ASX ANNOUNCEMENT

30 August 2023

The Manager
Market Announcements Office
Australian Securities Exchange Ltd
Level 4, North Tower, Rialto
525 Collins Street, Melbourne VIC 3000

Dear Sir/ Madam,

ANNUAL REPORT (INCLUDING APPENDIX 4E) FOR FY2023

MELBOURNE: Tesserent Limited (ASX:TNT), in accordance with the requirements of the ASX Listing Rules, has attached for immediate release to the market the FY23 Annual Report (including Appendix 4E) for the full year ended 30 June 2023.

Copies of ASX releases issued by the Company are available via our website at https://investors.tesserent.com.

ENDS

For more information, please contact Paul Taylor, General Counsel & Company Secretary, at (03) 9880 5555 or investor@tesserent.com.

Authorised for lodgement by the Tesserent Limited Board of Directors.

Securing our digital future, together.

Annual Report 2023

Tesserent Limited and Controlled Entities
ABN: 13 605 672 928

tesserent

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.

Cyber360 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 500 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 2023 (FY23).

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.

Appendix 4E

Financial information for the financial year ended 30 June 2023 as required by ASX listing rule 4.3A

Reporting period: Financial year ended 30 June 2023

Results for announcement to the market
(all comparisons to financial year ended 30 June 2022)

	$'000	Up/Down	% Change
Revenue from ordinary activities	130,404	Up	15%
Loss after tax from ordinary activities	(4,836)	Down	45%
Net Loss attributable to members	(4,836)	Down	45%

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 FY23 was $185.9m (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 $2.1m of acquisition related expenses (incl. fair value expense on contingent consideration), $1.0m of share option expense, and $4.6m of non-cash costs associated with the write-off of minority interest investments during the financial year ended 30 June 2023.

Dividends paid and proposed
No dividend has been proposed to be paid or is payable for the financial year ended 30 June 2023, nor for the comparative period.

Contents

Our mission is to be the 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 2023 Annual Report for Tesserent Limited (ASX:TNT) ('the Company').

During the year ended 30 June 2023, the Group reported total sales turnover of $186m (up 12% from FY22), and a normalised EBITDA[1] result of $17.6m.

In 2022, a series of major cyber security incidents took place, leading to extensive data breaches that impacted not only Australians but also individuals in New Zealand. While these attacks caused significant harm, they also acted as a crucial wake-up call for top executives across public, private, and non-profit organisations. This emphasised the critical nature of cyber security as an essential business aspect that demands considerable investment.

Cybercriminals continue to refine their tactics and exploit cutting-edge techniques, notably due to the advancements in Artificial Intelligence (AI) and Machine Learning (ML) automation to identify and exploit vulnerabilities to enable them to bypass enterprise and government defences. This ongoing evolution has lead to a rise in the sophistication and frequency of targeted attacks, presenting substantial challenges for organisations as they endeavour to defend against such threats.

Targeted intrusions continue to focus on exploiting legitimate credentials to gain access and maintain an undetected presence within victims' systems. Weak credentials and poor management of credentials by organisations continues to be a significant issue in unauthorised access and ransomware attacks.

Another contributing factor is the rate at which new vulnerabilities are disclosed in the deep web and the dark web and the speed with which adversaries were able to operationalise exploits.

FY23 was a year of continued integration and operational consolidation, following three years of targeted strategic acquisitions, with the Group condensing its numerous acquisitions into the respective Commercial and Government advisory businesses with the objective of enhancing its service offerings to key clients.

The FY23 financial year also saw the introduction of a number of additional service lines and client offerings for the Group, with Tesserent introducing its new Incident Response business, as well as establishing new sales channels for software sales into government clients.

Consistent with the earnings profile in FY22, the quarterly results for FY23 demonstrated strong seasonality – with the second half of the year reporting 65% of full year earnings (vs. 72% in FY22).

During the year, the business completed the acquisition of the business and assets of the cybersecurity training business ALC Group, and has integrated its business operations into Tesserent Academy which is actively training and engaging new talent into the cybersecurity market – with initiatives such as the Tesserent funded '*100 Students in 100 Days*' training programme, which developed the skills and interest of bright new talent into the market and identified a number of direct entry level hires for the business.

Most significantly, on 13 June 2023 Tesserent announced that it had entered into a Scheme Implementation Deed (SID) with Thales Australia Holdings Pty Ltd (Thales Australia), a wholly owned subsidiary of Thales, under which it is proposed that Thales Australia will acquire 100% of the share capital in Tesserent by way of a scheme of arrangement for $0.13 per share in cash.

The offer of cash consideration of $0.13 per share represents a significant premium of 165.3% to the last closing price on 12 June 2023 of $0.049 per share and 157.4% to the 1 month volume weighted average price (VWAP) of $0.0505 per share.

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

$186m

Turnover

$17.6m

Normalised EBITDA

Following careful consideration of the offer and alternative options, the Board recommends that Tesserent shareholders vote in favour of the Share Scheme in the absence of a superior proposal and subject to the Independent Expert concluding that the Share Scheme is in the best interests of Tesserent shareholders.

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 support as the business has evolved over the last five years to become one of the largest cybersecurity providers in Australia.

Geoff Lord
Chairman

Kurt Hansen
CEO

Review of Operations

FY23 IN REVIEW

Background

While the importance of cybersecurity has gained increased attention over the preceding twelve months, the progress and emphasis on cyber governance has not matched the pace of the changing threat landscape. This is evident in the notable cyber breaches witnessed in late 2022. The initial urgency that led to the establishment of new governance structures and crisis management strategies seems to have diminished, causing certain organisations to become lax in sustaining effective cyber incident response capabilities.

Surveys conducted by Tesserent's key cybersecurity industry partners have identified continuing gaps in the cyber security governance and organisational cyber resilience practices across Australia and New Zealand - representing a continuing opportunity for the Group to engage new clients and increase service offerings for existing clients.

Businesses cite a number of factors as barriers to the development of organisations' security postures, being; competing business priorities, lack of available resources and qualified staff, and insufficient budget allocation.

These barriers to developing effective security and managing cyberattacks have also led to a downturn in organisational confidence to respond to an incident and highlights a risk of organisations experiencing financial losses, reputational damage and legal liabilities.

During 2022, a survey conducted by one of Tesserent's primary software partners observed a 20% increase in the number of adversaries conducting data theft and extortion campaigns without deploying ransomware. Rather than solely disabling systems and causing organisational downtime, social engineering and sensitive data extraction are also becoming more prominent.

Incidents linked to phishing and targeted malicious emails have been on the rise, with 2022/23 seeing a 22% increase in occurrences from the previous year.

Although the complexity and sophistication of attacks continues to increase, many intrusions continue to focus on compromising organisations with poor credential security – exploiting legitimate credentials to gain access and maintain an undetected presence within victims' systems.

Increased use of mobile devices on enterprise networks and storage of credentials on these devices is enabling attackers to continue to diversify their exploitations to include mobile malware – particularly to collect sensitive information.

As expected, cloud-related threats have increased over the past year, with observed cloud exploitation cases growing by 95% in calendar year 2022. Cyber criminals and state adversaries are expected to continue prioritising these targets that provide direct access to large consolidated stores of high-value data.

Cybersecurity market

As the digital economy continues to grow, so does the incidence of cyber attacks and their consequences. The exponential rise in online and mobile engagements is generating countless avenues for attacks, a substantial portion of which result in data breaches posing risks to individuals and enterprises alike. In the scenario of continuing growth rates, the cost of cyberattacks is projected to reach approximately US$10 trillion annually by 2025, representing a 300 percent increase from the losses recorded in 2015.

In the face of the ever increasing threat, 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.

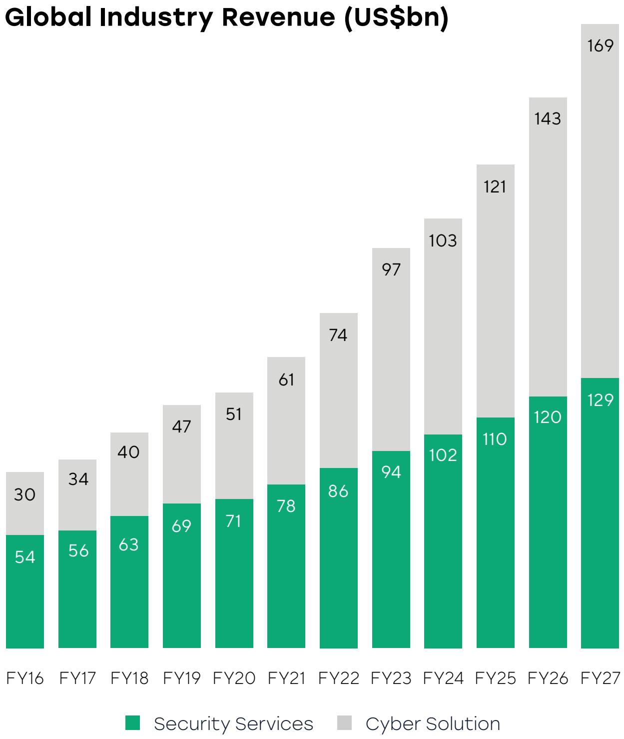
A recent survey published by software provider Coro, identified that approximately 80 percent of the threat groups active in 2021 and over 40 percent of the identified malware were entirely novel. These trends indicate substantial risks within an evolving landscape, and note that existing network and endpoint commercial product solutions need to be strongly supported by security service providers and security architecture providers.

