 The board of a listed entity should:<br>a. have a nomination committee which:<br>i. has at least three members, a majority of whom are independent directors; and<br>ii. is chaired by an independent director,<br>and disclose:<br>iii. the charter of the committee;<br>iv. the members of the committee; and<br>v. as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or<br>b. 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. | The Company had established a Nominations and Remuneration Committee.<br>During the period the Board suspended the operations of the Committee as it was determined that the Committee was unnecessary given the size of the Board and the Company's operations. The Board as a whole undertakes the role of the Committee as set out in its Charter. |

| RECOMMENDATION | | COMPANY'S CURRENT PRACTICE |
|---|---|---|
| 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 had previously developed a skills matrix. Given the changes to Board composition during the period, the skills matrix has not been updated. |
| 2.3 | A listed entity should disclose:<br>a. the names of the directors considered by the board to be independent directors;<br>b. if a director has an interest, position, association or relationship of the type described above but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and<br>c. the length of service of each director. | The Board considers that Patrick Flannigan and Greg Baxter are independent directors. The Board considers that Geoff Lord does not meet the ASX Corporate Governance Council definition of Independent Director given his significant holding of Tesserent securities. The Board considers that Julian Challingsworth and Kurt Hansen not independent directors given they are employees of the Company.<br>The date of appointment of each director is disclosed in details of each director in the Directors' Report section of the Annual Report. |
| 2.4 | A majority of the board of a listed entity should be independent directors. | The majority of the Board are not independent Directors for the ASX purposes. |
| 2.5 | The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity. | The roles of the Chairman and Managing Director are exercised by two separate individuals. The Chairman is not considered to be an independent Director for the ASX purposes. |
| 2.6 | A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively. | The Company does not have a formal program for inducting new Directors and providing appropriate professional development opportunities. Given the size and structure of the Board, this program will be adopted on an individual basis for each Director. |
| 3.1 | A listed entity should:<br>a. have a code of conduct for its directors, senior executives and employees; and<br>b. 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. |

# CORPORATE GOVERNANCE STATEMENT

CONTINUED

| RECOMMENDATION | | COMPANY'S CURRENT PRACTICE |
|---|---|---|
| 4.1 | The board of a listed entity should:<br>a. have an audit committee which:<br>i. has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and<br>ii. is chaired by an independent director, who is not the chair of the board,<br>and disclose:<br>iii. the charter of the committee;<br>iv. the relevant qualifications and experience of the members of the committee; and<br>v. in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or<br>b. 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 Company has established an Audit and Risk Management Committee.<br>During the period the Committee did not operate as it was determined that the Committee was unnecessary given the size of the Board and the Company's operations. The Board as a whole undertakes the role of the Committee as set out in its Charter. |
| 4.2 | The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively. | The Company complies with this Recommendation. |
| 4.3 | A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit. | The Company complies with this Recommendation. |
| 5.1 | A listed entity should:<br>a. have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and<br>b. disclose that policy or a summary of it. | The Company is committed to providing timely and balanced disclosure to the market in accordance with its Continuous Disclosure Policy. |
| 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. |

| RECOMMENDATION | | COMPANY'S CURRENT PRACTICE |
|---|---|---|
| 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:<br>a. have a committee or committees to oversee risk, each of which:<br>i. has at least three members, a majority of whom are independent directors; and<br>ii. is chaired by an independent director,<br>and disclose:<br>iii. the charter of the committee;<br>iv. the members of the committee; and<br>v. as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or<br>b. 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. | The Company has established an Audit and Risk Management Committee.<br>During the period the Committee did not operate 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:<br>a. review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and<br>b. disclose, in relation to each reporting period, whether such a review has taken place. | The Company complies with this Recommendation. |
| 7.3 | A listed entity should disclose:<br>a. if it has an internal audit function, how the function is structured and what role it performs; or<br>b. 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. |

# CORPORATE GOVERNANCE STATEMENT

CONTINUED

| RECOMMENDATION | | COMPANY'S CURRENT PRACTICE |
|---|---|---|
| 8.1 | The board of a listed entity should:<br>a. have a remuneration committee which:<br>i. has at least three members, a majority of whom are independent directors; and<br>ii. is chaired by an independent director,<br>and disclose:<br>iii. the charter of the committee;<br>iv. the members of the committee; and<br>v. as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or<br>b. 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. | The Company has established a Nominations and remuneration Committee.<br>During the period the Committee did not operate 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 remuneration of executive directors and other senior executives. | The policies and practices regarding remuneration of Directors is set out in the Selection and appointment of new Directors Policy. Full details of Director remuneration is included in annual reports. |
| 8.3 | A listed entity which has an equity-based remuneration scheme should:<br>a. have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and<br>b. 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. |

# FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2020

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020

The Directors of Tesserent Limited (the "Company") submit herewith the Directors' Report on the Company for the financial year ended 30 June 2020.

To comply with the provisions of the *Corporations Act 2001*, the Directors report as follows:

## DIRECTORS

Details of the Directors of the Company in office at any time during or since the end of the financial year and at the date of this report are:

| | |
|---|---|
| **Geoff Lord** | Non-Executive Chairman (Appointed 10 January 2020) |
| Qualifications: | MBA (Distinction) (Melbourne), BEc (Hons) (Monash), FIDA, ASIA |
| Experience: | Geoff is the Founder and CEO of the Belgravia Group, a privately held investment group which since being established in 1990 has grown to employ more than 10,000 people in businesses spanning sports, fitness, leisure, clothing and more.<br>In addition, Geoff is the former Founder and Chairman of UXC Limited, one of Australia's largest IT services businesses. After being founded in 2002 as a $5m business, UXC grew under Geoff's leadership to be acquired in 2016 by NYSE-listed Computer Sciences Corporation (now DXC Technology) in a deal valued at A$427.6m.<br>Other board positions held by Geoff include the Melbourne Business School and SME finance business Judo Bank. He has also shown a significant passion for sports and clubs, having served as Chairman of Hawthorn Football Club and Melbourne Victory. Geoff is the largest shareholder in Tesserent and has acted as an advisor to the board since early 2019. |
| Other Directorships in listed entities: | None |
| Former Directorships in listed entities in last 3 years: | None |
| Interests in Shares and options: | 27,433,334 ordinary shares<br>2,813,750 $1.00 Converting Notes converting on or before 16 December 2021 at various conversion rates.<br>8,882,500 share options exercisable at $0.10 expiring 1 October 2022<br>6,000,000 5 year call options exercisable at $0.248 expiring 21 September 2025<br>10,000,000 5c options expiring 3 December 2020 |

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020

## DIRECTORS (CONTINUED)

| | |
|---|---|
| **Julian Challingsworth** | Co-Managing Director and Co-Chief Executive Officer (Appointed 1 August 2018) |
| Qualifications: | Bachelor of Business, MSc , 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 member of Chartered Accountants (CAANZ), Fellow Australian CPA (FCPA) and a Graduate, Australian Institute of Company Directors (GAICD).<br><br>Julian joined Tesserent after serving as Managing Director and a 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.<br><br>Julian was a director or Cordence Worldwide, 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. |
| Other Directorships in listed entities: | None |
| Former Directorships in listed entities in last 3 years: | None |
| Interests in Shares and options: | 8,000,000 ordinary shares<br><br>Performance Rights provide rights to shares as follows:<br><br>2,000,000 upon achieving share price of \$0.20 for no less than 60 consecutive days<br><br>2,000,000 upon achieving share price of \$0.25 for no less than 60 consecutive days<br><br>2,000,000 upon achieving share price of \$0.30 for no less than 60 consecutive days |
| **Kurt Hansen** | Co-Managing Director and Co-Chief Executive Officer (Appointed 12 December 2019) |
| Qualifications: | Grad. Dip. Engineering |
| Experience: | Kurt has over 20 years of IT industry experience driving sales and delivery transformation and impressive business growth across many IT and Security organisations in Australia and New Zealand.<br><br>Kurt was CEO at Pure Security at acquisition date. Previous roles include executive, senior management and operational positions at Check Point Software Technologies, F5 Networks, AirData, Symbol Technologies, Telstra Wholesale, Cisco Systems, and Ericsson. Prior to commencing his corporate career, Kurt was a general service officer in the Royal Australian Signal Corps. |
| Other Directorships in listed entities: | None |
| Former Directorships in listed entities in last 3 years: | None |
| Interests in Shares and options: | 8,531,686 ordinary shares<br><br>Performance Rights provide rights to shares as follows:<br><br>2,000,000 upon achieving share price of \$0.20 for no less than 60 consecutive days<br><br>2,000,000 upon achieving share price of \$0.25 for no less than 60 consecutive days<br><br>2,000,000 upon achieving share price of \$0.30 for no less than 60 consecutive days |

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020

## DIRECTORS (CONTINUED)

| | |
|---|---|
| **Gregory Baxter** | Non-Executive Director (Appointed 16 November 2016) |
| 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.<br><br>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.<br><br>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). |
| Other Directorships in listed entities: | None |
| Former Directorships in listed entities in last 3 years: | None |
| Interests in Shares and options: | 3,906,042 ordinary shares<br><br>4,500,000 unlisted share options |
| **Patrick Flannigan** | Non-Executive Director (Appointed 20 January 2020) |
| Qualifications: | BBus. (Victoria University), FAIDC, FAIM |
| Experience: | Patrick, a significant investor in Tesserent Ltd, is former Head of Construction and Non-Executive Director of NBN Co, roles he held from 2009-2011 and 2013-2019 respectively. As Head of Construction he oversaw the large-scale network construction project as it commenced its rollout across Australia, as well as the complex relationships associated with it.<br><br>Prior to this, Mr Flannigan co-founded ASX-listed infrastructure provider Service Stream Limited (ASX:SSM) where he served as CEO from 2003-2009. More recently Mr Flannigan founded Utility Services Group (USG). USG employs approximately 2,000 people nationally, servicing linear infrastructure in the electricity, gas, water and telecommunications sectors.<br><br>Mr Flannigan is currently a trustee for the Melbourne Olympic Park Trust and has also served as a director of the Australian Grand Prix Corporation. |
| Other Directorships in listed entities: | None |
| Former Directorships in listed entities in last 3 years: | None |
| Interests in Shares and options: | 1,000,000 $1.00 converting options converting on or before 16 December 2021 at various conversion rates.<br><br>6,000,000 converting note share options exercisable at $0.10 on the basis of 6 options for every Converting Note expiring 1 October 2022.<br><br>3,000,000 5 year call options exercisable at $0.248 expiry 21 September 2025 |

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020

## DIRECTORS (CONTINUED)

| | |
|---|---|
| **Robert Langford** | Non-Executive Chairman (Appointed 14 November 2018, retired 4 December 2019)<br><br>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. |
| **Stefano (Steve) Bertamini** | Non-Executive Director (Appointed 16 November 2015, retired 29 November 2019)<br><br>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. 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.<br><br>Prior to joining the Company Steve held a number of executive roles within banking and finance. |
| **Steve Caswell** | Non-Executive Director (Appointed 19 September 2019, retired 29 November 2019)<br><br>Steve is an experienced Chief Executive Officer and Director working largely in the management consulting industry. Steve established an IT Consulting company of 12 in 1995 taking it to 300 employees and to a NASDAQ listing. He is experienced in Strategic Planning, Corporate Governance, Business Planning, and Business Transformation having worked across organisations such as Mobil Oil (globally), Adacel Ltd, Brightstar Pty Ltd and Software Consulting Services Pty Ltd. Steve's qualifications include: BSc (Monash), Grad. Dip. Mgt. (RMIT), Dip. Ed. (Rusden State College), GAICD. |

## COMPANY SECRETARY

| | |
|---|---|
| **Oliver Carton** | Company Secretary |
| Qualifications: | BJurisLLB. Appointed as Company Secretary on 6 May 2015. |
| Experience: | Oliver Carton is a lawyer with over 30 years' experience in a variety of corporate roles. He is currently a director or company secretary of a number of listed, unlisted and not for profit entities such as the Melbourne Symphony Orchestra and Australian Mines Ltd (ASX: AUZ). He currently runs his own consulting business and was previously a Director of the Chartered Accounting firm KPMG. Prior to that, he was a senior legal officer with ASIC. |

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020

## MEETING OF DIRECTORS

The following table sets out the number of meetings of the Company's Directors during the year ended 30 June 2020 and the number of meetings attended by each Director.

| | Board Meeting | |
|---|---|---|
| Director | Entitled to attend | Attended |
| Geoff Lord | 6 | 6 |
| Julian Challingsworth | 12 | 12 |
| Kurt Hansen | 7 | 7 |
| Patrick Flannigan | 5 | 5 |
| Gregory Baxter | 12 | 11 |
| Robert Langford (resigned 4 December 2019) | 5 | 5 |
| Steve Bertamini (resigned 29 November 2019) | 4 | 4 |
| Steve Caswell (resigned 29 November 2019) | 2 | 2 |

There were no committees or sub-committees sitting during the year.

## PRINCIPAL ACTIVITIES

Tesserent provides a range of Internet security services including Internet Security-as-a-Service, security penetration testing, consulting and software licencing. 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. 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.

## OPERATING RESULTS AND FINANCIAL POSITION

The Group recorded a loss after tax of $7,311,949 for the year ended 30 June 2020 (2019: $4,372,821 loss). The Group incurred significant expenditure in completing acquisitions of 3 companies. In addition, the Group wrote off its "T-Rex" development expenditure ($786,243) during the year. The acquisitions resulted in an increase in total assets to $43,278,102 including Goodwill of $15,964,917 and Intangible assets (including acquired Customer contracts and relationships) of $7,618,948.

During the year the Group issued equity of $15,730,099 after costs, as well as converting notes of $9,433,750 before costs to provide working capital and capital for the acquisitions. These issues raised cash of $4,924,383 for the issue of equity, before costs, and $8,995,000 from converting notes before costs. The Group also secured a financing facility of $5 million to provide working capital and cash reserves to complete acquisitions. The facility matures in 2022 and interest is charged at 9.9% on the capital element of $3,000,000 and 11.5% on the working capital element of $2,000,000.

As a result of the acquisitions and the equity, the Group's net assets at 30 June 2020 were $16,507,462.

More detailed discussion of the Group's results are provided in the Review of Operations preceding the Directors Report.

## DIVIDENDS

During the year, the Company did not pay, or propose to pay, any dividends.

## SIGNIFICANT CHANGE IN STATE OF AFFAIRS

In July 2019 the Group completed the acquisition of Rivium Pty Ltd, a Melbourne-based security firm specialising in the reselling of Splunk Security software. The deal was completed with a cash payment of $1.495 million and the issue of 17,550,000 ordinary shares. A further issue of "earn out" shares was agreed based on Rivium EBITDA.

The Company issued 34,557,557 ordinary shares at $0.045 in July to fund the acquisition, raising $1.555 million. A further 5,555,556 shares were issued later in July.

Also in July the Company issued 7,250,000 ordinary shares at $0.045 in order to raise working capital, plus a further 735,556 ordinary shares for employee and contractor payments.

In September the Company issued 1,000,000 ordinary shares on the conversion of executive options, and 1,590,000 ordinary shares to settle payments to consultants.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020

## SIGNIFICANT CHANGE IN STATE OF AFFAIRS (CONTINUED)

In September the Company also secured a finance facility with Pure Asset Management Pty Ltd for up to $4million. The facility was split into two $2million tranches, the first to provide working capital, the second to fund an acquisition. The second tranche was increased to $3million upon the agreement to acquire Pure Security Pty Ltd. 15 million warrants converting into ordinary shares at $0.08 each were issued as a cost of the facility on 25 October 2019.

In October, the Company subsequently completed the acquisition of Pure Security Pty Ltd, a cybersecurity company offering complimentary services to Tesserent. The agreed price was $8 million in cash, 50 million ordinary shares, and a deferred payment of $1 million.

The Company also issued 1 million ordinary shares on conversion of executive options, and 600,000 ordinary shares as consideration for services received.

In December the Company issued 185,185 ordinary shares as an employee payment, 6,583,333 ordinary shares to Non-Executive Directors, 3,000,000 employee share options, 3,291,666 Non-Executive Director share options and 10,000,000 replacement Director Performance rights, plus another 10,000,000 warrants as described above.

In late December the Company issued 104,000,000 ordinary shares as part of the acquisition of Pure Security Pty Ltd. The Company also issued 8,395,000 Converting Notes, issued at $1 each, and issued with 50,370,000 Converting Note Options. The Converting Notes are convertible before 16 December 2021 at various converting rates. The options are convertible into shares at $0.10 on the basis of 6 options for 1 share, with an expiry date of 1 October 2022. At the same time 49,586,777 acquisition warrants were issued, and 10,000,000 Joint Managing Director Options were issued.

On 7 and 8 January the Company issued 3,798,169 ordinary shares for contractor services, plus 438,750 converting notes, plus 2,632,500 Converting Note options, for broker services provided.

On 22 January 2020 the Company issued 20,198,112 ordinary shares on the conversion of share options. 12,400,000 ordinary shares were issued to contractors for services, and 1,000,000 ordinary shares were issued to employees. A further 15,000,000 ordinary shares were issued on conversion of Converting Notes, at $0.05 per share.

At the same time 300,000 Converting Notes were issued for $1 each, convertible on equal terms with the earlier issued Converting Notes. 1,800,000 Converting Note options were issued attached to the Converting Notes.

On 31 January 2020 11,294,448 ordinary shares were issued at $0.05 on the conversion of share options. A further 200,000 Converting Notes were also issued at $1 each, with 1,200,000 Converting Note options attached, same terms as previously issued.

On 6 February 2020 the Company issued 8,120,223 ordinary shares on the exercise of share options at $0.05 each. On 21 February 2020 a further 4,400,000 ordinary shares were issued on the exercise of $0.05 options.

On 2 March 2020 the Company issued 950,000 ordinary shares on the exercise of $0.05 share options, and 16,500,000 ordinary shares on the conversion of 825,000 Converting Notes.

On 10 March 2020 the Company issued 1,624,999 ordinary shares on the exercise of $0.05 share options, and 2,000,000 ordinary shares on the conversion of 100,000 Converting Notes. On 13 March 2020 a further 3,152,778 ordinary shares were issued on the exercise of $0.05 share options.

On 26 March the Company announced the completion of the acquisition of north BDT, a cybersecurity consulting firm with significant contracts in Canberra with the Australian Federal Government. The consideration agreed in the deal was a cash payment of $1.25 million and the issue of 20 million ordinary shares. Further payments of $2.07 million were deferred over 4 payments, and an "earn-out" payable in cash and shares based on north BDT's EBITDA.

On 9 April 2020 20,000,000 ordinary shares were issued on exercise of 1,000,000 Converting Notes. A further 2,000,000 ordinary shares were issued on exercise of 100,000 Converting Notes on 1 May 2020.

There were no other significant changes in the composition of the Company and the Group other than those noted above.

## AFTER BALANCE DATE EVENTS

On 20 July 2020 the Group announced it had signed an agreement with its existing debt provider, PURE Asset Management ("PAM") to secure an additional $15 million facility, replacing the existing $5 million facility. An improved rate of 8.9% per annum is included in the facility.

On 23 July 2020 the Group announced completion of its acquisition of Seer. The value of the consideration agreed is $5 million in cash and the issue of 76,923,077 ordinary shares (6,923,077 being subject to shareholder approval). The cash payment will be split between a payment on completion of $2.5 million, $1.25 million 13 months after completion and the final payment 25 months after completion. The acquisition was completed on 4 August, and the first tranche of cash issued to the vendor and 70,000,000 ordinary shares issued to the vendor, escrowed for 12 months. Shareholder approval for the issue of the remaining 6,923,077 ordinary shares was obtained at a General Meeting on 16 September 2020. Due to the proximity of the acquisition to the release of the financial statements, the Group has not yet completed the purchase price allocation for the acquisition.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020

## AFTER BALANCE DATE EVENTS (CONTINUED)

On 28 July the Group announced the issue of 100,000 convertible notes at $1 each, converting into 2,000,000 ordinary shares, and 11,100,000 $0.10 converting note options.

