Tesserent Limited and Controlled Entities
ABN: 13 605 672 928

Annual Report 2022

About Tesserent

Tesserent is Australia's #1 ASX-listed cybersecurity provider offering full service cybersecurity solutions to 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 a comprehensive solution to prevent, detect and mitigate potential cyber-attacks.

This is delivered by more than 450 cybersecurity professionals across offices in Melbourne, Sydney, Brisbane, Canberra, Auckland, Wellington and Christchurch.

About this report

This annual report covers the operations, activities and financial performance of Tesserent Limited and its controlled entities for the year ended 30 June 2022 (FY22).

In this report, references to 'Tesserent', 'the Company' and 'the Group' refer to Tesserent Limited (13 605 672 928) and its controlled entities.

All dollar figures are expressed in Australian dollars (AUD) unless otherwise stated.

The financial statements contained within this Annual Report are prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board.

There are references to IFRS and non-IFRS financial information in this report.

Non-IFRS financial measures are used to enhance the comparability of information between reporting periods.

Non-IFRS financial information should be considered in addition to, and is not intended to be a substitute for, IFRS financial information and measures. Non-IFRS financial measures are not subject to audit or review.

Appendix 4E

Financial information for the financial year ended 30 June 2022 as required by ASX listing rule 4.3A.

Reporting period: Financial year ended 30 June 2022

Results for announcement to the market

(all comparisons to financial year ended 30 June 2021)

	$'000	Up/Down	% Change
Revenue from ordinary activities	112,977	Up	68%
Loss after tax from ordinary activities	(8,783)	Up	94%
Net Loss attributable to members	(8,783)	Up	94%

Note 1

Under accounting standard AASB15 "Revenue from Contracts with Customer", some of the Company's product sales are deemed as Agency Sales. The standard requires these sale amounts to be netted down against cost of products, which results in a lower reported 'Statutory' revenue in the Company's formal Financial Statements. The group's Turnover (or Gross Revenue) for FY22 was $166m (a non-IFRS measure). This has no impact on Gross profit or Net profit.

Note 2

Loss after tax from ordinary activities is presented in accordance with AASB 101 (para 87).

It is noted that the reported statutory loss includes $1.2m of acquisition related expenses (incl. fair value expense on contingent consideration), $2.4m of share option expense, and $9.4m of non-cash costs associated with the debt refinancing during the financial year ended 30 June 2022.

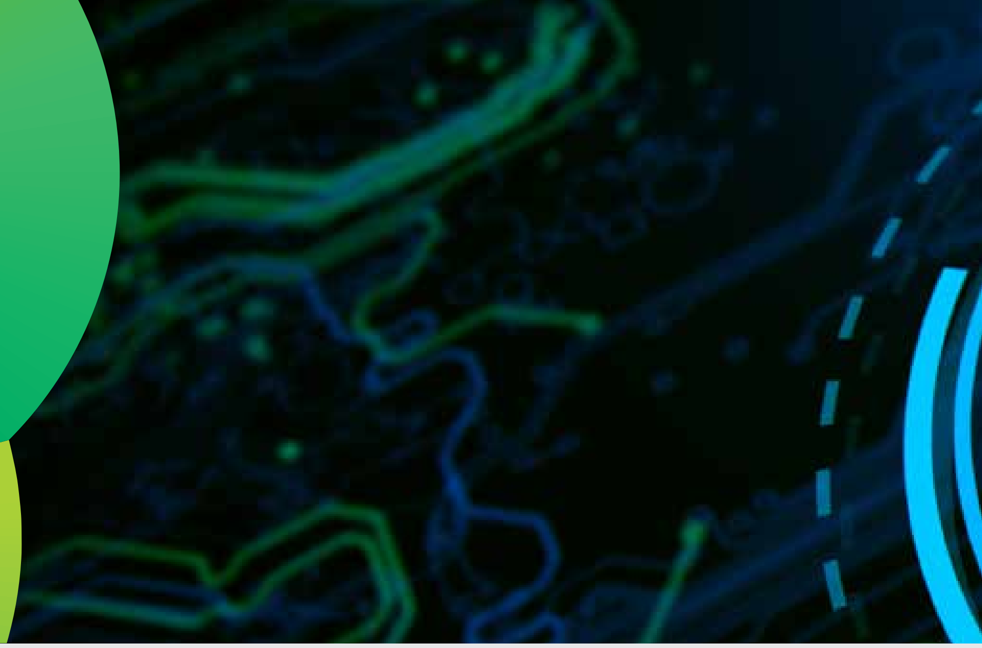
Dividends paid and proposed

No dividend has been proposed to be paid or is payable for the financial year ended 30 June 2022, nor for the comparative period.

Contents

Our mission is to be the sovereign cybersecurity provider of choice for the protection of Australia and New Zealand's Digital Assets

Chairman and CEO's Letter



Dear Fellow Shareholders,

We are pleased to present the 2022 Annual Report for Tesserent Limited (ASX:TNT) ('the Company').

During the year ended 30 June 2022, the Group reported total sales turnover of $166m (up 71% from FY21), and a normalised EBITDA[1] result of $18.6m which represents significant further growth (+94%) on FY21 results.

The Group achieved an underlying normalised net profit (NPAT) of $10.0m, excluding the impact of one-off costs incurred during the year, such as acquisition costs, share based payments and refinancing costs.

Following the significant disruption and technological shifts brought about by COVID in 2020 and 2021, many organisations have been compelled to adapt their operating systems and IT security in order to protect supply chains and interconnected systems in the face of the increasingly sophisticated attacks.

Global threat actors continue to exploit vulnerabilities across endpoints and cloud environments, and ramp up innovation on how they use identities and stolen credentials to bypass enterprise and government defences.

Targeted intrusions are expected to continue to increase, leveraging trends in technology and the broader threat landscape throughout 2022 – such as a likely increase in the use of ransomware from ransomware-as-a-service.

Following three years of targeted strategic acquisitions and continuing integration of these businesses and their cybersecurity service offerings into our Cyber360 framework – Tesserent, as Australia's #1 ASX-listed cybersecurity provider, is extremely well placed to provide its existing and new customers full service cyber security assessment and protection solutions.

The FY22 financial year marked a continuation of the strong growth experienced in FY21 accompanied by an ongoing integration and consolidation of the Group's operations, plus initiatives in the areas of marketing and finance to consolidate the branding of the business and improve profitability.

$166m
Turnover[1]
up 71% YOY

$18.6m
Normalised EBITDA[1]
up 94% YOY

$10.0m
Normalised NPAT[1]
up 38% YOY

1 Excludes one-off costs, such as acquisition costs, share-based costs and refinancing costs (see below for further analysis).

Consistent with the earnings profile in FY21, the quarterly results for FY22 demonstrated strong seasonality and progressive improvement through the year – the second half of the year 72% of full year earnings (vs. 76% in FY21).

The Group's strong growth at the EBITDA level for FY22 was achieved both through the contribution from three acquisitions during the year, plus an underling organic growth of 25% in the existing business.

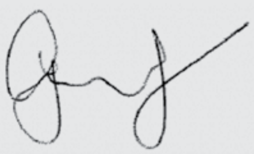
During the year, the business completed the acquisitions and continues to integrate the three businesses into the Group – two in the Tesserent Federal Government advisory practice and one into the Tesserent enterprise/commercial division – complementing and expanding the Group's existing cybersecurity offering.

The re-organisation of the Group's divisional structure and go-to-market strategy, which was announced in August 2021 is progressing well. This has improved the level of engagement and cross selling opportunities across the business. This re-organisation was also accompanied by a re-branding of the Group which has further reinforced the integration.

On 23 June 2022, the Group announced a successful refinancing and upsizing of its debt facilities – with a new $59m Market Rate Loan provided by the Commonwealth Bank of Australia replacing previous facilities (of $35m).

We expect FY23 to be another year of growth, with continued strong organic growth and focus on cross selling opportunities across market and between divisions. This may be supplemented with some strategic acquisitions, where they complement and add to the existing Cyber360 strategy.

On behalf of the Board and Executive Team, we 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. We would also like to thank our shareholders for their continued support as we expand on our position as Australia's #1 ASX-listed cybersecurity firm.



Geoff Lord
Executive Chairman

Kurt Hansen
CEO and Managing Director

Review of Operations

FY22 IN REVIEW

Background

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

Threat actors continue to exploit vulnerabilities across endpoints and cloud environments, and ramp up innovation on how they use identities and stolen credentials to bypass legacy defences.

Adversaries continue to adapt to security environments evolving with global market pressures and supply chain issues.

Targeted intrusions are expected to continue to increase, leveraging trends in technology and the broader threat landscape throughout 2022 – such as a likely increase in the use of ransomware from ransomware-as-a-service.

Increasingly reliance on mobile devices is enabling attackers to continue to diversify their exploitations to include mobile malware – either to make money or collect sensitive information.

Cloud-related threats are particularly likely to become more prevalent and to evolve, given that targeted intrusion adversaries are expected to continue prioritizing targets that provide direct access to large consolidated stores of high-value data.

Cybersecurity market

Following the significant disruption and technological shifts brought about by COVID in 2020 and 2021, organisations have been compelled to continue to adapt their operating systems and IT security in order to protect supply chains and interconnected systems in the face of the increasingly sophisticated attacks.

Evaluation of the market landscape identifies that enterprise risk is focusing around three critical areas:

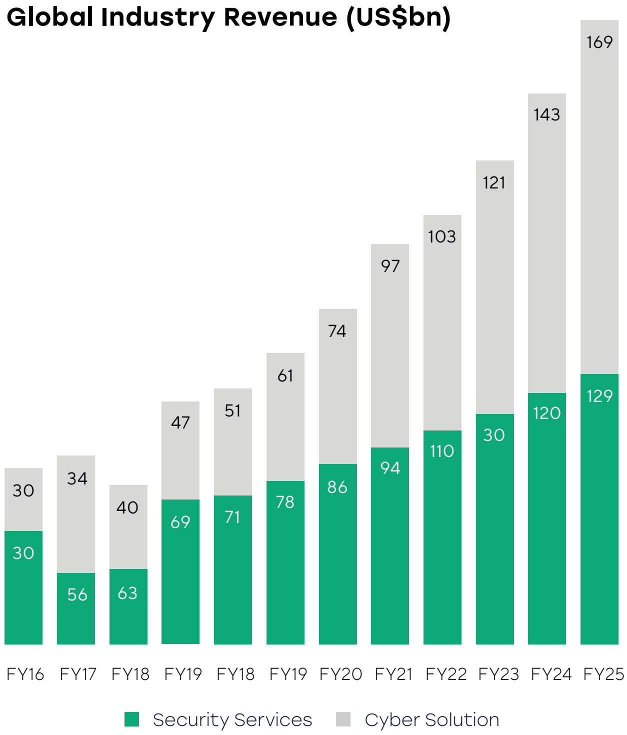
- endpoint vulnerabilities and cloud workloads
- identity and
- data

The cybersecurity market is expected to continue showing strong growth, driven by the increasing number of retail and financial transactions processed online and through e-commerce platforms, plus the increasing integration and interconnection of business and government controlled systems and infrastructure. Cloud computing, edge computing and public cloud security are the fastest developing market sub-segments.

The impact of COVID-19 has accelerated cyberattacks faced by many organisations due to the security vulnerability of remote work and virtualised IT environments. There is also an ever-increasing awareness of data risks and threats among organisations with cybersecurity critical to the success of the digital transformation of operations.

The Global cybersecurity market was valued at US$139.8 billion in 2021 and is forecast to grow at a 13.4% compound annual growth rate over 2022-2029.

Global Industry Revenue (US$bn)



Source: IBISWorld, Statista, Fortune Business Insights

As Australia's #1 ASX-listed cybersecurity provider, Tesserent has a broad Cybersecurity service offering through its Cyber360 framework and is extremely well placed to provide its existing and new customers full service cyber security assessment and protection solutions.

Tesserent has a sovereign Aust/NZ workforce of over 450 skilled cybersecurity professionals. Combined with in-house software monitoring solutions and access to a range of products from world-leading cybersecurity vendors, Tesserent delivers a comprehensive solution to prevent, detect and mitigate cyber-attacks.

With employees located across offices in Melbourne, Sydney, Brisbane, Canberra, Wellington, Auckland, and Christchurch, Tesserent continues to hold its place as Australia's #1 ASX-listed cybersecurity provider. Tesserent now provides products and services to over 1,200 clients:

GOVERNMENT

- **53** Federal and State Departments and Agencies
- **25** Local Councils

FINANCIAL

- **8** of the 12 Largest Banks in Aust/NZ
- **6** Top Financial Services firms
- **14** Foreign Banks

CRITICAL INFRASTRUCTURE

- **21** of the Top Energy firms in Aust/NZ,

ENTERPRISE

- Tesserent works with **51** of the S&P/ASX 100
- 50% of the Tier 1 Retail and logistics supply chain organisations

Other market drivers

Due to a rapidly evolving suite of technology platforms utilised by businesses and individuals and increased connectivity, the demand for IT security solutions is on the rise.

Digital assets and data are becoming an increasingly important aspect of conducting business and as such, the need for security will continue to increase as cybercriminals become more advanced.

With computer networks and systems becoming more complex, the need for security and monitoring services is increasing. Many businesses are selecting to outsource these services to specialist providers, with an increased focus on security software service offerings.

There have been a number of highly publicised cyber security breaches over the past several years, highlighting the need for governments and businesses to proactively improve their digital security platforms.

Review of Operations
continued

The shortage of the required human skill sets needed for organisations to employ a suitable level of cyber resilience continues to be a challenge globally and in Aust/NZ. Tesserent has positioned itself as a destination employer for cyber skilled staff and will also contribute to developing skills across this industry wide problem.

FY22 FINANCIAL PERFORMANCE

The adjacent table, sets out the key financial metrics for the Group for the current year and the prior year.

Tesserent continued its expansion through FY22 with growth (versus FY21) in Turnover of 71% and growth in Operating EBITDA of 91%.

As reported in the most recent quarterly report, the overall growth in Operating EBITDA of 91%, comprised **25% organic growth**, plus contribution from newly acquired business (acquisition growth) of 66%.

During the full year FY22, the Group reported total Turnover of $165.6m and statutory revenue of $113.0m.

As previously discussed, Turnover includes revenue from consulting and advisory services, plus turnover from product sales. The turnover or 'Gross revenue' is equivalent to the value invoiced to customers and drives the receivables balance reported in the Group balance sheet.

Under accounting standard AASB15 "Revenue from Contracts with Customer", some of the Company's product sales are required to be netted down against cost of products, which results in a lower reported 'Statutory' revenue in the Company's formal Financial Statements (this has no impact on Gross profit or Net profit).

Key observations from the FY22 results (per the adjacent table)

- The Group's underlying earnings showed significant growth with FY22 Operating EBITDA (before addition of AASB16 adjustments) growing 116% from the prior year (FY21).
- The improved Operating EBITDA reflects improved operating leverage through the business, plus the impact of the business reorganisation whereby the new operating divisions of the business have reviewed and addressed pricing and margin recovery on certain contracts.
- Interest expense is up 74% in FY22 as a result of the upsized facility of $35m for the full year (vs. partial year in FY21). As a result of the refinancing with CBA, which was completed on 23 June 2022, the cash interest cost of the refinanced $35m will be approximately $1.2m lower in FY23. The non-cash interest cost (amortisation of the warrants) will not be applicable in FY23.
- Depreciation and amortisation costs have increased by 58% in FY22, driven primarily by the increase in required accounting treatment for amortisation of customer contracts associated with the acquisitions. During FY22, the depreciation and amortisation costs were spilt into; Depreciation of Property Plant and Equipment ($1.7m); Depreciation of AASB16 Right-of-use assets ($2.2m) and Amortisation of customer contracts associated with the acquisitions ($3.9m).
- Share based payment and option expenses are down 46%, as the number of options issued in FY22 was lower that FY21 – when the Group's ESOP plan was launched.
- Acquisition costs were lower, down 76% as a result of fewer acquisitions in the current year vs. FY21.
- There were a number of one-off costs associated with the refinancing and exit from the previous debt facility, which impacted profit in FY22 being; exit fee on the previous facility ($1.75m); write-off and amortisation of remaining unamortised costs on warrants attached to the previous facility ($7.5m). These costs will not reoccur in future periods.
- In accordance with accounting standard AASB 128, the Group is required to assess the carrying value of its investments – taking into account any external market indicators. During FY22, there were external indicators that compelled a write-down of the TrustGrid and AttackBound minority investments, totalling $1.6m. There was also a write-down of the call option investments relating to TrustGrid and AttackBound of $2.5m.
- The write-down of minority investment was partially offset by a market indicator supporting a write-up of the Daltrey investment held at fair value through profit or loss by $0.6m.

  Note that the carrying value impairments and write-up relate to the minority investments held by the Group. The business has also assessed the carrying value of all of the controlling acquisitions made by the Group in the core business (under the three CGU's disclosed in the financial statements) and no impairment has been required (refer to Note 15 of the financial statements).

Normalised EBITDA and NPAT

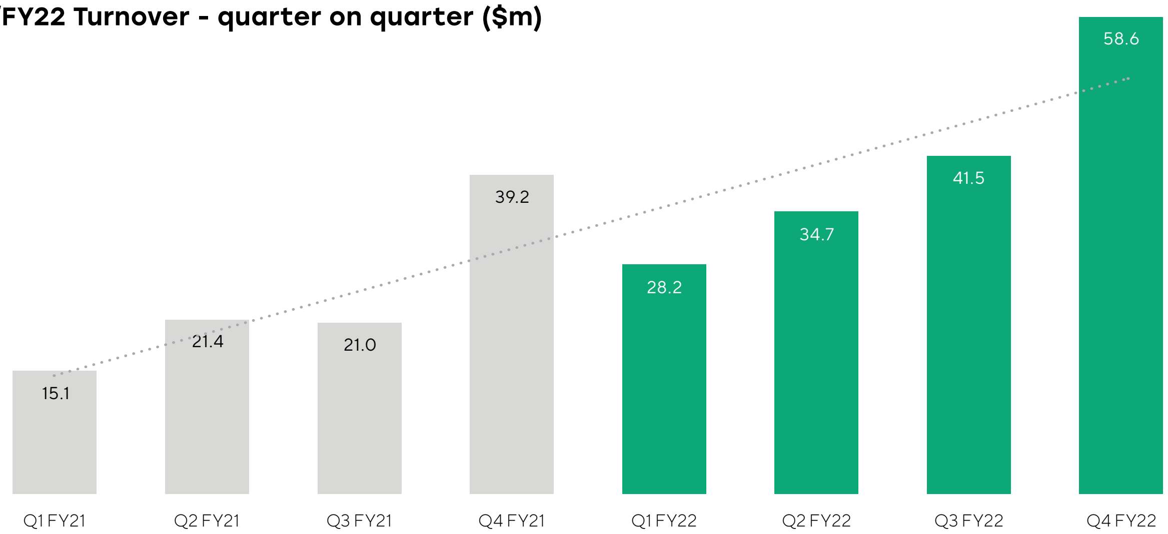
Details	cash v. non-cash expenses	30-Jun-22 $'000	30-Jun-21 $'000	% change
Turnover		**165,567**	**96,685**	**+71%**
Statutory revenue		112,977	67,389	+68%
Operating EBITDA (as reported in 4C quarterly reporting)		**16,312**	**7,560**	**+116%**
add Impact of AASB16 lease adjustments		2,241	2,025	
Normalised EBITDA		**18,553**	**9,585**	**+94%**
Interest expense	*cash*	(3,361)	(1,929)	
Depreciation and amortisation	*non-cash*	(7,841)	(4,975)	
Tax credit	*non-cash*	2,634	4,578	
Normalised NPAT		**9,985**	**7,259**	**+38%**
Less: One-off costs/non-recurring expenses		–	–	
Share based payment and option expenses	*non-cash*	(2,401)	(4,462)	
Acquisition costs and fair value expense on contingent consideration	*cash*	(1,192)	(4,934)	
Exit costs on refinancing	*cash*	(1,750)	–	
Non-cash interest - amortisation of warrants and facility costs	*non-cash*	(9,398)	(2,396)	
Loss on carrying value of innovation investments	*non-cash*	(4,027)	–	
Statutory NPAT		**(8,783)**	**(4,533)**	

Sum of cash expenses below Normalised NPAT	*(2,492)*	*(4,934)*
Sum of non-cash expenses below Normalised NPAT	*(15,827)*	*(6,858)*

As noted in the TNT's recent ASX quarterly performance announcement (on 28 July 2022), the earnings of the business are highly seasonal, with:

- Turnover in H1/H2 of FY21 reported at 38% / 62% and H1/H2 of FY22 reported at 39% / 61%
- Operating EBITDA in H1/H2 of FY21 reported at 23% / 77% and **H1/H2 of FY22 reported at 28% / 72%** as shown below.