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.

Review of Operations

continued

Global Industry Revenue (US$bn)



Source: IBISWorld, Statista, Fortune Business Insights

Australian Industry Revenue (A$bn)

Source: Statista Market Insights

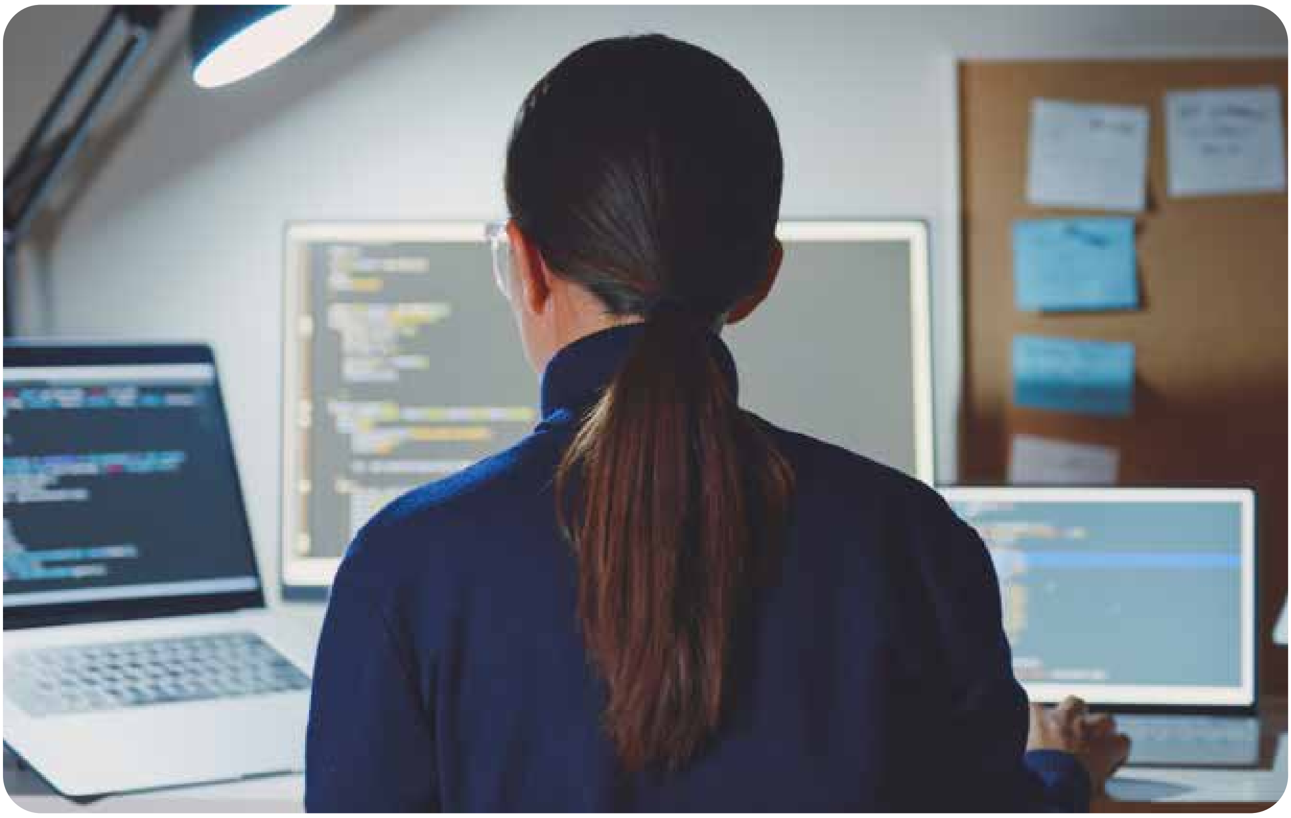
The Global cybersecurity market was valued at US$190 billion in 2023 and is forecast to grow at a 13.5 % compound annual growth rate over 2023-2029*.

At the smaller end of the market, small and midsize enterprises (SMEs) find themselves exposed to a rising number of digital interactions and connections within their ecosystems as attack vectors. Malware, ransomware and immature security architecture can potentially jeopardise the very existence of these small and midmarket organisations, a risk that doesn't always affect larger corporations to the same extent. What might be a manageable breach within a larger organization often represents a significant and disruptive event for a smaller entity.

As one of Australia's largest cybersecurity providers, 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 increased its service offering in the past year, with the introduction of its new Incident Response business, as well as establishing new sales channels for software sales into government clients. Further to this, in March 2023 Tesserent completed the acquisition of the business and assets of the cybersecurity training business ALC Group, and has integrated its business operations into Tesserent Academy which is actively training and engaging new talent into the cybersecurity market.

* Source: IBISWorld, Statista



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

- **60** Federal and State Departments and Agencies
- **30** Local Councils

FINANCIAL

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

CRITICAL INFRASTRUCTURE

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

ENTERPRISE

- Tesserent works with **55** of the S&P/ASX 100
- 50% of the Tier 1 Retail and logistic supply chain organisations

Other market drivers

The shortage of the required human skill sets needed for organisations to employ a suitable level of cyber resilience continues to be a challenge in Aust/NZ and internationally. Tesserent has strategically established itself as a sought-after employer for skilled cybersecurity personnel and is committed to playing a role in addressing the industry-wide challenge of skill development.

Review of Operations

continued

FY23 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 FY23 with growth (versus FY22) in Turnover of 12% (or increase in Statutory Revenue of 15%)

During the full year FY23, the Group reported total **Turnover** of **$185.9m** and **Statutory revenue** of **$130.4m** (*vs. FY22: 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 in the Company's formal Financial Statements (this has no impact on Gross profit or Net profit).

Overall, the Group reported **Operating EBITDA of $14.0m** for the FY23 period, a result which was 14% lower than the FY22 result.

Key observations from the FY23 results (per the adjacent table)

- The Group's underlying earnings were 5% lower in FY23 than the prior year with FY23 **Normalised EBITDA** of **$17.6m** including AASB16 adjustments (*vs. FY22: Normalised EBITDA of $18.6m*).

  The lower Operating EBITDA reflects some issues in the Securities Operations Centre (SOC) network monitoring business as well as underperformance in the ANZ commercial business in the second half of the year, in addition to costs incurred in standing up the new Incident Response and Federal Product sales service offerings
- Interest expense is 3% lower in FY23 as a result of the refinancing of the acquisition debt (completed on 23 June 2022) to a lower interest rate. The full saving in interest resulting from the refinancing has been partially offset by the upsizing of the debt facility from $35m in FY22 to $49m at the end of FY23 in order to fund consideration payment for ALC and deferred consideration payments on Claricent and Pearson acquisitions.
- Depreciation and amortisation costs have increased by 21% in FY23, driven primarily by the increase in amortisation of customer contracts associated with the recent acquisitions and increase in amortisation of right of use assets. During FY23, the depreciation and amortisation costs were spilt into; Depreciation of Property Plant and Equipment ($1.4m); Amortisation of AASB16 Right-of-use assets ($3.6m) and Amortisation of customer contracts associated with the acquisitions ($4.5m).
- Share based payment and option expenses are down 57%, as the valuation of the options issued during FY23 was lower than FY22 and also due to timing – with the Group's new ESOP plan not launched until March 2023.
- Acquisition costs were higher, up 76% as a result of the ALC transaction plus costs associated with the proposed acquisition of Tesserent by Thales.
- There were a number of one-off 'restructuring' costs associated with the operational restructuring of the Group to consolidate the commercial segments into a single ANZ commercial division and to restructure and re-base the SOC into a sustainable operating model, including a write-off of $1.7m of impaired SOC software assets.
- 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 FY23, there were external indicators that compelled a write-down of the TrustGrid and AttackBound minority investments, totalling $0.8m. There was also a write-down of the call option investments relating to AttackBound of $0.5m.

As announced to the market on 22 June 2023, the Group was required to write-off its $3.3m investment in Daltrey Pty Ltd (Daltrey), as a result of Daltrey being placed into liquidation.

Each of the above write-down's and impairments are non-cash accounting expenses in Tesserent's accounts.

Note that the carrying value impairments 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 16 of the financial statements).