On 20 August 2020 the Group announced the issue of 1,200,000 $0.10 converting note options.

On 26 August 2020 the Group announced the acquisition of Airloom, a Sydney-based cybersecurity firm. The acquisition was fully funded through its PAM finance facility, with the consideration for the acquisition being $6 million and the issue of 40 million ordinary shares, at 30 VWAP, subject to shareholder approval. $5million is payable on completion, with the remaining $1million payable upon achievement of set milestones. The acquisition was completed on 11 September 2020. Due to the proximity of the acquisition to the release of the financial statements, the Group has not yet completed the purchase price allocation for the acquisition.

On 28 August the Group announced the acquisition of Ludus Cybersecurity for $536k in cash and 4.31 million ordinary shares issued at 22.41 cents, subject to shareholder approval. The acquisition was completed on 11 September 2020. Due to the proximity of the acquisition to the release of the financial statements, the Group has not yet completed the purchase price allocation for the acquisition.

On 2 September the Group issued 750,000 $0.10 converting note options, 2,000,000 Joint Managing Director Options and 25,000,000 Acquisition Warrants.

On 8 September 2020 the Group issued 24,586,777 Acquisition warrants at $0.0605.

On 21 September 2020 the Group issued 12,071,720 Converting Notes and 2,000,000 Joint Managing Director options.

On 24 September 2020 the Group announced the acquisition of iQ3, a secure cloud provider headquartered in Sydney. Consideration is $8.6 million in cash and the issue of 34.6 million issued at $0.2496 per share. The cash component is to be paid in instalments, $4.3 million on completion, and 4 deferred payments of $1.07 million made quarterly over 12 months. Due to the proximity of the acquisition to the release of the financial statements, the Group has not yet completed the purchase price allocation for the acquisition.

On 24 September 2020 the Group announced the issue of 105,000 converting notes at $1 each, 4,000,000 Joint Managing Director options and 1,458,334 Pure facility options.

Other than the above, the Board is not aware of any other matter or circumstance not otherwise dealt with in these financial statements that has significantly or may significantly affect the operation of the Company, the results of those operations, or the state of affairs of the Company in subsequent financial years.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

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 Australia and internationally, through increased sales and marketing;
- assessing acquisition opportunities; and
- on-going research and development.

Further information on expected results of operations is included in the Review of Operations preceding the Directors Report.

## INDEMNITY AND INSURANCE OF OFFICERS

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.

## INDEMNITY AND INSURANCE OF AUDITOR

The Company has not, during or since the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor. During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

## ENVIRONMENTAL ISSUES

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.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020

## SHARES UNDER OPTION OR ISSUED ON EXERCISE OF OPTIONS

At the date of this report the Company had shares under option as follows: -

| Description | Date of expiry | Exercise price | Number on issue | Number escrowed | Escrow date |
|---|---|---|---|---|---|
| Chairman options | 30 Nov 2021 | $0.10 | 1,000,000 | Nil | N/A |
| Chairman options | 30 Nov 2021 | $0.125 | 1,000,000 | Nil | N/A |
| Chairman options | 30 Nov 2021 | $0.15 | 1,000,000 | Nil | N/A |
| NED options | 30 Nov 2021 | $0.10 | 1,000,000 | Nil | N/A |
| NED options | 30 Nov 2021 | $0.125 | 1,000,000 | Nil | N/A |
| NED options | 30 Nov 2021 | $0.15 | 1,000,000 | Nil | N/A |
| Call options | 3 Dec 2020 | $0.05 | 10,000,000 | Nil | N/A |
| Employee options | 1 Mar 2022 | $0.10 | 100,000 | Nil | N/A |
| Employee options | 1 Mar 2022 | $0.125 | 100,000 | Nil | N/A |
| Employee options | 1 Mar 2022 | $0.15 | 100,000 | Nil | N/A |
| Employee options | 22 Jul 2021 | $0.05 | 300,000 | Nil | N/A |
| Broker options | 19 Mar 2021 | $0.10 | 1,100,000 | Nil | N/A |
| Broker options | 29 Mar 2021 | $0.10 | 500,000 | Nil | N/A |
| Broker options | 22 Jul 2021 | $0.05 | 455,000 | Nil | N/A |
| Employee options | 18 Apr 2021 | $0.075 | 3,000,000 | Nil | N/A |
| Employee options | 29 Nov 2022 | $0.075 | 1,000,000 | Nil | N/A |
| Employee options | 29 Nov 2022 | $0.10 | 1,000,000 | Nil | N/A |
| Employee options | 29 Nov 2022 | $0.125 | 1,000,000 | Nil | N/A |
| Warrants issued to Pure Asset Management Pty Ltd | 30 Sep 2022 | $0.08 | 25,000,000 | Nil | N/A |
| Acquisition warrants | 6 Dec 2022 | | 49,586,777 | Nil | N/A |
| Converting notes | | | 6,558,750 | Nil | N/A |
| Converting note options | 1 Oct 2022 | $0.10 | 56,002,200 | Nil | N/A |
| Call options | 16 Dec 2021 | $0.075 | 1,000,000 | Nil | N/A |
| MD Replacement options | 3 Oct 2021 | $0.0 | 10,000,000 | Nil | N/A |
| | | | 172,802,727 | | |

Share options do not provide the holder with the same rights as shareholders. Share options do not provide the rights to participate in rights issues, dividends, or enable the holder to vote at General Meetings.

## PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of the Court under Section 327 of the *Corporations Act 2001* 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 proceedings during the year.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020

## REMUNERATION REPORT (AUDITED)

The remuneration report, which has been audited, outlines the Director and executive remuneration arrangements for the Company, in accordance with the requirements of the *Corporations Act 2001* and its Regulations.

### A. Principles Used to Determine the 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 is undertaken by the Board with changes made as deemed appropriate to the size, structure and needs of the Company.

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. The maximum annual aggregate remuneration is $250,000, not including various payments such as out of pocket expenses and share based payments, and this was set prior to listing via the IPO in 2016.

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 Board sets out to link remuneration polices with the achievement of financial and personal objectives.

*Components of remuneration*

The Non-executive directors in place during the year agreed to take no cash salary, instead agreeing to take shares and/or options in lieu of director fees. This includes director fees outstanding from 2019. All equity issued to Directors during the year was subject to shareholder approval.

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 Co-Managing Directors (MD) / Co-Chief Executive Officers (CEO) 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 Co-CEOs 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 Co-CEOs, and the Co-CEOs assesses the performance of the individual executives against their targets. The Co-CEOs' recommendations were presented to the Nominations and Remuneration Committee and now the Board for approval.

The Board, at its discretion, may pay cash bonuses or bonuses settled in shares or options, to Executive Directors or other KMPs. No cash bonuses were paid in the current financial year other than a sign-on cash bonus to Kurt Hansen (2019: Nil) as part of his sign-on fee on acquisition of Pure Security Group.

The Board has implemented a Director Option Plan. The Option Plan is aimed at incentivising the Directors in retaining key strategic skills. The Director Plan currently covers Executive Directors. The options have been granted to the Executive Directors vesting over three years with exercising prices of $0.05, $0.075, $0.10, $0.125 and $0.15. Refer to tables on page 36 for options affecting remuneration in the current and future reporting period.

*Engagement of remuneration consultants*

During the year, the Company did not engage any remuneration consultants.

*Voting and comments made at the Company's 29 November 2019 Annual General Meeting ('AGM')*

At the 29 November 2019 AGM, 87.83% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2019. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

## REMUNERATION REPORT (AUDITED) (CONTINUED)

### B. Details of Remuneration

Details of the remuneration of the Directors, other key management personnel (defined as those who have the authority and responsibility for planning, directing and controlling the major activities of the Company) are set out in the tables on pages 33 to 35.

*Key Management Personnel - Directors and Executives*

The key management personnel ("KMP") of the Company consisted of the following Directors and executives during the year:

| Non-Executive Directors | Position |
|---|---|
| Geoff Lord | Non-Executive Chairman (Appointed 10 January 2020) |
| Gregory Baxter | Non-Executive Director |
| Patrick Flannigan | Non-Executive Director (Appointed 20 January 2020) |
| Robert Langford | Non-Executive Chairman (Appointed 14 November 2018, Retired 4 December 2019) |
| Stefano Bertamini | Non-Executive Director (Appointed 16 November 2015, Retired 29 November 2019) |
| Steve Caswell | Non-Executive Director (Appointed 19 September 2019, retired 29 November 2019) |
| Julian Challingsworth | Co-Chief Executive Officer and Director |
| Kurt Hansen | Co-Chief Executive Officer and Director (Appointed 12 December 2019) |

| Other Key Management Personnel | |
|---|---|
| Ross Miller | Head of security operations (resigned 8 June 2020) |
| Matthew Glennan | General Manager Sales & Marketing (resigned 7 February 2020) |
| Stephan Scheffer | Chief Financial Officer |
| Matthew Phillips | General Manager Sales & Marketing (Appointed 16 March 2020) |
| George Katavic | Managing Director (Appointed upon acquisition 31 March 2020) |
| Robert Silver | Chief Executive & Director of Rivium Pty Ltd (Appointed upon acquisition 3 July 2019) |

*Key Management Personnel – Service Agreements*

*Employment contracts – Julian Challingsworth*

The key terms of the contract are as follows:

- Position of CEO, contract commencing 1 August 2018
- Salary of $225,000 per annum, plus superannuation and other Short and Long Term benefits;
- 1,000,000 ordinary shares issued upon signing contract
- Short term bonus of $75,000 payable in shares at $0.05 each at the discretion of the Board
- Agreement can be terminated in writing by either party providing twelve months' notice.

*Employment contracts – Kurt Hansen (contract is with PS & C Ltd)*

The key terms of the contract are as follows:

- Position of CEO of Pure Security Group (PS&C Ltd), contract commencing 28 July 2017;
- Salary of $350,000 per annum, short and long term incentives;
- Short term bonus of $150,000 payable on achievement of set KPIs;
  EBITDA targets agreed on an annual basis (40%)
  Revenue growth target within agreed range (20%)
  Retention of key talent (20%)
  Management of key relationships (10%)
  Achieve strategic goals (10%)

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020

## REMUNERATION REPORT (AUDITED) (CONTINUED)

- Long-term performance rights of up to 2% of issued capital.
- Agreement can be terminated in writing by Mr Hansen providing six months' notice.
- Agreement can be determined in writing by the Company providing nine months' notice
- Mr Hansen received a sign on fee of $200,000 upon completion of the Pure Security Group acquisition and was awarded performance rights in Tesserent with KPIs attached.

*Employment contracts – Ross Miller*

The key terms of the contract are as follows:

- Position of Head of Security Operations, contract commencing 29 April 2019;
- Salary of $175,200 per annum, inclusive of 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).

*Employment contracts – Matthew Phillips*

The key terms of the contract are as follows:

- Position of Head of Managed Services, contract commencing 16 March 2020;
- Salary of $160,000 per annum, inclusive of 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.

*Employment contracts – Stephan Scheffer*

The key terms of the contract are as follows:

- Position of CFO, contract commencing 17 February 2020;
- Salary of $220,000 per annum, plus superannuation and other benefits;
- Variable incentive of $30,000 applicable from 1st July 2020.
- Agreement terminates 6 months after signing, unless extended by mutual consent. The agreement was extended for 3 months at its termination date.

*Employee contracts – George Katavic*

The key terms of the contract are as follows:

- Position of Managing Director, north, contract commencing 23 March 2020;
- Salary of $273,972 per annum, plus superannuation and other benefits;
- Performance rights based on the share price performance;
- Termination is with 4 weeks' notice.

*Employee contracts – Robert Silver*

The key terms of the contract are as follows:

- Position of Chief Executive - Rivium, contract commencing 7 July 2019;
- Salary of $130,000 per annum, plus superannuation and other benefits;
- Commission of 10% of gross margin on sales and 5% of total services sales.
- Termination is with 2 weeks' notice.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020

## REMUNERATION REPORT (AUDITED) (CONTINUED)

*Details of Remuneration for the year ended 30 June 2020*

The individual remuneration for key management personnel of the Company during the year was as follows:

| | Short term employment benefits | | Long-term benefits | Post employment | Equity based payments | | |
|---|---|---|---|---|---|---|---|
| | Salary and Fees $ | Cash Bonus $ | Long-Service Leave | Superannuation $ | Shares $ | Options $ | Total $ |
| **Non – Executive Directors** | | | | | | | |
| G Lord[1] | – | – | – | – | – | – | – |
| R Langford[2] | 45,000 | – | – | – | 150,000 | 19,633 | 214,633 |
| G Baxter[3] | – | – | – | – | – | – | – |
| P Flannigan[4] | – | – | – | – | – | – | – |
| S Bertamini[5] | – | – | – | – | – | – | – |
| S Caswell[6] | 12,500 | – | – | – | 13,500 | – | 26,000 |
| **Sub-Total** | **57,500** | **–** | **–** | **–** | **163,500** | **19,633** | **240,633** |
| **Executive Directors** | | | | | | | |
| J Challingsworth | 199,883 | – | 3,764 | 18,115 | 142,900 | 157,219 | 521,881 |
| K Hansen[7] | 332,953 | 200,000 | 16,127 | 50,630 | 97,400 | 37,481 | 734,591 |
| **Sub-Total** | **532,836** | **200,000** | **19,891** | **68,745** | **240,300** | **194,700** | **1,256,472** |
| **Other KMP** | | | | | | | |
| S Scheffer | 199,734 | – | 4,297 | 18,861 | 22,500 | – | 245,392 |
| M Glennan[8] | 304,386 | – | – | 24,702 | 86,500 | 11,601 | 427,189 |
| R Miller[9] | 158,347 | – | – | 14,279 | – | – | 172,626 |
| M Phillips[10] | 90,055 | – | – | 7,120 | – | – | 97,175 |
| G Katavic[11] | 68,484 | – | 10,997 | 6,507 | – | – | 85,988 |
| R Silver[12] | 235,965 | – | – | 22,416 | – | – | 258,381 |
| **Sub-Total** | **1,056,971** | **–** | **15,294** | **93,885** | **109,000** | **11,601** | **1,286,751** |
| **Total** | **1,647,307** | **200,000** | **35,185** | **162,630** | **512,800** | **225,934** | **2,783,856** |

1. Appointed 10 January 2020. No director fees paid or accrued during the year.
2. Retired 4 December 2019. Salary and fees were settled with the issue of shares and options.
3. No director fees paid or accrued during the year.
4. Appointed 20 January 2020. No director fees paid or accrued during the year.
5. Retired 29 November 2019. No director fees paid or accrued during the year.
6. Appointed 19 September 2019. Retired 29 November 2019. Salary and fees were settled with the issue of shares and options.
7. Appointed 12 December 2019. Kurt Hansen received a bonus of $200,000 as part of his sign-on fee upon the acquisition of Pure Security Group.
8. Resigned 7 February 2020.
9. Resigned 8 June 2020.
10. Appointed 8 March 2020.
11. Appointed upon acquisition 31 March 2020.
12. Appointed upon acquisition 3 July 2019.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020

## REMUNERATION REPORT (AUDITED) (CONTINUED)

*Details of Remuneration for the period ended 30 June 2019*

The individual remuneration for key management personnel of the Company during the period was as follows:

| | Short term employment benefits | | Long-term benefits | Post employment | Equity based payments | | |
|---|---|---|---|---|---|---|---|
| | Salary and Fees $ | Cash Bonus $ | Long-Service Leave | Superannua-tion $ | Shares $ | Options $ | Total $ |
| **Non – Executive Directors** | | | | | | | |
| R Langford | 109,747 | – | – | – | – | 10,372 | 120,119 |
| K Glennan[1] | 181,912 | – | – | 25,000 | – | – | 206,912 |
| G Baxter | 45,000 | – | – | – | – | – | 45,000 |
| S Bertamini | 45,000 | – | – | – | – | – | 45,000 |
| **Sub-Total** | **381,659** | **–** | **–** | **25,000** | **–** | **10,372** | **417,031** |
| **Executive Directors** | | | | | | | |
| J Challingsworth[2] | 170,300 | – | – | 15,403 | 50,000 | 61,319 | 297,022 |
| **Sub-Total** | **170,300** | **–** | **–** | **15,403** | **50,000** | **61,319** | **297,022** |
| **Other KMP** | | | | | | | |
| D Buerckner[1] | 152,930 | – | – | 13,961 | – | – | 166,891 |
| K Negus[1] | 28,415 | – | – | 1,317 | – | – | 29,732 |
| J Owen[1] | 77,990 | – | – | – | – | – | 77,990 |
| S Scheffer[3] | 107,245 | – | 256 | 10,122 | – | | 117,623 |
| M Glennan[3] | 28,200 | – | 1,815 | 2,533 | 51,800 | – | 84,348 |
| R Miller[3] | 27,879 | – | 65 | 2,648 | – | – | 30,592 |
| **Sub-Total** | **422,659** | **–** | **2,136** | **30,581** | **51,800** | **–** | **507,176** |
| **Total** | **974,618** | **–** | **2,136** | **70,984** | **101,800** | **71,691** | **1,221,229** |

1. Resigned during the 2019 year
2. Appointed 1 August 2018. J Challingsworth was issued 1 million shares as a sign on bonus, with a fair value of $50,000.
3. Appointed during the year

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020

## REMUNERATION REPORT (AUDITED) (CONTINUED)

*Bonuses included in remuneration*
The proportion of remuneration linked to performance and the fixed proportion are as follows:

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Fixed remuneration | At risk – STI | At risk – LTI | Fixed remuneration | At risk – STI | At risk – LTI |
| **Non-Executive Directors** | | | | | | |
| G Lord | – | – | – | – | – | – |
| R Langford | 21% | – | 79% | 95% | – | 5% |
| K Glennan | – | – | – | 100% | – | – |
| G Baxter | – | – | – | 100% | – | – |
| P Flannigan | – | – | – | – | – | – |
| S Bertamini | – | – | – | 100% | – | – |
| S Caswell | 48% | – | 52% | – | – | – |
| **Executive Directors** | | | | | | |
| J Challingsworth | 42% | – | 58% | 63% | | 37% |
| K Hansen | 55% | 27% | 18% | – | – | – |
| **Other KMP** | | | | | | |
| D Buerckner | – | – | – | 100% | – | – |
| K Negus | – | – | – | 100% | – | – |
| J Owen | – | – | – | 100% | – | – |
| S Scheffer | 91% | – | 9% | 100% | – | – |
| M Glennan | 77% | – | 23% | 39% | – | 61% |
| R Miller | 100% | – | – | 100% | – | – |
| M Phillips | 100% | – | – | – | – | – |
| G Katavic | 100% | – | – | – | – | – |
| R Silver | 100% | – | – | – | – | – |

Kurt Hansen received a cash bonus as part of his sign-on fee upon the acquisition of Pure Security Pty Ltd. No other cash bonuses were paid or payable during the year, nor were any cash bonuses foregone.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020

## REMUNERATION REPORT (AUDITED) (CONTINUED)

### C. Share Based Compensation

*Ordinary shares*
Details of shares issued to Directors and other key management personnel as part of compensation during the year ended 30 June 2020 are set out below:

| Name | Date | Shares | Issue price | $ |
|---|---|---|---|---|
| R Langford | 2 December 2019 | 3,333,334 | 0.0450 | 150,000 |
| S Caswell | 23 July 2019 | 180,000 | 0.0523 | 9,405 |
| S Caswell | 16 September 2019 | 90,000 | 0.0455 | 4,095 |
| J Challingsworth | 16 September 2019 | 1,000,000 | 0.0455 | 45,500 |
| J Challingsworth | 16 December 2019 | 2,000,000 | 0.0487 | 97,400 |
| K Hansen | 16 December 2019 | 2,000,000 | 0.0487 | 97,400 |
| S Scheffer | 23 Jul 2019 | 555,556 | 0.0405 | 22,500 |
| M Glennan | 22 January 2020 | 1,000,000 | 0.0865 | 86,500 |
| | | 10,158,890 | | 512,800 |

*Options and performance rights*
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 |
|---|---|---|---|---|---|---|---|
| R Langford | 14 Dec 18 | 1,000,000 | 8 Feb 18 | 30 Nov 21 | $0.100 | $0.052 | 100% |
| R Langford | 14 Dec 18 | 1,000,000 | 8 Feb 19 | 30 Nov 21 | $0.125 | $0.052 | 100% |
| R Langford | 14 Dec 18 | 1,000,000 | 8 Feb 20 | 30 Nov 21 | $0.150 | $0.052 | – |
| J Challingsworth[1] | 14 Dec 18 | 13,000,000 | 2 | 1 Jul 20 | $0.000 | $0.052 | 100% |
| J Challingsworth[1] | 2 Dec 19 | 10,000,000 | 2 | 3 Oct 21 | $0.000 | $0.049 | – |
| M Glennan | 23 Jul 19 | 300,000 | 23 Jul 19 | 22 Jul 21 | $0.050 | $0.042 | 100% |
| M Glennan | 2 Dec 19 | 1,000,000 | 29 Nov 19 | 29 Nov 22 | $0.075 | $0.049 | 100% |
| M Glennan | 2 Dec 19 | 1,000,000 | 29 Nov 20 | 29 Nov 22 | $0.100 | $0.049 | 100% |
| M Glennan | 2 Dec 19 | 1,000,000 | 29 Nov 21 | 29 Nov 22 | $0.125 | $0.049 | – |
| K Hansen | 2 Dec 19 | 10,000,000 | 2 | 3 Oct 21 | $0.000 | $0.049 | – |

1. 13,000,000 Performance rights previously granted were cancelled and 10,000,000 performance rights issued in their place.
2. Performance rights vest on the satisfaction of various market conditions.