FY21/FY22 Turnover - quarter on quarter ($m)



Review of Operations

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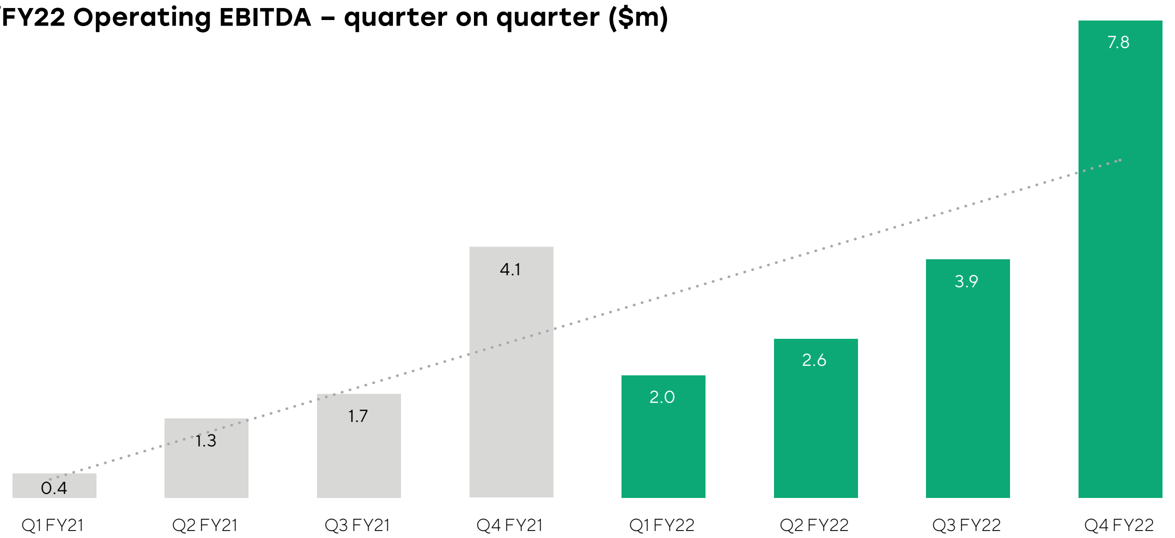
FY21/FY22 Operating EBITDA – quarter on quarter ($m)



Cashflows

The Group recorded a positive operating cash flow of $11.8m for the year, as a result of strong cash conversion and favourable movements in net working capital. Operating EBITDA to cash conversion was 72% for the full year FY22. We note that operating cashflow can fluctuate significantly over the year, driven by trading seasonality in the business coupled with large working capital and WIP movements which may move the outcome materially over quarter end reporting dates. Management monitors the working capital dynamics over the year to ensure that the group is optimising its cash position as the business grows organically.

The new debt facilities with the CBA (see below) includes a revolving facility which provides the Company flexibility in managing its cash and debt position.

FY22 ACQUISITIONS

During the year, Tesserent completed controlling acquisitions of three separate businesses (Loop Secure, Claricent and Pearson) covering both public and private sector consulting services, managed services and specialised product expertise.

Each of these acquisitions have exceeded their incoming FY22 revenue and earnings targets for the control period post acquisition and are well progressed on integration into the Group's existing operations and Cyber360 model.

INTEGRATION AND OPERATIONAL RE-ORGANISATION

The financial year FY22, represented a year of both growth and consolidation for the Group, as the business continued its plans to pursue a brand and business unit integration strategy following the acquisition of nine separate businesses in the two preceding financial years, in order to build out the Group's Cyber360 capabilities.

The re-organisation of the business units acquired over the last two years has aligned them with the go-to-market channels and form the basis in which the Group's CEO and Board manage and assess business performance. A new brand strategy was adopted to accompany and accentuate the change in the Group's go-to-market approach.

CLIENT ACQUISITION AND EXPANSION

The integration and reorganisation of these business acquisitions continues to strengthen the Group's trading performance and its commercial position in the market – enabling the Group to enhance its value proposition to existing and new clients and improve gross margins and net margins reported across the business.

As a result, the group has during FY21/22 developed eight major service lines, with promising cross-selling results to date, as follows:

- 60 clients with 2 service lines
- 30 clients with 3 services lines
- 10 clients with 4 or more services lines
- 120 new client "logos" were added in FY22

Review of Operations
continued

The growth opportunity presented now is to continue to market these service lines to more than 1,200 existing clients across commercial and government sectors, as well as using the offering to add net new clients.

In September 2021 the Company refreshed its brand image and purpose with a new narrative. "Securing our digital future, together".

This narrative recognised that cybersecurity starts and ends with all of us. That we partner with our clients to create solutions that keeps their businesses and customers data safe. Collectively the more systems we secure the more secure our interconnected world becomes.

This refreshed brand will be important as we continue to grow and develop our business to become known as the sovereign "go to business" for managing cyber risk.

REFINANCING OF GROUP DEBT FACILITIES

During the Q4 of FY22, Tesserent completed a refinancing and upsizing of its debt facilities – with a new $59m Market Rate Loan provided by the Commonwealth Bank of Australia replacing previous facilities (of $35m).

As part of the refinancing, CBA is providing a Market Rate Loan of up to $20m to be used to fund cash consideration payments on existing and future acquisitions; plus ancillary facilities of $4m – to cover Bank Guarantees, FX and corporate cards for the Group.

The implementation of the new financing arrangements will materially reduce the (cash) interest cost and eliminate the ongoing non-cash warrant expense on the previous debt facility and result in significant savings on drawn new debt facilities (based on current benchmark interest swap rates).

FUTURE FOCUS

A key focus of the Group is ensuring that each of our divisions has a strong management capability that is accountable for strategy development and execution, as well as day-to-day operational performance.

The Board and Management Team continue to focus on creating shareholder value by building on Tesserent's position as Australia's #1 ASX-listed cybersecurity provider. Important goals for FY23 financial year include:

- Fostering innovation across the Group and expanding proprietary intellectual property to drive high-margin product and service offerings.
- Focusing on capturing further market share of clients in three key markets: Government (including Defence), Critical Infrastructure and Financial Services.
- Driving growth through deeper and wider customer engagements and increasing our average number of services per customer.
- Integrating acquisitions into "Capability Business Units" to maximise synergy efficiencies and drive organic revenue growth through cross-selling.
- Building out high-value recurring annuity revenue streams via Managed Security Operations Centre (SOC) and Managed Detection and Response (MDR).
- Investing in the Tesserent Academy strategy to deliver programs to help the industry shortage of cyber skills for Tesserent staff, our clients and industry wide.
- Selectively evaluating acquisition opportunities that may expand on our Cyber 360 capabilities and market share, increasing shareholder value through incremental EPS growth.

Cyber Strategy & Consulting

Security Advisory (GRC)

Tech. Assurance & Testing

Identity & Access Management

24x7 Managed Detection

Incident Response

Network & Cloud Security

Critical Controls

Cyber Education

Converged/ Physical Security

About Tesserent

THE GROUP TODAY

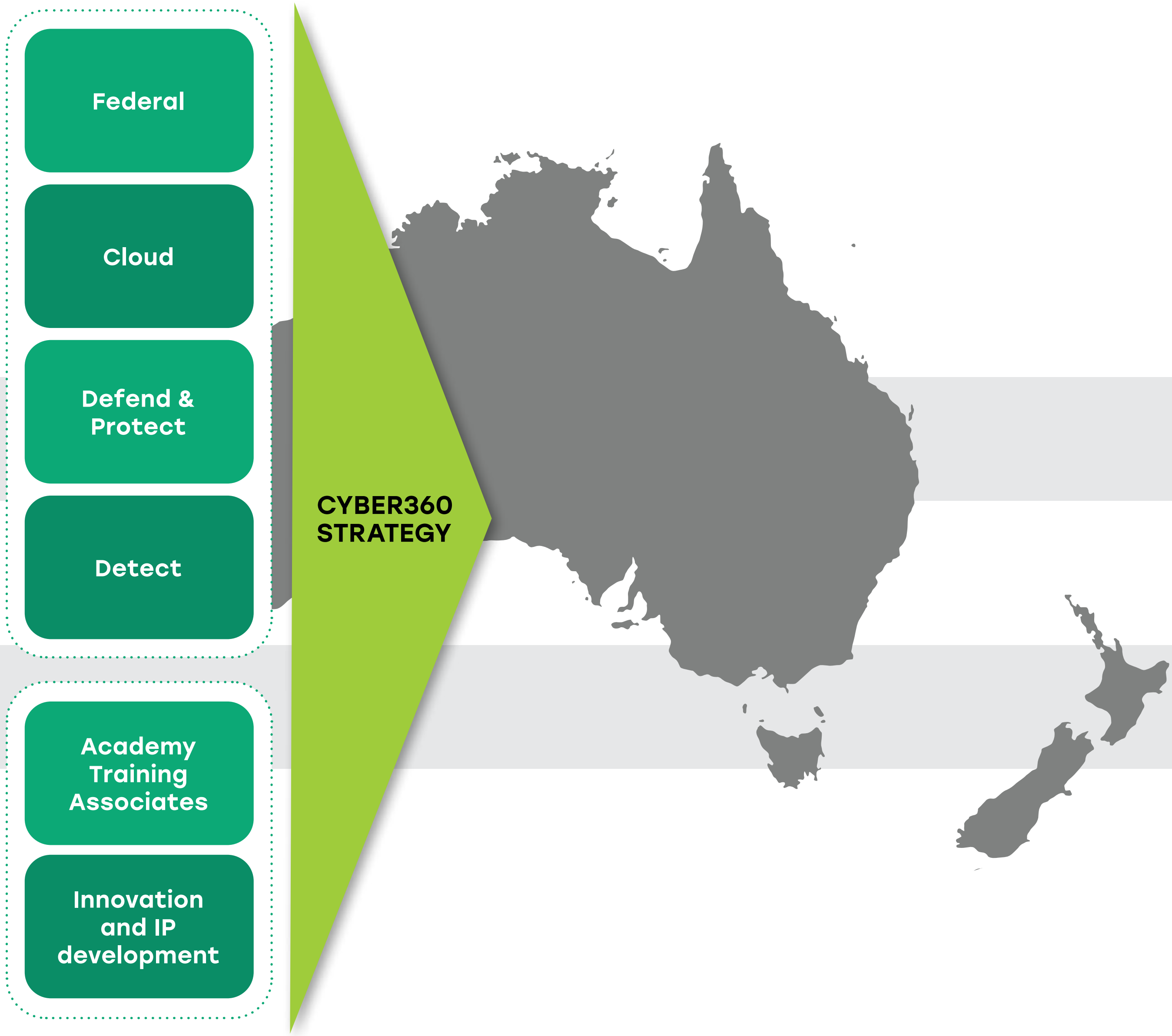
Tesserent is Australia's #1 ASX-listed cybersecurity provider offering full service cybersecurity Solutions to our clients, helping them achieve full end-to-end protection for their digital assets.

Cyber 360 utilises a range of products from world-leading cybersecurity vendors, delivering a comprehensive solution to prevent, detect and mitigate potential cyber-attacks.

This is delivered by more than 450 cybersecurity professionals across offices in Melbourne, Sydney, Brisbane, Canberra, Auckland, Wellington and Christchurch.

Tesserent's Cyber 360 offering provides products, services and strategic advice to more than 1,200 Enterprise, Government and Critical Infrastructure clients.

OUR STRATEGIC DIVISIONS



DEFEND
PROTECT
DETECT

RISK IDENTIFICATION
Assist clients to understand their risk profile, identify business critical assets and the appropriate level of protection required.

TECHNICAL ASSESSMENTS
Conduct assessments & gap analysis against best practice and regulatory requirements to assist clients with measuring their current security posture.

GOVERNANCE & POLICIES
Assess, align & uplift a client's governance and risk management strategy to match their risk profile and/or regulatory requirements

CONTROLS
Design and implementation of appropriate controls to safeguard assets, through the adoption of secure architectures and frameworks.

RISK MITIGATION
Actively drive continuous security maturity in organisations and raise awareness of the current threat landscape.

01 Strategy and Advisory

02 Assurance and Testing

03 Architecture and Engineering

04 Data and Analytics

05 Incident Response

06 Critical Technology Controls

07 Detect – Secure Digital Eye

08 Secure Cloud Migration

Board of Directors

GEOFF LORD

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 and sports technologies, fitness, leisure, sports camps, 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 Director Melbourne Business School, founding Director of SME finance business Judo Bank and Chairman of Salvest. He has also shown a significant passion for sports and clubs, having served as Chairman of Hawthorn Football Club and Melbourne Victory. Geoff is a Life Member of both clubs.

Geoff's formal qualifications include an MBA (Distinction) (Melbourne), BEc (Hons) (Monash), FIDA, ASIA.

Geoff is the largest shareholder in Tesserent.

KURT HANSEN

Chief Executive Officer and Managing Director

Kurt has over 30 years of IT industry experience driving sales and delivery transformation and impressive business growth across many IT and Cybersecurity organisations in Australia and New Zealand.

Kurt was the CEO at Pure Security where, as part of the PS&C Group he integrated four Security businesses following their acquisition and listing onto the ASX. 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 joined the Australian Army as an electronic trainee, later becoming a commission officer and finishing his military career in Royal Australian Signal Corp with the rank of Captain. He holds a Diploma of Engineering from Swinburne Institute of Technology.

See pages 34 to 35 for further information.

GREGORY BAXTER

Non-Executive Director (NED)

Board member since 2015. Greg is currently Chief Transformation Officer Hewlett Packard, leading HP's IT, Cyber, Software, Data & AI, and Transformation Management organizations. Greg was previously Chief Digital Officer at MetLife and Global Head of Digital at Citibank, leading Citi's digital transformation across businesses and geographies.

Greg 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.

Greg has extensive board and advisory experience in technology, financial services and research institutions. 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 Columbia University.

MEGAN HAAS

Non-Executive Director (NED)

Megan's core competencies are centered around cyber risk, governance, technology and operational processes developed over 30+ years both in Australia and internationally. Formerly a PwC Cyber Security & Forensic Services Partner, Megan has worked with organisations across international borders and industries including pharmaceutical, gaming, retail, manufacturing, government, media, financial services and communications.

Megan has a BBUS Accountancy & Information Systems (RMIT), GAICD. Megan's other Directorships include: Development Victoria (Chairperson), RMIT University (Council member) and Note Printing Australia (audit committee).

Executive Team

KURT HANSEN

Chief Executive Officer

Kurt has over 30 years of IT industry experience driving sales and delivery transformation and impressive business growth across many IT and cybersecurity organisations in Australia and New Zealand.

Kurt was the CEO at Pure Security where, as part of the PS&C Group he integrated four security businesses following their acquisition and listing on the ASX. 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 joined the Australian Army as an electronic trainee, later becoming a commission officer and finishing his military career in Royal Australian Signal Corp with the rank of Captain. He holds a Diploma of Engineering from Swinburne Institute of Technology.

JAMES JONES

Group CFO

James joined Tesserent after serving as CFO of the Australian FMCG business, Bellamy's Organic Group which was formerly an ASX listed business (sold in a public to private transaction in 2019).

In his role at Bellamy's, James was responsible for leading the Finance team across multiple jurisdictions in the delivery of technical accounting, reporting, audit and tax requirements plus statutory reporting and board reporting for Bellamy's Group.

Prior to his role at Bellamy's, James was a Director at Deloitte and then EY (in the United Kingdom) working in an advisory capacity on restructuring, distressed assets and M&A transactions. James has extensive experience in financial modelling and scenario analysis, plus providing advice on bid tactics, sale and purchase contract structuring and purchase price mechanics through execution of M&A deals.

James has worked on the ground on both sell side and buy side mandates, as well as fund raisings and Stock Exchange listings on both ASX and LSE. James hold Bachelor of Commerce and Bachelor of Science degrees from the University of Melbourne and is a member of Chartered Accountants (CA ANZ).

SAMANTHA RIDDLE

Director – People & Culture

Samantha has extensive commercial and human resources experience spanning 30 years both in Australia, and overseas. The last 18 years, she has held senior people leadership roles across the IT Sector. She is passionate about leading a Human Resources function that attracts, develops and retains high performing leaders and teams.

With her depth of knowledge and experience across the IT sector and Human resources alike, she is able to bring alignment between business and people strategies. She is both passionate and committed to making a positive impact to the business, through maximising and developing peoples' potential and capability.

Samantha, holds a Bachelor's degree in Commerce and Political Science, Honours Degree in Organisational Development and a Masters Of Business Administration.

PAUL TAYLOR

General Counsel and Company Secretary

Paul has extensive experience across the financial services, e-commerce and legal industries and is a member of Tesserent's Senior Leadership Team. Paul previously held leadership roles in the insurance and financial services sector with the Cover-More Group Limited and Insurance Australia Group Limited, and most recently acted as General Counsel & Company Secretary at Simonds Group Limited, an ASX listed business focused on residential building and construction.

At Tesserent, Paul brings his strong partnership building approach & commercial acumen to drive profitable and pragmatic business transformations. Paul holds a Master of Laws, Bachelor of Commerce (Hons) and is a Member of the Australian Institute of Company Directors. Paul is qualified to practice law in Australia and New York, USA.

CHRIS HAGIOS

Managing Partner, Defend & Protect

Chris was the founder and Managing Director of airloom. Chris has over 20 years of start-up and high growth technology company experience leading consulting, product, software development, 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.

Chris leads the Tesserent Defend BU and has oversight to develop and grow our Assurance, Advisory/GRC, Products & Technology and Data & Analytics segments, all of which are focussing on services and solutions designed to defend and protect our client's digital assets.

Executive Team

continued

CRAIG HUMPHREYS

Managing Partner, Cloud

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 Secure 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.

Craig leads the Tesserent Cloud BU providing clients with highly secure services lines involving public cloud, private cloud/ IaaS and hybrid managed cloud offerings.

GEORGE KATAVIC

Managing Partner, Federal

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.

DEEPAK SINGH

Managing Partner, Detect

Deepak is a seasoned Information Security professional with over 20 years of experience in the information security domain. He has held leadership roles in local and international information security organisations of various scale. He was instrumental in the growth and success of Secure Logic, which provided end to end information and cybersecurity solutions and services in various sectors. His customer focused view enables the right balance of security investment against business objectives, which is driven through his expertise in the field.

Deepak leads the Tesserent Detect business unit which provides secure monitoring and detection services designed to protect our client sensitive assets and information against global cyber threats.

HAMISH SOPER

Managing Partner, New Zealand

With over 15 years' experience transforming IT businesses, this role will see Hamish taking the Tesserent Defend and Detect & Cloud offerings to the NZ Market and assisting the Tesserent Lateral Security team to expand the existing Advisory/GRC and Assurance business.

Previously, Hamish was Country Manager with Check Point Software Technologies where he built the business from $2M to $16M over a 10-year period. In 2017 he established the AppDynamics (a Cisco Company) business in New Zealand and then returned to Check Point in 2018 as ANZ Channel Director. Earlier roles include running the M2M (IoT) sector at Vodafone.

PATRICK BUTLER

CEO, Loop Secure

Patrick has been at Loop Secure for more than 15 years, building up both the cybersecurity service and technology arms of the business. Patrick was formerly the General Manager of Sales & Marketing overseeing the national team from the Sydney office. Patrick was appointed CEO in 2016. During his time at Loop, Patrick has engaged with hundreds of clients, and understands the unique challenges posed to organisations in Australia by cybersecurity threat actors. In his role as both a shareholder and CEO of Loop, Patrick was able to understand the challenges that come with running a business securely. Patrick has extensive experience in presenting and training boards and executives on cybersecurity challenges and how to be prepared and resilient today and into the future. Patrick commenced in August 2021.

Corporate Governance Statement

The Board of Directors of Tesserent Limited (Board) is committed to ensuring that its Corporate Governance framework meets the requirements set out in the ASX Corporate Governance Council's Principles and Recommendations (Fourth Edition) (Governance Principles). Strong corporate governance is critical to the delivery of value to our shareholders and acting with transparency and integrity in the conduct of our business.

Consistent with prior years, the Board does not consider that all of the ASX Recommendations are applicable for the Company, and where Tesserent has not fully adhered with an ASX Recommendation, this has been discussed in the Corporate Governance Statement, together with the reasons why it has not been followed.

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 reassessed.

The Company's corporate governance policies and practices are outlined below and are in the 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. **Anti-Bribery Policy** – This policy sets out the practices which the Company follows to ensure compliance by the Company, its Directors, Senior Executives and employees with the anti-bribery or anti-corruption laws in the jurisdictions that the Company operates.
i. **Shareholder Communications Policy** – This policy sets out practices which the Company will implement to ensure effective communication with its Shareholders.
j. **Diversity Policy** – This policy sets out the Company's objectives for achieving diversity amongst its Board, management and employees.
k. **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.
l. **Nominations and Remuneration Committee Charter** – This policy sets out the objectives and procedures for the Nominations and Remuneration Committee when it is in operation.

ADHERENCE WITH AND DEPARTURES FROM RECOMMENDATIONS

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

RECOMMENDATION	COMPANY'S CURRENT PRACTICE
1.1 A listed entity should have and disclose a board charter setting out: a. the respective roles and responsibilities of its board and management; and b. those matters expressly reserved to the board and those delegated to management.	The respective roles and responsibilities of the Board and executives are defined in the Board Charter. The Board Charter outlines: – The roles of the Board, the Chairman, the Chief Executive Officer(s) (CEO(s)) and the Company Secretary. – The guidelines for Board composition, including the processes around Director appointments and Board nominations. – The general and specific responsibilities of the Board. – Responsibility for the operation and administration of the Group is delegated by the Board to the CEO(s) and the Senior Leadership Team (SLT). The Board ensures that the CEO and SLT are appropriately qualified and experienced to discharge their responsibilities. Some key functions reserved for the Board are: – Approval of the budget; – Approval of the strategic plan; – Approval of annual, half-yearly and quarterly financial reports; – Approving and monitoring the progress of major acquisition and divestments; – Ensuring the Company's Code of Conduct and other policies are adhered to, to promote ethical and responsible decision making and compliance with applicable laws; – Ensuring any significant risks that arise are identified, assessed and appropriately managed and monitored; and – Reporting to shareholders. While the Board retains full responsibility for guiding and monitoring the Company, to assist in discharging its responsibilities, it makes use of sub-committees. To this end the Board had in place an Audit & Risk Management Committee for FY22. A Nomination & Remuneration Committee was not in place in FY22, and these functions were managed by the Board. Reestablishment of the Nomination & Remuneration Committee in FY23 has been tabled for consideration by the Board. The Company complies with this Recommendation.