Normalised EBITDA and NPAT

Details	*cash v. non-cash expenses*	30 Jun-23 $'000	30 Jun-22 $'000	% change
Turnover		**185,861**	**165,567**	**+12%**
Statutory revenue		130,404	112,977	+15%
Operating EBITDA (as reported in 4C quarterly reporting)		**14,024**	**16,312**	**(14)%**
add impact of AASB16 lease adjustments		3,568	2,241	
Normalised EBITDA		**17,592**	**18,553**	**(5)%**
Net interest expense	*cash*	(3,259)	(3,361)	
Depreciation and amortisation	*non-cash*	(9,472)	(7,841)	
Tax credit / (expense)	*non-cash*	696	2,634	
Normalised NPAT		**5,558**	**9,985**	**(43)%**
Less: One-off costs/non-recurring expenses				
Share based payment and option expenses	*non-cash*	(1,038)	(2,401)	
Acquisition/transaction costs and fair value expense on contingent consideration	*cash*	(2,092)	(1,192)	
Restructuring costs	*cash*	(2,652)	-	
Exit costs on refinancing	*cash*	-	(1,750)	
Loss on carrying value of innovation investments	*non-cash*	(4,612)	(4,027)	
Non-cash interest - amortisation of warrants and facility costs	*non-cash*	-	(9,398)	
Statutory NPAT		**(4,836)**	**(8,783)**	

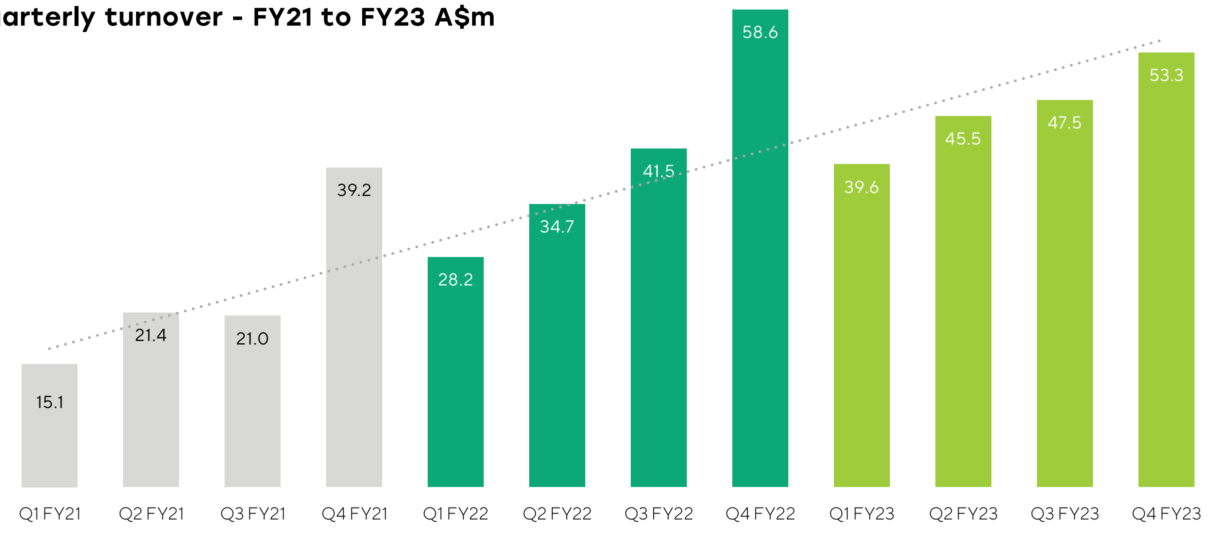
Sum of cash expenses below Normalised NPAT	*(4,744)*	*(2,942)*
Sum of non-cash expenses below Normalised NPAT	*(5,650)*	*(15,827)*

As noted in the TNT's previous ASX quarterly performance announcements, the earnings of the business are highly seasonal, with:

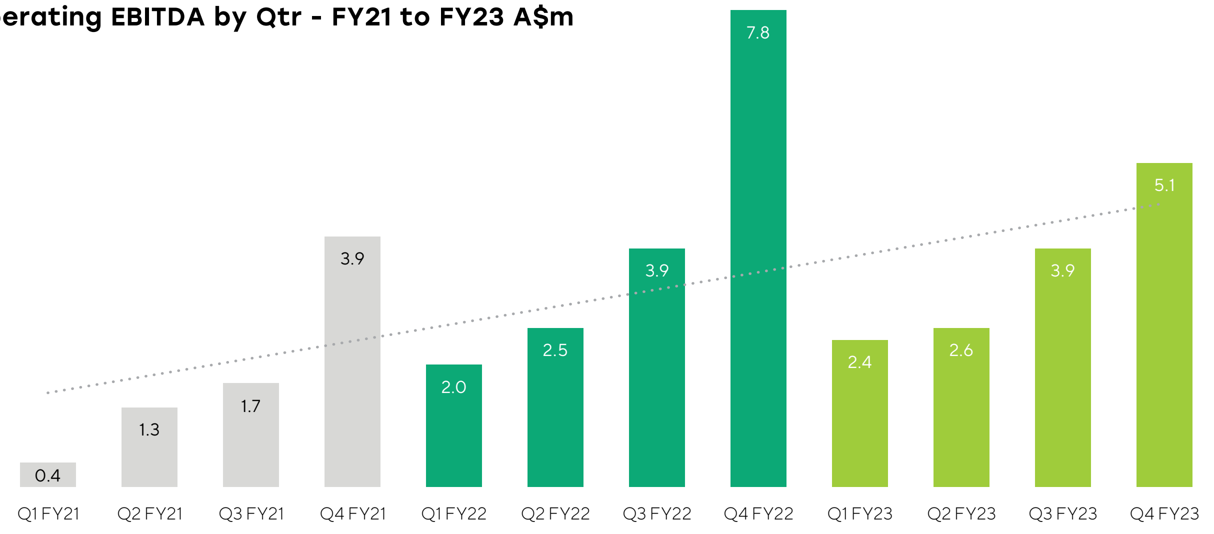
- Turnover in H1/H2 of FY22 reported at 39% / 61% and **H1/H2 of FY23 reported at 46% / 54%**
- Operating EBITDA in H1/H2 of FY22 reported at 28% / 72% and **H1/H2 of FY23 reported at 36% / 64%** as shown below.

Review of Operations
continued

Quarterly turnover - FY21 to FY23 A$m



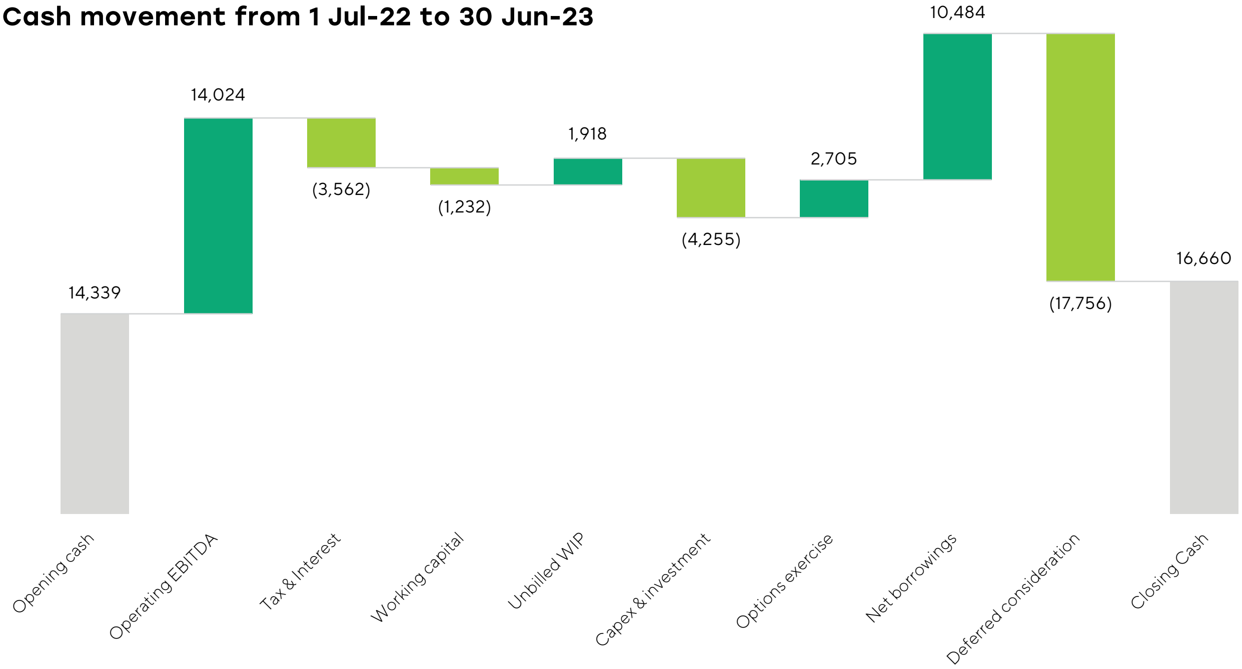
Operating EBITDA by Qtr - FY21 to FY23 A$m



Cashflows

The Group recorded a positive operating cash flow of $10.4m for the year, as a result of strong cash conversion and favourable movements in net working capital. Operating EBITDA to cash conversion was 74% for the full year FY23. As noted previously, operating cashflow fluctuates 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.

Cash movement from 1 Jul-22 to 30 Jun-23



Tesserent's debt facilities with the Commonwealth Bank of Australia (CBA) include a revolving facility which provides the Group flexibility in managing its cash and debt position.

FY23 ACQUISITIONS

In March 2023, Tesserent completed the acquisition of prominent Australian Cybersecurity training business, ALC Training.

ALC provides certified training courses and administers the associated exams across 10 accreditation bodies which will form a core part of Tesserent Academy's offering going forward.

The completion of the acquisition by Tesserent is a key part of the Tesserent Academy's strategy to:

- build a profitable growth business in the Cybersecurity training space in the Australasian market;
- develop a pipeline of high-quality cybersecurity talent for the Tesserent business and to key clients, by delivering foundation training programmes and advanced training programmes to graduates and lateral members entering the Cyber industry; and
- further enhance Tesserent's profile by addressing a talent shortage in the cyber market by providing additional work experience services to bridge the gap between client needs and Cyber talent.