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.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020

## REMUNERATION REPORT (AUDITED) (CONTINUED)

The table below shows a reconciliation of options and rights held by each KMP from the beginning to the end of FY 2020.

| KMP | Balance at 1 July 2019 | Granted during the year | Other change | Exercised | Lapsed/ forfeited during the year | Balance at 30 June 2020 |
|---|---|---|---|---|---|---|
| G Lord[1] | 10,000,000 | – | – | – | – | 10,000,000 |
| G Lord[2] | – | | 14,250,000 | – | – | 14,250,000 |
| G Lord[2] | – | | 2,777,778 | – | (2,777,778) | – |
| G Lord[2] | – | | 2,632,500 | – | – | 2,632,500 |
| R Langford | 1,000,000 | – | | – | – | 1,000,000 |
| R Langford | – | 1,666,667 | | – | (1,666,667) | – |
| G Baxter | – | 833,333 | | (833,333) | – | – |
| S Bertamini | – | 791,666 | | (791,666) | – | – |
| J Challingsworth[3] | 2,000,000 | – | | – | (2,000,000) | – |
| J Challingsworth[3] | 1,000,000 | – | | – | (1,000,000) | – |
| J Challingsworth[3] | 3,000,000 | – | | – | (3,000,000) | – |
| J Challingsworth[3] | 3,000,000 | – | | – | (3,000,000) | – |
| J Challingsworth[3] | 4,000,000 | – | | – | (4,000,000) | – |
| J Challingsworth[3] | – | 1,000,000 | | – | – | 1,000,000 |
| J Challingsworth[3] | – | 1,000,000 | | – | – | 1,000,000 |
| J Challingsworth[3] | – | 2,000,000 | | – | – | 2,000,000 |
| J Challingsworth[3] | – | 2,000,000 | | – | – | 2,000,000 |
| J Challingsworth[3] | – | 2,000,000 | | – | – | 2,000,000 |
| J Challingsworth[3] | – | 2,000,000 | | – | – | 2,000,000 |
| M Glennan[4] | 300,000 | – | (300,000) | – | – | – |
| M Glennan[4] | – | 300,000 | (300,000) | – | – | – |
| M Glennan[4] | – | 1,000,000 | (1,000,000) | – | – | – |
| M Glennan[4] | – | 1,000,000 | (1,000,000) | – | – | – |
| M Glennan[4] | – | 1,000,000 | (1,000,000) | – | – | – |
| K Hansen | 1,000,000 | – | | – | – | 1,000,000 |
| K Hansen | 1,000,000 | – | | – | – | 1,000,000 |
| K Hansen | 2,000,000 | – | | – | – | 2,000,000 |
| K Hansen | 2,000,000 | – | | – | – | 2,000,000 |
| K Hansen | 2,000,000 | – | | – | – | 2,000,000 |
| K Hansen | 2,000,000 | – | | – | – | 2,000,000 |

1. G Lord was appointed to the Board during the year. His opening share option holding was 10,000,000.
2. During the year Belgravia Group Pty Ltd was issued share options for services provided in capital raising. Mr Lord is a director of Belgravia Group Pty Ltd.
3. 13,000,000 Performance rights previously granted were cancelled and 10,000,000 performance rights issued in their place.
4. M Glennan resigned during the year and the other movement reflects that fact.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020

## REMUNERATION REPORT (AUDITED) (CONTINUED)

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

| KMP | Value of options granted during the year $ | Value of options exercised during the year $ | Value of options lapsed during the year $ |
|---|---|---|---|
| J Challingsworth | 124,557 | – | – |
| K Hansen | 124,557 | – | – |

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:

No deferred shares were granted during the current year.

| 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 Jul 2019 | 0.04 |
| D Buerckner | 450,000 | 100 | 25,646 | 24 Nov 2016 | 0.14 | 3 Oct 2018 | Nil |
| D Buerckner | 750,000 | 0 | (58,691) | 24 Nov 2016 | 0.14 | 3 Oct 2019 | Nil |

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020

## REMUNERATION REPORT (AUDITED) (CONTINUED)

### D. Additional Information

*Relationship between remuneration policy and Company performance*
The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. The chosen method to achieve this aim is providing shares and share options to link future benefits to the performance of the Company's share price. The Company believes this policy will be effective in increasing shareholder's wealth. The earnings of the Company for the reporting periods to 30 June 2020 are summarised below, along with details that are considered to be factors in shareholder returns:

| | 30 June 2017 | 30 June 2018 | 30 June 2019 | 30 June 2020 |
|---|---|---|---|---|
| Sales revenue – external customers ($) | 5,375,117 | 5,327,957 | 5,260,272 | **20,223,216** |
| Earnings before interest, tax and depreciation, amortisation and impairment (EBITDA) ($) | (2,883,644) | (1,529,345) | (3,842,692) | **(5,019,951)** |
| Loss after income tax ($) | (3,464,036) | (3,095,670) | (4,372,821) | **(7,311,949)** |
| Basic loss per share (cents) | (2.99) | (2.62) | (2.90) | **(2.02)** |
| Share price at year end (cents) | 9.00 | 6.00 | 5.00 | **8.00** |

The Company listed in 2016 and consequently so 2016 information is not disclosed.

Specific performance measures have been set out by the Board as follows:

**2020**

*Julian Challingsworth and Kurt Hansen*
Performance measures for Julian Challingsworth and Kurt Hansen were set by the Board to reflect key measures impacting the growth in revenue and market capitalisation. Mr Challingsworth and Mr Hansen are 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 1,000,000 Shares | 16 Dec 2019 | Share price $0.075 for no less than 60 consecutive days | 3 October 2021 |
| 2 | Options exercisable at nil consideration | Right to acquire 1,000,000 Shares | 16 Dec 2019 | Share price $0.10 for no less than 60 consecutive days | 3 October 2021 |
| 3 | Options exercisable at nil consideration | Right to acquire 2,000,000 Shares | 16 Dec 2019 | Share price $0.15 for no less than 60 consecutive days | 3 October 2021 |
| 4 | Options exercisable at nil consideration | Right to acquire 2,000,000 Shares | 16 Dec 2019 | Share price $0.20 for no less than 60 consecutive days | 3 October 2021 |
| 5 | Options exercisable at nil consideration | Right to acquire 2,000,000 Shares | 16 Dec 2019 | Share price $0.25 for no less than 60 consecutive days | 3 October 2021 |
| 6 | Options exercisable at nil consideration | Right to acquire 2,000,000 Shares | 16 Dec 2019 | Share price $0.30 for no less than 60 consecutive days | 3 October 2021 |

Shareholder approval was obtained on 29 November 2019.

There were no other performance based measures.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020

## REMUNERATION REPORT (AUDITED) (CONTINUED)

### E. Additional Information in relation to key management personnel shareholdings

*Ordinary shares held in Tesserent Limited (number) 30 June 2020*

| | Balance 1 July 2019 | Shares issued as remuneration during year | Issued on exercise of options during year | On-market changes | Other changes | Balance 30 June 2020 |
|---|---|---|---|---|---|---|
| **Non-Executive Directors** | | | | | | |
| G Lord[i] | 17,600,000 | – | 2,777,778 | 7,055,556 | – | 27,433,334 |
| R Langford[ii] | 24,285,567 | 3,333,334 | – | (23,267,344) | (4,351,557) | – |
| G Baxter | 1,620,328 | – | 833,334 | 1,666,666 | – | 4,120,327 |
| S Bertamini[iii] | 1,620,328 | – | 791,666 | 1,583,333 | (3,995,327) | – |
| S Caswell[iv] | 90,000 | 270,000 | – | 1,188,253 | (1,548,253) | – |
| **Executive Directors** | | | | | | |
| J Challingsworth | 1,000,000 | 3,000,000 | – | – | – | 4,000,000 |
| K Hansen[v] | 600,000 | 2,000,000 | – | 1,602,112 | – | 4,202,112 |
| **Other KMP** | | | | | | |
| S Scheffer | – | 555,556 | – | (555,556) | – | – |
| M Glennan | 640,740 | 1,000,000 | – | (640,740) | (1,000,000) | – |
| G Katavic | – | – | – | 6,774,641 | – | 6,774,641 |
| M Phillips[vi] | – | – | – | – | 200,000 | 200,000 |
| R Silver | – | – | – | 12,535,965 | – | 12,535,965 |
| | 47,456,963 | 10,158,890 | 4,402,778 | 7,942,886 | (10,695,137) | 59,266,380 |

(i) G Lord held 17,600,000 ordinary shares on appointment.
(ii) R Langford resigned during the year. Other changes relate to the balance held upon resignation.
(iii) S Bertamini resigned during the year. Other changes relate to the balance held upon resignation.
(iv) S Caswell held 90,000 ordinary shares upon appointment.
(v) K Hansen held 600,000 ordinary shares upon appointment.
(vi) M Phillips held 200,000 ordinary shares upon appointment.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020

## REMUNERATION REPORT (AUDITED) (CONTINUED)

Share options and performance rights held in Tesserent Limited (number) 30 June 2020

| | Balance 1 July 2019 | Granted as payment for Remuneration | Options converted | Other changes | Balance 30 June 2020 | Vested and exercisable |
|---|---|---|---|---|---|---|
| **Non-Executive Directors** | | | | | | |
| G Lord[1 2] | 10,000,000 | – | (2,777,778) | 19,660,278 | 26,882,500 | 26,882,500 |
| R Langford[3] | 3,000,000 | – | – | (3,000,000) | – | – |
| G Baxter[4] | – | – | (833,333) | 833,333 | – | – |
| S Bertamini[5] | – | – | (791,666) | 791,666 | – | – |
| P Flannigan[6] | – | – | – | 6,000,000 | 6,000,000 | 6,000,000 |
| **Executive Directors** | | | | | | |
| J Challingsworth[7] | 13,000,000 | 10,000,000 | – | (13,000,000) | 10,000,000 | – |
| K Hansen | – | 10,000,000 | – | – | 10,000,000 | – |
| **Other KMP** | | | | | | |
| S Scheffer | – | – | – | – | – | – |
| M Glennan | 300,000 | 3,300,000 | – | – | 3,600,000 | 1,600,000 |
| | 26,300,000 | 23,300,000 | (4,402,777) | 11,285,277 | 56,482,500 | 34,482,500 |

1. G Lord held 10,000,000 share options upon appointment.
2. Other changes are amounts paid in settlement of bills for services provided by Belgravia Strategic Equities Pty Ltd, a company Mr Lord is a director of.
3. R Langford resigned during the year. Other changes relate to the balance at resignation.
4. G Baxter was received 833,333 share options when acquiring shares in a capital raise.
5. S Bertamini received 791,666 share options when acquiring shares in a capital raise.
6. P Flannigan was appointed during the year.
7. During the year My Challingsworth had 13,000,000 performance rights cancelled and replaced by 10,000,000 performance rights.

*Converting notes held in Tesserent Limited (number) 30 June 2020*

| | Balance 1 July 2019 | Issued during year under subscription | Issued to settle expense | Converted | Balance 30 June 2020 | Interest |
|---|---|---|---|---|---|---|
| **Non-Executive Directors** | | | | | | |
| G Lord | – | 2,375,000 | 438,750 | – | 2,813,750 | 96,546 |
| P Flannigan | – | 6,000,000 | – | – | 6,000,000 | 205,873 |
| | – | 8,375,000 | 438,750 | – | 8,831,750 | 303,329 |

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020

## REMUNERATION REPORT (AUDITED) (CONTINUED)

### F. Loans from KMP

There were no loan balances with Key Management Personnel at 30 June 2020.

### G. Other Transactions with KMP

Fees were paid to Belgravia Group Pty Ltd, a company that Mr G Lord is a director of and owns an interest in, for the provision of services to in capital raising. The amounts paid were $513,750. The fees were paid for by the issue of 1,500,000 ordinary shares issued at $0.05 per share plus the issue of convertible notes.

There were no other transactions with Key Management Personnel.

*This concludes the remuneration report, which has been audited.*

## NON-AUDIT SERVICES

During the year, BDO Audit Pty Ltd, the Company's auditor, and its predecessor firm, BDO East Coast Partnership, has performed certain other services in addition to their statutory duties. The Directors are satisfied that the provision of these non-audit services by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. Details of amounts paid or payable for non-audit services is outlined in Note 32 of the financial statements:

| | 2020 $ | 2019 $ |
|---|---|---|
| Corporate and indirect tax services | **327,924** | 63,515 |
| Due diligence services | **118,000** | 146,050 |
| Tax compliance | **41,750** | – |
| | **487,674** | 209,565 |

The Directors are of the opinion that the services outlined in Note 32 to the financial statements do not compromise the external auditor's independence for the following reasons:

- All non-audit services have been reviewed and approved by the Board to ensure that they do not impact the integrity and objectivity of the auditor, and
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Profession and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing economic risks and rewards.

## AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is included at page 44 of the Annual Report.

## AUDITOR

Effective 23 December 2019 the previous auditor, BDO East Coast Partnership resigned as auditor and BDO Audit Pty Ltd was appointed as the Company's new auditor. The appointment of BDO Audit Pty Ltd will be ratified at the next AGM.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020

## CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors support the principles of Corporate Governance. The Company continued to follow best practice recommendations as set out by the ASX Corporate Governance Council. Where the Company has not followed best practice for any recommendation, explanation is given in the Corporate Governance Statement. The Company's Corporate Governance statement is available on the Company's website at https://www.tesserent.com/.

## ROUNDING OF AMOUNTS

The Company is of a kind referred to in the Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to "rounding off". Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest dollar.

Signed in accordance with a resolution of the Directors made pursuant to s.298 (2) of the *Corporations Act 2001*.

On behalf of the Directors

**Mr J Challingsworth**

Co-Managing Director and Co-CEO

30 September 2020

# AUDITORS INDEPENDENCE DECLARATION

FOR THE YEAR ENDED 30 JUNE 2020

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Level 18, 727 Collins Street
Melbourne VIC 3008
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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 2020, 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
Director

**BDO Audit Pty Ltd**

Melbourne, 30 September 2020

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2020

| | Note | 2020 $ | 2019 $ |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 4 | **20,223,216** | 5,260,272 |
| Other income | 4 | **175,510** | 107,266 |
| Software licence and connectivity fees | | **(5,456,301)** | (2,279,416) |
| Administration expenses | | **(771,734)** | (540,316) |
| Employee benefits expense | | **(13,880,173)** | (2,905,727) |
| Bad and doubtful debts | | **(280,804)** | (39,183) |
| Communication costs | | **(704,658)** | (445,735) |
| Consulting and legal costs | | **(3,461,497)** | (1,463,141) |
| Depreciation and amortisation expense | 5 | **(1,523,187)** | (316,140) |
| Occupancy costs | | **(249,386)** | (442,872) |
| Advertising and promotion | | **(198,744)** | (75,797) |
| Other expenses | | **(236,516)** | (941,864) |
| Finance costs | 5 | **(823,952)** | (57,326) |
| Travel | | **(178,864)** | (77,032) |
| Impairment | 5 | **(786,243)** | (165,809) |
| | | **(28,852,059)** | (9,750,358) |
| **Loss before income tax** | | **(8,153,333)** | (4,382,820) |
| Income tax benefit | 6 | **841,384** | 9,999 |
| **Net Loss for the year** | | **(7,311,949)** | (4,372,821) |
| **Other Comprehensive income/(loss)** | | | |
| Other comprehensive loss net of tax | | **–** | – |
| **Total comprehensive loss attributable to members** | | **(7,311,949)** | (4,372,821) |
| Basic loss per share (cents per share) | 28 | **(2.02)** | (2.90) |
| Diluted loss per share (cents per share) | 28 | **(2.02)** | (2.90) |

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 2020

| | Note | 2020 $ | 2019 $ |
|---|---|---|---|
| **Current Assets** | | | |
| Cash and cash equivalents | 7(a) | **4,349,619** | 999,660 |
| Trade and other receivables | 8 | **7,422,720** | 218,767 |
| Prepayments | 9 | **1,381,921** | 292,264 |
| Inventories | 10 | **63,616** | 276,620 |
| Other asset | 11 | **779,888** | – |
| Current tax asset | 6 | **288,288** | 137,335 |
| **Total Current Assets** | | **14,286,052** | 1,924,646 |
| **Non-Current Assets** | | | |
| Plant and equipment | 12 | **862,719** | 510,309 |
| Intangibles | 13 | **7,618,949** | 977,510 |
| Goodwill | 14 | **15,964,917** | – |
| Other Asset | 11 | **158,402** | – |
| Deferred tax assets | 6 | **–** | 149,618 |
| Right of use assets | 15 | **3,920,481** | – |
| Other non-current assets | 16 | **466,582** | 257,229 |
| **Total Non-Current Assets** | | **28,992,050** | 1,894,666 |
| **Total Assets** | | **43,278,102** | 3,819,312 |
| **Current Liabilities** | | | |
| Trade and other payables | 17 | **7,468,588** | 1,765,342 |
| Other financial liabilities | 18 | **4,713,959** | 137,991 |
| Lease liabilities | 19 | **1,046,478** | 34,158 |
| Other liabilities | 20 | **2,651,341** | 614,691 |
| Provisions | 21 | **842,917** | 194,157 |
| **Total current liabilities** | | **16,723,283** | 2,746,339 |
| **Non-Current Liabilities** | | | |
| Other financial liabilities | 18 | **686,281** | 214,166 |
| Lease liabilities | 19 | **3,489,468** | 67,548 |
| Other liabilities | 20 | **128,501** | – |
| Borrowings | 22 | **3,636,860** | – |
| Provisions | 21 | **666,071** | 430,299 |
| Deferred tax liability | 6 | **1,440,176** | – |
| **Total Non-Current Liabilities** | | **10,047,357** | 712,013 |
| **Total Liabilities** | | **26,770,640** | 3,458,352 |
| **Net Assets** | | **16,507,462** | 360,960 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

| | Note | 2020 $ | 2019 $ |
|---|---|---|---|
| **Equity** | | | |
| Issued capital | 23 | **29,484,606** | 13,754,507 |
| Converting notes | 24 | **6,531,698** | – |
| Reserves | 25 | **1,840,523** | 772,900 |
| Accumulated losses | | **(21,349,365)** | (14,166,447) |
| **Total Equity** | | **16,507,462** | 360,960 |