Corporate Governance Statement

continued

RECOMMENDATION		COMPANY'S CURRENT PRACTICE
1.2	A listed entity should: a. undertake appropriate checks before appointing a director or senior executive or putting someone forward for election as a director; and 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, including experience, qualifications, relevant memberships, and details of other material directorships held, or other interest, position or relationship that might influence on their ability to bear on issues before the Board and to act in the best interests of the Company as a whole rather than in the interests of an individual shareholder or other party. The notice of meeting also states whether the Board considers the Director to be independent, and the term of office currently served by the Director. The Company complies with this Recommendation.
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 setting out the terms of their appointment, including role, responsibilities and remuneration. A director must advise the Board in relation to any new role that could impact upon the time commitment expected of the director or give rise to a conflict of interest. The Company complies with this Recommendation.
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 Board Charter provides that the Company Secretary's role is: – advising the Board and its committees on governance matters; – monitoring that board and committee policies and procedures are followed; – coordinating the timely completion and despatch of board and committee papers; – ensuring that the business at board and committee meetings is accurately captured in the minutes; and – helping to organise and facilitate the induction and professional development of Directors. As stated in the Board Charter, each director can communicate directly with the Company Secretary and vice versa. The Company Secretary is accountable directly to the Board, through the Chairman, on all matters to do with the proper functioning of the Board and its committees. The Company complies with this Recommendation.

RECOMMENDATION	COMPANY'S CURRENT PRACTICE
1.5 A listed entity should: a. have and disclose a diversity policy; b. through its board or a committee of the board set measurable objectives for achieving gender diversity in the composition of its board, senior executives and workforce generally; and c. disclose in relation to each reporting period: i. the measurable objectives set for that period to achieve gender diversity; ii. the entity's progress towards achieving those objectives; and iii. either: a. the respective proportions of men and women on the board, in senior executive positions and across the whole workforce (including how the entity has defined "senior executive" for these purposes); or b. 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 recognises that a diverse and talented workforce at all levels is a competitive advantage and that the Company's success is the result of the quality and skills of its people. The Company has established and implemented a Diversity Policy which is overseen by the Board and may be viewed in full at: https://investors.tesserent.com/site/about/corporate-governance. The Company's Diversity Policy requires the Board to establish measurable objectives to assist the Company in achieving gender diversity. The Company did not set Measurable Objectives for achieving gender diversity for the 2022 financial year due the level of acquisition and integration activities required across the Group. Measurable Objectives for FY23 are in the process of being finalised and tabled for Board approval and adoption in Q2 FY23. The following activities were undertaken by the Company in FY22 in support of the Company's broader diversity objectives: – Partnered with the not-for-profit organisation UNIQ YOU to encourage more high school aged young women to consider careers in Cybersecurity. This partnership with UNIQ YOU aims to address the gender imbalance in the industry as a key step toward meeting that demand. – Tesserent was an Executive sponsor for the AWSN – 2021 Australian Women in Security Awards. – Adopted a Parental Leave Policy to expand parental leave provisions above the current standard, statutory requirements for consideration (12 weeks paid primary carer and 2 weeks paid secondary carer. – Adopted a Domestic & Family Violence Leave Policy. – Adopted a Group Code of Conduct and Workplace Harassment, Discrimination and Bullying Policy. – Adopted a Flexible Working Arrangement framework across the Group. The Company is a 'relevant employer' under the Workplace Gender Equality Act and lodged its report on 26 July 2022. This report contains the most recent 'Gender Equality Indicators' and the public version of this report can be found in the Media section of the company's website at: https://investors.tesserent.com/site/about/corporate-governance. As at 30 June 2022, there were 77 females employed representing 24% of total employees. The Tesserent board has a female Director, following the appointment of Megan Haas in January 2021. The Company partially complies with this Recommendation.

Corporate Governance Statement

continued

RECOMMENDATION	COMPANY'S CURRENT PRACTICE
1.6 A listed entity should: a. have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and b. disclose for each reporting period whether a performance evaluation has been undertaken in accordance with that process during or in respect of that period.	The Company has adopted a Board and Senior Executive Evaluation Policy. 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 oversees conducting individual Director evaluations. A Non-Executive Director will be responsible for the performance evaluation of the Chairman. A review of the: performance of the Board, its role, the adequacy and effectiveness of the Boards' practices and procedures and the behaviours of the Board was initiated during the fourth quarter of 2022, in respect of the period ending 30 June 2022. The Board takes this evaluation into consideration when recommending directors for (re-election). Julian Challingsworth, Joint CEO & Director, resigned from the Company and the Board effective from 23 November 2021. The Company complies with this Recommendation.
1.7 A listed entity should: a. have and disclose a process for evaluating the performance of its senior executives at least once every reporting period; and b. disclose for each reporting period whether a performance evaluation has been undertaken in accordance with that process during or in respect of that period.	The Company has adopted a Board and Senior Executive Evaluation Policy. The Chief Executive Officer is subject to annual performance evaluation by the Board. All senior executives of the Company are subject to annual performance evaluations by the CEO. A performance evaluation was undertaken for the CEO during the reporting period. The Company complies with this Recommendation.
2.1 The board of a listed entity should: a. have a nomination committee which: i. has at least three members, a majority of whom are independent directors; and ii. is chaired by an independent director, and disclose: iii. the charter of the committee; iv. the members of the committee; and v. as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or 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 Board has adopted a written Nomination & Remuneration Charter that sets out the role and objectives, responsibilities and functions of the Committee and may be viewed in full at: https://investors.tesserent.com/site/about/corporate-governance. During the year ended 30 June 2020, 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. Accordingly, a Nomination & Remuneration Committee was not in place in FY22, and these functions were managed by the Board. Reestablishment of the Nomination & Remuneration Committee in FY23 has been tabled for consideration by the Board. The Company does not comply with this Recommendation.

RECOMMENDATION		COMPANY'S CURRENT PRACTICE
2.2	A listed entity should have and disclose a board skills matrix setting out the mix of skills that the board currently has or is looking to achieve in its membership.	The experience and expertise relevant to the position of Director held by each Director in office at the date of the Annual Report is The Board skills matrix is set out in the following Board Experience/ Matrix Skill section.
2.3	A listed entity should disclose: a. the names of the directors considered by the board to be independent directors; b. if a director has an interest, position 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 or relationship in question and an explanation of why the board is of that opinion; and b. the length of service of each director	In accordance with the Board Charter and the ASX CGPRs, the Board regularly assesses the independence of each of the Non-Executive Directors based on the interests and associations disclosed by them. The Board considers that Megan Haas 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 Kurt Hansen is not an independent director given he is an employee of the Company. The date of appointment of each director is disclosed in details of each director in the Directors' Report section of the Annual Report. A Director must advise the Board if there is any change in the Director's interests, positions, associations or relationships that could bear upon his or her independence at the earliest opportunity. There are procedures in place, agreed by the Board, to enable Directors in furtherance of their duties to seek independent professional advice at the Company's expense. The Company complies with this Recommendation.
2.4	A majority of the board of a listed entity should be independent directors.	During the reporting period, the Board did not comply with Recommendation 2.4, as the majority of the Board are not independent Directors for the ASX purposes. The Board comprises a blend of experienced, independent directors and strong, hands-on directors with deep industry knowledge and expertise. Notwithstanding the current majority non-independence of the Board, the Board has carefully considered and documented the roles and responsibilities of its Chair and nominated chairs of its Committees to ensure strong governance. Directors are not involved in decisions where they have, or could be perceived to have, a conflict of interest or material personal interest. Any Director who considers that there may be a conflict of interest or a material personal interest in any matter concerning the Company must declare it immediately. The Company does not comply with this Recommendation.

Corporate Governance Statement

continued

RECOMMENDATION		COMPANY'S CURRENT PRACTICE
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 CEO are exercised by separate individuals. The Chairman is not considered to be an independent Director for ASX purposes. The Company does not comply with this Recommendation.
2.6	A listed entity should have a program for inducting new directors and for periodically reviewing whether there is a need for existing directors to undertake professional development to 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. The induction process for each Director is tailored based on the background and needs of that incoming director. During the reporting period the Directors are informed about developments within the Company, the cyber security industry more generally and material developments in law, regulations and accounting standards, in order to maintain the currency of knowledge, skills and experience necessary to perform their roles. The Company does not comply with this Recommendation.
3.1	A listed entity should articulate and disclose its values.	The Company's values are disclosed in detail within the Board Charter which is published on the Company's website. The Company complies with this Recommendation.
3.2	A listed entity should: a. have and disclose a code of conduct for its directors, senior executives and employees; and b. ensure that the board or a committee of the board is informed of any material breaches of that code.	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. This may be viewed in full at: https://investors.tesserent.com/site/about/corporate-governance. The Company complies with this Recommendation.
3.3	A listed entity should: a. have and disclose a whistle-blower policy; and b. ensure that the board or a committee of the board is informed of any material incidents reported under that policy.	The Company has adopted a written Whistleblower Policy which applies to all staff members of the Company, including directors, executives and employees. The Company complies with this Recommendation.
3.4	A listed entity should: a. have and disclose an anti-bribery and corruption policy; and b. ensure that the board or a committee of the board is informed of any material breaches of that policy.	The Company has adopted a written Anti-Bribery Policy which applies to all staff members of the Company, including directors, executives and employees. The Anti-bribery Policy may be viewed in full at: https://investors.tesserent.com/site/about/corporate-governance. The Company complies with this Recommendation.

RECOMMENDATION		COMPANY'S CURRENT PRACTICE
4.1	The board of a listed entity should: a. have an audit committee which: i. has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and ii. is chaired by an independent director, who is not the chair of the board, and disclose: iii. the charter of the committee; iv. the relevant qualifications and experience of the members of the committee; and v. in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or 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 Board has an Audit and Risk Management Committee (ARC) and adopted a written Audit & Risk Management Charter that sets out the role and objectives, responsibilities and functions of the Audit & Risk Committee. The Audit & Risk Management Charter may be viewed in full at: https://investors.tesserent.com/site/about/corporate-governance. The committee comprises the two non-executive directors and is chaired by independent director Megan Haas. The ARC met two times in FY22. The Chair of the ARC also met separately with the external Auditor of the Group. The Company does not comply with this Recommendation.
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.	In accordance with Recommendation 4.2, before the Board approved of the Company's financial statements for the financial period ending 30 June 2022, the Board received a declaration from the CEO and Chief Financial officer (CFO) in accordance with section 295A of the *Corporations Act 2001* (Cth) (Corporations Act) as well as assurance from those officers that the declaration was founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects. The Company complies with this Recommendation.
4.3	A listed entity should disclose its process to verify the integrity of any periodic corporate report it releases to the market that is not audited or reviewed by an external auditor.	The Company has established a Disclosure Team, which reviews all periodical corporate reports and announcements before they are disclosed to the market. The composition of the Disclosure Team and the verification and approval process for market release is outlined in the Company's Continuous Disclosure Policy, which is available at: https://investors.tesserent.com/site/about/corporate-governance. The Company complies with this Recommendation.
5.1	A listed entity should have and disclose a written policy for complying with its continuous disclosure obligations under listing rule 3.1.	The Company is committed to providing timely and balanced disclosure to the market in accordance with its Continuous Disclosure Policy. which is available at: https://investors.tesserent.com/site/about/corporate-governance. The Company complies with this Recommendation.

Corporate Governance Statement

continued

RECOMMENDATION		COMPANY'S CURRENT PRACTICE
5.2	A listed entity should ensure that its board receives copies of all material market announcements promptly after they have been made.	The Company complies with this Recommendation.
5.3	A listed entity that gives a new and substantive investor or analyst presentation should release a copy of the presentation materials on the ASX Market Announcements Platform ahead of the presentation.	The Company complies with this Recommendation.
6.1	A listed entity should provide information about itself and its governance to investors via its website.	The Company has a website, https://investors.tesserent.com, which includes a 'Board of Directors', 'Annual Reports' and 'Corporate Governance' section where information about the Company, including its financial and corporate governance information can be accessed. The Company complies with this Recommendation.
6.2	A listed entity should have an investor relations program that facilitates effective two-way communication with investors.	The Company has adopted a Shareholder Communications Policy for Shareholders wishing to communicate with the Board which is available at: https://investors.tesserent.com/site/about/corporate-governance. The Company conducts regular briefings in order to facilitate effective two-way communication with investors and other market participants. The Company provides a copy of the annual report to all shareholders who have requested to receive a hard copy and encourages investors to access the annual report online. The annual report contains relevant information about the Company's operations during the year, changes in the state of affairs and other disclosures required by the Corporations Act. The half year report contains summarised financial information and a review of Tesserent Group's operations during the period. The Company's corporate website provides all shareholders and the public access to our announcements to the ASX, and general information about the Company and our business. The Company complies with this Recommendation.
6.3	A listed entity should disclose how it facilitates and encourages 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. The Company complies with this Recommendation.

RECOMMENDATION		COMPANY'S CURRENT PRACTICE
6.4	A listed entity should ensure that all substantive resolutions at a meeting of security holders are decided by a poll rather than by a show of hands.	The Company complies with this Recommendation.
6.5	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. The Company provides (and encourages) shareholders with the option to receive communications from, and send communications to, the Company and the Share Registry electronically, for reasons of speed, convenience, cost and environmental considerations. The Company complies with this Recommendation.
7.1	The board of a listed entity should: a. have a committee or committees to oversee risk, each of which: i. has at least three members, a majority of whom are independent directors; and ii. is chaired by an independent director, and disclose: iii. the charter of the committee; iv. the members of the committee; and v. as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or 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 views effective risk management as a key component to achieving and maintaining its operational and strategic objectives. The identification and management of the Tesserent Group's risks are an important priority of the Board. The Company's risk management is assessed and managed by the Audit and Risk Management Committee (ARC) and governed by the Audit and Risk Management Charter, which may be viewed at: https://investors.tesserent.com/site/about/corporate-governance. Refer also to Recommendation 4.1. The ARC comprises two non-executive directors and one executive director and is chaired by independent director Megan Haas. The ARC met two times in FY22. The Chair of the ARC also met separately with the external Auditor of the Group. The Company complies with this Recommendation.
7.2	The board or a committee of the board should: a. review the entity's risk management framework at least annually to satisfy itself that it continues to be sound and that the entity is operating with due regard to the risk appetite set by the board; and b. disclose, in relation to each reporting period, whether such a review has taken place.	The Company has risk processes across the business that are reviewed at least annually, continue to be sound and are operating in line with the risk appetite set by the Board. The Company complies with this Recommendation.

Corporate Governance Statement

continued

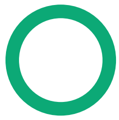
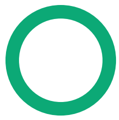
RECOMMENDATION		COMPANY'S CURRENT PRACTICE
7.3	A listed entity should disclose: a. if it has an internal audit function, how the function is structured and what role it performs; or b. if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its governance, risk management and internal control processes.	The Company does not have an internal audit function established. Management designs 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. The Company does not comply with this Recommendation.
7.4	A listed entity should disclose whether it has any material exposure to environmental or social risks and, if it does, how it manages or intends to manage those risks.	For the reporting period, the Company has not identified any material exposures to environmental or social risks, other than COVID – for which the Company has documented a COVID-safe plan. The Company complies with this Recommendation.
8.1	The board of a listed entity should: a. have a remuneration committee which: i. has at least three members, a majority of whom are independent directors; and ii. is chaired by an independent director, and disclose: iii. the charter of the committee; iv. the members of the committee; and v. as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or 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.	A Nomination & Remuneration Committee was not in place in FY22, and these functions were managed by the Board. Reestablishment of the Nomination & Remuneration Committee in FY23 has been tabled for consideration by the Board. The Company does not comply with this Recommendation.
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. The Company complies with this Recommendation.

RECOMMENDATION		COMPANY'S CURRENT PRACTICE
8.3	A listed entity which has an equity-based remuneration scheme should: a. have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and b. disclose that policy or a summary of it.	Tesserent Group has an employee equity plan in place, which includes equity incentives. The rules of the plan prohibit participants from entering into transactions or arrangements, including by way of derivatives or similar financial products, which limit the economic risk of holding unvested awards under that plan. Similar restrictions are contained in the Company's Securities Trading Policy and apply to Officers of the Company, Key Management Personnel and direct reports of the CEO and the finance team. These parties are prohibited from trading in any securities of the company (or engaging in other specified behaviour) at any time when they are in possession of un-published sensitive information in relation to those securities. The Securities Trading Policy may be viewed in full at https://investors.tesserent.com/site/about/corporate-governance. As required by the ASX Listing Rules, the company notifies ASX of any transaction conducted by Directors in securities of the Company. The Company complies with this Recommendation.
9.1	A listed entity with a director who does not speak the language in which board or security holder meetings are held or key corporate documents are written should disclose the processes it has in place to ensure the director understands and can contribute to the discussions at those meetings and understands and can discharge their obligations in relation to those documents.	This recommendation is not applicable to the Company given the current composition of the Board of Directors.
9.2	A listed entity established outside Australia should ensure that meetings of security holders are held at a reasonable place and time.	This recommendation is not applicable to the Company.
9.3	A listed entity established outside Australia, and an externally managed 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.	This recommendation is not applicable to the Company.

Corporate Governance Statement

continued

BOARD SKILLS/EXPERIENCE MATRIX

KEY SKILL	DEMONSTRATED BY ATTRIBUTES	BOARD EXPERIENCE
Cyber industry experience	Sound knowledge of the structure, operations and opportunities in the Cyber Security industry.	
Technology and digital innovation	Experience in developing setting and implementing digital innovation and technology strategies.	
Risk management	Knowledge, background and experience in balancing commercial imperatives with agreed risk appetites, building organisational risk culture	
Financial acumen	Proficiency in finance, including in financial accounting and reporting and capital management, including an ability to probe the adequacy of financial and risk controls	
Strategy	Demonstrated experience in developing and implementing strategic opportunities to create long term value for shareholders.	
M&A experience	Experience in identifying executing and integrating mergers and acquisitions to create long term value for shareholders.	
ASX board and other relevant board experience	Exposure to relevant disclosure regimes, understanding of contemporary corporate governance practices.	
Executive leadership	Experience in appointing and evaluating senior management, executive planning and monitoring corporate performance	
International markets and trade	Experience in working in an organisation with global operations and understanding of political and regulatory requirements plus appreciation of market opportunities	
Sustainability	Experience related to environmental, social and community responsibility	

The Directors of Tesserent Limited (the "Company") submit the Directors' Report on the Company for the financial year ended 30 June 2022

Directors' Report

for the year ended 30 June 2022

The Directors of Tesserent Limited (the "Company") submit the Directors' Report on the Company for the financial year ended 30 June 2022.

In order 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	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. 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 Director Melbourne Business School, founding Director of SME finance business Judo Bank and Chairman of Salvest. 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.
Other Directorships in listed entities:	None
Former Directorships in listed entities in last 3 years:	None
Interests in Shares and options:	99,258,956 ordinary shares 8,882,500 share options exercisable at $0.10 expiring 1 October 2022 6,000,000 5 year call options exercisable at $0.248 expiring 21 September 2025
Kurt Hansen	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. 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:	13,398,000 ordinary shares

DIRECTORS (CONTINUED)

Gregory Baxter	Non-Executive Director (Appointed 16 November 2016)
Qualifications:	BSc MBA
Experience:	Board member since 2015. Greg is currently Chief Transformation Officer Hewlett Packard, leading HP's IT, Cyber, Software, Data & AI, and Transformation Management organizations. Greg was previously Chief Digital Officer at MetLife and Global Head of Digital at Citibank, leading Citi's digital transformation across businesses and geographies. Greg 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. Greg has extensive board and advisory experience in technology, financial services and research institutions. 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 Columbia University.
Other Directorships in listed entities:	None
Former Directorships in listed entities in last 3 years:	None
Interests in Shares and options:	5,620,327 ordinary shares 3,000,000 unlisted share options
Megan Haas	Non-Executive Director (Appointed 19 January 2021)
Qualifications:	BBUS Accountancy & Information Systems (RMIT), GAICD.
Experience:	Megan's core competencies are centered around cyber risk, governance, technology and operational processes developed over 30+ years both in Australia and internationally. Formerly a PwC Cyber Security & Forensic Services Partner, Megan has worked with organisations across international borders and industries including pharmaceutical, gaming, retail, manufacturing, government, media, financial services and communications. Megan has a BBUS Accountancy & Information Systems (RMIT), GAICD. Megan's other Directorships include: Development Victoria (Chairperson), RMIT University (Council member) and Note Printing Australia (audit committee).
Interests in Shares and options:	281,636 ordinary shares 3,000,000 unlisted share options
Julian Challingsworth	Co-Chief Executive Officer (Appointed 1 August 2018, **resigned 23 November 2021**)
Qualifications:	Bachelor of Business, MSc, CA, FCPA, GAICD
Interests in Shares and options:	14,000,000 ordinary shares

Directors' Report

for the year ended 30 June 2022

COMPANY SECRETARY

Paul Taylor	General Counsel and Company Secretary (Appointed as Company Secretary on 29 July 2022)
Qualifications:	Master of Laws, Bachelor of Commerce (Hons), GAICD
Experience:	Paul has extensive experience across the financial services, e-commerce and legal industries and previously held leadership roles in the insurance and financial services sector with the Cover-More Group Limited and Insurance Australia Group Limited. Prior to his role at Tesserent, Paul was General Counsel & Company Secretary at Simonds Group Limited, an ASX listed business focused on residential building and construction.
Oliver Carton	Company Secretary (Appointed as Company Secretary on 6 May 2015, **resigned on 29 July 2022**)
Qualifications:	BJurisLLB.
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.

MEETINGS OF DIRECTORS

The following table sets out the number of meetings of the Company's Directors during the year ended 30 June 2022 and the number of meetings attended by each Director.

	Board Meetings		Audit and Risk Committee Meetings	
Director	**Entitled to attend**	**Attended**	**Entitled to attend**	**Attended**
Geoff Lord	15	15	*(by invitation)*	1
Kurt Hansen	15	15	*(by invitation)*	2
Gregory Baxter	15	14	2	2
Megan Haas	15	15	2	2
Julian Challingsworth (resigned 23 November 2021)	7	7	*(by invitation)*	1

PRINCIPAL ACTIVITIES

Tesserent provides Cyber Security consulting, cloud and managed services to a wide range of Australian and international customers, including education providers, corporate enterprises, and government customers.

These services are provided on the basis of consulting contracts, software implementation contracts and a subscription fees, either as one off engagements, longer term projects or as monthly or annual fees.