Since the completion of the acquisition, Tesserent has already referred numerous client training requirements into the existing ALC training programmes and has also developed and deployed a new certified CyberSec First Responder training course into the market.

In its first four months since acquisition, ALC delivered a profit of $0.5m to the Group.

Review of Operations

continued

INTEGRATION AND OPERATIONAL RE-ORGANISATION

The FY23 financial year also saw the introduction of a number of new service lines and client offerings by the Group, with Tesserent introducing its new Incident Response business, as well as establishing new sales channels for software sales into government clients.

There were a number of consolidation activities and one-off restructuring costs associated with the operational reorganisation of the Group to consolidate the commercial segments into a single ANZ commercial division and to restructure and re-base the SOC into a sustainable operating model, including a write-off of $1.1m of impaired SOC software assets. The purpose of these restructuring activities has been to consolidate the client service delivery teams and improve the operational efficiency of the SOC operations, as well as changing the basis of a number of historical engagements to improve utilisation and margins on certain services. 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 has strengthened 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, during FY22/23 the group has developed key service lines, with promising cross-selling results to date, as follows:

- **100** clients with **2** service lines
- **47** clients with **3** services lines
- **19** clients with **4** or more services lines
- **97** new client "logos" were added in FY23

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 leveraging the offering to add net new clients.

SCHEME OF ARRANGEMENT FOR TAKEOVER OF TESSERENT BY THALES

On 13 June 2023, Tesserent announced to the market that it had entered into a binding Scheme Implementation Deed (SID) with Thales Australia, a wholly owned subsidiary of Thales (Euronext Paris: HO) under which Thales would acquire 100% of the shares in Tesserent by way of a court approved scheme of arrangement (Share Scheme).

The Share Scheme is subject to shareholder and court approval in accordance with the requirements of Part 5.1 of the Corporations Act 2001 (Cth) and under the proposed Share Scheme, Tesserent shareholders will receive **$0.13 per share** in cash,subject to all applicable conditions being satisfied and the Share Scheme being implemented.

The cash consideration of $0.13 per share values Tesserent's equity at $176m and implies an **enterprise value for the business of $232m** (up 35 times from $6.6 million as at 31 December 2019). The offer price of $0.13 per share also represents a significant premium of 165.3% to the pre-announcement closing price of $0.049 per share and 157.4% to the 1-month volume weighted average price (VWAP) of $0.0505 per share.

The bid from Thales was carefully considered and is fully supported by the Tesserent Board on the basis that it delivers certainty of value and provides opportunity for shareholders to realise their investment in full for cash.

Furthermore, the Share Scheme is expected to enhance outcomes for the Group's customers, suppliers, and staff. Tesserent's customers are expected to benefit from Thales' enhanced product suite, global service capabilities and the acceleration of Tesserent's existing growth and customer service strategy. As a result of the Share Scheme, Tesserent staff are further expected to have increased opportunities to develop new skillsets and access to new networks including international mobility to further advance and grow their careers.

The proposed transaction also provides for a separate and concurrent scheme of arrangement between Tesserent and its option and warrant holders under which each holder will receive cash for each instrument held in accordance with an agreed valuation methodology (Option Scheme).

The Share Scheme is subject to FIRB and shareholder approval and other customary conditions for a transaction of this nature.

The Tesserent Board recommends that Tesserent option and warrant holders vote in favour of the Option Scheme at the Option Scheme meeting in the absence of a Superior Proposal and following the Independent Expert concluding that the Option Scheme is in the best interests of holders.

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.

Key goals for the FY24 financial year include:

- Fostering innovation across the Group and expanding proprietary intellectual property to drive high-margin product and service offerings.
- Conducting comprehensive cybersecurity assessments for clients to identify vulnerabilities and risks in their IT systems and networks.
- Providing expert advice and guidance to clients on developing effective cybersecurity strategies and policies.
- Building out high-value recurring annuity revenue streams via Managed Security Operations Centre (SOC) and Managed Detection and Response (MDR).
- Assisting clients in creating and implementing incident response plans to effectively handle cyber incidents and minimise damage.
- Enhancing cyber capabilities and consulting practices to support the Federal Government's Defence strategy.
- Assisting clients in identifying, assessing, and mitigating cybersecurity risks to protect their assets and data.
- Helping clients establish plans and procedures to maintain business operations during and after cyber incidents.
- Investing in advanced threat intelligence capabilities to proactively identify and mitigate emerging cyber threats.
- Cybersecurity Awareness and Education: Promoting cybersecurity awareness and education among employees, clients, and the public to reduce human-related risks and improve overall cybersecurity hygiene.

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 500 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

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.

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.

The Group's Corporate Governance Statement is available on the Company's website at: https://investors.tesserent.com/site/about/corporate-governance

The Directors of Tesserent Limited (the "Company") submit the Directors' Report on the Company for the financial year ended 30 June 2023

Directors' Report

for the year ended 30 June 2023

The Directors of Tesserent Limited (the "Company") submit herewith the Directors' Report on the Company for the financial year ended 30 June 2023.

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:	108,241,456 ordinary shares 4,000,000 share options exercisable at $0.15 expiring 18 November 2026 6,000,000 5 year call options exercisable at $0.25 expiring 16 September 2025

DIRECTORS (CONTINUED)

Kurt Hansen	Chief Executive Officer (Appointed 12 December 2019)
Qualifications:	Grad. Dip. Engineering
Experience:	Kurt has over 30 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:	10,898,000 ordinary shares 20,000,000 share options exercisable at $0.15, expiring 18 November 2026

Directors' Report

for the year ended 30 June 2023

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 exercisable at $0.248, expiring 21 November 2025 2,000,000 share options exercisable at $0.15, expiring 18 November 2026

DIRECTORS (CONTINUED)

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 exercisable at $0.2136, expiring 6 July 2026 2,000,000 share options exercisable at $0.15, expiring 18 November 2026

Directors' Report

for the year ended 30 June 2023

DIRECTORS (CONTINUED)

Tony Sheehan	Non-Executive Director (Appointed 27 January 2023)
Qualifications:	Bachelor of Arts (BA)
Experience:	Mr Sheehan currently works as a private consultant and non-executive director having left government employment after 32 years of service. Most recently, he worked at the Department of Foreign Affairs and Trade (DFAT) as Deputy Secretary with responsibilities including International Security. Before that, he was Commonwealth Counter-Terrorism Coordinator and Chair of the Australia-New Zealand Counter Terrorism Committee. Prior to this he was Deputy Director-General of the Australian Security Intelligence Organisation (ASIO). This followed several years as Deputy Secretary in the Attorney-General's Department. Mr Sheehan also served as First Assistant Secretary Homeland and Border Security in the Department of the Prime Minister and Cabinet. Before this, he spent 19 years at DFAT. He had overseas postings to Taipei, Beijing and Jakarta. Tony is also a Non-Executive Director of Australian Volunteers International.
Interests in shares and options:	Nil

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.

MEETINGS OF DIRECTORS

The following table sets out the number of meetings of the Company's Directors during the year ended 30 June 2023 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	16	16	*5 (by invitation)*	–
Kurt Hansen	16	16	*5 (by invitation)*	4
Gregory Baxter	16	14	5	5
Megan Haas	16	16	5	5
Tony Sheehan (appointed 27 January 2023)	10	10	*3 (by invitation)*	3

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 $4.8m for the year ended 30 June 2023 (2022: $8.8m loss). The Group incurred significant one-off expenses (cash and non-cash costs) in respect of the restructuring of the business and impairment of non-controlling investments, plus non-operating acquisition costs in respect of acquisition and takeover activity during the year.

The acquisitions resulted in an increase in total assets to $253.8m including Goodwill of $135.8m and net Intangible assets (including acquired Customer contracts and relationships) of $36.5m.

During the year the Group issued equity of $10.9m after costs, comprising $6.1m of shares issued as consideration for acquisitions, plus $4.8m relating to shares issued on exercise of options and warrants. The Group also drew down a further $14m of debt from its CBA facility to make the ALC acquisition payment and deferred consideration payments on the three acquisitions made in 2022.

As a result of the acquisitions and the equity, the Group's net assets at 30 June 2023 were $121.9m.

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

Directors' Report

for the year ended 30 June 2023

CLOSING SHARE PRICE

	Closing share price $
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
30 June 2023	0.120

NET TANGIBLE ASSETS PER SHARE

Net tangible assets per ordinary share ($)	30-Jun-23	30-Jun-22
Net tangible assets per share	(0.03)	(0.05)

DIVIDENDS

No dividend has been proposed to be paid or is payable for the financial year ended 30 June 2023, nor for the comparative period.

CONTROL GAINED OVER ENTITES DURING THE FINANCIAL YEAR

Whilst there were no transactions during the financial year ended 30 June 2023 where Tesserent took an interest in the equity of another business, in March 2023 Tesserent acquired the business and assets of ALC Training, an Australian cybersecurity training business.

ALC provides certified training courses and administers the associated exams across 10 accreditation bodies which will form a core part of Tesserent Academy's offering going forward.