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 2020

| | Issued capital $ | Converting notes $ | Reserves $ | Accumulated losses $ | Total $ |
|---|---|---|---|---|---|
| **At 1 July 2018** | **10,875,937** | **–** | **639,385** | **(9,793,626)** | **1,721,696** |
| Loss for the year | – | – | – | (4,372,821) | (4,372,821) |
| Other comprehensive income | – | – | – | – | – |
| **Total comprehensive loss for the year** | – | – | – | (4,372,821) | (4,372,821) |
| **Transactions with owners in their capacity as owners:** | | | | | |
| Issue of shares | 2,975,933 | – | (153,633) | – | 2,822,300 |
| Capital raising costs | (97,363) | – | – | – | (97,363) |
| Share based payments | – | – | 287,148 | – | 287,148 |
| **Total transactions with owners and other transfers** | 2,878,570 | – | 133,515 | – | 3,012,085 |
| **As at 30 June 2019** | **13,754,507** | **–** | **772,900** | **(14,166,447)** | **360,960** |
| | | | | | |
| **At 1 July 2019** | **13,754,507** | **–** | **772,900** | **(14,166,447)** | **360,960** |
| Impact of AASB 16 *Leases*, net of tax | – | – | – | 49,284 | 49,284 |
| Loss for the year | – | – | – | (7,311,949) | (7,311,949) |
| Other comprehensive income | – | – | – | – | – |
| **Total comprehensive loss for the year** | – | – | – | (7,262,665) | (7,262,665) |
| **Transactions with owners in their capacity as owners:** | | | | | |
| Issue of shares | 4,924,382 | – | – | – | 4,924,382 |
| Issue of convertible notes | – | 9,433,750 | – | – | 9,433,750 |
| Capital raising costs | (329,964) | (450,744) | – | – | (780,708) |
| Share based payments | 1,628,481 | – | 1,781,131 | – | 3,409,612 |
| Shares issued as part of business combination | 6,732,200 | – | – | – | 6,732,200 |
| Shares issued on conversion of convertible notes | 2,775,000 | (2,775,000) | – | – | – |
| Distributions to convertible note holders | – | 323,692 | – | (323,692) | – |
| Options expired | – | – | (403,439) | 403,439 | – |
| Deferred tax | – | – | (310,069) | | (310,069) |
| **Total transactions with owners and other transfers** | 15,730,099 | 6,531,698 | 1,067,623 | 79,747 | 23,409,167 |
| **As at 30 June 2020** | **29,484,606** | **6,531,698** | **1,840,523** | **(21,349,365)** | **16,507,462** |

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 2020

| | Note | 2020 $ | 2019 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of GST) | | **23,311,819** | 5,415,067 |
| Payments to suppliers and employees (inclusive of GST) | | **(26,170,479)** | (8,266,862) |
| Other income | | **166,081** | 26,382 |
| Interest received | | **9,429** | 15,989 |
| Interest and other finance costs paid | | **(415,940)** | – |
| Research and development tax concession | | **–** | 288,330 |
| Income tax paid | | **(150,953)** | – |
| **Net cash (used in) operating activities** | 7(b) | **(3,250,043)** | (2,521,094) |
| **Cash flows from investing activities** | | | |
| Purchase of plant and equipment | | **(72,501)** | (27,776) |
| Development costs capitalised | | **(82,465)** | (418,453) |
| Business acquisitions net of cash acquired | 26 | **(10,171,138)** | – |
| **Net cash (used in) investing activities** | | **(10,326,104)** | (446,229) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | | **4,924,382** | 2,481,000 |
| Cost of issuing shares | | **(187,630)** | (97,364) |
| Proceeds from borrowings | 22 | **4,920,000** | – |
| Proceeds from converting notes | 24 | **8,995,000** | – |
| Cost of issuing convertible notes | | **(11,994)** | |
| Payments of lease liabilities | | **(751,386)** | – |
| Payment of deferred settlement liability | | **(962,266)** | (133,874) |
| **Net cash (used in) / provided by financing activities** | | **16,926,106** | 2,249,762 |
| **Net (decrease) / increase in cash held** | | **3,349,959** | (717,561) |
| Cash and cash equivalents at the beginning of the year | | **999,660** | 1,717,221 |
| **Cash and cash equivalents at the end of the year** | 7(a) | **4,349,619** | 999,660 |

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

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 1. BASIS OF PREPARATION

These financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations and the *Corporations Act 2001*, as appropriate for-profit oriented entities.

The financial statements cover Tesserent Limited ("the Company") and its controlled entities as a consolidated entity ("the Group") for the year ended 30 June 2020. The Company is a company limited by shares that are publically traded on the Australian Stock Exchange, incorporated and domiciled in Australia.

Separate financial statements for Tesserent Limited as an individual entity are no longer presented as a consequence of a change to the *Corporations Act 2001*, however limited financial information for Tesserent Limited as an individual entity is included in Note 31.

Except for the Statement of Cash Flows, the financial statements have been prepared on the accruals basis.

The financial statements were authorised for issue by the Directors on 30 September 2020.

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.

### (a) Basis of Preparation of the Financial Statements

*Compliance with IFRS*
The financial statements comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

*Historical Cost Convention*
The financial statements have been prepared under the historical cost convention, modified where appropriate by the measurement of fair value of selected non-current assets. All amounts are presented in Australian dollars unless otherwise noted.

### (b) Comparatives

Where necessary, comparative information has been reclassified and repositioned for consistency with current year disclosures.

### (c) Going concern

For the year ended 30 June 2020 the Group made a net loss for the year of $7,311,949 (2019: $4,372,821) and had cash outflows from operations of $3,250,043 (2019: $2,521,094). Current liabilities exceeded current assets by $2,437,231. The group's cash reserves amounted to $4,349,619 and trade and other receivables amounted to $7,422,720, whilst current trade and other payables amounted to $7,368,588.

Subsequent to the financial year the Group secured additional debt funding on its PAM facility of $10 million with a maturity of 48 months from drawdown. The Group have completed further business combinations since the year end, using a mixture of cash and equity as detailed in Note 35. The businesses acquired will add to the cash flows of the Group. The cash consideration will be financed via the existing debt facility the Group.

Management has considered the impacts of Government restrictions in response to the COVID-19 pandemic. The measures taken have impacted how the Group's employees operate and how the Group operates. Whilst this has proven disruptive, the Group has continued to trade and is able to meet ongoing customer contract obligations, and source and service new sales contracts. The Group's supply chain has also been disrupted but not to the extent that the Group is unable to deliver products and services. Management has fully considered the impact of the pandemic when considering the Group's ability to continue as a going concern.

The Group budgets and cash flow forecasts take into account expected trading performance and the Directors believe that the Group will continue to meet its obligations as and when they fall due, with positive forecast operational cash flows contributing to cash reserves. The Group does not expect to require any additional debt funding other than the additional PAM funding facility (refer Note 22 and Note 35), and expects to raise additional funding through the exercise of share options as the Group's share price continues to perform on the Australian Stock Exchange.

On the basis of this information, the Directors have a reasonable expectation that the business has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing this financial report.

### (d) 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 judgements | Note |
|---|---|
| Revenue recognition | 4 |
| Income taxes | 6 |
| Impairment of intangible assets | 13 |
| Impairment of goodwill | 14 |
| Valuation of Right-of-use assets and depreciation charges | 15 |
| Estimation of lease liabilities, right-of-use assets and interest charges | 19 |
| Borrowing costs | 22 |
| Share based payments | 25 |
| Business combinations | 26 |

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 1. BASIS OF PREPARATION (CONTINUED)

### (e) Significant accounting policies

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

### (i) Principles of consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent Tesserent Limited and all of the subsidiaries. Subsidiaries are entities the parent controls. A list of the subsidiaries is provided in Note 27.

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.

### (f) New, Revised or Amending Accounting Standards and Interpretations Adopted

The Company has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") that are relevant to its operations and effective for the year.

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

*AASB 16 'Leases'*

The Group has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets and an interest expense on the recognised lease liabilities (included in finance costs).

The group has adopted AASB 16 using the modified retrospective approach from 1 July 2019, as such has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening Statement of Financial Position on 1 July 2019.

In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

The impact on the financial performance and position of the consolidated entity from the adoption of AASB 16 is detailed below:

*Right of use assets*

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any re-measurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

*Lease liabilities*

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate.

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 1. BASIS OF PREPARATION (CONTINUED)

Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

*Impact on transition*
On transition to AASB 16, the Group recognised the right-of-use assets and lease liabilities. The impact on transition is summarised below.

| | 1 July 2019<br>$ |
|---|---|
| Right-of-use assets | 1,262,441 |
| Lease liabilities | (1,666,308) |
| Reverse lease incentive | 332,540 |
| Deferred tax asset | 120,611 |
| Accumulated losses | 49,284 |

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 July 2019. The weighted average rate applied is 4.00%.

| | 1 July 2019<br>$ |
|---|---|
| **Lease liability recognised as at 1 July 2019** | |
| Being: | |
| – Current lease liabilities | 371,427 |
| – Non-current lease liabilities | 1,294,881 |
| | 1,666,308 |

| | $ |
|---|---|
| Operating lease commitments disclosed at 30 June 2019 | 1,815,959 |
| Add: adjustments for liability discounted using the incremental borrowing rate at an initial date of application and adjustments as a result of different treatment of extension and termination options | (149,651) |
| Lease liability recognised at 1 July 2019 | 1,666,308 |

### (g) New, Revised or Amending Accounting Standards and Interpretations Not Yet Adopted

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 annual reporting period ended 30 June 2020. The consolidated entity has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

### (h) Rounding of amounts

The Company is of a kind referred to in the Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to "rounding off". Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest dollar.

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 2. ADJUSTMENTS TO PRELIMINARY FINANCIAL STATEMENTS

On 31 August 2020 the Group released its unaudited Appendix 4E Preliminary Financial Statements, with a reported loss after tax of $7,854,426 and net assets of $18,861,523. Subsequent to filing the report the Group has identified a number of adjustments that impact the result. The adjustments and impacts are as follows:

| | Loss after tax $ | Net assets $ |
|---|---|---|
| **Reported in the Appendix 4E Preliminary Report** | **(7,854,426)** | **18,861,523** |
| Additional accrual of consulting and other advisor fees | (190,000) | (190,000) |
| Accrual of credit note | (81,000) | (81,000) |
| Remove sale and related costs of contracted sale with future performance obligations | (60,260) | (60,261) |
| Reverse share-based payment expense related to share options issued attaching to equity instruments | 911,218 | – |
| Share based payment previously not recognised | (37,481) | – |
| Amendment to Goodwill arising from adjustment to value of consideration paid in business combinations | – | (2,022,800) |
| **Final Audited Financial Report** | **(7,311,949)** | **16,507,462** |

In addition the cash flow statement was recast to ensure accuracy and the following amendments noted:

| | Appendix 4E Preliminary Report $ | Final Audited Financial Report $ |
|---|---|---|
| Cash used in operations | (2,239,757) | (3,250,043) |
| Cash used in investing activities | (11,350,124) | (10,326,104) |
| Cash from financing activities | 16,939,840 | 16,926,106 |
| | **3,349,959** | **3,349,959** |

The differences resulted from the mis-allocation of equity receipts to operating receipts, and the omission of cash acquired in Business Combinations in investing activities.

## 3. OPERATING 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. Three operating segments have been identified: Pure Security Group, North and IT Security Managed Services. In previous financial periods two Operating Segments were identified. These have been amalgamated into the IT Security Managed Services segment.

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

| 2020<br>Revenues from contracts | Pure Security Group $ | North $ | IT Security Managed Services $ | Inter Segment $ | Total $ |
|---|---|---|---|---|---|
| Managed services | – | – | 5,574,443 | – | 5,574,443 |
| Software sales | 1,503,191 | – | – | – | 1,503,191 |
| Consulting | 3,800,361 | 4,072,561 | – | – | 7,872,922 |
| Penetration testing | 5,272,660 | – | | | 5,272,660 |
| Inter segment sales | – | – | 247,793 | (247,793) | – |
| Total sales revenue | 10,576,212 | 4,072,561 | 5,822,236 | (247,793) | 20,223,216 |
| Other revenue | 53,645 | 65,326 | 56,539 | – | 175,510 |
| **Total revenue and other income** | **10,629,857** | **4,137,887** | **5,878,775** | **(247,793)** | **20,398,726** |

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 3. OPERATING SEGMENTS (CONTINUED)

| 2020<br>Revenues from contracts | Pure Security Group<br>$ | North<br>$ | IT Security Managed Services<br>$ | Inter Segment<br>$ | Total<br>$ |
|---|---|---|---|---|---|
| EBITDA | 543,129 | 797,595 | (4,892,696) | – | (3,551,972) |
| Depreciation and amortisation | (790,744) | (69,796) | (662,647) | – | (1,523,187) |
| Impairment – intangible asset | – | – | (786,243) | – | (786,243) |
| Finance expense | (102,772) | (8,073) | (713,107) | | (823,952) |
| Share-based payments expense | – | – | (1,467,979) | | (1,467,979) |
| **Profit /(loss) before income tax expense** | **(350,387)** | **719,726** | **(8,522,672)** | **–** | **(8,153,333)** |
| Income tax benefit | | | | | 841,384 |
| Loss after income tax | | | | | (7,311,949) |
| Total segment assets | 27,392,938 | 10,724,210 | 5,160,954 | – | 43,278,102 |
| Included in non-current assets: | | | | | |
| Acquisition of other non-current assets | | | | | |
| – Property plant and equipment | 525,957 | 39,493 | 23,084 | – | 588,534 |
| – Intangible assets | 5,882,000 | 2,155,000 | 82,465 | – | 8,119,465 |
| – Goodwill | 11,263,562 | 4,701,355 | – | – | 15,964,917 |
| **Total segment liabilities** | **10,077,793** | **2,892,590** | **13,800,257** | **–** | **26,774,640** |

| 2019<br>Revenues | IT Security Managed Services (i)<br>$ | Software Licensing (i)<br>$ | Inter Segment Eliminations<br>$ | Totals<br>$ |
|---|---|---|---|---|
| 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 |
| EBITDA and share based payments | (3,366,575) | 95,077 | – | (3,271,498) |
| Depreciation and amortisation | (316,140) | – | – | (316,140) |
| Impairment | (165,809) | – | – | (165,809) |
| Finance expense | (57,326) | – | – | (57,326) |
| Share-based payments expense | (572,047) | – | – | (572,047) |
| **Profit/(loss) before income tax** | (4,477,897) | 95,077 | – | (4,382,820) |
| Income tax benefit | | | | 9,999 |
| Loss after income tax | | | | (4,372,821) |
| **Total segment assets** | 3,016,688 | 802,625 | – | 3,819,313 |
| *Included in non-current assets:* | | | | |
| Acquisition of other non-current assets | | | | |
| Property plant and equipment | 27,776 | – | – | 27,776 |
| Intangible assets | 418,453 | – | – | 418,453 |
| **Total segment liabilities** | 3,294,416 | 163,936 | – | 3,458,352 |

(i) The two operating segments identified in the 2019 financial report have been incorporated into the IT Security Managed Services operating segment in the current financial year.

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 3. OPERATING SEGMENTS (CONTINUED)

*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.

*Geographical information*
All sales and operations are Australian based.

*Major customers*
During the year ended 30 June 2020, approximately $4,072,561 (2019: $nil) of the consolidated entity's external revenue was derived from sales to the Australian Government through the North segment.

## 4. REVENUE

| | 2020 | 2019 |
|---|---|---|
| *Revenue from contracts* | | |
| Managed Services | **5,574,443** | 5,260,272 |
| Software licences | **1,503,191** | – |
| Consulting fees | **7,872,922** | – |
| Penetration testing | **5,272,660** | – |
| Sales revenue | **20,223,216** | 5,260,272 |
| *Other income* | | |
| Government grant income | **100,000** | – |
| Research and development tax concessions | **–** | 137,335 |
| Interest | **8,106** | 15,989 |
| Reversal of R&D overaccrual in previous periods | **–** | (72,925) |
| Other | **67,404** | 26,867 |
| Other income | **175,510** | 107,266 |

### Significant accounting policy

*Revenue from contracts with customers – General principles*
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.

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 4. REVENUE (CONTINUED)

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.

*Revenue from contracts – Managed 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 performance obligation identified in the sales contract are performed. Related costs of the performance obligations are recognised on completion of the performance obligation. Costs arising from incomplete performance obligations are capitalised into contract assets. Revenue invoice for incomplete performance obligations is recognised as a liability in unearned revenue.

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.

*Revenue from contracts – Consulting services*
Revenue from the sale of consulting services is recognised as performance obligations set out in the contract of sale are performed as outlined above. Where no contract is in place revenue is recognised as the service is consumed by the customer. Unbilled consulting services are recognised as work in progress. Services invoiced in advance of completion are recorded as a liability as unearned income.

*Revenue from contracts – Sale of Splunk software licences*
Splunk software licences income is recognised on an agency basis. The Group sells the licence and bills customers the full cost, including its agency fee. The related cost of the Splunk licence is offset against the Splunk software licence income recognised.

*Revenue from services – Penetration Testing*
Revenue from Penetration Testing is recognised as performance obligations set out in the contract of sale are performed as outlined above. Penetration testing contracts involve performance obligations that are completed in timelines provided within the contract. Revenue is allocated to performance obligations based on costs associated with the performance obligation and relative value to the customer. Unbilled penetration testing services are recognised as work in progress. Services invoiced in advance of completion are recorded as a liability as unearned income.

*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.

### Critical accounting estimates and assumptions

When recognising revenue in relation to the sale of goods to customers, the key performance obligation of the consolidated entity is considered to be the point of delivery of the goods and services to the customer, as this is deemed to be the time that the customer obtains control of the promised goods and therefore the benefits of unimpeded access. The Group's revenue is derived from the provision of software licences, hardware and consulting services, over multiple periods. In applying the requirements of AASB 15 *Revenue from Contracts with Customers* the Groups has had to make assumptions around future billing and completion of future performance obligations.