OPERATING RESULTS AND FINANCIAL POSITION

The Group recorded a loss after tax of $8.8m for the year ended 30 June 2022 (2021: $4.5m loss). The Group incurred significant one-off expenses (cash and non- cash costs) in respect of the refinancing, predominantly in exiting the previous facility, plus non-operating acquisition costs in completing controlling acquisitions of three companies during the year.

The acquisitions resulted in an increase in total assets to $248.5m including Goodwill of $129.6m and Intangible assets (including acquired Customer contracts and relationships) of $38.2m.

OPERATING RESULTS AND FINANCIAL POSITION (CONTINUED)

During the year the Group issued equity of $35.7m after costs, including a $25m capital raise to provide working capital and capital for the acquisitions. The Group also refinanced its existing debt of $35m and secured additional financing facilities of $24 million (additional facilities being undrawn at 30 June 2022), to provide working capital and cash reserves to complete acquisitions. Interest is charged based on a line fee of 2.0%, plus a usage fee of 1.25%, plus BBSY.

As a result of the acquisitions and the equity, the Group's net assets at 30 June 2022 were $117.0m.

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

CLOSING SHARE PRICE

	Closing share price $
30 June 2017	0.092
30 June 2018	0.060
30 June 2019	0.045
30 June 2020	0.080
30 June 2021	0.235
30 June 2022	0.105

A high of $0.44 was reached on 8 January 2021.

NET TANGIBLE ASSETS PER SHARE

Net tangible assets per ordinary share ($)	30-Jun-22	30-Jun-21
Net tangible assets per share	(0.05)	(0.03)

DIVIDENDS

No dividend has been proposed to be paid or is payable for the financial year ended 30 June 2022, nor for the comparative period.

CONTROL GAINED OVER ENTITES DURING THE FINANCIAL YEAR

		% holding		Profit contribution ($'000) for period under TNT control	
Name of business	Completion date	30-Jun-22	30-Jun-21	30-Jun-22	30-Jun-21
Loop Secure Pty Ltd	1 Oct-21	100%	–	2,047	–
Claricent Pty Ltd	15 Dec-21	100%	–	600	–
Pearson Corporation Pty Ltd	23 Dec-21	100%	–	2,777	–

Directors' Report

for the year ended 30 June 2022

SIGNIFICANT CHANGE IN STATE OF AFFAIRS

On 8 July 2021, the Group entered into an investment agreement to take a minority stake (7% initially) in Daltrey Pty Ltd, a leading sovereign biometric company. The investment was made through Tesserent's innovation arm which invests in globally applicable proprietary cyber-IP with the potential to support a go-to-market partnership opportunity and future distributions to Tesserent shareholders. The Sydney-based biometric technology enables an organisation's users to prove who they are quickly and securely in both digital and physical scenarios without the need for passwords or swipe cards improving trust and accountability across the enterprise

On 11 August 2021, Tesserent announced a Brand and Business unit integration strategy to drive the consolidation of businesses acquired over the course of FY20 and FY21. The reorganisation resulted in an integration of existing service offerings with current and prospective customers into new Defend, Detect, Cloud and Federal divisions and identified cross sell opportunities to both enhance the number of services by customer, but also identify and address potentially critical security deficiencies in customer infrastructure and networks.

A rebranding of the Group was also undertaken as an accompaniment to the reorganisation, this rebranding included a new logo, colour palette and logo to accentuate the consolidation of Tesserent's service capabilities under a unified strategy.

As a result of the integration, the Group is seeing promising results in driving cross-selling initiatives with the sales teams proficient in identifying security risks in client environments which can be mitigated with Tesserent's offering of Consulting Services & Critical Controls.

On 28 September 2021, the Group completed a capital raise (via an equity placement with a number of institutional investors) raising $25m to fund future identified acquisitions. The capital raise was undertaken primarily for the purpose of a further three strategic acquisitions (Loop Secure, Claricent and Pearson) and to fund deferred consideration and earn-out payments on previous acquisitions.

On 1 October 2021, the Group completed the acquisition of Loop Secure Pty Ltd. Loop Secure is headquartered in Sydney with offices in Melbourne and Brisbane, providing Managed Security Services, GRC and Offensive Security services primarily to mid-market corporate clients. The firm also operates a Security Operations Centre located in Melbourne, working predominantly with a range of international and domestic enterprises. Tesserent acquired 100% of the ordinary shares of Loop Secure Pty Ltd for consideration of $17,426,161, with $7,000,000 cash and $3,508,150 in issued share capital, being 15,946,135 shares issued at a fair value of $0.220 per share. A further deferred consideration cash payment of $1,000,000 was made on 30 June 2022 and additional cash payment of $1,000,000 is payable in Q2 FY23. A completion accounts payment $490,780, plus estimated earnout payments of $4,427,236, make up the balance of the total acquisition cost.

On 23 November 2021, Tesserent announced the appointment of Kurt Hansen as the CEO, and resignation of Julian Challingsworth as Co-CEO Tesserent (and resignation from the Board of Tesserent). The change in leadership structure from Co-CEO to single CEO, reflects the change in Group focus from highly acquisitive to organic growth via successful customer acquisition and retention though delivery of quality services which is the expertise and focus of Kurt Hansen.

On 15 December 2021, the Group completed the acquisition of Claricent Pty Ltd. Tesserent acquired 100% of the ordinary shares of Claricent Pty Ltd for consideration of $6,463,995, with $1,239,000 cash and $791,958 in issued share capital, being 4,728,105 shares issued at a fair value of $0.1675 per share. Further cash payments of $1,512,820 in deferred consideration and deferred issued capital of $862,534, plus cash payments of $1,028,842 and earnout share consideration of $1,028,842 (contingent on the Claricent business meeting agreed earnings targets), make up the balance of the total acquisition cost.

On 23 December 2021, the Group completed the acquisition of Pearson Corporation Pty Ltd. Tesserent acquired 100% of the ordinary shares of Pearson Corporation Pty Ltd for consideration of $31,401,477, with $8,640,000 cash and $5,591,299 in issued share capital, being 33,886,663 shares issued at a fair value of $0.1650 per share. Further cash payments of $8,743,381 in deferred consideration and deferred issued capital of $4,999,709 are contingent on the Pearson business meeting agreed earnings targets. Also contingent on Pearson meeting earnings targets, are estimated earnout cash payments of $2,056,253 and earnout share consideration of $1,370,835, which make up the balance of the total acquisition cost.

SIGNIFICANT CHANGE IN STATE OF AFFAIRS (CONTINUED)

Both Claricent Pty Ltd and Pearson Corporation Pty Ltd have leading positions in the Federal Government marketplace and enable Tesserent to further strengthen its position and deliver large multi-year projects that support the Federal Government to achieve their cybersecurity goals.

On 23 June 2022, Tesserent announced the successful completion of a refinancing and upsizing of its debt facilities – replacing its core debt facilities of $35m provided by Pure Asset Management, with a new Market Rate Loan provided by the Commonwealth Bank of Australia.

In addition to the refinancing of existing debt, CBA is providing a further Market Rate Loan of up to $20m to be used to fund cash consideration payments on existing and future acquisitions; plus ancillary facilities of $4m – to cover Bank Guarantees, FX and corporate cards for the Group.

The implementation of the new financing arrangements will materially reduce the (cash) interest cost and eliminate the ongoing non-cash warrant expense on the previous debt facility and result in significant savings on drawn new debt facilities (based on current benchmark interest swap rates)

AFTER BALANCE DATE EVENTS

The Company notes the following subsequent event, following 30 June 2022 reporting date.

On 24 August 2022, the Company remitted payment of $2.86m and issued 10,926,052 shares to the Loop Secure vendors in accordance with the terms of the Share Purchase Agreement for Loop Secure Pty Ltd.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The Board and Management Team continue to focus on the following areas:

- Fostering innovation across the Group and expanding proprietary intellectual property to drive high-margin product and service offerings
- Focusing on capturing further market share in three key markets: Government (including Defence), Critical Infrastructure and Financial Services
- Driving growth through deeper and wider customer engagements and increasing our average number of services per customer
- Integrating acquisitions into "Capability Business Units" to maximise synergy efficiencies and drive organic revenue growth through cross-selling
- Building out high-value recurring annuity revenue streams via Managed Security Operations Centre (SOC) and Managed Detection and Response (MDR).
- Investing in the Tesserent Academy strategy to deliver programs to help the industry shortage of cyber skills for Tesserent staff, our clients and industry wide.
- Selectively evaluating acquisition opportunities that may expand on our Cyber 360 capabilities and market share, increasing shareholder value through incremental EPS growth.

INDEMNITY AND INSURANCE OF OFFICERS

In accordance with its Constitution, and where permitted under relevant legislation or regulation, the Company indemnifies the Directors and Officers against all liabilities to another person that may arise from their position as Directors or Officers of the Company and its subsidiaries, except if, in the Board's reasonable opinion, the liability arises out of conduct which is fraudulent, criminal, dishonest or a willful default of the Directors' or Officers' duties. In accordance with the provisions of the *Corporations Act 2001*, the Company has insured the Directors and Officers against liabilities incurred in their role as Directors and Officers of the Company.

The terms of the insurance policy, including the premium, are subject to confidentiality clauses and therefore the Company is prohibited from disclosing the nature of the liabilities covered and the premium paid.

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.

Directors' Report

for the year ended 30 June 2022

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.

SHARES UNDER OPTION

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

Description	Date of Expiry	Exercise Price	Number on issue	Number escrowed
Converting Note Options	1 Oct 2022	$0.10	2,400,000	Nil
Converting Note Options	1 Oct 2022	$0.10	3,832,500	Nil
Converting Note Options	1 Oct 2022	$0.10	26,470,000	Nil
Employee Options	29 Nov 2022	$0.13	1,000,000	Nil
Warrants issued to Pure Asset Management Pty Ltd	6 Dec 2022	$0.08	7,500,000	Nil
Employee Options	2 Nov 2023	$0.28	17,963,632	Nil
Employee Options	2 Nov 2023	$0.35	16,963,632	Nil
Employee Options	1 Jul 2024	$0.28	1,000,000	Nil
Employee Options	1 Jul 2024	$0.35	1,000,000	Nil
Acquisition Warrants	18 Sep 2024	$0.12	18,083,334	Nil
Warrants issued to Pure Asset Management Pty Ltd	18 Sep 2024	$0.12	17,500,000	Nil
Employee Options	31 Jan 2025	$0.28	7,400,000	Nil
Acquisition Warrants	12 Apr 2025	$0.45	30,555,556	Nil
Warrants issued to Pure Asset Management Pty Ltd	12 Apr 2025	$0.45	13,888,889	Nil
Call Options	9 Jun 2025	$0.240	1,000,000	Nil
NED Options	21 Sep 2025	$0.248	9,000,000	Nil
NED Options	5 Jul 2026	$0.21	3,000,000	Nil
			178,557,543	

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.

REMUNERATION REPORT (AUDITED)

The remuneration report, which has been audited, outlines the directors' 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.

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.

KMP Remuneration Framework

The KMP remuneration framework comprises three principal elements:

- a total fixed remuneration **(TFR)** comprising a fixed component, consisting of a base salary, superannuation contributions and other related allowances; •
- a performance based, variable 'at risk' component, comprising cash and/or equity settled short-term incentives **(STI)**; and •
- a performance and service based, variable 'at risk' component, comprising of options and/or performance rights and/or cash equivalents referred to as long-term incentives **(LTI)**.

Components of remuneration

Directors

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. All equity issued to Directors during the year was subject to shareholder approval.

The Board has implemented a Director Option Plan. The Option Plan is aimed at incentivising the Directors in retaining key strategic skills. The Director Option Plan currently covers Executive Directors and Non-executive Directors.

TFR overview

TFR consists of base remuneration and employer contributions to superannuation funds. While comparative levels of remuneration are monitored on a periodic basis, there is no contractual requirement or expectation that any adjustments will be made.

STI overview

Performance linked remuneration includes short-term incentives **(STI)** and is designed to reward the Chief Executive Officer & Managing Director, Chief Financial Officer and other Executive KMP's for meeting and exceeding their financial and key performance objectives.

The STI's ensure that a proportion of remuneration is tied to Group performance measured annually in line with the financial year. Executives can only realise their STI at-risk component if challenging pre-determined objectives are achieved. The achievement of the Group's budgeted Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) is an initial gateway to realise a STI amount.

Directors' Report

for the year ended 30 June 2022

REMUNERATION REPORT (AUDITED) (CONTINUED)

As in the prior year, all STI's are subject to the achievement of clear performance measures. This aligns executive interests with shareholder interests and focuses executive performance on those areas aligned to the achievement of the Group's operational strategy.

The Board has the responsibility of setting the Key Performance Indicators (KPI's) for the CEO and have input to the KPI's for the executives. KPI's generally include measures relating to the Group, the relevant business unit and the individual. At the conclusion of the year the Board will assess the performance of the CEO, and the CEO assesses the performance of the individual executives against their targets.

The CEO's recommendations are presented to the Board for approval.

LTI overview

The Group's LTIs ensure that a proportion of remuneration is linked to Group performance over the long term. Executives can only realise their LTI at-risk component if challenging pre-determined objectives are achieved.

This aligns executive interests with shareholder interests and focuses executive performance on sustainable shareholder wealth. LTI consists of the granting of Performance Rights and/or options and/or cash equivalents that vest after a defined period. Vesting conditions may be waived at the absolute discretion of the Board.

Engagement of remuneration consultants

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

Voting and comments made at the Company's 19 November 2021 Annual General Meeting ('AGM')

At the 19 November 2021 AGM, 86.81% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2021. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

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 the following pages.

Key Management Personnel - Directors and Executives

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

Directors	Position
Geoff Lord	Executive Chairman
Gregory Baxter	Non-Executive Director
Megan Haas	Non-Executive Director
Kurt Hansen[1]	Chief Executive Officer and Director
Julian Challingsworth[2]	Co-Chief Executive Officer and Director (resigned 23 November 2021)

Other Key Management Personnel	Position
James Jones	Chief Financial Officer
George Katavic	Managing Partner, Tesserent Federal
Chris Hagios	Managing Partner, Tesserent Defend
Craig Humphreys	Managing Partner, Tesserent Cloud
Deepak Singh	Managing Partner, Tesserent Detect
Patrick Butler	Managing Director, Loop Secure (Appointed on acquisition 1 October 2021)

1 On 19 November 2021, the Company announced the appointment of Kurt Hansen as sole CEO.
2 On 19 November 2021, the Company announced the retirement of Julian Challingsworth as joint CEO and Director effective 23 November 2021.

REMUNERATION REPORT (AUDITED) (CONTINUED)

Key terms of Executive Services Agreement – Chief Executive Officer (CEO)

The material terms of the Executive Services Agreement between Kurt Hansen and the Company for the role of CEO are as follows:

Term:	No fixed term. Ongoing until terminated by either party in accordance with the Agreement
Total Fixed Remuneration (TFR):	$500,000 per annum (including superannuation) from 1 December 2021
Short Term Incentive (STI) for FY22:	Short term incentive of up to $125,000 per annum based on agreed KPI’s and subject to performance
Long Term Incentive (LTI):	Performance rights as issued shares – refer to Share Based Compensation section in remuneration report
Notice period:	Six months if notice is provided by Mr Hansen to the Company
	Nine months if notice is provided by the Company to Mr Hansen
	Employment may be ended immediately in certain circumstances, including misconduct or by mutual agreement
Post-employment restraint:	A 12 month post-employment restraint provision applies to Mr Hansen

Executive Service Agreements – other key terms

		Minimum Notice Period	
Name	**Contract Length**	**Termination by KMP**	**Termination by Company**
K Hansen	No fixed term	6 months	9 months
J Jones	No fixed term	3 months	6 months
G Katavic	No fixed term	1 week	1 week
C Hagios	No fixed term	6 months	6 months
C Humphreys	No fixed term	1 month	1 month
D Singh	No fixed term	4 weeks	4 weeks
P Butler	No fixed term	16 weeks	16 weeks

STI payments to KMPs

All STIs are subject to the achievement of Key Performance Indicators agreed between each KMP and the Company, however the Board may exercise its discretion in approving short-term incentive payments to the KMPs based on other factors.

Directors' Report

for the year ended 30 June 2022

REMUNERATION REPORT (AUDITED) (CONTINUED)

Details of Remuneration for the year ended 30 June 2022

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

	Short term employment benefits		Other benefits	Post employment	Equity based payments		
Year ended 30 June 2022	Salary and Fees $	Bonus $	Leave Entitlements $	Superannuation $	Shares $	Options $	Total $
Directors							
G Lord	–	–	–	–	–	220,764	220,764
G Baxter[1]	–	–	–	–	–	142,952	142,952
M Haas	–	–	–	–	–	–	–
Subtotal	**–**	**–**	**–**	**–**	**–**	**363,716**	**363,716**
Executive Directors							
K Hansen	434,765	125,000	39,003	23,568	–	–	622,336
J Challingsworth[2]	215,503	–	–	13,326	–	–	228,829
Subtotal	**650,268**	**125,000**	**39,003**	**36,894**	**–**	**–**	**851,165**
Other KMPs							
J Jones	355,599	80,000	30,525	23,568	–	82,797	572,489
G Katavic	366,398	240,000	7,722	28,602	–	–	642,722
C Hagios[3]	379,216	380,000	109,919	23,568	–	–	892,703
C Humphreys	238,216	200,000	76,196	23,568	–	–	537,980
D Singh	250,000	125,000	18,733	23,516	–	–	417,249
P Butler[4]	232,324	–	3,259	21,263	–	–	256,846
Subtotal	**1,821,753**	**1,025,000**	**246,354**	**144,085**	**–**	**82,797**	**3,319,989**
Total	**2,472,021**	**1,150,000**	**285,357**	**180,979**	**–**	**446,513**	**4,534,870**

1 Includes NED options of $32,570 granted in 2018.
2 Resigned on 23 November 2021. Salary and fees includes a termination payment of $43,236.
3. Includes car allowance of $42,000.
4. Appointed on acquisition 1 October 2021. Includes $2,500 being for fully maintained company vehicle.

Directors' Report

for the year ended 30 June 2022

REMUNERATION REPORT (AUDITED) (CONTINUED)

Details of Remuneration for the year ended 30 June 2021

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		
Year ended 30 June 2021	**Salary and Fees $**	**Bonus $**	**Long-Service Leave $**	**Superannuation $**	**Shares $**	**Options $**	**Total $**
Directors							
G Lord	–	–	–	–	–	172,177	172,177
G Baxter	–	–	–	–	–	86,089	86,089
P Flannigan[1]	–	–	–	–	–	–	–
M Haas[2]	–	–	–	–	–	380,000	380,000
Subtotal	**–**	**–**	**–**	**–**	**–**	**638,266**	**638,266**
Executive Directors							
J Challingsworth	320,969	–	1,661	29,818	–	87,019	439,467
K Hansen	335,616	–	21,721	31,834	–	87,019	476,190
Subtotal	**656,586**	**–**	**23,382**	**61,651**	**–**	**174,038**	**915,657**
Other KMPs							
S Scheffer[3]	113,288		–	8,986	28,738	–	151,012
P Fearns[4]	104,737	–	–	9,215	–	–	113,952
J Jones[5]	47,438	–	–	3,698	–	41,399	92,535
G Katavic	270,848	–	–	25,000	–	–	295,848
C Hagios[6]	268,333	197,373	–	18,349	–	–	484,055
C Humphreys[7]	66,668	255,610	19,100	17,412	–	–	358,789
D Singh[8]	41,668	–	–	3,616	–	193,688	238,972
Subtotal	**912,981**	**452,983**	**19,100**	**86,275**	**28,738**	**235,087**	**1,735,163**
Total	**1,569,566**	**452,983**	**42,481**	**147,926**	**28,738**	**1,047,391**	**3,289,086**

1 In August 2020, 3m options were awarded as part of the shareholder approved non-executive director remuneration package. These options lapsed when P Flannigan retired on 19 January 2021.
2 Appointed on 19 January 2021.
3 Resigned on 30 October 2020.
4 Commenced 9 November 2020, finished 23 April 2021.
5 Commenced 30 April 2021.
6 Appointed on acquisition 11 September 2020.
7 Appointed on acquisition 11 November 2020.
8 Appointed on acquisition 1 May 2021.

Directors' Report

for the year ended 30 June 2022

REMUNERATION REPORT (AUDITED) (CONTINUED)

Bonuses included in remuneration

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

	2022			2021		
	Fixed remuneration	Weighting (% of total REM) - STI	Weighting (% of total REM) - LTI	Fixed remuneration	Weighting (% of total REM) - STI	Weighting (% of total REM) - LTI
Directors						
G Lord	–	–	100%	–	–	100%
G Baxter	–	–	100%	–	–	100%
M Haas	–	–	–	–	–	100%
Executive Directors						
K Hansen	80%	20%	–	82%	–	18%
J Challingsworth	100%	–	–	80%	–	20%
Other KMPs						
J Jones	72%	14%	14%	55%	–	45%
G Katavic	63%	37%	–	100%	–	–
C Hagios	57%	43%	–	59%	41%	–
C Humphreys	63%	37%	–	29%	71%	–
D Singh	70%	30%	–	19%	–	81%
P Butler	100%	–	–	n/a	n/a	n/a

C. Share Based Compensation

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 date	Expiry date	Exercise price	Value per option at grant date	% vested
G Lord	16 Sep-20	6,000,000	16 Sep-25	16 Sep-25	$0.25	$0.107	–
G Baxter	16 Sep-20	3,000,000	16 Sep-25	16 Sep-25	$0.25	$0.107	–
G Baxter	21-Dec-18	500,000	21-Dec-18	30-Nov-21	$0.10	$0.022	100%
G Baxter	21-Dec-18	500,000	21-Dec-19	30-Nov-21	$0.13	$0.021	100%
G Baxter	21-Dec-18	500,000	21-Dec-20	30-Nov-21	$0.15	$0.022	100%
J Jones	30 Apr-21	1,000,000	30 Oct-21	9 Jun-25	$0.24	$0.124	100%

No performance rights were contracted during the year ended 30 June 2022. 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.