SIGNIFICANT CHANGE IN STATE OF AFFAIRS

During FY23, Tesserent has continued with its Business unit integration strategy to drive the consolidation of businesses acquired over the previous two and a half years. The reorganisation resulted in an integration of existing service offerings with current and prospective customers into new ANZ Commercial, SOC, Cloud and Federal divisions, plus the introduction of the new Incident Response service offering and the integration of the ALC training business into Tesserent Academy. The business has continued to focus on identifying 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.

On 29 July 2022, Tesserent announced the appointment of a new General Counsel and Company Secretary, Paul Taylor, to strengthen the senior leadership team and help the board manage the commercial risk and contractual matters that arise in normal business operations. Paul was also appointed as the person responsible for communications with the ASX, pursuant to Listing Rule 12.6, effective from the date of his appointment.

On 20 December 2022, the Group announced that the State Library of Queensland awarded a significant contract to Tesserent for the delivery of a secure digital archiving solution. The service provided by Tesserent's Cloud business is to support the storage, preservation, and access to Queensland's unique library collection and is worth approximately $3 million over 5 years.

On 27 January 2023, Tesserent announced the appointment of Mr Tony Sheehan as an Independent, Non-Executive Director of the Group. Mr Sheehan has held the positions of Deputy Director-General ASIO, Deputy Secretary and COO of the Attorney-General's Department and head of Homeland and Border Security Division at the Department of the Prime Minister and Cabinet and is assisting the Group in its strategy to engage Federal Government, which is the fastest growing area of the Tesserent Group.

On 24 February 2023, the Group launched a new Employee Share Option Plan (ESOP) in order to engage key employees as a long term incentive and align their interests with the Tesserent shareholders. The offer of share options to eligible employees was made under a Prospectus which was disclosed to the market in accordance with the ASX listing rules and Part 6D.2 of the *Corporations Act 2001* (Cth) (Corporations Act).

SIGNIFICANT CHANGE IN STATE OF AFFAIRS (CONTINUED)

The options issued under the new ESOP plan were issued at an excersie price of $0.15 and have an grant date of 13 March 2023, a vesting date of 13 September 2024 and an expiry date of 13 August 2026. The valuation and cost of issuing options under the ESOP scheme was $0.021 per option, determined using a Black-Scholes Pricing model (also detailed in Note 24 to the financial statements).

On 22 March 2023, Tesserent announced the completion of an acquisition of the business and assets of ALC Training, an Australian cybersecurity training business. The completion of the acquisition by Tesserent is a key part of Tesserent Academy's strategy to develop a pipeline of high-quality cybersecurity talent to the Tesserent business and to key clients, by delivering foundation training programmes and advanced training programmes to graduates and lateral members entering the Cyber industry.

On 13 June 2023, the Group announced that it had entered into a Scheme Implementation Deed (SID) with Thales Australia Holdings Pty Ltd (Thales Australia), a wholly owned subsidiary of Thales, under which it is proposed that Thales Australia will acquire 100% of the share capital in Tesserent by way of a scheme of arrangement for $0.13 per share in cash.

The offer of cash consideration of $0.13 per share represents a significant premium of 165.3% to the last closing price on 12 June 2023 of $0.049 per share and 157.4% to the 1 month volume weighted average price (VWAP) of $0.0505 per share. On consideration of the offer and alternative options, the Board recommends that Tesserent shareholders vote in favour of the Share Scheme in the absence of a superior proposal and subject to the Independent Expert concluding that the Share Scheme is in the best interests of Tesserent shareholders.

On 22 June 2023, Tesserent announced that its minority investment in Daltrey Pty Ltd (Daltrey) was impaired and needed to be written-off as a result of Daltrey being placed into liquidation. Daltrey appointed Administrators to explore the prospect of a sale of the business and/ or a Deed of Company Arrangement, however the most recent Administrators' report to Creditors identified that there were no credible bidders for the assets and thus all unsecured creditors, including Tesserent, are unlikely to recover any proceeds from the liquidation. Accordingly, Tesserent's $3.298 million investment in Daltrey has been written off as a non-cash accounting loss.

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
- Conducting comprehensive cybersecurity assessments for clients to identify vulnerabilities and risks in their IT systems and networks.
- Providing expert advice and guidance to clients on developing effective cybersecurity strategies and policies.
- Building out high-value recurring annuity revenue streams via Managed Security Operations Centre (SOC) and Managed Detection and Response (MDR).
- Assisting clients in creating and implementing incident response plans to effectively handle cyber incidents and minimize damage.
- Assisting clients in identifying, assessing, and mitigating cybersecurity risks to protect their assets and data.
- Helping clients establish plans and procedures to maintain business operations during and after cyber incidents.
- Investing in advanced threat intelligence capabilities to proactively identify and mitigate emerging cyber threats.
- Promoting cybersecurity awareness and education among employees, clients, and the public to reduce human-related risks and improve overall cybersecurity hygiene.

Directors' Report

for the year ended 30 June 2023

RISK FACTORS RELATING TO THE BUSINESS AND OPERATIONS OF THE GROUP

The future operating performance of Tesserent and the value of an investment in Tesserent Securities may be affected by risks relating to Tesserent's business. Some of these risks are specific to Tesserent while others relate to economic conditions and the general industry and markets in which Tesserent operates.

In accordance with reporting requirements, the Directors outline below some general and specific risks relating to the business and operations of the Group.

General risks associated with the business and the market valuation of the Group

- changes in investor sentiment and the overall performance of the global and Australian securities market;
- changes in general business and industry cycles as well as economic conditions including inflation, interest rates, exchange rates, employment, credit markets, consumer confidence and demand, housing prices and turnover and other industry specific factors;
- changes in fiscal, monetary, taxation, employment and regulatory policies;
- weather conditions, natural disasters, pandemics generally including any resurgence of COVID-19, terrorism and international conflicts;
- the proposed transaction with Thales is subject to approval by the Foreign Investment Review Board (FIRB); and
- changes in laws and regulations including accounting and financial reporting standards.

Specific risks associated with the business and the market valuation of the Group

Key personnel	Tesserent's success to an extent depends on its key personnel. The directors and management have extensive experience and knowledge in, and knowledge of, Tesserent's business and the cyber security industry. There is a risk that Tesserent may not be able to attract and retain key staff or be able to find suitable staff in a timely manner and this could impact Tesserent's ability to operate its business and achieve its growth strategies.
Technology risks	There is a risk that, as marketable technologies continue to develop, in the cyber security industry, there may be certain information technology and product developments that supersede, or diminish, the existing service and product offering of Tesserent. This would negatively affect Tesserent profitability if Tesserent were not able to respond to these developments.
Cyber security breaches	There is a risk that suppliers or clients could be hacked or breached, which could result in losses being suffered by suppliers and clients. Hacking of a client or supplier, and their systems, could lead to a claim against Tesserent. It could also hinder Tesserent's ability to retain clients and suppliers, or attract new ones, which could have an adverse impact on Tesserent's reputation and growth. To some extent, this risk is mitigated through contractual arrangements Tesserent has entered into with its clients and suppliers which may include limitation of liability clauses and maximum liability caps.
New clients and suppliers	Tesserent's underlying growth depends on acquiring new customers and suppliers through the execution of business development, account management and marketing strategies in multiple jurisdictions. Should the acquisition of new customers or suppliers slow, this may have an impact on the financial performance of Tesserent.
Acquisitions	Tesserent may pursue acquisitions or joint ventures that could present integration obstacles or costs. Tesserent may not realise any of the benefits it anticipates and Tesserent may be exposed to additional liabilities of any acquired business, which could materially adversely Tesserent's revenue and results of operations.

RISK FACTORS RELATING TO THE BUSINESS AND OPERATIONS OF THE GROUP (CONTINUED)

Liability and insurance risk	Tesserent's insurance arrangements may not be adequate to protect Tesserent against liability for losses relating to public liability, property damage, product liability, business interruption, data breach liability and other risks that may arise in the course of operations.
Reputation & Market	Tesserent's reputation is important. If Tesserent's reputation is harmed or, the reputation of the cyber security industry and/ or professional services consulting industries are harmed as a whole, Tesserent's business, financial condition and results of operations and cash flow may be materially adversely affected. This may include a reduction in Federal Government spending on external consulting services such as those provided by Tesserent and the associated impact to revenue.
Debt Facility	If Tesserent does not meet its revenue and margin targets, it may breach its financial covenants under its debt facility with the Commonwealth Bank of Australia.
Capital structure	Changes in the capital structure of Tesserent, for example from the raising of further debt or the issue of further equity to repay or refinance debt facilities or to fund the acquisition of assets, may affect the value of, and returns from, an investment in Tesserent Securities.
Force majeure events	Events may occur within or outside Australia that could impact upon the Australian economy, the operations of Tesserent and the price or value of Tesserent Securities. The events include but are not limited to acts of terrorism, an outbreak of international hostilities, fires, floods, earthquakes, labour strikes, civil wars, natural disasters, outbreaks of disease or other natural or man-made events or occurrences that can have an adverse effect on the demand for Tesserent's products and its ability to conduct business, and on Tesserent's business and earnings. Tesserent has only a limited ability to insure against some of these risks.
Litigation and legal disputes	From time to time, Tesserent may be involved in disputes and/or litigation claims, including with clients or suppliers, industrial action or disputes involving Tesserent's executives and employees or former executives or employees, or relating to matters such as privacy breaches, product liability, intellectual property, contractual, workplace health and safety, or other claims arising in the ordinary course of Tesserent's business. If Tesserent is involved in such litigation, disputes or protracted settlement negotiations, this may disrupt Tesserent's business operations, cause Tesserent to incur significant legal costs and may divert management's attention away from the day-to-day operations of the business.
Taxation	In addition to the corporate income taxation imposed on Tesserent, Tesserent is required to pay direct and indirect taxes and other imposts in the jurisdictions in which Tesserent operates. Tesserent may be affected by changes in government taxation policies or in the interpretation or application of such policies under Australian and overseas laws and the outcome of tax audits.