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 5. EXPENSES

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

| | 2020 | 2019 |
|---|---|---|
| *Employee benefits expense* | | |
| Defined contributions superannuation costs | **1,076,856** | 192,003 |
| Research and development costs | **–** | 315,714 |
| *Bad and doubtful debts expense* | | |
| Trade and other receivables | **280,804** | 39,183 |
| *Leases* | | |
| Minimum lease payments (AASB 117) | **–** | 411,733 |
| *Finance costs* | | |
| Interest and finance charges paid/payable on borrowings | **604,145** | 53,100 |
| Interest and finance charges paid/payable on lease liabilities | **139,447** | – |
| Other finance costs | **80,360** | 4,226 |
| Finance costs expensed | **823,952** | 57,326 |
| *Depreciation* | | |
| Property plant and equipment | **231,567** | 141,349 |
| *Amortisation* | | |
| Intangible assets | **691,783** | 174,791 |
| Right of use asset | **599,837** | – |
| Amortisation expense | **1,291,620** | 174,791 |
| Depreciation and amortisation expense | **1,523,187** | 316,140 |
| *Impairment* | | |
| Call option investment | **–** | 165,809 |
| Intangible assets | **786,243** | – |
| | **786,243** | 165,809 |

## 6. INCOME TAX EXPENSE

| | 2020 $ | 2019 $ |
|---|---|---|
| **(a) Income tax expense** | | |
| Current tax expense | **–** | – |
| Deferred tax movements | **(841,384)** | (9,999) |
| | **(841,384)** | (9,999) |
| **(b) Reconciliation of income tax expense to prima facie tax on accounting loss** | | |
| Loss before income tax expense | **(8,153,333)** | (4,382,820) |
| Tax expense at Australian tax rate of 27.5% | **(2,241,167)** | (1,205,275) |
| Tax effect of amounts relating to | | |
| – Share based payments | **215,363** | 157,313 |
| – Current year tax losses not recognised | **467,415** | 937,009 |
| – Other (non-deductible)/assessable items | **728,288** | 113,333 |
| – Prior year adjustments | **(11,283)** | (81,487) |
| – Tax offset for R&D claim | **–** | 69,108 |
| Tax benefit | **(841,384)** | (9,999) |

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 6. INCOME TAX EXPENSE (CONTINUED)

| | 2020 $ | 2019 $ |
|---|---|---|
| **(c) Deferred tax assets/(liabilities)** | | |
| Deferred tax assets comprise temporary differences attributable to: | | |
| Share issue costs | **(217,177)** | 165,945 |
| Provisions | **755,612** | 168,589 |
| Intangible assets | **(2,028,493)** | (176,813) |
| Right of use assets and liabilities | **175,949** | (8,103) |
| Other | **(126,067)** | – |
| | **(1,440,176)** | 149,618 |

**Movement in deferred tax balances**

| | Share issue costs | Provisions | Intangible assets | Right of use assets and liabilities | Other | Total |
|---|---|---|---|---|---|---|
| As at 1 July 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 |
| AASB 16 adjustment | – | – | – | 120,613 | – | 120,613 |
| Acquired upon business combination | – | 464,841 | (2,210,395) | 40,484 | (547,194) | (2,252,264) |
| Charged to profit or loss | (72,312) | 122,182 | 358,715 | 14,852 | 417,947 | 841,384 |
| Charged through equity | (310,810) | – | – | – | – | (310,810) |
| Overprovision in previous years | – | – | – | – | 11,283 | 11,283 |
| As at 30 June 2020 | (217,177) | 755,612 | (2,028,493) | 175,949 | (126,067) | (1,440,176) |

### (d) Tax losses

| | 2020 $ | 2019 $ |
|---|---|---|
| Unused tax losses for which no deferred tax asset has been recognised | **13,059,668** | 8,709,637 |
| **Potential tax benefit at 27.5%** | **3,591,409** | 2,395,150 |

Carried forward tax losses have not brought to account as a deferred tax asset. 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.

### (e) Franking credits

| | 2020 $ | 2019 $ |
|---|---|---|
| Franking credits available for subsequent financial years based on a tax rate of 27.5% | **25,673** | 25,673 |
| | **25,673** | 25,673 |

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 6. INCOME TAX EXPENSE (CONTINUED)

| | 2020 $ | 2019 $ |
|---|---|---|
| **(f) Current tax asset** | | |
| Research and tax concession (30 June 2019 financial year) | **137,335** | 137,335 |
| Tax paid on account | **150,953** | – |
| | **288,288** | 137,335 |

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.

**Significant accounting policy**

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.

**Critical accounting estimates and assumptions**

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.

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 7. CASH AND CASH EQUIVALENTS

### (a) Cash and cash equivalents

| | 2020 $ | 2019 $ |
|---|---|---|
| Cash at bank | **4,349,619** | 999,660 |

**Significant Accounting Policies**
Cash and cash equivalents include cash on hand and at banks, short-term deposits with an original maturity of three months or less held at call with financial institutions, and bank overdrafts.

**Financial Instrument Risk Management**
The main risks arising from cash and cash equivalents is interest rate risk. The Directors manage risk by monitoring levels of exposure to interest rate and consider cash requirements in relation to ongoing cash flow budgets.

*Interest Rate Risk*
Exposure to interest rate risk arises on financial instruments whereby a future change in interest rates will affect future cash flows of variable rate financial instruments. At 30 June 2020, the Company cash and cash equivalents was held in variable rate bank accounts. The risk attached to the interest income for the year ended 30 June 2020 was not considered significant.

*Credit Risk*
The Group banks with reputable institutions with credit worthiness appropriate to mitigate credit risk associated to the bank deposits. Credit risk is managed by the Board in accordance with its policy.

*Fair value*
The fair value of the cash balances approximates fair value due to the short-term nature of the deposits.

### (b) Reconciliation of operating cash flows to operating result

| | 2020 $ | 2019 $ |
|---|---|---|
| Operating loss after income tax: | **(7,311,949)** | (4,372,821) |
| Share based payments | **1,467,979** | 572,047 |
| Depreciation and amortisation | **1,523,187** | 316,993 |
| Impairment of non-current assets | **786,243** | 165,809 |
| Bad debts | **280,804** | 39,183 |
| Loss on disposal of non-current asset | **4,860** | – |
| Non-cash finance charges | **386,894** | – |
| Change in net operating assets and liabilities: | | |
| (Increase) / decrease in receivables | **(1,652,527)** | 125,427 |
| (Increase) / decrease in inventories | **213,004** | (220,927) |
| (Increase) / decrease in contract assets | **(401,159)** | – |
| (Increase) / decrease in current tax asset | **(150,953)** | 223,921 |
| (Increase) / decrease in other assets | **(174,775)** | 133,612 |
| (Increase) / decrease in deferred tax balances | **(851,926)** | (9,999) |
| Increase / (decrease) in trade and other payables | **1,132,958** | 545,531 |
| Increase / (decrease) in contract liabilities | **(633,349)** | (64,101) |
| Increase / (decrease) in unearned income | **1,988,055** | – |
| Increase / (decrease) in provisions | **142,611** | 24,231 |
| Net cash inflow/(outflow) from operating activities | **(3,250,043)** | (2,521,094) |

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 8. TRADE AND OTHER RECEIVABLES

| | 2020 $ | 2019 $ |
|---|---|---|
| Trade receivables | **7,421,303** | 279,135 |
| Allowance for expected credit losses | **(81,417)** | (60,368) |
| | **7,339,886** | 218,767 |
| Other receivables | **82,834** | – |
| Total trade and other receivables | **7,422,720** | 218,767 |
| *Amounts past due that are unimpaired:* | | |
| Past due (30 to 60 days) | **1,327,755** | 107,128 |
| Past due (60 to 90 days) | **770,439** | 21,934 |
| Past due (90 to 120 days) | **230,804** | 5,815 |
| Past due (over 120 days) | **597,828** | 68,027 |
| Total past due and unimpaired | **2,926,826** | 202,904 |
| Total unimpaired receivables | **7,339,886** | 218,767 |
| Unimpaired past due as a percentage of total unimpaired receivables | **40%** | 93% |
| Unimpaired past due 30 days and over as a percentage of unimpaired receivables | **22%** | 44% |

*Reconciliation of allowance for expected credit losses*

| | 2020 $ | 2019 $ |
|---|---|---|
| Opening allowance | **60,368** | 21,185 |
| Provision on debtors acquired in business combination | **19,482** | – |
| Additional allowance | **341,172** | 127,767 |
| Write back of allowance | **(60,368)** | (88,584) |
| Receivables written off as uncollectible | **(279,237)** | – |
| Closing allowance | **81,417** | 60,368 |

### Significant Accounting Policies

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.

### Financial Instrument Risk management

The main risk arising from trade and other receivables is 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 reporting 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.

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.

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

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 8. TRADE AND OTHER RECEIVABLES (CONTINUED)

### Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The maximum exposure to credit risk for trade and other receivables is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The consolidated entity does not hold any collateral. The entity considers a receivable as impaired once all efforts to recover an amount have been exhausted, including referring to debt collection or statutory action where appropriate.

## 9. PREPAYMENTS

| | 2020 $ | 2019 $ |
|---|---|---|
| Connectivity services | **1,008,027** | 66,180 |
| Subscriptions | **279,696** | 207,400 |
| Other | **94,198** | 18,684 |
| Prepayments | **1,381,921** | 292,264 |

Prepaid cost of goods sold relate mostly to prepaid connectivity costs.

## 10. INVENTORIES

| | 2020 $ | 2019 $ |
|---|---|---|
| Inventory | **63,616** | 276,620 |

### Significant Accounting Policies

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 2020 there had been no write downs and all inventories are stated at cost. (2019:$nil).

## 11. OTHER ASSETS

| | 2020 $ | 2019 $ |
|---|---|---|
| *Current* | | |
| Other assets | **779,888** | – |
| *Non-current* | | |
| Other assets | **158,402** | – |

Other assets are contract amounts to be invoiced by the Group to a customer in relation to sale of software licensing, in particular, Splunk software. The Group is an agent in relation to the sale of Splunk software and licensing. Contract assets relate to amounts that the Company will invoice in the future from prior software and licensing sales. Related Contract liabilities are contained in Note 20.

### Significant Accounting Policies

Contract assets are recorded in accordance with the Group's revenue recognition accounting policy outlined in Note 4.

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 12. PLANT AND EQUIPMENT

| 2020 | Furniture & Fittings $ | Hardware employed $ | Leasehold improvement $ | Plant & equipment $ | Motor vehicles $ | Total $ |
|---|---|---|---|---|---|---|
| Cost | 157,157 | 374,758 | 908,732 | 594,138 | 3,475 | 2,038,260 |
| Accumulated dep'n | (70,718) | (367,341) | (267,981) | (469,089) | (412) | (1,175,541) |
| Net book value | 86,439 | 7,417 | 640,751 | 125,049 | 3,063 | 862,719 |
| Opening net book value | 58,421 | 12,951 | 369,109 | 69,828 | – | 510,309 |
| Additions through business combinations | 20,723 | – | 399,444 | 91,367 | 3,475 | 515,009 |
| Additions | 23,506 | 4,423 | – | 45,596 | – | 73,525 |
| Disposals | (1,007) | – | (2,487) | (1,063) | – | (4,557) |
| Depreciation charge | (15,204) | (9,957) | (125,315) | (80,679) | (412) | (231,567) |
| Net book value | 86,439 | 7,417 | 640,751 | 125,049 | 3,063 | 862,719 |

| 2019 | Furniture & Fittings $ | Hardware employed $ | Leasehold improvement $ | Equipment for lease $ | Plant & equipment $ | Total $ |
|---|---|---|---|---|---|---|
| Cost | 113,935 | 370,335 | 512,033 | 16,177 | 442,062 | 1,454,542 |
| Accumulated dep'n | (55,514) | (357,384) | (142,924) | (16,177) | (372,234) | (944,233) |
| Net book value | 58,421 | 12,951 | 369,109 | – | 69,828 | 510,309 |
| 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 value | 58,421 | 12,951 | 369,109 | – | 69,828 | 510,309 |

### Significant Accounting Policies

*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.

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 12. PLANT AND EQUIPMENT (CONTINUED)

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

| Class of fixed asset | Depreciation rate |
|---|---|
| Furniture and fittings | 10% to 100% |
| Hardware employed | 66.67%% |
| Leasehold improvements | 14.3% |
| Plant & equipment | 7.5% to 66.67% |
| Motor vehicle | 20% |

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.

## 13. INTANGIBLES

| 2020 | Customer contracts and relationships | Intellectual property $ | Software (T-Rex) $ | Total |
|---|---|---|---|---|
| Cost | 8,037,000 | 22,607 | 2,112,432 | 10,172,039 |
| Accumulated impairment (i) | – | – | (786,243) | (786,243) |
| Accumulated depreciation | (440,658) | – | (1,326,189) | (1,766,847) |
| Net book value | 7,596,342 | 22,607 | – | 7,618,949 |
| Opening net book value | – | 22,607 | 954,903 | 977,510 |
| Capitalised development costs | – | – | 82,465 | 82,465 |
| Additions through business combinations | 8,037,000 | – | – | 8,037,000 |
| Amortisation charge | (440,658) | – | (251,125) | (691,783) |
| Impairment (i) | | – | (786,243) | (786,243) |
| Net book value | 7,596,342 | 22,607 | – | 7,618,949 |

| 2019 | Intellectual property $ | Software (T-Rex) $ | Total |
|---|---|---|---|
| Cost | 22,607 | 1,252,592 | 1,275,199 |
| Accumulated dep'n | – | (297,689) | (297,689) |
| Net book value | 22,607 | 954,903 | 977,510 |
| Opening net book value | 22,607 | 711,241 | 733,848 |
| Additions – capitalised development costs | – | 418,453 | 418,453 |
| Amortisation charge | – | (174,791) | (174,791) |
| Net book value | 22,607 | 954,903 | 977,510 |

(i) Impaired software asset relates to the IT Security Managed Services segment (Note 3)

### Significant Accounting Policies

*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.

## 13. INTANGIBLES (CONTINUED)

*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.

The carrying value of Group's "T-Rex" development asset has been fully impaired on the basis that the Group will not be developing the software any further and do not expect to generate sufficient income in the future to support its carrying value.

*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.

### Critical accounting estimates and assumptions

*Cost of Customer contracts and relationships*
The carrying value of the Customer contracts and relationships acquired through business combinations were valued in accordance with the AASB 3 *Business combinations* and AASB 138 *Intangibles*. No cost had previously been attributed to the intangible assets as they related to internally generated intangible assets that were not easily measurable.

The carrying values of the assets have been included in the CGUs in which they reside, which have been tested for impairment in accordance with AASB 136 *Impairment*. The critical accounting estimates and assumptions used in the impairment review are outlined in Note 14 Goodwill.

*Amortisation of Customer contracts and relationships*
The ability to sell security solutions and consulting relies heavily on the relationships with customers and performance of solutions when in place. Accordingly, the ability to cultivate positive relationships is expected to provide a basis for the generation of future revenue from the renewal of licence fees, upgrades and the upsale of different solutions. The Group used an independent valuer to consider the Purchase Price Allocation in the business combination.

The attrition rate of the relationships have been estimated by management to determine the amortisation rate of the Customer contracts and relationships. The estimate is based on past experience and expected impacts of the market maturing and both customers and supplying being more stable. Accordingly management has estimated an amortisation period of 10 years for customer contracts and relationships.

## 14. GOODWILL

Goodwill acquired through business combinations has been allocated to the following cash-generating units

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| Pure Security Group | 11,263,562 | – |
| North Group | 4,701,355 | – |
| | 15,964,917 | – |

*In addition to the above, the Group also has a Tesserent Managed Services CGU. No goodwill or intangible assets are attributable to this CGU at 30 June 2020. Pure Security Group includes Rivium and Pure Security acquired during the year. Refer to Note 26 for Business Combinations.*

### Significant Accounting Policies

*Recognition and measurement*
Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 14. GOODWILL (CONTINUED)

Goodwill on acquisitions of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the net identifiable assets acquired.

Gains and losses on the disposal of subsidiaries, joint ventures and associated companies include the carrying amount of goodwill relating to the entity sold.

*Impairment of non-financial assets*
Goodwill and other 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.

### Critical accounting estimates and assumptions

The recoverable amount of the consolidated entity's goodwill has been determined by a value-in-use calculation using a discounted cash flow model, based on a 12 month projection period approved by the Board and management and extrapolated for a further 4 years using steady growth rates, risk based discount rates and a terminal value.

Key assumptions are those to which the recoverable amount of an asset or cash-generating units is most sensitive.

| Input | Pure Security Group | North |
|---|---|---|
| Forecast period | 5 years from 1 July 2020 | 5 years from 1 July 2020 |
| Projections | Base case | Base case |
| CGU Carrying value of net assets | $17,315,145 | $7,831,620 |
| Revenue growth rate - post year 1 | 10% per annum | 10% per annum |
| EBITDA as % of revenue | 10.1% | 12.5% |
| Discount rate (post-tax) | 14.45% | 14.45% |
| Discount rate (pre-tax) | 20.76% | 19.31% |
| Terminal growth rate | 2.50% | 2.50% |
| Estimated value in use | $20,359,421 | $15,547,078 |

The discount rates reflect management's estimate of the time value of money and the consolidated entity's weighted average cost of capital adjusted for the Pure Security Group CGU and North CGU, the risk free rate and the volatility of the share price relative to market movements.

Management believes the projected 10% revenue growth rate is justified for the North CGU based on experience and forecasts of the growth of the market for cyber security services and the Group's share of the market. Compared to revenue growth, management have estimated an increase in operating costs and overheads at a consistent rate, whereby the expected EBITDA% of 12.5% is consistent over the 5 year period.

Management believes the projected 10% revenue growth rate for the Pure Security Group CGU is justified based on experience and forecasts of the growth of the market for cyber security services and the Group's share of the market. Compared to the revenue growth, management have estimated an increase in operating costs and overheads at a consistent rate, whereby the expected EBITDA% of 10.1% is consistent over the 5 year period.

Based on the value in use estimates using a discounted cash flow model, the carrying values of the CGUs, and the Goodwill therein, are not impaired.

*Sensitivity*
As noted above, the directors have made judgements and estimates in respect of impairment testing of goodwill. Should these judgements and estimates not occur the resulting goodwill carrying amount may decrease. The sensitivities that management has considered are as follows:

### North Group

The value in use estimate exceeds the carrying value of the CGUs by a significant amount. It is therefore not considered particularly sensitive to the variances in inputs.

## 14. GOODWILL (CONTINUED)

### Pure Security Group

A variance in a number of inputs would result in a reduction of the value in use estimate to a level below that of the carrying value of the CGU. The most notable sensitivities were as follows:

- A reduction in the revenue growth rate;
- A reduction in the estimated EBITDA;

If Revenue growth reduced from 10% to 9% and EBITDA reduced to 9.4% then there would be an impairment. Any impairment would in the first instance be applied to the Goodwill balance.

As part of the sensitivity analysis for the Pure Security Group CGU, management have sensitised the Base Case assumptions outlined above as follows, using a pre-tax discount rate of 20.75% and a terminal growth rate of 2.5% across all scenarios, and a probability weighting to a range of outcomes:

| Approach | Revenue Growth | EBITDA % | Probability % | Value in use |
|---|---|---|---|---|
| Base case | 10% | 10.1% | 50% | 21,874,800 |
| Scenario 1 | 9% | 9.4% | 20% | 15,732,700 |
| Scenario 2 | 8% | 8.7% | 15% | 13,307,900 |
| Scenario 3 | 7% | 8.0% | 10% | 11,004,600 |
| Scenario 4 | 6% | 7.4% | 3% | 8,818,800 |
| Scenario 5 | 5% | 6.7% | 2% | 6,746,500 |
| Probability weighted value in use calculation | | | | 17,536,000 |
| CGU carrying value of net assets | | | | 17,315,145 |

Management concluded the recoverable amount resulting from the value in use methodology is appropriate in supporting the carrying value of the Pure Security Group CGU and no impairment was recognised during the year ended 30 June 2020.

## 15. RIGHT OF USE ASSETS

| Right of use asset – building leases | 2020 $ | 2019 $ |
|---|---|---|
| Cost | 5,337,191 | – |
| Accumulated amortisation | (1,416,710) | – |
| | 3,920,481 | – |
| Cost as at 1 July 2019 | 2,079,314 | – |
| Accumulated amortisation at 1 July 2019 | (816,873) | – |
| | 1,262,441 | – |
| Additions from business combinations | 3,257,877 | |
| Amortisation charge | (599,837) | – |
| | 3,920,481 | – |

Building leases comprise office and operational workspace leased on long term leases. Included in the cost are leases acquired on business combinations as follows:

| | 2020 $ | 2019 $ |
|---|---|---|
| Pure Security Group | 2,715,956 | – |
| North | 541,921 | – |
| | 3,257,877 | – |

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 15. RIGHT OF USE ASSETS (CONTINUED)

### Significant Accounting Policies

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any re-measurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

### Critical accounting assumptions and estimates

The Group has applied the principles required by AASB 16 in estimating the cost of the Right of Use asset. To do this the Group has estimated the Net Present Value of all future lease payments relating to each Right of Use asset. The estimate of Net Present Value necessarily requires the estimate of a borrowing rate to apply to the lease payments. In estimating the borrowing rate, the Group has used 4%, equating to the borrowing costs relating to the PAM facility. This estimate of the cost impacts the carrying value and the depreciation charge during the year. An adjustment to the borrowing rate would change both the carrying value of the asset and the depreciation charge for the year.