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 FY2022.

Year ended 30 June 2022	Balance at 1 July 2021	Granted during the year	Other change	Exercised	Lapsed/ forfeited during the year	Balance at 30 June 2022
G Lord	6,250,000	–	–	–	–	6,250,000
G Lord	2,632,500	–	–	–	–	2,632,500
G Lord	6,000,000	–	–	–	–	6,000,000
G Baxter	3,000,000					3,000,000
G Baxter[1]	–	1,500,000		(1,500,000)		–
M Haas	3,000,000	–	–	–	–	3,000,000
J Jones	1,000,000	–	–	–	–	1,000,000
D Singh	2,000,000	–	–	–	–	2,000,000

1 Options granted in December 2018 but not issued until current financial year

The total value of options and performance rights that were granted during the year ended 30 June 2022 is as follows:

KMP	No of options	Value per option at grant date	Total value of options granted during the year $
G Baxter[1]	500,000	$0.022	10,764
G Baxter[1]	500,000	$0.021	10,686
G Baxter[1]	500,000	$0.022	11,120

1 Options granted in December 2018 but not issued until current financial year

The fair value of these options granted as remuneration 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 over the relevant vesting period to the extent that the conditions necessary for vesting are satisfied.

Directors' Report

for the year ended 30 June 2022

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 2022 are summarised below, along with details that are considered to be factors in shareholder returns:

$'000 (unless otherwise stated)	30-Jun-18	30-Jun-19	30-Jun-20	30-Jun-21	30-Jun-22
Statutory revenue - external customer sales	5,328	5,260	20,223	67,389	**112,977**
Earnings before interest, tax, depreciation and amortisation (EBITDA)	(1,529)	(3,843)	(5,020)	189	**9,183**
Loss after income tax	(3,096)	(4,373)	(7,312)	(4,533)	**(8,783)**
Basic loss per share ($)	(2.62)	(2.90)	(2.02)	(0.52)	**(0.73)**
Share price at financial year end (cents)	6.0	4.5	8.0	23.5	**10.5**

E. Additional Information in relation to key management personnel shareholdings

Ordinary shares held in Tesserent Limited (number) as at 30 June 2022

	Balance 1 July 2021	Issued on exercise of options during the year	On-market changes	Balance 30 June 2022
Directors				
G Lord	99,258,956	–	–	99,258,956
G Baxter	4,120,327	1,500,000	–	5,620,327
M Haas	–	–	281,636	281,636
Executive Directors				
J Challingsworth	14,000,000			14,000,000
K Hansen	12,939,574	–	458,426	13,398,000
Other KMPs				
G Katavic	7,945,800	–	–	7,945,800
C Hagios	9,426,577	–	–	9,426,577
C Humphreys	20,410,431	–	–	20,410,431
Total	168,101,665	1,500,000	740,062	170,341,727

REMUNERATION REPORT (AUDITED) (CONTINUED)

Share Options and performance rights held in Tesserent Limited (number) as at 30 June 2022

	Balance 1 July 2021	Options/ rights converted	Balance 30 June 2022	Vested and exercisable
Directors				
G Lord	14,882,500	–	14,882,500	8,882,500
G Baxter	4,500,000	(1,500,000)	3,000,000	–
M Haas	3,000,000	–	3,000,000	3,000,000
Other KMPs				
J Jones	1,000,000	–	1,000,000	1,000,000
D Singh	2,000,000	–	2,000,000	2,000,000
Total	25,382,500	(1,500,000)	23,882,500	23,882,500

F. Loans from/to KMP

There were no loan balances with Key Management Personnel as at 30 June 2022.

G. Other Transactions with KMP

The Company undertook business with Belgravia Group and associated companies in which Mr G Lord is a director of and owns an interest. Products purchased totalled $nil. Products and services sold to Belgravia totalled $124,368 being professional services and software subscriptions and support to Belgravia Group Pty Ltd. There were no other transactions with Key Management Personnel for the year ended 30 June 2022.

This concludes the Remuneration Report which was approved by the Board on 29 August 2022 and has been signed in accordance with a resolution of the Directors made pursuant to section 298(2) of the Corporations Act 2001 (Cth).

NON-AUDIT SERVICES

During the year, BDO Audit Pty Ltd, the Company's auditor, 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 27 of the financial statements:

	2022 $	2021 $
Corporate and indirect tax services	**103,900**	26,538
Due diligence services	**35,000**	575,041
Total	**138,900**	601,579

Directors' Report

for the year ended 30 June 2022

NON-AUDIT SERVICES (CONTINUED)

The Directors are of the opinion that the services outlined in Note 27 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 51 of the Annual Report.

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 within this Annual Report. The Company's Corporate Governance statement, can be found earlier in this report and is available on the Company's website at https://investors.tesserent.com/.

ROUNDING OF AMOUNTS

The company is of a kind referred to in 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 thousand dollars, or in certain cases, 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

Kurt Hansen
Chief Executive Officer

30 August 2022

Auditors Independence Declaration

for the year ended 30 June 2022

BDO

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DECLARATION OF INDEPENDENCE BY SALIM BISKRI TO THE DIRECTORS OF TESSERENT LIMITED

As lead auditor of Tesserent Limited for the year ended 30 June 2022, 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.

Salim Biskri
Director

BDO Audit Pty Ltd

Melbourne, 30 August 2022

Consolidated Statement of Profit or Loss and Other Comprehensive Loss

for the year ended 30 June 2022

	Note	2022 $'000	2021 $'000
Revenue	4	112,977	67,389
Other income	5	526	964
Fair value gain on investment held at fair value through profit or loss		597	–
Expenses			
Software licence and connectivity fees		(13,526)	(9,654)
Employee benefits expense		(59,884)	(35,567)
Operating expenses	6	(21,358)	(13,206)
Impairment of receivables		–	(235)
Business acquisition costs		(592)	(4,934)
Fair value loss on contingent consideration		(600)	–
Share option expense		(2,401)	(4,462)
Depreciation and amortisation expense	6	(7,841)	(4,975)
Finance costs	6	(5,439)	(4,431)
Impairment of financial instruments	6	(4,303)	–
Share of loss of equity accounted associates		(322)	–
Debt facility unamortised warrants write-off expense	6	(7,501)	–
Debt facility exit fee	6	(1,750)	–
Loss before income tax benefit		(11,417)	(9,111)
Income tax benefit	7	2,634	4,578
Loss after income tax benefit for the year		(8,783)	(4,533)
Other comprehensive income for the year, net of tax		–	–
Total comprehensive loss for the year		(8,783)	(4,533)

		$	$
Basic loss per share	35	(0.73)	(0.52)
Diluted loss per share	35	(0.73)	(0.52)

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 2022

	Note	2022 $'000	2021 $'000
Assets			
Current assets			
Cash and cash equivalents		**14,339**	14,860
Trade and other receivables	9	**32,082**	24,799
Contract assets	10	**13,190**	9,293
Prepayments		**1,751**	1,906
Inventories		**104**	85
Lease asset receivables		**265**	254
Financial assets at fair value through profit or loss	11	**500**	3,000
Current tax asset		**–**	215
Total current assets		**62,231**	54,412
Non-current assets			
Contract assets	10	**3,041**	159
Property, plant and equipment	13	**3,317**	2,700
Intangibles	14	**39,854**	29,652
Goodwill	15	**129,635**	83,259
Right-of-use assets	12	**6,129**	6,812
Lease asset receivables		**296**	534
Investments in equity accounted associates	16	**941**	2,867
Financial assets at fair value through profit or loss	11	**2,298**	–
Other assets		**790**	735
Total non-current assets		**186,301**	126,718
Total assets		**248,532**	181,130
Liabilities			
Current liabilities			
Trade and other payables	17	**35,853**	28,973
Contract liabilities	18	**11,313**	7,335
Lease liabilities	19	**3,110**	2,390
Provisions	20	**4,119**	2,831
Income tax payable		**233**	172
Deferred settlement liabilities	21	**23,600**	11,699
Total current liabilities		**78,228**	53,400

Consolidated Statement of Financial Position

as at 30 June 2022

	Note	2022 $'000	2021 $'000
Non-current liabilities			
Contract liabilities	18	2,285	1,179
Lease liabilities	19	3,516	5,078
Borrowings	22	34,473	25,603
Provisions	20	1,027	675
Deferred settlement liabilities	21	5,485	1,652
Deferred tax liability	7	6,524	5,910
Total non-current liabilities		53,310	40,097
Total liabilities		131,538	93,497
Net assets		116,994	87,633
Equity			
Contributed equity	23	138,666	102,992
Reserves	24	13,145	11,200
Accumulated losses		(34,817)	(26,558)
Total equity		116,994	87,633

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 2022

	Contributed equity $'000	Converting notes $'000	Share based payment reserve $'000	Foreign currency translation reserve $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2020	**29,485**	**6,531**	**1,841**	**–**	**(21,349)**	**16,507**
Loss after income tax benefit for the year	–	–	–	–	(4,533)	(4,533)
Other comprehensive income for the year, net of tax	–	–	–	–	–	–
Total comprehensive loss for the year	–	–	–	–	(4,533)	(4,533)
Capital raising costs	(216)	–	–	–	–	(216)
Share based payments	–	–	8,050	–	–	8,050
Share options issued	–	–	4,213	–	–	4,213
Shares issued or accrued as part of business combinations	50,480	–	–	–	–	50,480
Shares issued or accrued to employees or consultants	4,744	–	–	–	–	4,744
Shares issued on conversion of convertible notes	7,172	(6,721)	–	–	(451)	–
Distribution to convertible note holders	–	190	–	–	(190)	–
Options exercised	4,114	–	(169)	–	(90)	3,855
Options forfeited	–	–	(365)	–	365	–
Warrants exercised	7,213	–	–	–	–	7,213
Deferred tax	–	–	(2,400)	–	(310)	(2,710)
Translation of foreign operations	–	–	–	30	–	30
Balance at 30 June 2021	**102,992**	**–**	**11,170**	**30**	**(26,558)**	**87,633**
Balance at 1 July 2021	**102,992**	**–**	**11,170**	**13**	**(26,198)**	**87,977**
Total comprehensive loss for the year	–	–	–	–	(8,783)	(8,783)
Issue of shares	738	–	–	–	–	738
Capital raise	25,000	–	–	–	–	25,000
Capital raising costs	(1,372)	–	–	–	–	(1,372)
Shares issued as part of business combinations	10,669	–	–	–	–	10,669
Options issued	–	–	2,401	–	–	2,401
Options exercised	99	–	(99)	–	–	–
Options forfeited	–	–	(164)	–	164	–
Warrants exercised	128	–	(128)	–	–	–
Deferred tax	412	–	–	–	–	412
Translation of foreign currencies	–	–	–	(48)	–	(48)
Balance at 30 June 2022	**138,666**	**–**	**13,180**	**(35)**	**(34,817)**	**116,994**

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 2022

	Note	2022 $'000	2021 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		167,984	90,933
Payments to suppliers and employees (inclusive of GST)		(151,659)	(86,148)
Other revenue		495	158
Interest received		31	9
Interest and other finance costs paid		(3,543)	(1,177)
Income taxes paid		(1,520)	(881)
Net cash from operating activities	8	11,790	2,893
Cash flows from investing activities			
Payment for purchase of business combinations, net of cash acquired	32	(13,990)	(18,629)
Final payments for prior period's business acquisition	32	(11,433)	(5,778)
Payments for investments		(3,200)	(3,000)
Payments for property, plant and equipment	13	(2,518)	(1,461)
Payments for intangibles	14	(924)	(25)
Proceeds from release of security deposits		63	–
Net cash used in investing activities		(32,002)	(28,893)
Cash flows from financing activities			
Proceeds from issue of shares	23	25,738	9,485
Proceeds from borrowings		35,000	30,000
Transaction costs on borrowings		(527)	–
Repayment of lease liabilities		(2,398)	(1,772)
Payments for share issue transaction costs		(1,372)	(216)
Proceeds (distributions to)/from convertible notes		–	(190)
Refinancing exit costs paid		(1,750)	(799)
Repayment of borrowings		(35,000)	–
Net cash from financing activities		19,691	36,509
Net increase/(decrease) in cash and cash equivalents		(521)	10,510
Cash and cash equivalents at the beginning of the financial year		14,860	4,350
Cash and cash equivalents at the end of the financial year		14,339	14,860

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

Notes to the Consolidated Financial Statements

for the year ended 30 June 2022

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements were authorised for issue by the Directors on 30 August 2022.

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

The financial statements cover Tesserent Limited ("the Company") and its controlled entities as a consolidated entity ("the Group") for the year ended 30 June 2022. The Company is a company limited by shares that are publicly traded on the Australian Stock Exchange, incorporated and domiciled in Australia.

Rounding of amounts

The company is of a kind referred to in 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 thousand dollars, or in certain cases, the nearest dollar.

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, investments in financial assets which have been measured at fair value.

Comparatives

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

Going Concern

The consolidated financial statements have been prepared on a going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

For the year ended 30 June 2022 the Group made a net loss of $8.8 m (2021: $4.5m) and had cash inflows from operating activities of $11.8m (2021: $2.9m inflow).

As at the date the consolidated entity had net current liabilities of $16.0m (2021: Net current assets of $1.0m). The directors believe there are reasonable grounds to conclude that the Group will continue as going concern based on the following:

- The Group has $14.3m of cash and cash equivalents at 30 June 2022 (2021: $14.9m)
- The Group has access to $24m of unused facilities at 30 June 2022

New or amended Accounting Standards and Interpretations adopted

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

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted. The group anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Group's financial statements.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2022

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New accounting standards and interpretations not yet mandatory or early adopted include:

- *AASB 2014-10 Amendments to Australian Accounting Standards: Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture*
- *AASB 2015-10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128*
- *AASB 2017-5 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections*
- *AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current*
- *AASB 2020-6 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current*
- *AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments*
- *AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates*
- *AASB 2021-5 Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
- *AASB 2022-1 Amendments to Australian Accounting Standards – Initial Application of AASB 17 and AASB 9 – Comparative Information*

Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Tesserent Limited ('company' or 'parent entity') as at 30 June 2022 and the results of all subsidiaries for the year then ended. Tesserent Limited and its subsidiaries together are referred to in these financial statements as the 'Group' or the 'Company'.

The consolidated financial statements include the financial statements of the Company, and the information and results of each subsidiary from the date on which the Company obtains control and until such time as the Company ceases to control such entity. An entity is controlled when Tesserent is exposed to, or has rights to, variable returns from involvement with the entity and has the ability to affect those returns through power over the entity.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. In reporting the consolidated financial statements, all intercompany balances and transactions, and unrealised profits or losses within the Group are eliminated in full.

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

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at the reporting date.

Exchange differences are recognised in profit or loss in the period in which they arise except that exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur, which form part of the net investment in a foreign operation are recognised in the foreign currency translation reserve in the consolidated financial statements and are recognised in profit or loss on disposal of the net investment.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign operations

Assets and liabilities of foreign operations are translated using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Any exchange differences are recognised in equity. On the disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation are reclassified to profit or loss.

Financial instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

When the transaction price differs from fair value at initial recognition, the Group will account for such difference if:

- fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised as a gain or loss on initial recognition (ie day 1 profit or loss)
- (in all other cases), the fair value will be adjusted to bring it in line with the transaction price (ie day-1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability)

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions and are subsequently measured at amortised cost include:

- the financial asset is held within a business model whose objective is to collect contractual cash flows
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. All other financial assets are subsequently measured at fair value

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit impaired.

Impairment of financial assets

The Group performs impairment assessment under the expected credit losses model on financial assets (including trade and other receivables) which are subject to impairment under AASB 9 Financial Instruments. The amount of expected credit losses is updated at the end of each reporting period to reflect changes in credit risk since initial recognition. Refer to Note 9.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or, when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. 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.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and on-demand deposits, and other short-term highly liquid investments, readily convertible into a known amount of cash and are subject to an insignificant risk of changes in value.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2022

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Share capital represents the nominal value of equity shares issued. Share premium represents the excess over nominal value of the fair value of the consideration received for equity shares, net of direct issue costs.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the fair value of proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the statement of comprehensive income using the effective interest rate method. They are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

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.

Trade payables

Trade payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

Share-based payment

Employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

The grant date fair value of equity settled share-based payment awards granted to employees is recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to meet. Therefore, the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

2. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities. The judgements, estimates and assumptions that are material to the financial reports are discussed below.

Revenue from contracts with customers involving sale of goods

When recognising revenue in relation to the sale of goods to customers, the key performance obligation of the group is considered to be the point of delivery of the goods 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.

A portion of the Group's revenue is derived from selling third party Cyber Security products and monitoring software to clients. In the instances where the Group makes these sales to customers with limited or no associated implementation or customisation work, the requirements under the AASB15 Revenue from Contracts with Customers, deem Tesserent to be selling those products as an 'agent' and require the sales turnover (invoiced amount) to be netted off against the cost of acquiring that software.

The Group's revenue is derived from the provision of software licences, hardware equipment, managed services, consulting services and support and maintenance renewals over multiple periods. In applying the requirements of AASB 15 *Revenue from Contracts with Customers* the Group has had to make assumptions around future billing and completion of future performed obligations.

2. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

Provision for expected credit losses

The Group applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

Expected credit losses are measured by grouping trade receivables and contract assets, based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. A provision matrix is then determined based on the historic credit loss rate for each group of customers, adjusted for any material expected changes to the future credit risk for that customer group.

Goodwill and other indefinite life intangible assets

Significant judgement is required in the assumptions used in the value-in-use models used in impairment testing. Refer to Notes 14 and 15 for more detailed information.

Fair value measurement on financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques.

A degree of judgement is required in establishing fair values when inputs used are not derived from observable markets.

Recovery of deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

Leases – estimating the 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 Group 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.

Share-based payment transactions

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them.

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted.

The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 24.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2022

3. SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer.

Identification of reportable operating segments

The Group operates predominantly in Australia and New Zealand.

The Group's internal reporting and management comprises three primary operating segments, being:

1. **Tesserent Commercial segment** – comprising the Group's core customer offerings Defend, Cloud and Detect customer service offerings, including the Loop Secure Pty Ltd business acquired during the current financial year ended 30 June 2022.
2. **Tesserent Federal segment** – comprising the Group's services primarily to the Federal and State Governments, including the Pearson Corporation Pty Ltd and Claricent Pty Ltd businesses acquired during the financial year ended 30 June 2022.
3. **Tesserent New Zealand segment** – comprising the Group's services to New Zealand customers.

The CODMs review these segments down to the EBIDAC level (Earnings before interest, tax, depreciation, amortisation and corporate overhead costs), with reporting of corporate overhead costs and non-cash costs done on a consolidated group basis.

Year ended 30 June 2022	Tesserent Commercial $000	Tesserent Federal $000	Tesserent New Zealand $000	Other/ Corporate $000	Total $000
Net sales to external customers	61,932	46,334	4,711	–	112,977
Other income	517	–	9	–	526
Total revenue	62,449	46,336	4,720	–	113,505
EBITDA (before other non-operating costs)	10,270	10,357	474	(2)	21,099
Other non-operating costs (see breakdown below*)	–	–	–	(11,911)	(11,911)
EBITDA	10,270	10,357	474	(11,912)	9,189
Depreciation and amortisation	–	–	–	(7,841)	(7,841)
Amortisation of remaining warrants on refinancing	–	–	–	(9,397)	(9,397)
Interest expense and PAM facility amortisation	–	–	–	(3,366)	(3,366)
Loss before income tax expense	10,270	10,357	474	(32,516)	(11,417)
Income tax benefit	–	–	–	2,634	2,634
Profit/(loss) after income tax expense	10,270	10,357	474	(29,882)	(8,783)
Material items include:					
** Corporate costs*					(5,019)
** Share based payments*					(2,401)
** Acquisition costs and fair value expense on contingent consideration*					(1,152)
** Exit costs on refinancing*					(1,750)
** Share of loss in equity accounted associates, fair value gain on investments and impairment of investments*					(3,829)
** Impact of AASB16 accounting adjustments*					2,241
Total segment assets	98,132	84,518	7,912	57,970	248,532
Total segment liabilities	(30,395)	(12,496)	(820)	(87,827)	(131,538)

3. SEGMENT INFORMATION (CONTINUED)

Year ended 30 June 2021	Tesserent Commercial $000	Tesserent Federal $000	Tesserent New Zealand $000	Other/ Corporate $000	Total $000
Net Sales to external customers	40,572	24,976	1,846	(5)	67,389
Other income	171	23	–	770	964
Total revenue	40,743	24,999	1,846	765	68,353
EBITDAC	7,262	5,595	661	(31)	13,487
Other non-operating costs*	–	–	–	(13,298)	(13,298)
EBITDA	7,262	5,595	661	(13,329)	189
Depreciation and amortisation	–	–	–	(4,975)	(4,975)
Interest expense and PAM facility amortisation	–	–	–	(4,325)	(4,325)
Profit/(loss) before income tax benefit	7,262	5,595	661	(22,629)	(9,111)
Income tax benefit	-	-	-	4,578	4,578
Profit/(loss) after income tax benefit	7,262	5,595	661	(18,051)	(4,533)
Material items include:					
* *Share based payments*					4,462
* *Acquisition costs*					(4,934)
Total segment assets	89,597	36,946	6,996	47,591	181,130
Total segment liabilities	42,330	6,600	193	44,374	93,497

4. REVENUE

	2022 $'000	2021 $'000
Managed services	**13,907**	7,217
Consulting services	**84,715**	50,964
Software licences	**11,426**	7,844
Hardware equipment	**1,138**	642
Support and maintenance renewals	**1,697**	687
Other sales revenue	**94**	35
Revenue	**112,977**	67,389

Significant Accounting Policy

Revenue from contracts with customers – General principles

Revenue is recognised at an amount that reflects the consideration to which the Company is expected to be entitled in exchange for transferring goods and services to a customer. For each contract with a customer, the Company 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.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2022

4. REVENUE (CONTINUED)

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 liability.