Where practicable, Tesserent seeks to implement risk mitigation strategies to minimise its exposure to some of the risks outlined above. However, there can be no assurance that such strategies will protect Tesserent from these risks. Other risks are beyond Tesserent's control and cannot be mitigated. The occurrence of any such risks could adversely affect Tesserent's financial position and performance and the value of Tesserent Securities.

Directors' Report

for the year ended 30 June 2023

AFTER BALANCE DATE EVENTS

The Company notes the following subsequent event, following 30 June 2023 reporting date.

On 15 August 2023, the Scheme Booklet for the scheme of arrangement between Tesserent and its shareholders for the acquisition by Thales Australia, was registered with ASIC.

The Scheme Booklet containing information about the Share Scheme and the Option Scheme, the independent expert's report, the notice convening the meeting of Tesserent shareholders to consider and vote on the Share Scheme and the notice convening the meeting of the holders of Tesserent Options to consider and vote on the Option Scheme has been sent to security holders and is also available for viewing and downloading at: https://investors.tesserent.com/site/investor-information/generalmeetings

The Share Scheme Meeting will be held at 10.00am (Melbourne time) on Monday, 18 September 2023 as a virtual (online only) meeting conducted on the online platform at: https://meetnow.global/M6PYRPY

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.

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

As at 30 June 2023 the Company had shares under option and warrants as follows: -

Description	Date of Expiry	Exercise Price	Number on issue	Number escrowed
Employee Options	2 Nov 2023	$0.28	13,711,996	Nil
Employee Options	2 Nov 2023	$0.35	12,961,996	Nil
Acquisition Warrants	18 Sep 2024	$0.12	18,083,334	Nil
Employee Options	31 Jan 2025	$0.28	6,400,000	Nil
Acquisition Warrants	12 Apr 2025	$0.240	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
Employee Options	16 Aug 2026	$0.15	58,900,000	Nil
Director Options	18 Nov 2026	$0.15	28,000,000	Nil
			195,501,771	

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

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of the Court under Section 327 of the *Corporations Act 2001* to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any proceedings during the year.

Directors' Report

for the year ended 30 June 2023

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 Key Management Personnel (KMP) has 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

All remuneration and options 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 certain objectives are achieved. The achievement of the Group's budgeted Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) is a key factor for KMP to realise a STI amount.

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 18 November 2022 Annual General Meeting ('AGM')

At the 18 November 2022 AGM, 72.4% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2022. 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	Chief Executive Officer and Director
Tony Sheehan[1]	Non-Executive Director

Other Key Management Personnel	Position
James Jones	Chief Financial Officer
George Katavic	Managing Partner, Tesserent Federal
Chris Hagios[2]	Managing Partner, Tesserent Defend
Craig Humphreys	Managing Partner, Tesserent Cloud

1 Appointed 23 January 2023.
2 Resigned 30 November 2022.

Directors' Report

for the year ended 30 June 2023

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):	$546,724 per annum (including superannuation) from 1 July 2022
Short Term Incentive (STI) for FY23:	Short term incentive of up to $150,000 per annum based on agreed KPI's and subject to performance
Long Term Incentive (LTI):	Share Options issued with vesting conditions – 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 month	1 month
C Hagios	No fixed term	Resigned 30 Nov 2022	n/a
C Humphreys	No fixed term	1 month	1 month

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.

REMUNERATION REPORT (AUDITED) (CONTINUED)

Details of Remuneration for the year ended 30 June 2023

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 2023	**Salary and Fees $**	**Bonus $**	**Leave Entitlements $**	**Superannuation $**	**Shares $**	**Options $**	**Total $**
Directors							
G Lord	67,873	–	–	7.127	–	275,453	350,453
G Baxter	33,937	–	–	3.563	–	137.727	175,227
M Haas	33,937	–	–	3,563	–	27,345	64,845
T Sheehan[1]	8,056	–	–	846	–	–	8.902
Subtotal	**143,803**	**–**	**–**	**15,099**	**–**	**440,525**	**599,427**
Executive Directors							
K Hansen	521,863	160,000	73,323	25,292	–	273,447	1,053,925
Subtotal	**521,863**	**160,000**	**73,323**	**25,292**	**–**	**273,447**	**1,053,925**
Other KMPs							
J Jones	406,863	159,000	24,791	25,292	–	51,078	667,024
G Katavic[2]	454,708	358,380	(12,001)	25,292	–	–	826,379
C Hagios[3]	154,540	190,000	27,307	12,646	–	–	384,493
C Humphreys	376,432	110,000	87,717	25,292	–	–	599,441
Subtotal	**1,392,543**	**817,380**	**127,814**	**88,522**	**–**	**51,078**	**2,477,337**
Total	**2,058,209**	**977,380**	**201,137**	**128,913**	**–**	**765,050**	**4,130,689**

1 Appointed 23 January 2023.
2 Negative leave represents approved annual leave taken over and above the outstanding balance.
3 Resigned on 30 November 2022. Salary and fees include a long service leave payout of $140,796 and annual leave payment of $287,393.

Directors' Report

for the year ended 30 June 2023

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[2]	–	–	–	–	–	–	–
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[5]	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 include 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.
5 At the end of FY22, D Singh's role was changed and as a result he was no longer classified as a KMP in FY23.

REMUNERATION REPORT (AUDITED) (CONTINUED)

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

	2023			2022		
	Fixed remuneration	Weighting (% of total REM) - STI	Weighting (% of total REM) - LTI	Fixed remuneration	Weighting (% of total REM) - STI	Weighting (% of total REM) - LTI
Non-Executive Directors						
G Lord	21%	–	79%	–	–	100%
G Baxter	21%	–	79%	–	–	100%
M Haas	58%	–	42%	–	–	–
T Sheehan	100%	–	–	n/a	n/a	n/a
Executive Directors						
K Hansen	59%	15%	26%	80%	20%	–
J Challingsworth	n/a	n/a	n/a	100%	–	–
Other KMPs						
J Jones	69%	24%	7%	72%	14%	14%
G Katavic	57%	43%	–	63%	37%	–
C Hagios	51%	49%	–	57%	43%	–
C Humphreys	82%	18%	–	63%	37%	–
D Singh	n/a	n/a	n/a	70%	30%	–
P Butler	n/a	n/a	n/a	100%	–	–

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 Lord	18 Nov-22	4,000,000	18 Nov-24	18 Nov-26	$0.15	$0.045	–
G Baxter	16 Sep-20	3,000,000	16 Sep-25	16 Sep-25	$0.25	$0.107	–
G Baxter	18 Nov-22	2,000,000	18 Nov-24	18 Nov-26	$0.15	$0.045	–
M Haas	18 Nov-22	2,000,000	18 Nov-24	18 Nov-26	$0.15	$0.045	–
K Hansen	18 Nov-22	20,000,000	18 Nov-24	18 Nov-26	$0.15	$0.045	–
J Jones	13 Mar-23	12,000,000	13 Sep-24	16 Aug-26	$0.15	$0.021	–

No performance rights were contracted during the year ended 30 June 2023. The options carry no dividends or voting rights. The options will vest if the option holder remains employed by the company at the relevant vesting date.

Directors' Report

for the year ended 30 June 2023

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 FY2023.

Year ended 30 June 2023	Balance at 1 July 2022	Granted during the year	Other change	Exercised	Lapsed/ forfeited during the year	Balance at 30 June 2023
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 Lord	–	4,000,000	–	–	–	4,000,000
G Baxter	3,000,000	–	–	–	–	3,000,000
G Baxter	–	2,000,000	–	–	–	2,000,000
M Haas	3,000,000	–	–	–	–	3,000,000
M Haas	–	2,000,000	–	–	–	2,000,000
K Hansen	–	20,000,000	–	–	–	20,000,000
J Jones	1,000,000	–	–	–	–	1,000,000
J Jones	–	12,000,000	–	–	–	12,000,000

The total value of options that were granted during the year ended 30 June 2023 is as follows:

KMP	No of options	Value per option at grant date	Total value of options granted during the year $
G Lord	4,000,000	$0.0446	178,473
G Baxter	2,000,000	$0.0446	89,236
M Haas	2,000,000	$0.0446	89,236
K Hansen	20,000,000	$0.0446	892,364
J Jones	12,000,000	$0.0215	257,731

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.