In preparing the estimates to value Right of Use assets, options to extend the lease have not been included in the calculation as it is not probable that leases will be extended under existing terms.

## 16. OTHER NON-CURRENT ASSETS

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| Security bonds and deposits | **465,360** | 256,007 |
| Other | **1,222** | 1,222 |
| | **466,582** | 257,229 |

## 17. TRADE AND OTHER PAYABLES

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| Trade payables | **3,188,747** | 908,794 |
| Accruals and other payables | **4,279,841** | 856,548 |
| | **7,468,588** | 1,765,342 |

### Significant Accounting Policies

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services.

### Financial Instrument Risk Management

The main risks arising from trade and other payables is liquidity risk. The Directors manage risk by monitoring levels of obligations arising from liabilities and commitments and consider cash requirements in relation to ongoing cash flow budgets.

*Liquidity Risk*

All payables are current and payable within 30 days. Accordingly, management has ensured that the Company has sufficient cash resources to meet the liabilities as and when they are due.

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 18. OTHER FINANCIAL LIABILITIES

| | 2020 $ | 2019 $ |
|---|---|---|
| Deferred settlement liability – current | **4,713,959** | 137,991 |
| Deferred settlement liability – non-current | **686,281** | 214,166 |
| | **5,400,240** | 352,157 |

### Significant Accounting Policies

*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 reporting date, the deferred settlement liability will be recorded as a current liability. The balance is represented as non-current. Details of deferred settlement liabilities are outlined in Note 26 Business Combinations.

## 19. LEASE LIABILITIES

| | 2020 $ | 2019 $ |
|---|---|---|
| Current | **1,046,478** | 34,158 |
| Non-current | **3,489,468** | 67,548 |
| | **4,535,946** | 101,706 |

Included in the above are liabilities arising from non-cancellable operating leases:

| Property leases | 2020 $ | 2019 $ |
|---|---|---|
| Lease liability on premises – current | **1,009,163** | – |
| Lease liability on premises – non-current | **3,489,468** | – |
| | **4,498,631** | – |

| Movement in Lease Liabilities | 2020 $ | 2019 $ |
|---|---|---|
| Balance at 1 July 2019 | **101,706** | – |
| Adoption of AASB 16 | **1,666,308** | – |
| New and Modified Leases | **–** | 109,784 |
| Acquired in a business combination (Note 26) | **3,370,992** | – |
| Cash payments | **(751,386)** | (10,454) |
| Interest expense | **148,316** | 2,376 |
| | **4,535,936** | 101,706 |

### Significant Accounting Policies

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 19. LEASE LIABILITIES (CONTINUED)

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right–of use asset, or to profit or loss if the carrying amount of the right–of–use asset is fully written down.

### Critical Accounting Estimates and Assumptions

*Lease term*
The lease term is a significant component in the measurement of both the right–of–use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the consolidated entity's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The consolidated entity reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

Options to extend lease terms have not been included in the estimate of the lease liability as it is not probable that leases will be extended on existing terms.

*Incremental borrowing rate*
Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the consolidated entity estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right–of–use asset, with similar terms, security and economic environment.

## 20. OTHER LIABILITIES

| Current | 2020 $ | 2019 $ |
|---|---|---|
| Deferred revenue | **2,362,771** | 614,691 |
| Other liabilities[1] | **288,570** | – |
| | **2,651,341** | 614,691 |
| Other liabilities[1] | **128,501** | – |
| Total | **2,779,842** | 614,691 |

1. other liabilities are contract amounts to be paid by the Group in relation to the sale of software and licensing, in particular, Splunk Software. The Group is an agent in relation to the sale of Splunk Software and licensing. Contract liabilities relate to amounts that the Group will be required to pay to Splunk in the future from prior software and licensing sales. See Note 11 for contract assets.

### Significant Accounting Policies

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.

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 21. PROVISIONS

| | 2020 $ | 2019 $ |
|---|---|---|
| *Current* | | |
| Employee benefits | **842,917** | 194,157 |
| *Non-current* | | |
| Employee benefits | **499,412** | 32,053 |
| Make good on premises | **166,659** | 75,000 |
| Lease incentive | **–** | 323,246 |
| Total non-current provisions | **666,071** | 430,299 |
| Total provisions | **1,508,988** | 624,456 |

### Significant Accounting Policies

*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. 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.

## 22. BORROWINGS

| Non-current | 2020 $ | 2019 $ |
|---|---|---|
| Loan facility | **5,000,000** | – |
| Fair value of attaching warrants[1] | **(1,448,400)** | – |
| Transaction costs[1] | **(137,500)** | – |
| | **3,414,100** | – |
| Amortisation of finance component (warrants and transaction costs) | **222,760** | – |
| | **3,636,860** | – |

1. The fair value of long-term borrowings are based on cash flows discounted using effective market discount rates available to the Group. Finance costs of $1,585,900 have been recognised to be amortised over the life of the borrowings, which in effect discounts the face value of the borrowings of $5 million. The effective interest rate method is a method of calculating the amortised cost of a financial liability and allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, shorter period.
2. On 20 July 2020 the Group announced it had signed an agreement with its existing debt provider, PURE Asset Management ("PAM") to secure an additional $15 million facility, replacing the existing $5 million facility. An improved rate of 8.9% per annum is included in the facility.

### Significant Accounting Policies

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.

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 22. BORROWINGS (CONTINUED)

**Critical accounting estimates and assumptions**

The fair value of long-term borrowings are based on cash flows discounted using effective market discount rates available to the Group. Finance costs of $1,585,900 have been recognised to be amortised over the life of the borrowings, which in effect discounts the face value of the borrowings of $5 million. The effective interest rate method is a method of calculating the amortised cost of a financial liability and allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, shorter period.

## 23. ISSUED CAPITAL

### (a) Issued capital

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Number of shares | $ | Number of shares | $ |
| Ordinary shares – fully paid (no par value) | **511,834,114** | **29,484,606** | 183,043,123 | 13,754,507 |

### (b) Reconciliation of issued capital

| | Date | Shares issued | Price $ | $ |
|---|---|---|---|---|
| Balance | 1 July 2018 | 126,041,546 | | 10,875,937 |
| 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 | | | (16,362) |
| 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 |
| | 30 Jun 2019 | 183,043,123 | | 13,754,507 |
| Shares issued pursuant to capital raising | 11 Jul 2019 | 40,111,113 | 0.045 | 1,805,000 |
| Share issued as consideration in business combination | 11 Jul 2019 | 17,550,000 | 0.044 | 772,200 |
| Shares issued pursuant to capital raising | 23 Jul 2019 | 6,250,000 | 0.040 | 250,000 |
| Shares issued pursuant to capital raising | 23 Jul 2019 | 1,000,000 | 0.045 | 45,000 |
| Shares issued to employees | 23 Jul 2019 | 555,556 | 0.042 | 23,333 |
| Equity settled expense | 23 Jul 2019 | 180,000 | 0.050 | 9,000 |

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 23. ISSUED CAPITAL (CONTINUED)

| | Date | Shares issued | Price $ | $ |
|---|---|---|---|---|
| Equity settled expense | 16 Sep 2019 | 1,500,000 | 0.050 | 75,000 |
| Shares issued to employees | 16 Sep 2019 | 1,000,000 | 0.045 | 45,000 |
| Equity settle expense | 16 Sep 2019 | 90,000 | 0.050 | 4,500 |
| Equity settle expense | 17 Oct 2019 | 600,000 | 0.050 | 30,000 |
| Conversion of options | 18 Oct 2019 | 1,000,000 | 0.050 | 50,000 |
| Conversion of options | 25 Oct 2019 | 1,500,000 | 0.050 | 75,000 |
| Equity settled expense | 2 Dec 2019 | 1,583,333 | 0.045 | 71,250 |
| Shares issued to employees | 2 Dec 2019 | 185,185 | 0.049 | 9,074 |
| Equity settled expense | 2 Dec 2019 | 3,333,334 | 0.045 | 163,333 |
| Equity settles expense | 2 Dec 2019 | 1,666,666 | 0.045 | 75,000 |
| Shares issues as consideration in business combination | 16 Dec 2019 | 100,000,000 | 0.050 | 5,000,000 |
| Shares issued to employees | 16 Dec 2019 | 2,000,000 | 0.048 | 96,000 |
| Conversion of options | 16 Dec 2019 | 2,000,000 | 0.048 | 96,000 |
| Equity settled payments | 8 Jan 2020 | 3,798,169 | 0.0595 | 225,991 |
| Conversion of options | 22 Jan 2020 | 20,198,112 | 0.050 | 1,009,906 |
| Equity settled expense | 22 Jan 2020 | 12,400,000 | 0.050 | 620,000 |
| Conversion of convertible note | 22 Jan 2020 | 15,000,000 | 0.050 | 750,000 |
| Shares issued to employees | 22 Jan 2020 | 1,000,000 | 0.085 | 85,000 |
| Conversion of options | 31 Jan 2020 | 11,294,448 | 0.050 | 564,722 |
| Conversion of options | 6 Feb 2020 | 8,120,223 | 0.050 | 406,011 |
| Conversion of options | 21 Feb 2020 | 4,400,000 | 0.050 | 220,000 |
| Conversion of options | 2 Mar 2020 | 950,000 | 0.050 | 47,500 |
| Conversion of convertible note | 2 Mar 2020 | 16,500,000 | 0.050 | 825,000 |
| Conversion of convertible notes | 10 Mar 2020 | 2,000,000 | 0.050 | 100,000 |
| Conversion of options | 10 Mar 2020 | 1,624,999 | 0.050 | 81,250 |
| Conversion of options | 13 Mar 2020 | 3,152,778 | 0.050 | 157,639 |
| Shares issued as consideration in business combination | 9 Apr 2020 | 20,000,000 | 0.048 | 960,000 |
| Conversion of convertible note | 9 Apr 2020 | 20,000,000 | 0.050 | 1,000,000 |
| Equity settled payment | 9 Apr 2020 | 4,247,075 | 0.050 | 212,354 |
| Conversion of convertible note | 27 Apr 2020 | 2,000,000 | 0.050 | 100,000 |
| Cost of issuing equity | | – | | (329,964) |
| As at 30 June 2020 | | 511,834,114 | | 29,484,606 |

**Significant Accounting Policies**

Issued capital is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received. Ordinary share capital bears no special terms or conditions affecting income or capital entitlements of the shareholders.

Share based payments settled in issued capital are outlined in Note 25.

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 23. ISSUED CAPITAL (CONTINUED)

### Terms and conditions of issued capital

*Ordinary shares*
Fully paid ordinary shares carry one vote per share and carry rights to dividends.

Ordinary shareholders are entitled to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. Every ordinary shareholder present at a meeting in person or by proxy is entitled to one vote on a show of hands or by poll.

At 30 June 2020, there were no partly paid shares outstanding. Ordinary shares have no par value. The Company does not have a limit on number of shares authorised.

*Escrow*
At 30 June 2020, there were no ordinary shares were in voluntary escrow (2019: nil).

*Capital Management*
The Company considers its capital to comprise its ordinary share capital and accumulated losses.

In managing its capital, the Company's primary objective is to ensure its continued ability to provide a consistent return for its equity shareholders through capital growth. To achieve this objective, the Company seeks to maintain a gearing ratio that balances risks and returns at an acceptable level and to maintain a sufficient funding base to enable the Company to meet its working capital and strategic investment needs. During the exploration and evaluation phase of operations the Company does not anticipate utilising any loan funding and will rely upon capital raisings.

## 24. EQUITY – CONVERTING NOTES

| | 2020 $ | 2019 $ |
|---|---|---|
| Converting notes issued | **9,433,750** | – |
| Cost of issuing converting notes | **(450,744)** | – |
| Distributions on converting note | **323,692** | – |
| Notes converted to equity | **(2,775,000)** | – |
| | **6,531,698** | – |

Tesserent has borrowed under a convertible note with a face value of $9,433,750 with the following terms:

- Conversion during year one to 160,000,000 ordinary Tesserent shares at $0.05 per share.
- Conversion during year two to 113,266,666 ordinary Tesserent shares at $0.075 per share.
- Automatic conversion at the end of two to 84,950,000 ordinary Tesserent shares at $0.10 per share.
- 1 option to be issued for every for 3.33 shares subscribed for (exercisable at $0.10)
- Interest rate of 8% (cash) or 10% if paid in shares (at the Company's discretion).

As the above conversion feature results in the conversion of a fixed amount of the stated principal into a fixed number of shares, it satisfies the "fixed for fixed" criterion and, therefore, it is classified as an equity instrument.

The convertible notes are unsecured.

## 25. EQUITY – RESERVES

| | 2020 $ | 2019 $ |
|---|---|---|
| Share based payment reserve | **1,840,523** | 772,900 |
| *Movement in reserve* | | |
| Opening balance | **772,900** | 639,385 |
| Share based compensation recognised during the year | **1,781,131** | 287,148 |
| Shares issued to employees | **–** | (153,633) |
| Share options expired during the year | **(403,439)** | |
| Deferred tax | **(310,069)** | – |
| **Closing balance** | **1,840,523** | 772,900 |

### (a) Nature and Purpose of Reserves

Share based payment reserve

The reserve is used to record the value of equity instruments issued to employees and directors as part of their remuneration, and other parties as part of compensation for their services.

### (b) Share based payments

Share based payments incurred during the period are as follows:

| Description | Expense | Liabilities | Cost of capital raised |
|---|---|---|---|
| Share options granted prior years | 188,128 | – | – |
| Share options granted during year: | | | |
| – Employees | 9,419 | – | – |
| – Contractors | 5,483 | – | – |
| Performance rights expense granted during year | 62,367 | – | – |
| PAM loan facility | – | 1,448,400 | – |
| Share options issued as cost of capital | – | – | 67,334 |
| | 265,397 | 1,448,400 | 67,334 |
| Total share-based payments | | | 1,781,131 |

In addition to share options and performance rights the Group issued ordinary shares as payments, as follows:

| Description | Expense | Liabilities | Cost of capital raised |
|---|---|---|---|
| Payment to employees | 517,741 | – | – |
| Payment to contractors to settle invoices | 643,341 | – | – |
| Settlement of director fees incurred during year | 41,500 | – | – |
| Issued to settle accrued fees | – | 350,900 | – |
| Issued to settle cost of issuing capital | – | – | 75,000 |
| | 1,202,582 | 350,900 | 75,000 |
| Total value of shares issued as payments | | | 1,628,482 |

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 25. EQUITY – RESERVES (CONTINUED)

### Valuation

The Group has issued share options and performance rights during the year. The options were valued using a Black-Scholes option pricing model. During the year the following share options were issued with the following inputs:

| | Share Options | | | | |
|---|---|---|---|---|---|
| | Tranche AU10 | Tranche BU11 | Tranche CU12 | Tranche EU09 | OP06 |
| No. issued | 1,000,000 | 1,000,000 | 1,000,000 | 300,000 | 1,000,000 |
| Grant date | 2/12/2019 | 2/12/2019 | 2/12/2019 | 23/7/2019 | 8/1/2020 |
| Expiry date | 29/11/2022 | 29/11/2020 | 29/11/2022 | 22/7/2021 | 16/12/2021 |
| Share price at grant date (cents) | 4.90 | 4.90 | 4.90 | 4.20 | 4.30 |
| Vesting period (days) | 1093 | 363 | 1093 | 730 | 708 |
| Exercise price (cents) | 7.50 | 10.00 | 12.50 | 5.00 | 7.50 |
| Volatility | 80.00% | 80.00% | 80.00% | 80.00% | 90.00% |
| Risk free rate | 0.70% | 0.70% | 0.70% | 0.90% | 0.80% |
| Dividend yield | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Early exercise multiple | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 |
| Value per option | 1.90 | 0.60 | 1.40 | 1.50 | 1.30 |
| | | | | | |
| Total cost | $18,600 | $5,500 | $13,400 | $4,630 | $13,425 |
| Cost recognised | $3,609 | $3,212 | $2,599 | $2,183 | $3,299 |
| Future costs | $14,991 | $2,288 | $10,801 | $2,447 | $10,126 |

| | Performance rights | | | | | |
|---|---|---|---|---|---|---|
| | I.1 PPR2 | I.2 PR2 | I.3 PPR2 | I.4 PR2 | I.5 PR2 | I.6 PR2 |
| No. issued | 2,000,000 | 2,000,000 | 4,000,000 | 4,000,000 | 4,000,000 | 4,000,000 |
| Grant date | 16/12/2019 | 16/12/2019 | 16/12/2019 | 16/12/2019 | 16/12/2019 | 16/12/2019 |
| Expiry date | 3/10/2021 | 3/10/2021 | 3/10/2021 | 3/10/2021 | 3/10/2021 | 3/10/2021 |
| Share price at grant date (cents) | 4.80 | 4.80 | 4.80 | 4.80 | 4.80 | 4.80 |
| Vesting period (days) | 292 | 292 | 292 | 292 | 292 | 292 |
| Vesting condition | Market[1] | Market[2] | Market[3] | Market[4] | Market[5] | Market[6] |
| Exercise price (cents) | – | – | – | – | – | – |
| Volatility | 80.00% | 80.00% | 80.00% | 80.00% | 80.00% | 80.00% |
| Risk free rate | 0.80% | 0.80% | 0.80% | 0.80% | 0.80% | 0.80% |
| Dividend yield | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Early exercise multiple | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 |
| Value per option | 1.70 | 0.90 | 0.30 | 0.10 | 0.10 | 0.00 |
| | | | | | | |
| Total cost | $46,648 | $32,244 | $35,311 | $21,810 | $14,712 | $10,532 |
| Cost recognised | $20,411 | $13,210 | $13,040 | $7,506 | $4,842 | $3,358 |
| Future costs | $26,237 | $19,034 | $22,271 | $14,304 | $9,870 | $7,174 |

Market conditions for performance rights are as follows:

1. Share price achieving $0.075 for no less than 60 consecutive days
2. Share price achieving $0.100 for no less than 60 consecutive days
3. Share price achieving $0.150 for no less than 60 consecutive days
4. Share price achieving $0.200 for no less than 60 consecutive days
5. Share price achieving $0.250 for no less than 60 consecutive days
6. Share price achieving $0.300 for no less than 60 consecutive days

## 25. EQUITY – RESERVES (CONTINUED)

### Escrow

No share options or shares issued in relation to share based payments were escrowed at 30 June 2020.

### Significant Accounting Policies - share based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

### Critical accounting estimates and assumptions

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.

An independent valuation was prepared for each tranche of options and rights granted during the year. The values were estimated using the Black-Scholes option valuation model. The inputs used in the model to estimate the values are identified in the tables above. The key estimates used in the model are the volatility, which is estimated with reference to a broad set of ASX listed comparable companies, and the risk-free rate, which is estimated with reference to Government bond rates.