Contract liabilities represent the Company's obligation to transfer goods or services to a customer and are recognised when a customer pays consideration, or when the Company recognises a receivable to reflect its unconditional right to consideration before the Company has transferred the goods or services.

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 based on performance obligations identified in the sales contracts. The revenue is recognised over time depending on the circumstances.

Revenue derived from the connectivity and related support services (including installation and setup of hardware) is recognised over time as services are delivered. Revenue is calculated based on time and materials used. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period. If contracts include the installation of hardware, revenue for the hardware is recognised at a point in time when the hardware is delivered, the legal title has passed, and the customer has accepted the hardware.

Revenue from contracts - Consulting services

Revenue from the sale of consulting services is recognised over time as services are delivered. Revenue from providing services is recognised in the accounting period in which the services are rendered. Revenue is calculated based on time and materials used.

Revenue from contracts - Sale of software licences

Software licences income is recognised on an agency basis as Tesserent acts as a reseller in the transaction. Tesserent recognises the transaction on a net basis which represents its commission earned.

Revenue from contracts - Hardware equipment

Revenue derived from the sale of hardware equipment is recognised on an agency basis as Tesserent acts as a reseller in the transaction. Tesserent recognises the transaction on a net basis which represents its commission earned.

Revenue from contracts - Maintenance and support renewals

Revenue from the sale of maintenance and support renewals is recognised based on the performance obligations identified in the sales contracts. The revenue is recognised overtime depending on circumstances.

5. OTHER INCOME

	2022 $'000	2021 $'000
Government grants	–	113
Sublease income	495	842
Interest income	31	9
Other income	526	964

6. EXPENSES

Loss before income tax includes the following specific expenses:

	2022 $'000	2021 $'000
Depreciation		
Leasehold improvements	**131**	141
Plant and equipment	**844**	559
Fixtures and fittings	**29**	25
Office equipment	**588**	768
Computer software	**59**	33
Hardware employed	**26**	5
Right-of-use assets	**2,241**	1,235
Total depreciation	**3,918**	2,766
Amortisation		
Customer contracts and relationships	**3,919**	2,206
Intellectual property	**4**	3
Total amortisation	**3,923**	2,209
Total depreciation and amortisation	**7,841**	4,975
Impairment of financial instruments		
Call options write-off expense	**2,500**	–
Impairment of equity accounted associates	**1,604**	–
Impairment of receivables	**199**	–
Impairment of financial instruments	**4,303**	**–**
Exit costs and costs of refinancing debt facilities		
Unamortised warrants write-off expense on Pure Asset Management loan	**7,501**	–
Exit fee on Pure Asset Management loan	**1,750**	–
Total exit refinancing costs on refinancing of debt facilities	**9,251**	–
Finance costs		
Interest and finance charges paid/payable on borrowings (cash)	**3,088**	1,630
Interest and finance charges paid/payable on borrowings (warrant amortisation)	**1,897**	2,396
Interest and finance charges paid/payable on lease liabilities	**273**	280
Other finance costs	**181**	125
Total Finance costs	**5,439**	4,431
Operating expenses		
Contractor expenses	**15,849**	8,679
Consulting and legal expenses	**1,284**	962
Advertising and promotion	**606**	404
Administration expenses	**1,568**	1,475
Other expenses	**2,051**	1,686
Total operating expenses	**21,358**	13,206

Notes to the Consolidated Financial Statements

for the year ended 30 June 2022

7. INCOME TAX BENEFIT

	2022 $'000	2021 $'000
(a) Income tax benefit		
Deferred tax movements (current year)	**(2,634)**	(4,101)
Deferred tax movements (prior year)	**–**	(477)
	(2,634)	(4,578)
(b) Reconciliation of income tax benefit to prima facie tax on accounting loss		
Numerical reconciliation of income tax benefit and tax at the statutory rate		
Loss before income tax benefit	**(11,417)**	(9,111)
Tax at the statutory tax rate of 30%	**(3,425)**	(2,733)
Prior year tax losses recognised	**–**	(4,101)
Share based payments	**720**	1,296
Other (non-deductible)/assessable items	**71**	–
Income tax benefit	**(2,634)**	(4,578)
(c) Movement in deferred tax balances		
Deferred tax assets/(liabilities)		
Share issue costs	**472**	(2,160)
Provisions	**729**	300
Intangible assets	**(11,241)**	(8,416)
Right-of-use assets and liabilities	**(28)**	(65)
Tax losses recognised/(utilised) (current year)	**(3,491)**	1,270
Tax losses recognised/(utilised) (prior year)	**5,371**	4,101
Other	**1,664**	(940)
	(6,524)	(5,910)

	Share issue costs $'000	Provisions $'000	Intangible assets $'000	Right of use assets and liabilities $'000	Tax losses recognised $'000	Other $'000	Total $'000
As at 1 July 2021	(2,160)	300	(8,416)	(65)	5,371	(940)	(5,910)
Acquired upon business combination	–	621	(3,960)	(5)	–	(254)	(3,598)
Charged to profit and loss	2,314	(207)	1,135	42	(3,491)	2,980	2,773
Charged through equity	411	–	–	–	–	–	411
Overprovision in previous years	(93)	15	–	–	–	–	(200)
	472	729	(11,241)	(28)	1,880	1,664	(6,524)

7. INCOME TAX BENEFIT (CONTINUED)

(d) Tax losses

	2022 $'000	2021 $'000
Unused tax losses for which no deferred tax asset has been recognised	–	–
Potential tax benefit at 30%	–	–

Carried forward tax losses have been 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 is in a position to satisfy the criteria for recognising these losses as a deferred tax asset.

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

	2022 $'000	2021 $'000
Franking credits available for subsequent financial years based on a tax rate of 30%	–	28

Significant Accounting Policy

Total income tax benefit comprises current and deferred tax recognised in the statement of profit or loss in the year. Current and deferred tax is also recognised directly in equity, and not in the Statement of Profit or Loss, to the extent it is attributable to amounts and movements which have also been recognised directly in equity.

Current tax comprises expected tax payable/receivable on business taxable income/loss which is recognised in the statement of profit or loss in the current year. Any adjustments to tax payable/receivable are recognised in the current year that relate to taxable income/ loss recognised in the statement of profit or loss in prior years.

Current tax is measured using the applicable enacted (or substantively enacted) income tax rates, at the reporting date in the countries where the company's subsidiaries and associates operate.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2022

7. INCOME TAX BENEFIT (CONTINUED)

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

Tesserent Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements. Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

8. RECONCILIATION OF LOSS AFTER INCOME TAX TO NET CASH FROM OPERATING ACTIVITIES

	2022 $'000	2021 $'000
Loss after income tax benefit for the year	**(8,783)**	(4,533)
Adjustments for:		
Depreciation and amortisation	**7,841**	4,975
Impairment	**1,006**	–
Share-based payments	**2,401**	4,462
Write off of assets	**397**	–
Acquisition costs settled in shares	**–**	3,238
Tax credit	**–**	(4,578)
Bad debt provision	**–**	235
Other expenses - non-cash	**1,183**	(80)
Finance costs - non-cash	**9,397**	2,396
Foreign currency differences	**(48)**	–
Change in operating assets and liabilities:		
Increase in trade and other receivables	**(3,545)**	(12,688)
Increase in contract assets	**(5,934)**	(8,141)
Increase in inventories	**(19)**	(21)
Decrease in income tax refund due	**215**	–
Decrease in prepayments	**237**	467
Decrease/(increase) in other operating assets	**3,199**	(120)
Increase in trade and other payables	**5,299**	14,331
Increase in contract liabilities	**2,725**	4,105
Increase/(decrease) in provision for income tax	**(1,797)**	74
Decrease in deferred tax liabilities	**(2,571)**	(1,384)
Increase in employee benefits	**585**	–
Increase in other provisions	**–**	155
Net cash from operating activities	**11,790**	2,893

9. TRADE AND OTHER RECEIVABLES

	2022 $'000	2021 $'000
Trade receivables	**29,940**	23,385
Less: Allowance for expected credit losses	**(186)**	(248)
	29,754	23,137
Other receivables	**2,328**	1,662
	32,082	24,799

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 allowances for expected credit losses. To measure the expected credit losses, trade receivables have been grouped based on days overdue. Tesserent' credit terms are generally 30 days from the date of invoice. Therefore, the carrying amount of receivables approximates their fair value.

Allowance for expected credit losses

The consolidated entity has recognised a loss of $185,964 (2021: $247,878) in profit or loss in respect of the expected credit losses for the year ended 30 June 2022.

The ageing of the receivables and allowance for expected credit losses provided for above are as follows:

	Expected credit loss rate		Carrying amount		Allowance for expected credit losses	
	2022 %	2021 %	2022 $'000	2021 $'000	2022 $'000	2021 $'000
Not overdue	**–**	–	**30,697**	20,019	**–**	–
Past due 30 to 60 days	**2%**	1%	**864**	4,134	**18**	45
Past due 60 to 90 days	**13%**	9%	**341**	280	**45**	26
Past due 90 to 120 days	**26%**	29%	**194**	368	**51**	106
Past due over 120 days	**42%**	29%	**172**	247	**72**	71
			32,268	25,048	**186**	248

Movements in the allowance for expected credit losses are as follows:

	2022 $'000	2021 $'000
Opening balance	**247**	81
Additional provisions recognised	**7**	246
Receivables written off during the year as uncollectable	**–**	(42)
Write back of allowance	**(68)**	(37)
Closing balance	**186**	248

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 discussed 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.

The Group has no significant concentrations of credit risk in any one customer.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2022

10. CONTRACT ASSETS

	2022 $'000	2021 $'000
Current assets		
Contract assets	**13,190**	9,293
Non-current assets		
Contract assets	**3,041**	159
Reconciliation		
Reconciliation of the written down values at the beginning and end of the current and previous financial year are set out below:		
Opening balance	**9,452**	938
Additions	**26,405**	19,048
Additions through business combinations (Note 32)	**845**	372
Transfer to trade receivables	**(20,431)**	(10,898)
Write off of assets	**(40)**	(8)
Closing balance	**16,231**	9,452

Contract assets are recognised when the group has transferred goods or services to the customer but where the group is yet to establish an unconditional right to consideration. Contract assets are treated as financial assets for impairment purposes.

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2022 $'000	2021 $'000
Current assets		
Fair value of call options held	**500**	3,000
Opening balance	**3,000**	–
Additions	**–**	3,000
Impairment of fair value	**(2,500)**	–
Closing balance	**500**	3,000

The balance as at 30 June 2022 relates to the fair value of the call option in AttackBound Holdings Pty Ltd which is exercisable by 30 June 2023. In 2022, the Group impaired half of the call option investment in AttackBound Holdings Pty Ltd ($0.5m) and the full value of the call option in TrustGrid Holdings Pty Ltd ($2.0m).

	2022 $'000	2021 $'000
Non-current assets		
Investment in Daltrey Pty Ltd	**2,298**	–

At 30 June 2022, the Group held a 5.48% interest in Daltrey Pty Ltd, a leading sovereign biometric security company. The investment was acquired in July 2021.

12. RIGHT-OF-USE ASSETS

	2022 $'000	2021 $'000
Building Leases - right-of-use	**13,824**	12,367
Less: Accumulated depreciation	**(7,695)**	(5,555)
	6,129	6,812

12. RIGHT-OF-USE ASSETS (CONTINUED)

Reconciliations

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

	Building Leases $'000
Balance at 1 July 2020	3,920
Additions through business combinations	5,007
Disposals from early termination	(880)
Depreciation expense	(1,235)
Balance at 30 June 2021	**6,812**
New leases entered into during the year	**2,072**
Disposals from early termination	**(515)**
Depreciation expense	**(2,241)**
Balance at 30 June 2022	**6,129**

Group as a lessee

Right-of-use asset

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset – or to restore the underlying asset or the site on which it is located—less any lease incentives received. The right-of-use asset is separately disclosed in the Consolidated Statement of Financial Position. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to either the earlier of the end of the useful life of the right-of-use asset, or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of office and information technology equipment with a lease term of 12 months or less, or for leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis, over the lease term.

Group as a lessor

When the Group acts as a lessor—generally when it subleases property on which it has entered a head lease as a lessee–it determines at the sublease inception whether each sublease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease. If not, then it is accounted for as an operating lease. As part of this assessment, the Group considers certain indicators, such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the headlease and the sublease separately.

The Group assesses the lease classification of a sublease with reference to the right-of-use asset arising from the headlease, not with reference to the underlying asset. If a headlease is a short-term lease to which the Group applies the exemption described above, then it classifies the sublease as an operating lease.

If an arrangement contains a lease and non-lease component, the Group applies AASB 15 Revenue from Contracts with Customers to allocate the consideration in the contract. The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of non-operating income.

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13. PROPERTY, PLANT AND EQUIPMENT

	2022 $'000	2021 $'000
Leasehold improvements - at cost	**1,354**	1,025
Less: Accumulated depreciation	**(515)**	(390)
	839	635
Plant and equipment - at cost	**5,456**	4,082
Less: Accumulated depreciation	**(4,108)**	(3,320)
	1,348	762
Fixtures and fittings - at cost	**347**	319
Less: Accumulated depreciation	**(265)**	(219)
	82	100
Motor vehicles - at cost	**10**	52
Less: Accumulated depreciation	**(10)**	(52)
	–	–
Computer equipment - at cost	**6,460**	5,881
Less: Accumulated depreciation	**(5,834)**	(5,228)
	626	653
Office equipment - at cost	**1,318**	1,286
Less: Accumulated depreciation	**(1,156)**	(1,074)
	162	212
Hardware employed - at cost	**459**	394
Less: Accumulated depreciation	**(393)**	(372)
	66	22
Computer software - at cost	**1,435**	1,378
Less: Accumulated depreciation	**(1,241)**	(1,062)
	194	316
	3,317	2,700

Property, plant and equipment are carried at cost, less accumulated depreciation, and any impairment losses. The estimated useful lives, residual values, and depreciation method are reviewed at the end of each annual reporting period. The depreciation charge for each period is recognised in profit or loss.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment over their expected useful lives as follows:

Furniture & fittings	10 years
Hardware employed	3 years
Office equipment	10 years
Computer Software	5 years
Leasehold improvement	40 years
Plant & equipment	3 years
Computer equipment	4 years

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Reconciliations

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

	Furniture & Fittings $'000	Hardware Employed $'000	Office Equipment $'000	Software $'000	Leasehold Improvement $'000	Plant & Equipment $'000	Total $'000
Balance at 1 July 2020	87	7	64	–	641	64	863
Additions	10	20	638	235	104	451	1,458
Additions through business combinations	28	–	962	117	31	812	1,950
Disposals	–	–	(31)	–	–	(6)	(37)
Depreciation expense	(25)	(5)	(768)	(36)	(141)	(559)	(1,534)
Balance at 30 June 2021	100	22	865	316	635	762	2,700
Additions	**6**	**70**	**366**	**43**	**349**	**1,429**	**2,263**
Additions through business combinations	**5**	**–**	**158**	**6**	**2**	**–**	**171**
Disposals	**–**	**–**	**(14)**	**(112)**	**(16)**	**–**	**(142)**
Depreciation expense	**(29)**	**(26)**	**(588)**	**(59)**	**(131)**	**(844)**	**(1,677)**
Balance at 30 June 2022	**82**	**66**	**788**	**194**	**839**	**1,348**	**3,317**

14. INTANGIBLES

	2022 $'000	2021 $'000
Customer contracts - at cost	**44,811**	31,611
Less: Accumulated amortisation	**(6,565)**	(2,647)
	38,246	28,964
Intellectual property - at cost	**1,683**	759
Less: Accumulated amortisation	**(75)**	(71)
	1,608	688
	39,854	29,652

There were no intangibles whose title is restricted or pledged as security for liabilities.

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14. INTANGIBLES (CONTINUED)

Reconciliations

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

	Customer contracts and relationships $'000	Intellectual property $'000	Total $'000
Balance at 1 July 2020	7,596	23	7,619
Capitalised development costs	–	100	100
Additions through business combinations (Note 32)	23,574	569	24,143
Amortisation expense	(2,206)	(3)	(2,209)
Balance at 30 June 2021	28,964	689	29,653
Capitalised development costs	–	924	924
Additions through business combinations (Note 32)	**13,200**	**–**	**13,200**
Amortisation expense	**(3,919)**	**(4)**	**(3,923)**
Balance at 30 June 2022	**38,246**	**1,608**	**39,854**

Intangible assets with finite lives are carried at cost, less accumulated amortisation, and accumulated impairment losses.

Customer relationships and intellectual property were acquired as part of business combinations. These intangible assets are initially recognised at their fair value at the acquisition date. Subsequent to initial recognition, customer relationships are amortised over a 10 year expected useful life.

15. GOODWILL

Goodwill balances and goodwill acquired during the year through business acquisitions is as follows:

	2022 $'000	2021 $'000
Goodwill		
	129,635	83,259

Reconciliations

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

	$'000
Balance at 1 July 2020	15,965
Additions through business combinations (Note 32)	66,737
Additional amount recognised from prior year business combination	557
Balance at 30 June 2021	83,259
Additions through business combinations (Note 32)	**45,292**
Additional amount recognised from prior year business combination	**1,084**
Balance at 30 June 2022	**129,635**

15. GOODWILL (CONTINUED)

	2022 $'000	2021 $'000
Goodwill acquired through business combinations has been allocated to the following cash-generating units:		
Tesserent Commercial	**71,737**	56,022
Tesserent Federal	**52,633**	21,972
Tesserent New Zealand	**5,265**	5,265
	129,635	83,259

Goodwill recognised arose from business combinations where the fair value of the consideration paid exceeded the fair value of the assets acquired. Goodwill is considered to have an indefinite life and is not amortised as it represents the synergistic benefits of bringing the businesses together.

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.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arises, identified according to operating segments (refer to segment information Note 3). Goodwill is monitored by management at the operating segment level.

The recoverable amount of the cash generating unit is determined by a value-in-use calculation using a discounted cash flow model, based on a 12 month budget 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.

The following are the key assumptions applied in calculating the recoverable amount:

Input	Tesserent Commercial	Tesserent Federal	Tesserent New Zealand
Revenue growth rate - post year 1	11.4%	27.7%	17.0%
EBITDA as a % of revenue	12.9%	18%	15%
Discount rate (post-tax, nominal)	13.0%	13.0%	13.0%
Terminal growth rate	2.8%	2.8%	2.8%

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

Management believes the projected revenue growth rates in each CGU are appropriate based on experience and forecasts of the growth of the market for cyber security services and the Group's share of the market.

Based on the impairment testing performed, it was concluded that no impairment was required to be booked in the year to 30 June 2022.

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15. GOODWILL (CONTINUED)

Sensitivities

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 CGU whose impairment testing headroom is most sensitive to assumptions around future revenue growth and increasing margin is Tesserent Commercial:

- Revenue would need to decrease by more than 2% CAGR over the forecast period before goodwill in the Tesserent Commercial CGU would need to be impaired, with all other assumptions remaining constant.
- The discount rate (post-tax) would be required to increase to over 14% before goodwill in the Tesserent Commercial CGU would need to be impaired, with all other assumptions remaining constant.

Management believes that other reasonable changes in the key assumptions on which the recoverable amount of Tesserent Commercial CGU's goodwill is based would not cause the CGU's carrying amount to exceed its recoverable amount.

The value in use estimates for the Tesserent Federal and Tesserent New Zealand CGU's exceeds the carrying value of the CGUs by a significant amount. It is therefore not considered particularly sensitive to the variances in inputs in these CGU's.

16. INVESTMENTS IN EQUITY ACCOUNTED ASSOCIATES

	2022 $'000	2021 $'000
Investment in TrustGrid Holdings Pty Ltd	**831**	2,676
Investment in AttackBound Holdings Pty Ltd	**110**	191
	941	2,867
Opening balance	**2,867**	–
Consideration paid for investments - cash	**–**	1,500
Consideration paid for investments - shares	**–**	1,367
Equity accounting - share of profit/(loss) in associates	**(322)**	–
Write up/(down) on carrying value of investment based on impairment review	**(1,604)**	–
Closing balance	**941**	2,867

The Group has 20.95% (2021: 25%) interest in TrustGrid Holdings Pty Ltd and a 25% interest in AttackBound Holdings Pty Ltd. AttackBound is a cyber threat intelligence platform that provides insights to predict online threat exposure. TrustGrid offers a confidential computing platform for identity-based transactions. Tesserent's interest in those companies is accounted for using the equity method.

The following table illustrates the summarised financial information of the Group's investments in AttackBound and TrustGrid:

	TrustGrid 2022 $'000	TrustGrid 2021 $'000	AttackBound 2022 $'000	AttackBound 2021 $'000
Total Assets	**2,089**	1,020	**970**	529
Total Liabilities	**(903)**	(84)	**(372)**	(103)
Net assets	**1,186**	936	**598**	426
Group's share of equity (%)	**21**	25	**25**	25
Group's share of equity	**248**	234	**150**	106
Goodwill	**583**	2,442	**–**	85
Group's carrying amount of the investment	**831**	2,676	**110**	191
Revenue of associate entity	**568**	137	**384**	27
Net loss of associate entity	**(1,150)**	(64)	**(326)**	(74)

The associates had no contingent liabilities or capital commitments as at 30 June 2021 and 2022.

17. TRADE AND OTHER PAYABLES

	2022 $'000	2021 $'000
Trade payables	**21,771**	17,534
Other payables	**14,082**	11,438
	35,853	28,972

Trade payables are non-interest bearing and are normally settled on 30-day terms. Other payables are non-interest bearing and have an average term of 38 days.