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-19	30-Jun-20	30-Jun-21	30-Jun-22	30-Jun-23
Statutory revenue - external customer sales	5,260	20,223	67,389	112,977	**130,404**
Earnings before interest, tax, depreciation and amortisation (EBITDA)	(3,843)	(5,020)	189	9,183	**7,197**
Loss after income tax	(4,373)	(7,312)	(4,533)	(8,783)	**(4,836)**
Basic loss per share (cents)	(2.90)	(2.02)	(0.52)	(0.73)	**(0.36)**
Share price at financial year end (cents)	4.5	8.0	23.5	10.5	**12.0**

E. Additional Information in relation to key management personnel shareholdings

Ordinary shares held in Tesserent Limited (number) as at 30 June 2023

	Balance 1 July 2022	Issued on exercise of options during the year	On-market changes	Balance 30 June 2023
Non-Executive Directors				
G Lord	99,258,956	8,882,500	100,000	108,241,456
G Baxter	5,620,327	–	–	5,620,327
M Haas	281,636	–	–	281,636
Executive Directors				
K Hansen	13,398,000	–	(2,500,000)	10,898,000
Other KMPs				
G Katavic	7,945,800	–	–	7,945,800
C Hagios	9,426,577	–	(550,000)	8,876,577
C Humphreys	20,410,431	–	–	20,410,431
Total	**156,341,727**	**8,882,500**	**(2,950,000)**	**162,274,227**

Directors' Report

for the year ended 30 June 2023

REMUNERATION REPORT (AUDITED) (CONTINUED)

Share Options and performance rights held in Tesserent Limited (number) as at 30 June 2023

	Balance 1 July 2022	Granted as payment for remuneration	Options/ rights converted	Balance 30 June 2023	Vested and exercisable
Non-Executive Directors					
G Lord	14,882,500	4,000,000	(8,882,500)	10,000,000	–
G Baxter	3,000,000	2,000,000	–	5,000,000	–
M Haas	3,000,000	2,000,000	–	5,000,000	3,000,000
Executive Directors					
K Hansen	–	20,000,000	–	20,000,000	–
Other KMPs					
J Jones	1,000,000	12,000,000	–	13,000,000	1,000,000
Total	**21,882,500**	**40,000,000**	**(8,882,500)**	**53,000,000**	**4,000,000**

F. Loans from/to KMP

There were no loan balances with Key Management Personnel as at 30 June 2023.

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 $206,672 being professional services and software subscriptions and support to Belgravia Group Pty Ltd and two of its subsidiaries. There were no other transactions with Key Management Personnel for the year ended 30 June 2023.

This concludes the Remuneration Report which was approved by the Board on 29 August 2023 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 34 of the financial statements:

	2023 $	2022 $
Corporate and indirect tax services	**93,513**	103,900
Due diligence services	**–**	35,000
Total	**93,513**	**138,900**

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 (including Independence Standards) 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 40 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://www.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 2023

Auditors Independence Declaration

for the year ended 30 June 2023

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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 2023, 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 2023

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2023

	Note	2023 $'000	2022 $'000
Revenue	4	**130,404**	112,977
Other income	5	**157**	526
Fair value gain on investment held at fair value through profit or loss		**–**	597
Expenses			
Software licence and connectivity fees		**(12,494)**	(13,526)
Employee benefits expense		**(73,570)**	(59,884)
Operating expenses	6	**(27,732)**	(21,358)
Business acquisition costs		**(831)**	(592)
Share option expense		**(1,038)**	(2,401)
Depreciation and amortisation expense	6	**(9,472)**	(7,841)
Finance costs	6	**(3,306)**	(5,439)
Fair value loss on contingent consideration		**(1,261)**	(600)
Impairment of receivables		**(26)**	(199)
Impairment of financial instruments	6	**(4,545)**	(4,104)
Impairment of software intellectual property	6	**(1,751)**	–
Share of loss of equity accounted associates		**(67)**	(322)
Debt facility unamortised warrants write-off expense	6	**–**	(7,501)
Debt facility exit fee	6	**–**	(1,750)
Loss before income tax benefit		**(5,532)**	(11,417)
Income tax benefit	7	**696**	2,634
Loss after income tax benefit for the year		**(4,836)**	(8,783)
Other comprehensive income for the year, net of tax		**–**	–
Total comprehensive income for the year		**(4,836)**	(8,783)
		Cents	**Cents**
Basic loss per share	35	**(0.36)**	(0.73)
Diluted loss per share	35	**(0.36)**	(0.73)

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 2023

	Note	2023 $'000	2022 $'000
Assets			
Current assets			
Cash and cash equivalents		**16,660**	14,339
Trade and other receivables	9	**31,060**	32,082
Contract assets	10	**18,157**	13,190
Prepayments		**1,127**	1,751
Inventories		**54**	104
Lease asset receivables		**276**	265
Financial assets at fair value through profit or loss	11	**–**	500
Total current assets		**67,334**	62,231
Non-current assets			
Contract assets	10	**5,915**	3,041
Property, plant and equipment	13	**3,476**	3,317
Intangibles	14	**36,504**	39,854
Goodwill	15	**135,820**	129,635
Right-of-use assets	12	**4,532**	6,129
Lease asset receivables		**38**	296
Investments in equity accounted associates	16	**43**	941
Financial assets at fair value through profit or loss	11	**84**	2,298
Other assets		**88**	790
Total non-current assets		**186,500**	186,301
Total assets		**253,834**	248,532
Liabilities			
Current liabilities			
Trade and other payables	17	**32,415**	35,853
Contract liabilities	18	**16,930**	11,313
Lease liabilities	19	**3,151**	3,110
Provisions	20	**4,789**	4,119
Income tax payable		**(19)**	233
Deferred settlement liabilities	21	**10,415**	23,600
Borrowings	22	**227**	–
Total current liabilities		**67,908**	78,228

Consolidated Statement of Financial Position

as at 30 June 2023

	Note	2023 $'000	2022 $'000
Non-current liabilities			
Contract liabilities	18	4,198	2,285
Lease liabilities	19	1,742	3,516
Borrowings	22	49,307	34,473
Provisions	20	700	1,027
Deferred settlement liabilities	21	2,337	5,485
Deferred tax liability	7	5,716	6,524
Total non-current liabilities		64,000	53,310
Total liabilities		131,908	131,538
Net assets		121,926	116,994
Equity			
Contributed equity	23	149,525	138,666
Reserves	24	11,960	13,145
Accumulated losses		(39,559)	(34,817)
Total equity		121,926	116,994

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 2023

	Contributed equity $'000	Share based payment reserve $'000	Foreign currency translation reserve $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2021	**102,992**	**11,170**	**13**	**(26,198)**	**87,977**
Loss after income tax benefit for the year	–	–	–	(8,783)	(8,783)
Other comprehensive income for the year, net of tax	–	–	–	–	–
Total comprehensive loss for the year	–	–	–	(8,783)	(8,783)
Issue of shares	738	–	–	–	738
Shares issued or accrued as part of business combinations	10,669	–	–	–	10,669
Options issued	–	2,401	–	–	2,401
Options forfeited	–	(164)	–	164	–
Contributions of equity, net of transaction costs (Note 23)	128	(128)	–	–	–
Deferred tax	412	–	–	–	412
Translation of foreign operations	–	–	(48)	–	(48)
Balance at 30 June 2022	**138,666**	**13,180**	**(35)**	**(34,817)**	**116,994**
Balance at 1 July 2022	**138,666**	**13,180**	**(35)**	**(34,723)**	**117,088**
Loss after income tax benefit for the year	–	–	–	(4,836)	(4,836)
Other comprehensive income for the year, net of tax	–	–	–	–	–
Total comprehensive loss for the year	–	–	–	(4,836)	(4,836)
Issue of shares	2,705	–	–	–	2,705
Shares issued or accrued as part of business combinations	6,043	–	–	–	6,043
Options issued	–	940	–	–	940
Options forfeited	–	(15)	–	–	(15)
Warrants exercised	2,111	(2,111)	–	–	–
Translation of foreign operations	–	–	1	–	1
Balance at 30 June 2023	**149,525**	**11,994**	**(34)**	**(39,559)**	**121,926**

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 2023

	Note	2023 $'000	2022 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		**195,366**	167,984
Payments to suppliers and employees (inclusive of GST)		**(181,077)**	(151,659)
Interest received		**1**	31
Other revenue		**156**	495
Interest and other finance costs paid		**(3,305)**	(3,543)
Income taxes paid		**(745)**	(1,520)
Net cash from operating activities	**8**	**10,396**	11,790
Cash flows from investing activities			
Payment for purchase of business, net of cash acquired	**32**	**(1,109)**	(13,990)
Final payments for prior period's business acquisition		**-**	(11,433)
Payment for investment in Daltrey		**(1,000)**	(3,200)
Payments for property, plant and equipment	**13**	**(1,538)**	(2,518)
Payments for intangibles	**14**	**(1,659)**	(924)
Payment for deferred settlement liabilities		**(16,648)**	-
Proceeds from release of security deposits		**702**	63
Net cash used in investing activities		**(21,252)**	(32,002)
Cash flows from financing activities			
Proceeds from issue of shares	**23**	**2,705**	25,738
Proceeds from borrowings		**14,000**	35,000
Repayment of borrowings		**(1,015)**	(35,000)
Transaction costs on borrowings		**-**	(527)
Repayment of lease liabilities		**(2,513)**	(2,398)
Share issue transaction costs		**-**	(1,372)
Interest and other finance costs paid		**-**	(1,750)
Net cash from financing activities		**13,177**	19,691
Net increase/(decrease) in cash and cash equivalents		**2,321**	(521)
Cash and cash equivalents at the beginning of the financial year		**14,339**	14,860
Cash and cash equivalents at the end of the financial year		**16,660**	14,339

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 2023

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements were authorised for issue by the Directors on 30 August 2023.