The expense recognised for options granted prior to 1 July 2019 is $188,128. The cost recognised reflects the amortisation of the expense over the vesting period of the options granted and is based upon an independent valuation that was prepared. The valuation was prepared using the Black Scholes valuation model and the key inputs were as follows:

| | |
|---|---|
| Risk free rate | 1.40 -1.97% |
| Volatility | 80% |

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 25. EQUITY – RESERVES (CONTINUED)

### Option movements

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

**2020**

| Grant date | Expiry date | Exercise price | Balance 1 July | Granted | Exercised | Expired/ forfeited/ other | Balance 30 June |
|---|---|---|---|---|---|---|---|
| 17 Nov 15 | 31 Aug 19 | 0.24 | 1,000,000 | – | – | (1,000,000) | – |
| 17 Nov 15 | 31 Aug 19 | 0.288 | 1,000,000 | – | – | (1,000,000) | – |
| 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 |
| 14 Dec 18 | 1 Jul 20 | 0.05 | 13,000,000 | | | (13,000,000) | – |
| 23 Jul 19 | 22 Jul 21 | 0.05 | – | 300,000 | | – | 300,000 |
| 2 Dec 19 | 29 Nov 20 | 0.10 | – | 1,000,000 | | – | 1,000,000 |
| 2 Dec 19 | 29 Nov 22 | 0.075 | – | 1,000,000 | | – | 1,000,000 |
| 2 Dec 19 | 29 Nov 22 | 0.125 | – | 1,000,000 | | – | 1,000,000 |
| 8 Jan 20 | 16 Dec 21 | 0.075 | – | 1,000,000 | | – | 1,000,000 |
| 16 Dec 19 | 3 Oct 20 | 0.000 | – | 1,000,000 | | – | 1,000,000 |
| 16 Dec 19 | 3 Oct 20 | 0.000 | – | 1,000,000 | | – | 1,000,000 |
| 16 Dec 19 | 3 Oct 20 | 0.000 | – | 2,000,000 | | – | 2,000,000 |
| 16 Dec 19 | 3 Oct 20 | 0.000 | – | 2,000,000 | | – | 2,000,000 |
| 16 Dec 19 | 3 Oct 20 | 0.000 | – | 2,000,000 | | – | 2,000,000 |
| 16 Dec 19 | 3 Oct 20 | 0.000 | – | 2,000,000 | | – | 2,000,000 |
| **Total** | | | **18,000,000** | **14,300,000** | **–** | **(15,000,000)** | **17,300,000** |
| Weighted average exercise price | | | $0.1400 | $0.0100 | – | – | $0.01400 |

**2019**

| Grant date | Expiry date | Exercise price | Balance 1 July | Granted | Exercised | Expired/ forfeited/ other | Balance 30 June |
|---|---|---|---|---|---|---|---|
| 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 |
| 14 Dec 18 | 1 Jul 20 | 0.05 | – | 13,000,000 | | – | 13,000,000 |
| **Total** | | | **7,000,000** | **16,000,000** | **–** | **(5,000,000)** | **18,000,000** |
| Weighted average exercise price | | | $0.263 | $0.1000 | – | – | $0.1400 |

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 26. BUSINESS COMBINATIONS

During the year Tesserent Group completed the acquisitions of Rivium Pty Ltd, Pure Security Pty Ltd and north BDT. Details of the acquisitions were as follows:

### Rivium

On 1 July 2019, TNT Cyber Services Pty Ltd a subsidiary of Tesserent Limited acquired 100% of the ordinary shares of Rivium Pty Ltd for total consideration of $3,250,000. The consideration is comprised of an initial cash payment of $1,495,000, additional cash paid due to working capital adjustments of $283,217, issued share capital of $772,200 (being 17,550,000 ordinary shares issued at $0.044 per share) and contingent consideration estimated as $699,583. Contingent consideration is in the form of "earn out" shares calculated as a multiple of EBITDA.

At the date of acquisition, the directors determined it was probable that the deferred consideration would be realised and therefore recognised the maximum exposure as it's fair value.

The contingent consideration estimate is based on the "earn-out" clause in the Share Purchase Agreement ("SPA") that states:

- If the EBITDA (as defined within the SPA) for Financial Year ("FY") 2020 exceeds the EBITDA for FY 2019 Tesserent will issue to the vendors shares equal to the absolute value of the amount FY2020 exceeds FY2019.
- If the EBITDA for FY2021 exceeds the EBITDA for FY2020 then Tesserent will issue shares equal to 50% of the increase.

Shares issued to settle the contingent consideration will be valued at the 90 day Volume Weighted Average Price ("VWAP"). There is no maximum earn-out stipulated by the SPA. The Group estimated contingent consideration based on historical EBITDA. There is no limit set on the earn-out consideration

Rivium is one of Australia's most experienced specialists in consulting, implementation and managed services for the enterprise security solution Splunk and brings high profile customers spanning the government and private sectors.

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.

Prior to executing the Share Purchase Agreement, Tesserent has satisfactorily completed a comprehensive financial, tax and legal due diligence process to ensure that there is strong strategic, cultural and operational alignment between the two organisations.

During the year Rivium contributed revenues of $1,565,532 and a net profit after tax of $290,592. The acquisition was completed on 1 July 2019 and therefore Rivium contributed for the whole of the financial year.

### Pure Security

On 10 December 2019, TNT Cyber Services Pty Ltd a subsidiary of Tesserent Limited acquired 100% of the Cyber Security Consulting business in PS&C Limited, which included the following entities for consideration of $14,000,000:

- Hacklabs Pty Ltd
- Securus Global Consulting Pty Ltd
- Certitude Pty Ltd
- Pure Hacking Pty Ltd
- PS&C Security Pty Ltd

The consideration was made up of $8,000,000 in cash paid, issued capital of $5,000,000 (measured at 50,000,000 ordinary shares issued at $0.10 per share) and deferred consideration of $1,000,000. The deferred consideration was paid post-year end after making adjustments for working capital and other offsets, including a working capital adjustment to consideration of $75,967. The payment amounted to $883,151.

The Pure Security Group acquisition will see Tesserent become Australia's largest listed dedicated cybersecurity business, with more than 90 cybersecurity professionals that have served more than 600 customers in the last 3 years. The integration of the Pure Security business will give Tesserent full cybersecurity capabilities including security advisory, penetration testing, deployment and management of security infrastructure and secure application development. As a result of the proposed acquisition Tesserent's customer footprint will expand across Australia, Asia and the UK.

During the year the Pure Security Group contributed revenues of $9,064,327 and a net loss after tax of $301,353. The contribution covered 7 months. Had the acquisition been completed on 1 July 2019 the Pure Security Group would have contributed $9,501,404 in revenue and losses of $3,324,554.

As at the reporting date the Purchase Price Allocation remains provisional

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 26. BUSINESS COMBINATIONS (CONTINUED)

### north BDT

On 26 March 2020 Tesserent announced the completion of the acquisition of 100% of the share capital of north BDT consultancy business for a total consideration of $6,779,293. Consideration includes:

- cash payment of $1.25 million;
- deferred payments of $2.079 million;
- the issue of 20 million ordinary shares in Tesserent ("Consideration shares") at an issue price of $0.048 per share, subject to 12 months voluntary escrow;
- An earn out payment equal to twice the increase in EBITDA between FY19 and FY20. FY19 EBITDA has been agreed at $766k. The earn out will be paid out in the following proportions:
  - 37.5% payment of cash;
  - 62.5% to be issued as Shares in the Company ("Earn out shares").
  - There is no set limit on the value of the "earn-out"

North's team of management consultants and cybersecurity experts are highly trained in providing ICT services to the Australian Government agencies. They bring significant knowledge in building ICT and cybersecurity businesses. The TNT group now boasts a team of 140+ staff servicing approximately 700+ customers. The acquisition gives Tesserent access to north's government and private client base in Canberra and provides the Company an opportunity to leverage north's existing relationships to enable cross-sales opportunities into TNT's other business units.

In the 3 months since acquisition north BDT contributed revenues of $4,137,887 and a profit after tax of $1,052,327. Has north BDT contributed its full year result it would have contributed revenues of $12,391,402, and a profit for the year of $1,286,072.

### Details of acquisitions:

| | Rivium Fair value $ | Pure Security Fair value $ | north Fair value $ | Total $ |
|---|---|---|---|---|
| Cash | 440,700 | 76,161 | 57,001 | 573,862 |
| Trade and other debtors | 1,247,800 | 3,965,827 | 1,338,705 | 6,552,332 |
| Plant and equipment | 2,619 | 472,898 | 39,492 | 515,009 |
| Contract assets | 537,131 | – | 875,745 | 1,412,876 |
| Right of use assets | – | 2,715,956 | 541,921 | 3,257,877 |
| Trade and other creditors | (1,163,991) | (2,495,277) | (1,502,679) | (5,161,947) |
| Contract liabilities | (435,729) | – | – | (435,729) |
| Lease liabilities | – | (2,803,838) | (567,154) | (3,370,992) |
| Employee benefit provisions | (190,017) | (736,837) | (60,827) | (987,681) |
| Deferred tax liabilities | (286,632) | (1,166,366) | (799,266) | (2,252,264) |
| Net assets acquired | 151,881 | 28,524 | (77,062) | 103,343 |
| Goodwill | 2,050,119 | 9,213,443 | 4,701,355 | 15,964,917 |
| Customer contracts and relationships | 1,048,000 | 4,834,000 | 2,155,000 | 8,037,000 |
| | 3,250,000 | 14,075,967 | 6,779,293 | 24,105,260 |
| Represented by: | | | | |
| Cash paid | 1,495,000 | 8,000,000 | 1,250,000 | 10,745,000 |
| Issued capital | 772,200 | 5,000,000 | 960,000 | 6,732,200 |
| Deferred consideration[1] | 699,583 | 1,000,000 | 4,071,089 | 5,770,672 |
| Working capital adjustment to consideration[1] | 283,217 | 75,967 | 498,204 | 857,388 |
| | 3,250,000 | 14,075,967 | 6,779,293 | 24,105,260 |

1. Deferred consideration remains outstanding at year end. The payment to Pure Security Group included adjustments for working capital and other transactions offset

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 26. BUSINESS COMBINATIONS (CONTINUED)

| | Rivium Fair value $ | Pure Security Fair value $ | north Fair value $ | Total $ |
|---|---|---|---|---|
| Acquisition costs expensed to profit or loss | –[2] | 1,237,701 | 57,830 | 1,295,531 |

2. Rivium acquisition costs were incurred and expensed in 2019. Costs amounted to $130,000.

| | | | | |
|---|---|---|---|---|
| Cash used to acquire businesses: | | | | |
| Acquisition date fair value of total consideration transferred | 1,495,000 | 8,000,000 | 1,250,000 | 10,745,000 |
| Less: cash and cash equivalents | (440,700) | (76,161) | (57,001) | (573,862) |
| Net cash used | 1,054,300 | 7,923,839 | 1,192,999 | 10,171,138 |
| Deferred consideration payments made during the year | 283,217 | – | 535,299 | 818,516 |

1. Deferred consideration in relation to the Pure Security Group acquisition was paid post year end.
2. Contingent consideration is payable in instalments.

### Significant Accounting Policies – Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

### Critical Accounting Estimates and Assumptions

Business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the consolidated entity taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

As noted in the descriptions above contingent consideration is subject to estimates where the amounts are based on "earn-out" clauses that require the estimation of future liabilities based on future estimates of EBITDA. Where results vary there will be adjustments to the estimate. Any variances to these estimates will be recorded in profit or loss.

At balance date, acquisition accounting had been finalised for Rivium and North only.

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 27. INTERESTS IN SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following wholly-owned subsidiaries in accordance with the accounting policy described in Note 1:

| | | Ownership interest | |
|---|---|---|---|
| Name | Principal place of business / Country of incorporation | 2020 % | 2019 % |
| Pure Security Managed Services Pty Ltd[1] | Australia | **100.00** | 100.00 |
| Tesserent Wholesale Pty Ltd[1] | Australia | **100.00** | 100.00 |
| Tesserent IP Pty Ltd[1] | Australia | **100.00** | 100.00 |
| Tesserent Cyber Services Pty Ltd | Australia | **100.00** | 100.00 |
| Tesserent UK Ltd (dormant)[2] | UK | **100.00** | 100.00 |
| Rivium Pty Ltd[3] | Australia | **100.00** | – |
| Pure Security Pty Ltd[4] | Australia | **100.00** | – |
| Certitude Pty Ltd[4] | Australia | **100.00** | – |
| Hacklabs Pty Ltd[4] | Australia | **100.00** | – |
| Securus Global Pty Ltd[4] | Australia | **100.00** | – |
| Pure Hacking Pty Ltd[4] | Australia | **100.00** | – |
| north BDT[5] | Australia | **100.00** | – |

1. Acquired 15 July 2015. Previously called Tesserent Australia Pty Ltd.
2. Incorporated 20 May 2015
3. Acquired 3 July 2019
4. Acquired 10 December 2019
5. Acquired 26 March 2020

## 28. LOSS PER SHARE

| | 2020 Cents | 2019 Cents |
|---|---|---|
| Basic loss per share | **2.02** | 2.90 |
| Diluted loss per share | **2.02** | 2.90 |
| | **$** | **$** |
| Net loss from continuing operations attributable to the owners of Tesserent Ltd used in calculation of basic and diluted earnings per share. | (7,311,949) | (4,372,821) |
| | **Number** | **Number** |
| **Basic** | | |
| Weighted average number of ordinary shares outstanding during the year used in the calculation of basic loss per share | **361,882,054** | 150,950,488 |
| **Diluted** | | |
| Weighted average number of ordinary shares and convertible redeemable cumulative preference shares outstanding and performance rights during the year used in the calculation of basic loss per share | **361,882,054** | 150,950,488 |

The Company made losses during the current and comparative years and, consequently, there is no dilutive in effect.

## 29. DIVIDENDS

No dividends were proposed or paid during the year.

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 30. RELATED PARTY DISCLOSURES

### (a) Key Management Personnel Compensation

The aggregate compensation of the key management personnel of the Company is set out below:

| | 2020 $ | 2019 $ |
|---|---|---|
| Short term employment benefits | **1,847,307** | 974,618 |
| Post-employment benefits | **162,630** | 70,984 |
| Long term benefits | **35,185** | 2,136 |
| Share based payments | **738,734** | 173,491 |
| | **2,783,856** | 1,221,229 |

Refer to the Remuneration Report in the Director's Report for detailed compensation disclosures on key management personnel.

### (b) Loan balances

There were no loan balances due to or from related parties owed by the Group as at 30 June 2020 or 30 June 2019.

### (c) Other transactions

The following transactions with related parties were recorded during the year:

Fees were paid to Belgravia Group Pty Ltd, a company that Mr G Lord is a director of and owns an interest in, for the provision of services to in capital raising. The amounts paid were $513,750. The fees were paid for by the issue of 1,500,000 ordinary shares issued at $0.05 per share plus the issue of convertible notes to the value $438,750.

### (d) Controlled Entities

Details of the percentage of ordinary shares held in controlled entities are disclosed in Note 27 of this report.

### (e) Parent Entity

The parent entity in the consolidated entity is Tesserent Limited.

The parent entity in the wholly-owned group is Tesserent Limited.

The ultimate Australian parent entity is Tesserent Limited.

## 31. PARENT ENTITY INFORMATION

| | 2020 $ | 2019 $ |
|---|---|---|
| **Statement of financial position** | | |
| Current assets | **515,493** | 1,013,679 |
| Non-current assets | **26,911,473** | 1,297,219 |
| **Total assets** | **27,426,966** | 2,310,898 |
| | | |
| Current liabilities | **7,990,348** | (124,059) |
| Non-current liabilities | **906,354** | – |
| **Total liabilities** | **(8,896,702)** | (124,059) |
| | | |
| Issued capital | **34,350,347** | 13,268,555 |
| Reserves | **2,167,948** | 330,304 |
| Convertible notes | **6,531,698** | |
| Accumulated losses | **(24,519,729)** | (11,163,902) |
| | **18,530,264** | 2,434,957 |
| | | |
| **Loss for the year** | **15,420,894** | 14,382,458 |

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 32. REMUNERATION OF AUDITORS – BDO

Remuneration for audit and review of the financial reports of the Company:

| | 2020 $ | 2019 $ |
|---|---|---|
| Auditors of the Company: | | |
| Audit services | **327,924** | 93,000 |
| Corporate and indirect tax services | **41,750** | 63,515 |
| Due diligence services | **118,000** | 146,050 |
| | **487,674** | 302,565 |

It is the Company's policy to engage BDO on assignments additional to their statutory audit duties where BDO's expertise and experience with the Company are important. During the year, the Company engaged BDO in providing services in relation to tax compliance services and due diligence work.

* The BDO entity performing the audit of the Group transitioned from BDO East Coast Partnership to BDO Audit Pty Ltd on 23 December 2019. The disclosures include amounts received or due and receivable by BDO East Coast Partnership, BDO Audit Pty Ltd and their respective related entities.

## 33. COMMITMENTS FOR EXPENDITURE

**Capital Commitments**

The Group has no commitments at 30 June 2020.

## 34. CONTINGENT LIABILITIES

There are no other matters which the Group considers would result in a contingent liability as at the date of this report.

## 35. EVENTS OCCURRING AFTER REPORTING DATE

On 20 July 2020 the Group announced it had signed an agreement with its existing debt provider, PURE Asset Management ("PAM") to secure an additional $15 million facility, replacing the existing $5 million facility. An improved rate of 8.9% per annum is included in the facility.

On 23 July 2020 the Group announced completion of its acquisition of Seer. The value of the consideration agreed is $5 million in cash and the issue of 76,923,077 ordinary shares (6,923,077 being subject to shareholder approval). The cash payment will be split between a payment on completion of $2.5 million, $1.25 million 13 months after completion and the final payment 25 months after completion. The acquisition was completed on 4 August, and the first tranche of cash issued to the vendor and 70,000,000 ordinary shares issued to the vendor, escrowed for 12 months. Shareholder approval for the issue of the remaining 6,923,077 ordinary shares was obtained at a General Meeting on 16 September 2020. Due to the proximity of the acquisition to the release of the financial statements, the Group has not yet completed the purchase price allocation for the acquisition.

On 28 July the Group announced the issue of 100,000 convertible notes at $1 each, converting into 2,000,000 ordinary shares, and 11,100,000 $0.10 converting note options.

On 20 August 2020 the Group announced the issue of 1,200,000 $0.10 converting note options.

On 26 August 2020 the Group announced the acquisition of Airloom, a Sydney-based cybersecurity firm. The acquisition was fully funded through the PAM finance facility, with the consideration for the acquisition being $6 million and the issue of 40 million ordinary shares, at 30 VWAP, subject to shareholder approval. $5million is payable on completion, with the remaining $1 million payable upon achievement of set milestones. The acquisition was completed on 11 September 2020. Due to the proximity of the acquisition to the release of the financial statements, the Group has not yet completed the purchase price allocation for the acquisition.

On 28 August the Group announced the acquisition of Ludus Cybersecurity for $536k in cash and 4.31 million ordinary shares issued at 22.41 cents, subject to shareholder approval. The acquisition was completed on 11 September 2020. Due to the proximity of the acquisition to the release of the financial statements, the Group has not yet completed the purchase price allocation for the acquisition.

On 2 September the Group issued 750,000 $0.10 converting note options, 2,000,000 Joint Managing Director Options and 25,000,000 Acquisition Warrants.

On 8 September 2020 the Group issued 24,586,777 Acquisition warrants at $0.0605.

On 21 September 2020 the Group issued 12,071,720 Converting Notes and 2,000,000 Joint Managing Director options.

## 35. EVENTS OCCURRING AFTER REPORTING DATE (CONTINUED)

On 24 September 2020 the Group announced the acquisition of iQ3, a secure cloud provider headquartered in Sydney. Consideration is $8.6 million in cash and the issue of 34.6 million issued at $0.2496 per share. The cash component is to be paid in instalments, $4.3 million on completion, and 4 deferred payments of $1.07 million made quarterly over 12 months. Due to the proximity of the acquisition to the release of the financial statements, the Group has not yet completed the purchase price allocation for the acquisition.

On 24 September 2020 the Group announced the issue of 105,000 converting notes, 4,000,000 Joint Managing Director options and 1,458,334 Pure facility options.

Other than the above, the Board is not aware of any other matter or circumstance not otherwise dealt with in these financial statements that has significantly or may significantly affect the operation of the Company, the results of those operations, or the state of affairs of the Company in subsequent financial years.

## 36. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES

### Financial Instruments

*Initial Recognition and Measurement*
Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions to the instrument. For financial assets, this is the date that the company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately. The Company has no financial instruments classified as "at fair value through profit or loss".