18. CONTRACT LIABILITIES

	2022 $'000	2021 $'000
Current liabilities		
Contract liabilities	**11,313**	7,335
Non-current liabilities		
Contract liabilities	**2,285**	1,179

Reconciliation

Reconciliation of the written down values at the beginning and end of the current and previous financial year are set out below:

Opening balance	**8,514**	2,780
Additions	**18,794**	15,420
Acquired through business combinations	**2,359**	579
Decrease due to revenue recognised from performance obligations satisfied	**(16,069)**	(10,265)
Closing balance	**13,598**	8,514

Contract liabilities relate to cash received in advance of services provided to the customers.

19. LEASE LIABILITIES

	2022 $'000	2021 $'000
Current liabilities		
Lease liability	**3,110**	2,390
Non-current liabilities		
Lease liability	**3,516**	5,078

Movement in Lease Liability

	2022 $'000	2021 $'000
Balance as at 1 July	**7,468**	4,536
Acquired in a business combination	**–**	4,506
Additions	**1,557**	–
Cash Payments	**(2,669)**	(1,755)
Accretion of interest	**271**	181
Balance as at 30 June	**6,627**	7,468

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19. LEASE LIABILITIES (CONTINUED)

The lease liability is initially measured at the present value of the lease payments not paid at the commencement date, discounted using the interest rate implicit in the lease, or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. The Group's average incremental borrowing rate used is 4.0% (2021: 4.0%).

Lease payments included in the measurement of the lease liability include:

- fixed payments, including in-substance fixed payments less any lease incentives receivable
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable under a residual value guarantee
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option
- payment of penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is separately disclosed in the consolidated statement of financial position. The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the expected payable amount under a residual value guarantee, or, if the Group changes its assessment of whether it will exercise a purchase, extension, or termination option.

When the lease liability is remeasured in this way, either a corresponding adjustment is made to the carrying amount of the right-of-use asset, or, it is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero

20. PROVISIONS

	2022 $'000	2021 $'000
Current liabilities		
Annual leave	**3,569**	2,368
Long service leave	**550**	463
	4,119	2,831
Non-current liabilities		
Long service leave	**877**	525
Lease make good	**150**	150
	1,027	675

Lease make good

The provision represents the present value of the estimated costs to make good the premises leased by the group at the end of the respective lease terms.

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.

21. DEFERRED SETTLEMENT LIABILITIES

	2022 $'000	2021 $'000
Current liabilities		
Deferred settlement liability	**23,600**	11,699
Non-current liabilities		
Deferred settlement liability	**5,485**	1,652
Reconciliation		
Reconciliation of the fair values at the beginning and end of the current and previous financial year are set out below:		
Opening balance	**13,351**	5,400
Deferred and contingent consideration from business acquisitions (refer to Note 32)	**28,521**	18,955
Change in completion adjustments	**1,924**	(3,119)
Cash paid on prior period acquisitions	**(13,933)**	(5,778)
Issued capital from prior period acquisitions	**(778)**	(2,108)
Closing balance	**29,085**	13,351

Deferred settlement liabilities represent purchase consideration payable for acquisitions once certain conditions are met as stipulated in the contracts. These are measured at the discounted value of the best estimate of the cash payable based on conditions existing at the balance date.

The measurement of deferred consideration at fair value at each reporting date requires estimates to be made about expected revenue and expenses over the measurement period to which the deferred consideration relates.

22. BORROWINGS

	2022 $'000	2021 $'000
Non-current liabilities		
Borrowings	**34,473**	25,603

	2022 $'000	2021 $'000
Loan facility - Pure Asset Management	**–**	35,000
Fair value of attaching warrants	**–**	(9,498)
Transaction costs	**–**	(797)
Amortisation of finance component (warrants and transaction costs)	**–**	898
Proceeds from drawdown on CBA loan	**35,000**	–
Transaction costs	**(527)**	–
	34,473	25,603

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any gains or losses are recognised in the Statement of Profit or Loss in the event the borrowings are derecognised.

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22. BORROWINGS (CONTINUED)

On 23 June 2022, Tesserent entered into agreements with Commonwealth Bank of Australia (CBA) to refinance its existing debt facilities with Pure Asset Management (PAM).

The refinancing resulted with the following new borrowings at 30 June 2022:

- Full extinguishment of the PAM facilities through a CBA Market Rate Loan Facility of $35.0m, expiring in June 2025
- $20.0,Market Rate Loan Facility to finance deferred consideration payments related to past and future business acquisitions. The facility expires in June 2025.
- $1.5m Contingent Liability Facility
- $2.0m Asset Finance Facility
- $0.5m Corporate Card Facility

In addition, Tesserent is required to comply with quarterly covenants requirements from 30 September 2022 (Leverage ratio, minimum EBITDA and Minimum Net Worth).

The refinancing of the debt facilities resulted in exit fees paid ($1.75m) and the accelerated amortisation of warrants interest ($7.5m) as disclosed in Note 6.

The table below summarises the facilities available, used and unused at balance date:

	2022 $'000
Total facilities	
Bank loan - facility A	35,000
Bank loan - facility B	20,000
Credit card facility	500
Asset finance facility	2,000
Bank guarantee facility	1,500
	59,000
Used at the reporting date	
Bank loan - facility A	35,000
Bank loan - facility B	–
Credit card facility	–
Asset finance facility	–
Bank guarantee facility	–
	35,000
Unused at the reporting date	
Bank loan - facility A	–
Bank loan - facility B	20,000
Credit card facility	500
Asset finance facility	2,000
Bank guarantee facility	1,500
	24,000

23. CONTRIBUTED EQUITY

	2022 Shares	2021 Shares	2022 $'000	2021 $'000
Ordinary shares - fully paid	**1,258,183,427**	1,063,018,657	**138,666**	102,992

Movements in ordinary share capital

Details	Date	Shares	Issue price	$'000
Balance	1 July 2021	1,063,018,657		102,992
Issued to consultant (share issue deferred)	5 July 2021	5,988,665	$0.00	–
Shares issued on conversion of options	10 August 2021	250,000	$0.28	70
Shares issued on conversion of options	10 August 2021	1,000,000	$0.13	125
Shares issued on conversion of options	8 September 2021	500,000	$0.10	50
Shares issued on conversion of options	8 September 2021	600,000	$0.10	60
Shares issued as consideration in business combination	1 November 2021	674,633	$0.22	153
Shares issued as consideration in business combination	4 October 2021	15,946,137	$0.22	3,508
Shares issued as consideration on raising of capital	4 October 2021	119,047,619	$0.21	25,000
Costs of issuing equity	4 October 2021	–	$0.00	(960)
Shares issued on conversion of warrants	1 November 2021	1,166,667	$0.12	140
Shares issued as consideration in business combination	1 November 2021	2,764,264	$0.22	625
Shares issued on conversion of options	10 December 2021	1,000,000	$0.08	75
Shares issued on conversion of options	10 December 2021	500,000	$0.10	50
Shares issued on conversion of options	10 December 2021	500,000	$0.13	63
Shares issued on conversion of options	10 December 2021	500,000	$0.15	75
Shares issued as consideration in business combination	24 December 2021	33,886,663	$0.17	5,591
Shares issued as consideration in business combination	24 December 2021	4,728,105	$0.17	792
Shares issued on conversion of options	31 January 2022	300,000	$0.10	30
Shares issued as consideration in business combination (share issue deferred)	11 February 2022	5,812,017	$0.00	–
Shares issued on conversion of options (options expense)	30 June 2022	–	$0.00	227
Balance	**30 June 2022**	**1,258,183,427**		**138,666**

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23. CONTRIBUTED EQUITY (CONTINUED)

Movements in ordinary share capital - during the year ended 30 June 2021

Details	Date	Shares	Issue price	$'000
Balance	1 Jul-20	511,834,114		29,485
Issued to Employees	10 Jul-20	343,750	$0.084	29
Shares issued on conversion of convertible notes	28 Jul-20	2,000,000	$0.050	100
Shares issued on conversion of options	28 Jul-20	11,100,000	$0.100	1,110*
Shares issued as consideration in business combination	31 Jul-20	70,000,000	$0.208	14,562
Shares issued on conversion of convertible notes	3 Aug-20	2,000,000	$0.050	100
Shares issued on conversion of options	6 Aug-20	300,000	$0.050	15
Shares issued on conversion of convertible notes	6 Aug-20	4,231,200	$0.050	212
Shares issued on conversion of options	7 Aug-20	9,000,000	$0.100	900
Shares issued on conversion of convertible notes	14 Aug-20	13,189,300	$0.050	659*
Shares issued on conversion of options	14 Aug-20	1,800,000	$0.100	180
Shares issued on conversion of options	20 Aug-20	1,200,000	$0.100	120
Shares issued on conversion of performance rights	2 Sep-20	2,000,000	–	–
Shares issued on conversion of warrants	2 Sep-20	25,000,000	$0.100	2,510*
Shares issued on conversion of options	2 Sep-20	750,000	$0.100	75*
Shares issued on conversion of warrants	8 Sep-20	24,586,777	$0.079	1,938*
Shares issued on conversion of convertible notes	18 Sep-20	10,000,000	$0.050	500
Shares issued on conversion of convertible notes	21 Sep-20	2,071,720	$0.050	104
Shares issued as consideration in business combination	21 Sep-20	6,923,077	$0.208	1,440
Shares issued as consideration in business combination	21 Sep-20	4,333,333	$0.215	932
Shares issued as consideration in business combination	21 Sep-20	4,333,333	$0.215	932
Shares issued on conversion of performance rights	21 Sep-20	2,000,000	–	–
Equity Settled expense	21 Sep-20	8,000,000	$0.050	400
Shares issued as consideration in business combination	23 Sep-20	39,701,333	$0.194	7,694
Shares issued on conversion of convertible notes	24 Sep-20	3,100,493	$0.050	155
Shares issued on conversion of warrants	24 Sep-20	1,458,334	$0.120	175*
Shares issued on conversion of performance rights	24 Sep-20	4,000,000	–	–
Shares issued as consideration in business combination	30 Sep-20	4,440,410	$0.224	995
Shares issued on conversion of performance rights	5 Oct-20	4,000,000	–	–
Shares issued as consideration in business combination	5 Oct-20	1,000,000	$0.220	220
Shares issued as consideration in business combination	5 Oct-20	1,000,000	$0.220	220
Shares issued on conversion of convertible notes	5 Oct-20	5,401,639	$0.050	270

23. CONTRIBUTED EQUITY (CONTINUED)

Details	Date	Shares	Issue price	$'000
Shares issued as consideration in business combination	23 Oct-20	248,888	$0.194	48
Shares issued on conversion of convertible notes	23 Oct-20	10,852,504	$0.050	543
Shares issued on conversion of options	26 Oct-20	300,000	$0.100	30*
Equity Settled expense	27 Oct-20	11,001,600	$0.050	550
Shares issued on conversion of convertible notes	5 Nov-20	2,177,049	$0.050	109
Shares issued on conversion of options	5 Nov-20	600,000	$0.100	60*
Shares issued as consideration in business combination	11 Nov-20	34,593,950	$0.250	8,635
Shares issued on conversion of options	11 Nov-20	500,000	$0.050	25*
Shares issued on conversion of options	11 Nov-20	500,000	$0.280	140*
Shares issued on conversion of warrants	27 Nov-20	12,000,000	$0.120	1,440*
Shares issued on conversion of warrants	30 Nov-20	9,583,334	$0.120	1,150*
Shares issued on conversion of options	30 Nov-20	178,500	$0.280	50*
Shares issued on conversion of convertible notes	30 Nov-20	193,989	$0.050	10
Shares issued as consideration in business combination	30 Nov-20	1,466,000	$0.355	520
Shares issued as consideration in business combination	30 Nov-20	1,466,000	$0.355	520
Shares issued on conversion of options	3 Dec-20	10,000,000	$0.050	500
Shares issued on conversion of performance rights	4 Dec-20	4,000,000	–	–
Equity Settled expense	4 Dec-20	4,309,298	$0.175	752
Shares issued on conversion of options	4 Dec-20	150,000	$0.100	15*
Shares issued as consideration in business combination	10 Dec-20	20,071,652	$0.069	1,379
Shares issued on conversion of options	10 Dec-20	71,500	$0.280	20*
Shares issued as consideration in business combination	10 Dec-20	1,334	$0.355	0
Shares issued on conversion of warrants	10 Dec-20	729,167	$0.120	88*
Shares issued on conversion of convertible notes	14 Dec-20	61,825,622	$0.050	3,091
Shares issued on conversion of convertible notes	16 Dec-20	26,400,000	$0.050	1,320
Shares issued on conversion of performance rights	16 Dec-20	4,000,000	–	–
Shares issued on conversion of options	15 Jan-21	1,000,000	$0.100	100
Shares issued on conversion of options	8 Feb-21	300,000	$0.100	30
Shares issued on conversion of options	12 Feb-21	1,000,000	$0.075	75
Shares issued on conversion of options	12 Feb-21	1,000,000	$0.100	100
Shares issued on conversion of convertible notes	16 Feb-21	3,255,738	$0.000	0
Shares issued as consideration in business combination	18 Mar-21	5,871,990	$0.350	2,055
Equity Settled expense	16 Apr-21	3,000,000	$0.075	225
Shares issued on conversion of warrants	16 Apr-21	729,167	$0.120	88

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23. CONTRIBUTED EQUITY (CONTINUED)

Details	Date	Shares	Issue price	$'000
Shares issued as consideration in business combination	28 Apr-21	42,145,974	$0.223	9,377
Equity Settled expense (accrued - shares issue deferred)	30 Apr-21	–	–	1,228
Shares issued as consideration in business combination	15 Jun-21	5,970,149	$0.214	1,276
Shares issued as consideration in business combination	15 Jun-21	426,439	$0.214	91
Equity Settled expense (accrued - shares issue deferred)	30 Jun-21	–	–	1,535
Cost of issuing equity				(216)
Balance	**30 Jun-21**	**1,063,018,657**		**102,992**

* indicates issued capital that has a corresponding cash inflow during FY21

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

Capital risk management

The group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

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

The group would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current company's share price at the time of the investment. The group is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The group is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

24. RESERVES

The Group has issued options during the year. The options were values using a Black-Scholes Pricing model. During the year, the following options were issued with the following inputs:

Share Options	ESOP Series 1	ESOP Series 2	ESOP Series 1	ESOP Series 2	ESOP Series 3
No. issued	1,000,000	1,000,000	4,704,936	4,454,936	7,400,000
Grant Date	2-Jun-21	2-Jun-21	30-Aug-21	30-Aug-21	31-Jan-22
Expiry Date	1-Jul-24	1-Jul-24	16-Sep-23	16-Sep-23	31-Jan-25
Terms (days)	1,125	1,125	747	747	1,096
Exercise price (cents)	$0.28	$0.35	$0.28	$0.35	$0.28
Share price at grant date (cents)	$0.21	$0.21	$0.27	$0.27	$0.17
Volatility	100%	100%	108%	108%	100%
Risk free rate	0.10%	0.10%	0.20%	0.20%	1.20%
Dividend yield	0%	0%	0%	0%	0%
Early exercise multiple	2	2	2	2	2
Value per option	$0.09	$0.09	$0.11	$0.12	$0.07
Total cost	$88,090	$91,413	$528,798	$539,031	$479,281
Cost recognised	$88,090	$91,413	$528,798	$437,688	$479,281
Value forfeited	$0	$0	$0	$27,158	$0
Future costs	**$0**	**$0**	**$0**	**$74,186**	**$0**

Notes to the Consolidated Financial Statements

for the year ended 30 June 2022

24. RESERVES (CONTINUED)

Options, Warrants and Convertible Note movements

Set out below are summaries of options, warrants and convertible note movements during the year:

Description	Expiry date	Exercise price $	Balance 1-Jul-21	Granted	Exercised	Expired/ Forfeited/ other	Balance 30-Jun-22
Options							
NED Options	30/11/2021	0.10	500,000	–	(500,000)	–	–
NED Options	30/11/2021	0.13	500,000	–	(500,000)	–	–
NED Options	30/11/2021	0.15	500,000	–	(500,000)	–	–
Call Options	16/12/2021	0.08	1,000,000	–	(1,000,000)	–	–
Employee Options	01/03/2022	0.10	300,000	–	–	(300,000)	–
Converting Note Options	01/10/2022	0.10	26,770,000	–	(300,000)	–	26,470,000
Converting Note Options	01/10/2022	0.10	3,832,500	–	–	–	3,832,500
Converting Note Options	01/10/2022	0.10	3,000,000	–	(600,000)	–	2,400,000
Employee Options	29/11/2022	0.13	1,000,000	–	–	–	1,000,000
Employee Options	02/11/2023	0.35	12,771,500	4,968,632	–	(776,500)	16,963,632
Employee Options	02/11/2023	0.28	12,200,000	4,968,632	(250,000)	1,045,000	17,963,632
Employee Options	01/01/2024	0.35	3,000,000	–	–	(3,000,000)	–
Employee Options	01/01/2024	0.28	3,750,000	–	–	(3,750,000)	–
Employee Options	06/04/2024	0.35	1,250,000	–	–	(1,250,000)	–
Employee Options	06/04/2024	0.28	1,500,000	–	–	(1,500,000)	–
Employee Options	20/04/2024	0.35	1,670,000	–	–	(1,670,000)	–
Employee Options	20/04/2024	0.28	1,670,000	–	–	(1,670,000)	–
Employee Options	01/07/2024	0.35	–	1,000,000	–	–	1,000,000
Employee Options	01/07/2014	0.28	–	1,000,000	–	–	1,000,000
Employee Options	31/01/2025	0.28	–	7,400,000	–	–	7,400,000
Call Options	09/06/2025	0.24	–	1,000,000	–	–	1,000,000
NED Options	21/09/2025	0.25	9,000,000	–	–	–	9,000,000
NED Options	06/07/2026	0.21	–	3,000,000	–	–	3,000,000
Total Options			84,214,000	23,337,264	(3,650,000)	(12,871,500)	91,029,764
Weighted average exercise price			$0.21	$0.29	$0.12	$0.31	$0.22

25. DIVIDENDS

There were no dividends paid, recommended or declared during the current or previous financial year.

26. FINANCIAL RISK MANAGEMENT

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 amount 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.

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 object of the policy is to support the delivery of the Company's financial targets whilst protecting future financial security.

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

The main risk arising from the Company's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Company manages its risk at Board level. The Board monitors levels of exposure to interest rate, foreign currency 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 reviews and agrees policies for managing each of the risks identified below.

Market risk

Foreign currency risk

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

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the Group's functional currency. The Group incurs foreign currency predominantly in USD and NZD.

In order to protect against foreign exchange rate movements, the Group has entered into forward exchange contracts. These forward contracts are buying forward foreign currency for contracted cash outflows for payments to vendors from the ensuing financial year.

The maturity, settlement amounts and the average contractual exchange rates of the group's outstanding forward foreign exchange contracts at the reporting date were as follows:

	Sell Australian dollars		Average exchange rates	
	2022 $'000	2021 $'000	2022	2021
Buy US dollars				
Maturity:				
0 - 3 months	**9,898**	6,488	**0.7005**	0.7669
6 - 9 months	**–**	77	**–**	0.7389

The holdings of cash and cash equivalents, trade receivables, contract assets, trade payables and contract liabilities analysed by nominated currency at 30 June 2022, along with prior year comparatives, were as follows:

30 June 2022	Denominated in AUD $'000	Denominated in USD $'000	Denominated in NZD $'000	Total in SGD $'000	Total in AUD $'000
Financial Assets					
Cash and cash equivalents	**13,469**	**1**	**252**	**616**	**14,339**
Trade and other receivables	**31,100**	**72**	**888**	**23**	**32,083**
Contract assets	**7,677**	**8,554**	**–**	**–**	**16,231**
	52,246	**8,627**	**1,140**	**639**	**62,652**
Financial Liabilities					
Trade and other payables	**25,250**	**10,362**	**217**	**23**	**35,853**
Contract liabilities	**7,434**	**6,165**	**–**	**–**	**13,598**
	32,684	**16,527**	**217**	**23**	**49,451**

A hypothetical 10% strengthening in the exchange rate of the Australian dollar (A$) against the New Zealand dollar (NZ$) of the Parents' overseas subsidiaries, Lateral Security Pty Ltd and Tesserent Cyber Services NZ Pty Ltd, with all other variables held constant, would have an unfavourable effect of $24,293 (2021:$50,330 unfavourable) on the profit and equity for the 2021 financial year.

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26. FINANCIAL RISK MANAGEMENT (CONTINUED)

30 June 2021	Denominated in AUD $'000	Denominated in USD $'000	Denominated in NZD $'000	Total in AUD $'000
Financial Assets				
Cash and cash equivalents	14,467	4	389	14,860
Trade and other receivables	21,590	2,571	638	24,799
Contract assets	8,774	678	–	9,452
	44,831	3,253	1,027	49,111
Financial Liabilities				
Trade and other payables	20,093	8,730	151	28,974
Contract liabilities	5,236	3,278	–	8,514
	25,329	12,008	151	37,488

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

As at the reporting date, the group had the following variable rate borrowings outstanding:

	2022	
	Weighted average interest rate %	Balance $'000
Borrowings	**4.70%**	**34,473**
Net exposure to cash flow interest rate risk		**34,473**

An analysis by remaining contractual maturities is shown in 'liquidity and interest rate risk management' below.

In 2022, the interest paid on the debt facilities was $3,353,664. The majority of the interest paid was related to the PAM facility which extinguished on 23 June 2022 as part of the refinancing process undertaken with CBA. The weighted average interest rate with the CBA facility is 4.70% in comparison to 8.70% cash rate under the PAM facility.

Liquidity risk
The Group manages liquidity risk by maintaining adequate reserves and banking facilities continuously monitoring the forecast and actual cashflows and matching the maturity profile of financial assets and liabilities.