*Classification and subsequent measurement*
The Company classifies its financial instruments based on the purpose for which the instruments were acquired. Management determines the classification of its financial instruments at the time of initial recognition. The Company's principal financial instruments comprise receivables, payables, cash and short-term deposits.

At the reporting date, the Company's financial instruments were classified within the following categories.

*Cash and cash equivalents – financial assets at amortised cost.*
See Note 7.

*Receivables at amortised cost*
See Note 8.

*Financial Liabilities at amortised cost*
Financial liabilities include trade payables and other creditors.

All of the Company's financial liabilities are recognised and subsequently measured at amortised cost, using the effective interest rate method.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest expense in profit or loss over the relevant period. The effective interest rate is the internal rate of return of the financial asset or liability. That is, it is the rate that exactly discounts the estimated future cash flows through the expected life of the instrument to the net carrying amount at initial recognition.

### Impairment of financial assets at amortised cost

The Company considers all financial assets for recoverability and impairment. Where there are indicators of impairment the Company will review the carrying amount of the financial asset and estimate its recoverable amount. The Company will take all available action to recover the full amounts of financial assets, and once all efforts are exhausted the Company will record an impairment. Any impairment is recorded in a separate allowance account. Any amounts subsequently written off are offset against the impairment allowance.

### Derecognition

Derecognition refers to the removal of a previously recognised financial asset or financial liability from the statement of financial position.

Financial liabilities are derecognised when it is extinguished (ie when the obligation in the contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 36. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES (CONTINUED)

A financial asset is derecognised when the holder's contractual rights to its cash flows expires, or the asset is transferred in such a way that all the risks and rewards of ownership are substantially transferred.

All of the following criteria need to be satisfied for derecognition of financial asset:

- the right to receive cash flows from the asset has expired or been transferred;
- all risk and rewards of ownership of the asset have been substantially transferred; and
- the Company no longer controls the asset (ie the Company has no practical ability to make a unilateral decision to sell the asset to a third party).

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

### Financial Risk Management

The Company manages its exposure to key financial risks, including interest rate and currency risk in accordance with the Company's financial risk management policy. The objective of the policy is to support the delivery of the Company's financial targets whilst protecting future financial security.

The main risks arising from the Company's financial instruments are interest rate risk, credit risk and liquidity risk. The Company manages its risk informally at Board level. The Board monitors levels of exposure to interest rate and credit risk by banking with reputable banks. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

The Board reviews and agrees policies for managing each of these risks informally.

Primary responsibility for identification and control of financial risks rests with the Board of Directors ('the Board'). The Board reviews and agrees policies for managing each of the risks identified below, including interest rate risk, credit allowances, and future cash flow forecast projections. The company does not hedge its risks.

The carrying amounts and net fair values of the Company's financial assets and liabilities at reporting date are:

| | 2020 Carrying Value $ | 2020 Fair Value $ | 2019 Carrying Value $ | 2019 Fair Value $ |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| Cash and cash equivalents | **4,349,619** | **4,349,619** | 999,660 | 999,660 |
| Trade and other receivables | **7,422,720** | **7,422,720** | 218,767 | 218,767 |
| **Non-Traded Financial Assets** | **11,772,339** | **11,772,339** | 1,218,427 | 1,218,427 |
| **Financial Liabilities at amortised cost** | | | | |
| Trade and other payables | **7,468,588** | **7,468,588** | 1,765,342 | 1,765,342 |
| Other financial liabilities | **5,400,240** | **5,400,240** | 352,157 | 352,157 |
| Lease liabilities | **4,535,946** | **4,535,946** | 101,706 | 101,706 |
| Borrowings | **3,636,860** | **3,636,860** | – | – |
| **Non-Traded Financial Liabilities** | **21,041,634** | **21,041,634** | 2,219,205 | 2,219,205 |

### Risk Exposures and Responses

*Interest Rate Risk*

Exposure to interest rate risk arises on financial instruments whereby a future change in interest rates will affect future cash flows or the fair value of the fixed rate financial instruments. The Company is also exposed to earnings volatility on floating rate instruments. At reporting date, the Company's exposure to interest rate risk was wholly related to cash and cash equivalents and is disclosed in Note 7.

Interest rate risk is managed by monitoring the level of floating rate which the Group is able to secure. It is the policy of the Group to keep the majority of its cash in accounts with floating interest rates.

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 36. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES (CONTINUED)

*Sensitivity Analysis*

During the current year the interest paid was $823,951. Much of the interest relates to the PAM facility and is based on a fixed rate, and interest on lease liabilities. As such, management does not consider sensitivity to interest rates to be a useful measure of risk to the result or the overall financial statements.

*Foreign Exchange Risk*

The Group trades with foreign entities, in particular suppliers of software licences. However, prices from US software suppliers are largely billed in Australian dollars or bought and sold through third parties who are responsible for the exchange rate risk.

*Liquidity Risk*

Liquidity Risk is the risk that the Company, although Statement of Financial Position solvent, cannot meet or generate sufficient cash resources to meet its payment obligations in full as they fall due, or can only do so at materially disadvantageous terms.

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

*Remaining contractual maturities*

The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

| Consolidated - 2020 | Weighted average interest rate % | 1 year or less $'000 | Between 1 and 2 years $'000 | Between 2 and 5 years $'000 | Over 5 years $'000 | Remaining contractual maturities $'000 |
|---|---|---|---|---|---|---|
| **Non-derivatives** | | | | | | |
| *Non-interest bearing* | | | | | | |
| Trade payables | – | 7,468,588 | – | – | – | – |
| Other financial liabilities | | 4,713,959 | 686,281 | – | – | – |
| Other liabilities | – | 2,651,341 | 128,501 | – | – | – |
| *Interest-bearing - fixed rate* | | | | | | |
| Borrowings | 9.90% | – | | 3,000,000 | | – |
| Borrowings | 11.50% | | | 2,000,000 | | – |
| Lease liability | 4% | 1,046,478 | 949,883 | 1,315,008 | 783,949 | – |
| **Total** | | 15,880,366 | 1,764,665 | 6,315,008 | 783,949 | – |

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 36. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES (CONTINUED)

| Consolidated - 2019 | Weighted average interest rate % | 1 year or less $'000 | Between 1 and 2 years $'000 | Between 2 and 5 years $'000 | Over 5 years $'000 | Remaining contractual maturities $'000 |
|---|---|---|---|---|---|---|
| **Non-derivatives** | | | | | | |
| *Non-interest bearing* | | | | | | |
| Trade payables | – | 1,765,342 | – | – | – | |
| Other financial liabilities | | 137,991 | 214,166 | – | – | – |
| Other liabilities | – | 614,691 | – | – | – | |
| *Interest-bearing - fixed rate* | | | | | | |
| Lease liability | 8.87% | 34,158 | 67,458 | – | – | |
| **Total non-derivatives** | | **2,552,182** | **281,624** | **–** | **–** | |

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

### Credit Risk

Credit risk arises from the financial assets of the Company, which comprise cash and cash equivalents and trade and other receivables. The Company's exposure to credit risk arises from potential default of the counter party, with maximum exposure equal to the carrying amount of these instruments. Exposure at reporting date in relation to cash and cash and cash equivalents is discussed in Note 7.

Credit risk relating to trade and other receivables is discussed in Note 8. The Group has no significant concentrations of credit risk in any one customer.

### Fair Value

The Company does not carry any of its financial assets at fair value after initial recognition.

# DIRECTORS' DECLARATION

FOR THE YEAR ENDED 30 JUNE 2020

1. In the opinion of the Directors of Tesserent Limited (the "Company"):
   (a) The financial report of the Company is in accordance with the *Corporations Act 2001*, including:
      i. Giving a true and fair view of the Company's financial position as at 30 June 2020 and of its performance for the year ended on that date; and
      ii. Complying with the Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
   (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;
2. The financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board, as described in Note 1(a) to the financial statements; and
3. This declaration has been made after receiving the declarations required by section 295A of the *Corporations Act 2001* from the Chief Executive Officer for the financial year ended 30 June 2020.

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

**Julian Challingsworth**
Co-Managing Director and Co-CEO

30 September 2020
Melbourne

# INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 30 JUNE 2020

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Australia

**INDEPENDENT AUDITOR'S REPORT**

To the members of Tesserent Limited

## Report on the Audit of the Financial Report

**Opinion**

We have audited the financial report of Tesserent Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

(i) Giving a true and fair view of the Group's financial position as at 30 June 2020 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 (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We 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.

# INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 30 JUNE 2020

BDO

**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.

**Impairment assessment of Goodwill and Intangible Assets**

| ***Key audit matter*** | ***How the matter was addressed in our audit*** |
|---|---|
| *Refer to Note 13 Intangible Assets and Note 14 Goodwill of the accompanying financial report*<br><br>The Group has material finite and indefinite life intangible assets including customer contracts and relationships, intellectual property, software and goodwill. Finite life intangible assets are required to be tested for impairment where there is an indicator of impairment. Indefinite life intangibles are required to be tested at least annually for impairment in accordance with Australian Accounting Standards.<br><br>Intangible assets and goodwill are allocated to the cash generating units (CGU's) set out in Note 14. The Group has completed an impairment assessment for each CGU at 30 June, which covers the intangible assets and goodwill in Note 13 and Note 14.<br><br>Management assessed the ongoing trading conditions of the Group and formed the opinion that the software intangible asset in the Pure Managed Services CGU is impaired. As at 30 June 2020, a $0.8m impairment has been recognised against the software asset.<br><br>This is a key audit matter because the impairment assessment process is complex and is required to be carried out at the level of the lowest identifiable cash generating units. The assessment requires significant judgement and includes assumptions that are based on future operating results, discount rates and the broader market conditions in which the Group operates. The degree of estimation of uncertainty was heightened as a result of COVID-19. | Our procedures, amongst others, included:<br>• Assessed management's CGU allocations in order to ensure that they reflect how financial information is reported to the Chief Operating Decision Maker in accordance with AASB 136 *Impairment of Assets*.<br>• Assessed the Group's cash flow forecasts including consideration of the discount and growth rates used.<br>• Tested the integrity and mathematical accuracy of the value-in-use discounted cash flow models.<br>• Engaging our valuation experts to assist in assessing the discount rate, revenue growth rate and terminal growth rate applied to each CGU.<br>• Performed a sensitivity analysis to identify whether a reasonable variation in the assumptions could cause the carrying value of the CGU assets to exceed their recoverable amount which would indicate a further impairment.<br>• Evaluating management's ability to forecast future cash flows by comparing forecast cash flows to actual performance.<br>• Reviewing the market capitalisation of the Group in comparison to the carrying value of the assets.<br>• Evaluating the adequacy of the disclosures relating to intangible assets in the financial report, including those made with respect to judgments and estimates. |

# INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 30 JUNE 2020

### Revenue Recognition

| *Key audit matter* | *How the matter was addressed in our audit* |
|---|---|
| *Refer to Note 4 Revenue of the accompanying financial report.*<br><br>The Group's management focuses on revenue as a key driver by which performance is measured. The Group has various revenue streams which are material to the financial report.<br><br>The Group generates revenue from managed services, software licences, consulting and penetration testing. Each revenue stream has different contracts and performance obligations.<br><br>This is a key audit matter because the Group's revenue recognition process is complex and involves estimates and significant judgement by management. Revenue recognition was significant to our audit due to its complexity and amount of audit attention required. | Our procedures, amongst others, included:<br>• Reviewed the Group's revenue recognition policies to ensure they complied with Australian Accounting Standards.<br>• Engaged IFRS technical experts to ensure Management's recognition of software license income is in line with Australian Accounting Standards.<br>• Engaged IFRS technical experts to ensure Management's revenue recognition for a sample of managed service contracts is in line with Australian Accounting Standards.<br>• Performed substantive procedures on a sample of revenue transactions to supporting documentation.<br>• Performed substantive analytical procedures comparing revenue recorded on a monthly and annual basis comparing to budget and prior year. Supporting evidence and explanations were obtained for variances from our expectations.<br>• Tested of cut-off of revenue around year end to ensure revenue is recognised in the correct accounting period. |

### Consolidation and Financial Reporting

| *Key audit matter* | *How the matter was addressed in our audit* |
|---|---|
| *Refer to note 1 of the accompanying financial report.*<br><br>The Group comprises multiple subsidiaries, including three significant new acquisitions during the year.<br><br>This has been considered a key audit matter due to:<br>• The Group consolidation consisting of multiple wholly-owned subsidiaries using different ERP systems due to three significant new acquisitions during the year.<br>• Consequently, financial data from multiple ERP systems is required to be consolidated. | Our procedures, amongst others, included:<br>• Evaluating Management's processes and controls in respect of the consolidated financial reporting.<br>• Reviewing the consolidation and performing detailed testing on the inputs, adjustments and eliminations recorded.<br>• Re-performing and testing the mathematical accuracy of the consolidation using a consolidation software tool.<br>• Agreeing management's consolidation to the audited underlying trial balances.<br>• Assessing the relevance and adequacy of disclosures within the financial report. |

# INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 30 JUNE 2020

BDO

| | |
|---|---|
| • The timing and manual nature of performing the consolidation increases the risk of error.<br>• There were multiple iterations of the consolidation reviewed by the audit team which required significant audit attention. | |

**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 2020, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of the directors for the Financial Report**

The directors of the Company are responsible for the preparation 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.

# INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 30 JUNE 2020

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

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf

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 30 to 42 of the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Tesserent Limited, for the year ended 30 June 2020, 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 Audit Pty Ltd**

David Garvey
Director

Melbourne 30 September 2020

# ASX ADDITIONAL INFORMATION

AS AT 28 SEPTEMBER 2020

The shareholder information set out below was applicable as at 28 September 2020.

## A. DISTRIBUTION OF EQUITY SECURITIES

Analysis of numbers of equity security holders by size of holding:

| SPREAD OF HOLDINGS | Number of Holders | Number of Units | % of Total Issued Capital |
|---|---|---|---|
| 1 – 1,000 | 416 | 154,360 | 0.02 |
| 1,001 – 5,000 | 2,359 | 7,508,013 | 0.98 |
| 5,001 – 10,000 | 1,480 | 11,987,168 | 1.57 |
| 10,001 – 100,000 | 3,334 | 117,318,683 | 15.33 |
| 100,001 and over | 774 | 628,288,541 | 82.10 |
| **TOTAL** | **8,363** | **765,256,765** | **100.00** |

Based on the price per security, number of holders with an unmarketable holding: 1,142, with total 1,559,345, amounting to 0.2% of Issued Capital.

## B. DISTRIBUTION OF EQUITY SECURITIES – SHARE OPTIONS

Analysis of numbers of equity security holders by size of holding:

| SPREAD OF HOLDINGS | Number of Holders | Number of Units | % of Total Issued Capital |
|---|---|---|---|
| 1 – 1,000 | – | – | – |
| 1,001 – 5,000 | – | – | – |
| 5,001 – 10,000 | – | – | – |
| 10,001 – 100,000 | 2 | 150,000 | 1.00% |
| 100,001 and over | 14 | 14,925,000 | 99.01% |
| **TOTAL** | **16** | **15,075,000** | **100.00%** |

# ASX ADDITIONAL INFORMATION

AS AT 28 SEPTEMBER 2020

## C. EQUITY SECURITY HOLDERS

Twenty largest quoted equity security holders.

The names of the twenty largest holders of quoted equity securities are listed below:

| NAME | Ordinary Shares Number Held | % of Issued Shares |
|---|---|---|
| SCOTT CEELY ←CEELY INVESTMENTS A/C→ | 46,153,846 | 6.03% |
| J P MORGAN NOMINEES AUSTRALIA PTY LIMITED | 30,892,573 | 4.04% |
| EMPRESIO PTY LTD ←EMPRESIO A/C→ | 22,900,000 | 2.99% |
| C14N PTY LTD | 20,000,000 | 2.61% |
| BELGRAVIA STRATEGIC EQUITIES PTY LTD | 16,000,000 | 2.09% |
| BNP PARIBAS NOMINEES PTY LTD ←IB AU NOMS RETAILCLIENT DRP→ | 13,906,087 | 1.82% |
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 12,958,779 | 1.69% |
| MR ROBERT ANTHONY SILVER | 12,535,965 | 1.64% |
| SANDHURST TRUSTEES LTD ←JMFG CONSOL A/C→ | 11,885,403 | 1.55% |
| CHRIS HAGIOS | 11,013,333 | 1.44% |
| CITICORP NOMINEES PTY LIMITED | 9,565,708 | 1.25% |
| JOHN GEORGOPOULOS | 9,150,400 | 1.20% |
| UBS NOMINEES PTY LTD | 8,710,002 | 1.14% |
| LINFIELD FC PTY LTD ←HANSEN FAMILY A/C→ | 8,162,112 | 1.07% |
| MR ROBERT WILLIAM PROWSE + MRS STEPHANIE MARY PROWSE ←SMP SUPERANNUATION FUND A/C→ | 7,756,831 | 1.01% |
| CRITERION SOLUTIONS PTY LTD | 7,692,308 | 1.01% |
| JULIAN GORDON CHALLINGSWORTH | 7,000,000 | 0.91% |
| KAGE CAPITAL PTY LIMITED ←KATAVIC FAMILY A/C→ | 6,479,800 | 0.85% |
| G & N LORD SUPERANNUATION PTY LTD ←GNR S/F A/C→ | 6,433,334 | 0.84% |
| XERT SERVICES PTY LIMITED ←J&T MANUEL FAMILY A/C→ | 6,242,000 | 0.82% |
| **Totals: Top 20 holders of ORDINARY FULLY PAID SHARES (Total)** | **275,438,481** | |

As at 28 September 2020, the 20 largest shareholders held ordinary shares representing 35.99% of the issued share capital.

# ASX ADDITIONAL INFORMATION

AS AT 28 SEPTEMBER 2020

## D. SUBSTANTIAL SHAREHOLDERS

Substantial holders in the Company are set out below:

| NAME | Share Options Number Held | % of Issued Share Options |
|---|---|---|
| SCOTT CEELY ←CEELY INVESTMENTS A/C→ | 46,153,846 | 6.03 |

## E. VOTING RIGHTS

The voting rights attached to ordinary shares are set out below:

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

## F. SHARE BUY BACK

There is no current on-market share buy-back.

## G. ESCROWED SHARES

The following share sunder escrow are on issue:

ORDINARY SHARES UNDER ESCROW UNTIL 8 APRIL 2021 - 20,000,000

ORDINARY SHARES UNDER ESCROW UNTIL 31 JULY 2021 - 76,923,078

ORDINARY SHARES ESCROWED TO 30 November 2020 - 9,925,335

ORDINARY SHARES ESCROWED TO 29/02/21 - 9,925,333

ORDINARY SHARES ESCROWED TO 1/09/21 – 9,925,332

## H. USE OF CASH

Cash and assets readily convertible to cash held by the Company at the time of admission to the Australian Stock Exchange are being used in a way consistent with its business objectives as set out in the listing prospectus.

# CORPORATE DIRECTORY

FOR THE YEAR ENDED 30 JUNE 2020

## BOARD OF DIRECTORS

| | |
|---|---|
| Geoff Lord | Non-Executive Chairman |
| Julian Challingsworth | Co-Managing Director |
| Kurt Hansen | Co-Managing Director |
| Gregory Baxter | Non-Executive Director |
| Patrick Flannigan | Non-Executive Director |

## COMPANY SECRETARY

Oliver Carton
Email: investor@tesserent.com

## REGISTERED OFFICE

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

## PRINCIPAL PLACE OF BUSINESS

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

## SHARE REGISTRY

Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street, Abbotsford VIC 3067

## AUDITOR

BDO Audit Pty Ltd
Collins Square, Tower Four
Level 18 727 Collins Street, Melbourne VIC 3000

## STOCK EXCHANGE LISTING

Tesserent Limited shares are listed on the Australian Securities Exchange, code TNT.

TESSERENT

**TESSERENT AUSTRALIA PTY LTD**


**INVESTOR ENQUIRIES**

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