On 23 June 2022, the Group refinanced its borrowings with CBA. The Group had access to the following undrawn facilities at the end of the reporting period:

	2022 $'000	2021 $'000
Bank loan - facility B	**20,000**	–
Credit card facility	**500**	–
Asset finance facility	**2,000**	–
Bank guarantee facility	**1,500**	–
	24,000	–

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

Bank facilities are subject to the continuance of satisfactory covenant reporting, and have an average maturity of 3 years. The bank loan - facility B, can be used to finance current payable or deferred cash considerations in relation to past acquisitions of future permitted acquisitions. The other bank facilities may be drawn at any time.

Maturities of financial liabilities

The following tables detail the Group'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.

2022	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 liabilities						
Non-interest bearing						
Trade payables	–	35,853	–	–	–	35,853
Other financial liabilities	–	23,600	5,485	–	–	29,085
Other liabilities	–	11,313	2,285	–	–	13,598
Interest-bearing - variable						
Borrowings	3.25%	1,138	1,138	36,138	–	38,414
Lease liability	4.00%	3,110	1,969	1,635	333	7,047
Total non-derivatives		**75,014**	**10,877**	**37,773**	**333**	**123,996**

2021	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 liabilities						
Non-interest bearing						
Trade payables	–	28,972	–	–	–	28,972
Other financial liabilities	–	11,699	1,652	–	–	13,351
Other liabilities	–	7,335	1,179	–	–	8,514
Interest-bearing - variable						
Borrowings	8.90%	–	–	15,000	–	15,000
Borrowings	8.50%	–	–	20,000	–	20,000
Lease liability	4.00%	2,390	1,949	2,362	767	7,468
Total non-derivatives		**50,396**	**4,780**	**37,362**	**767**	**93,305**

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

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26. FINANCIAL RISK MANAGEMENT (CONTINUED)

Fair value of financial instrument

Fair value hierarchy

The following tables detail the consolidated entity's assets and liabilities, measured or disclosed at fair value, using a three-level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

Fair value measurement

Fair value hierarchy

The following tables detail the consolidated entity's assets and liabilities, measured or disclosed at fair value, using a three-level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

Consolidated - 2022	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Call option investments	–	–	500	500
Investment in Daltrey Pty Ltd	–	–	2,298	2,298
Total assets	–	–	2,798	2,798
Liabilities				
Deferred settlement liabilities	–	–	29,085	29,085
Total liabilities	–	–	29,085	29,085

Consolidated - 2022	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Call option investments	–	–	3,000	3,000
Total assets	–	–	3,000	3,000
Liabilities				
Deferred settlement liabilities	–	–	13,351	13,351
Total liabilities	–	–	13,351	13,351

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

Valuation techniques for fair value measurements categorised within level 3

Call option investments have been valued using a weighted average probability assessment of the likelihood of the instrument being exercised before the expiry date.

The basis of the valuation of investment in Daltrey Pty Ltd is based on the current share price in an active market.

The basis of the valuation of deferred settlement liabilities is the use of observable market data where it is available and relies as little as possible on entity specific estimates.

Level 3 assets and liabilities

Refer to Note 11 and 21 for movements in Level 3 assets and liabilities.

The level 3 assets and liabilities unobservable inputs are not subject to materiality sensitivities.

27. REMUNERATION OF AUDITORS

During the financial year the following fees were paid or payable for services provided by BDO Audit Pty Ltd, the auditor of the company:

	2022 $	2021 $
Audit services - BDO Audit Pty Ltd		
Audit or review of the financial statements	**510,000**	726,654
Other services - BDO		
Tax compliance and advisory services - BDO Services Pty Ltd	**103,900**	26,538
Other non-audit services - BDO Corporate Finance Pty Ltd	**35,000**	575,041
	138,900	601,579
	648,900	1,328,233

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.

28. CONTINGENT LIABILITIES

There are no other contingent assets or liabilities requiring disclosure as at the date of this report.

29. COMMITMENTS

The Group has no commitments at 30 June 2022. (30 June 2021: nil).

30. RELATED PARTY TRANSACTIONS

Parent entity

Tesserent Limited is the parent entity.

Key management personnel Compensation

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

	2022 $'000	2021 $'000
Short term employment benefits	**3,622**	2,023
Post-employment benefits	**181**	148
Long term benefits	**285**	42
Share based payments	**447**	1,076
	4,535	3,289

Transactions with related parties

The Company undertook business with Belgravia Group and associated companies in which Mr G Lord is a director of and owns an interest. There were no products purchased from Belgravia Group in 2021 or 2022. Products and services sold to Belgravia totalled $124,368 being professional services and software subscriptions and support to Belgravia Group Pty Ltd.

There were no other transactions with related parties at the current and previous reporting date.

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

Controlled entities

Details of the percentage of ordinary shares held in controlled entities are disclosed in Note 33 of this report.

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31. PARENT ENTITY INFORMATION

The financial information for the parent entity has been prepared on the same basis as the consolidated financial statements. The accounting policies adopted by the parent entity are the same as the consolidated group except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity
- Investments in associates are accounted for at cost, less any impairment, in the parent entity
- Tesserent Limited is the ultimate parent entity of the consolidated group

Tesserent Limited is the ultimate parent entity of the consolidated group.

Statement of profit or loss and other comprehensive income

	2022 $'000	2021 $'000
Loss after income tax	**(18,196)**	(10,778)
Total comprehensive income	**(18,196)**	(10,778)

The parent entity loss after income tax in 2022 includes the costs incurred as a result of the exit from the Pure Asset Management debt facility. Refer to Note 6.

Statement of financial position

	2022 $'000	2021 $'000
Total current assets	**148,867**	120,047
Total non-current assets	**7,145**	7,145
Total assets	**156,012**	127,192
Total current liabilities	**509**	1,027
Total non-current liabilities	**34,693**	25,823
Total liabilities	**35,202**	26,850
Net assets	**120,810**	100,342
Equity		
Contributed equity	**143,120**	106,630
Share-based payments reserve	**9,437**	9,565
Options reserve	**6,453**	4,315
Accumulated losses	**(38,200)**	(20,166)
Total equity	**120,810**	100,344

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries.

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2022 and 30 June 2021.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2022 and 30 June 2021.

Capital commitments

The parent entity had no capital commitments for purchase of property, plant and equipment as at 30 June 2022 and 30 June 2021.

32. BUSINESS COMBINATIONS

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities. Any deferred contingent consideration is measured at fair value at the date of acquisition.

If any obligation to pay contingent consideration meets the definition of a financial instrument it is classified as equity, and not remeasured, with settlement accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

In FY22, the Group completed the acquisitions of Loop Secure Pty Ltd, Claricent Pty Ltd, and Pearson Corporation Pty Ltd. Details of the acquisitions were as follows:

Loop Secure Pty Ltd

On 1 October 2021, TNT Cyber Services Pty Ltd, a subsidiary of Tesserent Limited, acquired 100% of the ordinary shares of Loop Secure Pty Ltd for consideration of $17,426,161, with $7,000,000 cash and $3,508,150 in issued share capital, being 15,946,135 shares issued at a fair value of $0.220 per share. A further deferred consideration cash payment of $1,000,000 was made on 30 June 2022 and additional cash payment of $1,000,000 is payable in Q2 FY23. A completion accounts payment $490,780, plus estimated earnout payments of $4,427,236, make up the balance of the total acquisition cost.

Loop Secure's Offensive Security, GRC and Managed Security Services strengthens TNT's Cyber 360 capabilities with significant synergy benefits and cross-sell opportunities

Claricent Pty Ltd

On 15 December 2021, TNT Cyber Services Pty Ltd, a subsidiary of Tesserent Limited, acquired 100% of the ordinary shares of Claricent Pty Ltd for consideration of $6,463,995, with $1,239,000 cash and $791,958 in issued share capital, being 4,728,105 shares issued at a fair value of $0.1675 per share.

Further cash payments of $1,512,820 in deferred consideration and deferred issued capital of $862,534, plus estimated earnout payments of $2,057,683 (contingent on the Claricent business meeting agreed earnings targets), make up the balance of the total acquisition cost.

Pearson Corporation Pty Ltd

On 23 December 2021, TNT Cyber Services Pty Ltd, a subsidiary of Tesserent Limited, acquired 100% of the ordinary shares of Pearson Corporation Pty Ltd for consideration of $31,401,477, with $8,640,000 cash and $5,591,230 in issued share capital, being 33,886,663 shares issued at a fair value of $0.1650 per share.

Further cash payments of $8,743,381 in deferred consideration and deferred issued capital of $4,999,708 are contingent on the Pearson business meeting agreed earnings targets. Also contingent on Pearson meeting earnings targets, are estimated earnout payments of $3,427,088, which make up the balance of the total acquisition cost.

Both Claricent Pty Ltd and Pearson Corporation Pty Ltd have leading positions in the Federal Government marketplace and enable Tesserent to further strengthen its position and deliver large multi-year projects that support the Federal Government to achieve their cybersecurity goals.

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32. BUSINESS COMBINATIONS (CONTINUED)

Details of the acquisition are as follows:

	Loop Secure Fair value $'000	Claricent Fair value $'000	Pearson Fair value $'000	Total $'000
Cash and cash equivalents	2,958	280	651	**3,889**
Trade and other receivables	1,364	128	2,031	**3,523**
Deposits	112	215	–	**327**
Contract assets	67	112	666	**845**
Prepayments	237	–	–	**237**
Plant and equipment	171	–	–	**171**
Trade and other payables	(1,406)	(426)	(1,491)	**(3,323)**
Contract liabilities	(2,352)	–	(7)	**(2,359)**
Provision for income tax	(534)	(74)	(1,251)	**(1,859)**
Employee benefits	(705)	(227)	(122)	**(1,054)**
Fair value of contracts and relationships acquired	3,900	1,400	7,900	**13,200**
Deferred tax liability arising from acquisition	(1,018)	(431)	(2,149)	**(3,598)**
Net assets acquired	2,794	977	6,228	**9,999**
Goodwill	14,632	5,487	25,173	**45,292**
Acquisition-date fair value of the total consideration transferred	17,426	6,464	31,401	**55,291**
Representing:				
Cash paid or payable to vendor	7,000	1,239	8,640	**16,879**
Tesserent Limited shares issued to vendor	3,508	792	5,591	**9,891**
Deferred consideration	6,918	4,433	17,170	**28,521**
Total Consideration	17,426	6,464	31,401	**55,291**
Acquisition-date fair value of the total consideration transferred	7,000	1,239	8,640	**16,879**
Less: cash and cash equivalents acquired	(2,958)	(280)	(651)	**(3,889)**
Net cash used	4,042	959	7,989	**12,990**

The fair value of the trade receivables acquired for those business acquisitions amounts to $3.3m. The gross amount of trade receivables is $3.3m and it is expected that the full contractual amounts can be collected.

Given the seasonality of the acquirees performance, it is impractical to disclose the revenue and profit contributions if the entities had been acquired on 1 July 2021.

Since their respective acquisition dates, the acquirees contributed as follows to the consolidated revenue and loss of the Group:

	Loop Secure $'000	Claricent $'000	Pearson $'000
Revenue contribution	9,833	2,043	11,922
Profit contribution	2,047	600	2,777

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.

33. INTERESTS IN SUBSIDIARIES

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

Name	Principal place of business/ Country of incorporation	Ownership interest 2022 %	Ownership interest 2021 %
Pure Security Managed Services Pty Ltd	Australia	**100%**	100%
Tesserent Wholesale Pty Ltd	Australia	**100%**	100%
Tesserent IP Pty Ltd	Australia	**100%**	100%
Tesserent Cyber Services Pty Ltd	Australia	**100%**	100%
Rivium Pty Ltd	Australia	**100%**	100%
Pure Security Pty Ltd	Australia	**100%**	100%
Certitude Pty Ltd	Australia	**100%**	100%
Hacklabs Pty Ltd	Australia	**100%**	100%
Securus Global Pty Ltd	Australia	**100%**	100%
Pure Hacking Pty Ltd	Australia	**100%**	100%
north BDT	Australia	**100%**	100%
Seer Security Pty Ltd	Australia	**100%**	100%
Airloom Holdings Pty Ltd	Australia	**100%**	100%
Ludus Information Security Pty Ltd	Australia	**100%**	100%
iQ3 Pty Ltd	Australia	**100%**	100%
Lateral Security (IT) Services Limited	New Zealand	**100%**	100%
Secure Logic Pty Ltd	Australia	**100%**	100%
Tesserent Cyber Services Limited	New Zealand	**100%**	100%
Loop Secure Pty Ltd[1]	Australia	**100%**	–
Claricent Pty Ltd[2]	Australia	**100%**	–
Pearson Corporation Pty Ltd[3]	Australia	**100%**	–

1 Acquired 1 October 2021
2 Acquired 15 December 2021
3 Acquired 23 December 2021

34. EVENTS AFTER THE REPORTING PERIOD

The Company notes the following subsequent event since the 30 June 2022 reporting date:

On 24 August 2022, the Company remitted payment of $2.86m and issued 10,926,052 shares to the Loop Secure vendors in accordance with the terms of the Share Purchase Agreement for Loop Secure Pty Ltd.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2022

35. LOSS PER SHARE

	2022 $'000	2021 $'000
Loss after income tax	**(8,783)**	(4,533)
	Number	**Number**
Weighted average number of ordinary shares outstanding during the year used in calculating basic loss per share	**1,197,938,015**	875,632,954
Weighted average number of ordinary shares and convertible redeemable cumulative preference shares outstanding and performance rights during the year used in calculating diluted loss per share	**1,197,938,015**	875,632,954
	Cents	**Cents**
Basic loss per share	**(0.73)**	(0.52)
Diluted loss per share	**(0.73)**	(0.52)

Weighted average number of ordinary shares disclosed above exclude options and rights granted to employees which are anti-dilutive.

Directors' Declaration

for the year ended 30 June 2022

In the Directors' opinion:

(a) the financial statements and notes set out on pages 52 to 96 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and

(ii) giving a true and fair view of the Group's financial position as at 30 June 2022 and of its performance for the year-ended on that date, and

(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.

Note 1 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

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

On behalf of the Directors

Mr Kurt Hansen
CEO

30 August 2022

Independent Auditor's Report

for the year ended 30 June 2022

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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 2022, 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 2022 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.

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.

Business combinations

Key audit matter	*How the matter was addressed in our audit*
As disclosed in Note 32, the Group acquired 100% of the shares of Loop Secure Pty Ltd, Pearson Corporation Pty Ltd and Claricent Pty Ltd during the year ended 30 June 2022. The accounting for business combinations was a key audit matter given each acquisition was material to the Group and involved significant judgements made by the Group, including: • Estimating the fair value of assets and liabilities acquired, in particular the valuation of identified finite life intangible assets acquired. • Determining the fair value of the purchase consideration for each acquisition, including estimating the fair value of shares issued by the Company and the fair value of contingent consideration dependent upon future performance hurdles.	Our procedures included, but were not limited to: • Reading the signed Share Purchase Agreements to understand the entities being acquired and the considerations payable for the acquisitions; • Obtaining a copy of the external valuation reports to assess the determination of the fair values of the intangible assets associated with the acquisitions; • Testing on a sample basis of the fair value of the assets and liabilities acquired; and • Assessing management's calculations in determining the deferred considerations payable. In conjunction with our valuation specialists, we: • Assessed the identification of intangible assets acquired, including customer contracts and relationships along with the valuation methodologies used to value those assets; • Assessed the reasonableness of the discount rates used; and • Tested on a sample basis, the mathematical accuracy of the models. We have also assessed the appropriateness of the disclosures included in Note 32 to the financial statements.

Independent Auditor's Report

for the year ended 30 June 2022

Carrying value of goodwill and intangible assets

Key audit matter	*How the matter was addressed in our audit*
As disclosed in Notes 14 and 15, at 30 June 2022 the Group has intangible assets related to customers contracts and relationships, intellectual property and goodwill. Goodwill and other intangible assets are required to be assessed for impairment annually or where there is an indicator of impairment. 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 ('CGUs'). 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.	Our procedures included, but were not limited to: • Obtaining an understanding of the process that management undertook to perform their impairment assessment; and • Evaluating the level at which goodwill is monitored, including the identification of CGUs. In conjunction with our valuation specialists, we: • Evaluated the value in use models prepared by management and validated the reasonableness of the assumptions used to calculate the discount rate, growth rates, terminal values, working capital values and allocation of corporate costs compared to historical performance and industry benchmark to ensure compliance with the relevant accounting standards; • Agreed the forecasted cashflows for FY23 to the latest Board approved budget; • Assessed historical forecasting accuracy; • Compared the market capitalisation of the Company to the Group's net assets; • Confirming the integrity and mathematical accuracy of the value-in-use discounted cash flow models; • Subjected the key assumptions to sensitivity analyses on growth and discount rates to understand the change that would be required for the goodwill and intangibles assets to be impaired and assessed the likelihood of such movement in those key assumptions arising; and • Assessed the appropriateness of the disclosures included in Notes 14 and 15 to the financial statements.

BDO

Revenue recognition

Key audit matter	*How the matter was addressed in our audit*
As disclosed in Note 4, at 30 June 2022 the Group generates revenue from five distinct streams (managed services, consulting services, software licenses, hardware equipment and support and maintenance renewals). Each revenue stream has unique contracts with performance obligations and recognition criteria that require assessment under the relevant accounting standards. This is a key audit matter because the Group has complex customer contracts, including multiple and bundled performance obligations and agency arrangements. Revenue recognition was significant to our audit due to its complexity and amount of audit attention required.	Our procedures included, but were not limited to: • Obtaining an understanding of the process undertaken by management to account for the recognition of revenue for each revenue stream, including factors influencing whether the revenue is recognised on a principal or agency basis; • Testing, on a sample basis, to validate the accuracy and occurrence of revenue related transactions to underlying evidence; and • Assessing the appropriateness of the disclosures in Note 4 to the financial statements.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2022, 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.

Independent Auditor's Report

for the year ended 30 June 2022

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

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

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

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 41 to 49 of the directors' report for the year ended 30 June 2022.

In our opinion, the Remuneration Report of Tesserent Limited, for the year ended 30 June 2022, 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

BDO

Salim Biskri
Director

Melbourne, 30 August 2022

Shareholder Information

for the year ended 30 June 2022

The shareholder information set out below was applicable as at 25 August 2022.

A. DISTRIBUTION OF EQUITABLE SECURITIES

Analysis of number of equitable security holders by size of holding:

Range	Total holders	Units	% Units
1 - 1,000	428	140,585	0.01%
1001 - 5,000	3,325	10,067,092	0.79%
5001 - 10,000	2,197	17,292,420	1.36%
10,001 - 100,000	5,157	181,519,325	14.3%
100,001 and over	1,184	1,060,090,056	83.54%
	12,291	**1,269,109,478**	

Based on the price per security, the number of holders with an unmarketable holding: 3,176 with total 7,424,960 units, amounting to 0.6% of Issued Capital.

B. DISTRIBUTION OF EQUITY SECURITIES – SHARE OPTIONS

Analysis of numbers of equity 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	–	–	–
10,000 - 100,000	11	453,792	0.25%
100,001 and over	137	178,103,751	99.75%
	148	**178,557,543**	

Shareholder Information

for the year ended 30 June 2022

C. EQUITY SECURITY HOLDERS

Twenty largest quoted equity security holders

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

NAME	Ordinary Shares Held	% of Issued Shares
BELGRAVIA STRATEGIC EQUITIES PTY LTD	56,825,622	4.48
SCOTT CEELY <CEELY INVESTMENTS A/C>	47,312,405	3.73
G & N LORD SUPERANNUATION PTY LTD <GNR S/F A/C>	37,433,334	2.95
PEARSON HOLDINGS (AUST) PTY LTD ACN 127 656 <PEARSON FAMILY A/C>	33,886,663	2.67
NATIONAL NOMINEES LIMITED	33,312,419	2.62
CS THIRD NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 13 A/C>	27,557,561	2.17
BNP PARIBAS NOMS PTY LTD <DRP>	26,917,985	2.12
CITICORP NOMINEES PTY LIMITED	24,448,539	1.93
C14N PTY LTD	20,718,709	1.63
CRAIG OWEN HUMPHREYS <COSEAR A/C>	20,410,431	1.61
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	17,388,681	1.37
SHAYNE MARCIA DAVENPORT	17,338,909	1.37
BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	16,126,289	1.27
XERT SERVICES PTY LIMITED <J&T MANUEL FAMILY A/C>	12,998,583	1.02
FLANNIGAN HOLDINGS PTY LTD <FLANNIGAN FAMILY SUPER A/C>	12,625,000	0.99
MR JOHN GEORGOPOULOS	12,300,534	0.97
UBS NOMINEES PTY LTD	11,504,600	0.91
SANBRU PTE LTD	10,573,838	0.83
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	10,331,900	0.81
COLONIAL FIRST STATE INV LTD <9015040 KAGE A/C>	8,721,608	0.69
Totals: Top 20 holders of ORDINARY FULLY PAID SHARES (Total)	**458,733,610**	**36.15**

As at 25 August 2022, the 20 largest shareholders held ordinary shares representing 36.15% of the issued share capital.

Unquoted equity securities

There are no unquoted equity securities.

D. SUBSTANTIAL HOLDERS

G Lord holds 7.82% of the ordinary shares on issue through BELGRAVIA STRATEGIC EQUITIES PTY LTD - totaling 61,825,622 shares, and G & N LORD SUPERANNUATION PTY LTD GNR S/F A/C - 37,433,334 shares.

E. VOTING RIGHTS

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

Ordinary shares

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.

Shareholder Information

for the year ended 30 June 2022

F. SHARE BUY BACKS

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

There are no other classes of equity securities.

G. ESCROWED SHARES

Class	Expiry date	Number of shares
Ordinary Shares	8 September 2022	500,000
Ordinary Shares	4 October 2022	15,538,625
Ordinary Shares	23 December 2022	38,614,768
		54,653,393

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 2022

DIRECTORS

Geoff Lord	Executive Chairman
Kurt Hansen	Chief Executive Officer and Managing Director
Gregory Baxter	Non-Executive Director
Megan Haas	Non-Executive Director

COMPANY SECRETARY

Paul Taylor
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 REGISTER

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 (ASX code: TNT)

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