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 2023. The Company is a company limited by shares that are publicly traded on the Australian Securities 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 2023 the Group made a net loss of $4.8m (2022: $8.8m) and had cash inflows from operations of $10.4m (2022: $11.8m).

As at that date the consolidated entity had net current liabilities of $0.6m (2022: Net current liabilities of $16.0m). The directors believe there are reasonable grounds to conclude that the Group will continue as going concern based on the following:

- The Group has $16.7m of cash and cash equivalents at 30 June 2023 (2022: $14.3m)
- The Group has access to $8.3m of unused facilities at 30 June 2023

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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Tesserent Limited ('company' or 'parent entity') as at 30 June 2023 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.

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)

Notes to the Consolidated Financial Statements

for the year ended 30 June 2023

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2023

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

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 at Note 24.

3. SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (CODM). The CODM, 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 and its 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.
2. **Tesserent Federal segment** – comprising the Group's services primarily to the Federal and State Governments.
3. **Tesserent Academy** – which comprises the business and assets of the ALC training business, plus the internal training functions of the Group.

As of September 2022, the New Zealand division was integrated into Tesserent's Commercial Division such that these businesses have a single sales team and operating model in order to improve resource utilisation and enhance cross selling opportunities across these businesses.

Subsequent to this, the acquisition of the business and assets of ALC Training Pty Ltd and their integration into Tesserent Academy, established this as a new operating segment/CGU.

3. SEGMENT INFORMATION (CONTINUED)

The CODM reviews these segments down to the EBITDA (before corporate costs) 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. The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

The information reported to the CODM is on a monthly basis.

Year ended 30 June 2023	Tesserent Commercial $000	Tesserent Federal $000	Tesserent Academy $000	Shared Services / Unallocated $000	Total $000
Net sales to external customers	63,494	64,730	2,180	–	130,404
Other sales	157	–	–	–	157
Total revenue	**63,651**	**64,730**	**2,180**	**–**	**130,561**
EBITDA (before corporate overheads)	**11,140**	**12,497**	**497**	**–**	**24,134**
Overhead and non-operating costs (see breakdown below*)	–	–	–	(20,502)	(20,502)
add impact of AASB16 lease adjustments	–	–	–	3,568	3,568
EBITDA	**11,140**	**12,497**	**497**	**(16,934)**	**7,200**
Depreciation and amortisation	–	–	–	(9,472)	(9,472)
Net interest expense	–	–	–	(3,260)	(3,260)
Profit/(loss) before income tax expense	**11,140**	**12,497**	**497**	**(29,666)**	**(5,532)**
Income tax expense	–	–	–	696	696
Profit/(loss) after income tax expense	**11,140**	**12,497**	**497**	**(28,970)**	**(4,836)**
Material items include:					
* *Corporate costs*					(10,108)
* *Share based payments*					(1,038)
* *Acquisition/transaction related costs*					(2,092)
* *Restructuring costs*					(2,652)
* *Loss on carrying value of minority investments*					(4,612)
Total segment assets	159,693	80,415	7,171	6,555	253,834
Total segment liabilities	(52,809)	(6,355)	(1,410)	(71,334)	(131,908)

Notes to the Consolidated Financial Statements

for the year ended 30 June 2023

3. SEGMENT INFORMATION (CONTINUED)

Year ended 30 June 2022	Tesserent Commercial $000	Tesserent Federal $000	Tesserent New Zealand $000	Shared Services / Unallocated $000	Total $000
Net Sales to external customers	61,932	46,334	4,711	–	112,977
Other sales	517	–	9	–	526
Total revenue	62,449	46,334	4,720	–	113,505
EBITDA (before corporate overheads)	10,270	10,357	474	(2)	21,099
Overhead and non-operating costs (see below*)	–	–	–	(14,151)	(14,151)
add impact of AASB16 lease adjustments	–	–	–	2,241	2,241
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)
Profit/(loss) before income tax	10,270	10,357	474	(32,516)	(11,417)
Income tax expense	–	–	–	2,634	2,634
Profit/(loss) after income tax expense	10,270	10,357	474	(29,882)	(8,783)
Material items include:					
** Corporate and shared services costs*					(5,019)
** Share based payments*					(2,401)
** Acquisition costs*					(1,152)
** Exit costs on refinancing*					(1,750)
** Loss on carrying value of minority investments*					(3,829)
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)

4. REVENUE

	2023 $'000	2022 $'000
Managed services	**8,353**	13,907
Consulting services	**109,357**	84,715
Software licences	**11,136**	11,426
Hardware equipment	**752**	1,138
Support and maintenance renewals	**711**	1,697
Other sales revenue	**95**	94
Revenue	**130,404**	112,977

4. REVENUE (CONTINUED)

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.

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.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2023

5. OTHER INCOME

	2023 $'000	2022 $'000
Other income	136	495
Interest income	21	31
Other income	157	526

6. EXPENSES

Loss before income tax includes the following specific expenses:

	2023 $'000	2022 $'000
Depreciation		
Leasehold improvements	97	131
Plant and equipment	798	844
Fixtures and fittings	21	29
Office equipment	350	588
Computer software	73	59
Hardware employed	38	26
Right of use assets	3,568	2,241
Total depreciation	4,945	3,918
Amortisation		
Customer contracts and relationships	4,509	3,919
Trademarks and copyright	14	–
Intellectual property	4	4
Total amortisation	4,527	3,923
Total depreciation and amortisation	9,472	7,841
Impairment of financial instruments		
Call options write-off expense	500	2,500
Impairment of financial instruments	4,045	1,604
Total impairment of financial instruments	4,545	4,104
Impairment of software intellectual property		
Software intellectual property	1,751	–
Total impairment of software intellectual property	1,751	–
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	–	9,251
Finance costs		
Interest and finance charges paid/payable on borrowings (cash)	3,199	3,088
Interest and finance charges paid/payable on borrowings (warrant amortisation)	–	1,897
Interest and finance charges paid/payable on lease liabilities	254	273
Other finance costs	(147)	181
Total finance costs	3,306	5,439
Operating expenses		
Contractor expenses	20,031	15,849
Consulting and legal expenses	1,142	1,284
Advertising and promotion	829	606
Administration expenses	2,395	1,568
Other expenses	3,335	2,051
Total operating expenses	27,732	21,358

7. INCOME TAX BENEFIT

	2023 $'000	2022 $'000
(a) Income tax benefit		
Deferred tax movements (current year)	**(1,242)**	(2,634)
Deferred tax movements (prior year)	**546**	–
	(696)	(2,634)

	2023 $'000	2022 $'000
(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	**(5,532)**	(11,417)
Tax at the statutory tax rate of 30%	**(1,659)**	(3,425)
Share based payments	**–**	720
Other (non-deductible)/assessable items	**1,299**	71
Prior year adjustments	**(336)**	-
Income tax benefit	**(696)**	(2,634)

	2023 $'000	2022 $'000
(c) Movement in deferred tax balances		
Deferred tax assets/(liabilities)		
Share issue costs	**296**	472
Provisions	**2,167**	729
Intangible assets	**(10,482)**	(11,241)
Right of use assets and liabilities	**19**	(28)
Tax losses recognised/(utilised) (current year)	**(1,554)**	(3,491)
Tax losses recognised/(utilised) (prior year)	**1,880**	5,371
Other	**1,958**	1,664
	(5,716)	(6,524)

	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 2022	472	729	(11,241)	(28)	1,880	1,664	(6,524)
Acquired upon business combination	–	–	(381)	–	–	–	(381)
Charged to profit and loss	(123)	(444)	1,325	31	(1,554)	1,954	1,189
Charged through intangible	–	–	–	–	–	–	–
Overprovision in previous years	–	–	–	–	–	–	–
Reallocation	(53)	1,882	(184)	16	–	(1,661)	–
As at 30 June 2023	**296**	**2,167**	**(10,481)**	**19**	**326**	**1,957**	**(5,716)**

Notes to the Consolidated Financial Statements

for the year ended 30 June 2023

7. INCOME TAX BENEFIT (CONTINUED)

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.

(d) Franking credits

	2023 $'000	2022 $'000
	–	–

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.

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.

The Company and its wholly owned Australian subsidiaries are part of a tax consolidated group. The Company is the head entity in the tax consolidated group. The members of the tax consolidated group have entered into tax funding and tax sharing agreements, which set out the funding obligations of members. Any current tax liabilities / assets and deferred tax assets from unused tax losses of subsidiaries in the tax consolidated group are recognised by the Company and funded in line with the tax funding arrangements. tax funding arrangements.

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

	2023 $'000	2022 $'000
Loss after income tax benefit for the year	**(4,836)**	(8,783)
Adjustments for:		
Depreciation and amortisation	**9,472**	7,841
Impairment	**6,296**	1,006
Share-based payments	**1,018**	2,401
Write off of assets	**–**	397
Other expenses - non-cash	**1,000**	1,183
Equity accounted associates	**67**	–
Finance costs - non-cash	**–**	9,397
Foreign currency differences	**1**	(48)
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	**1,022**	(3,545)
Increase in contract assets	**(7,841)**	(5,934)
Decrease/(increase) in inventories	**50**	(19)
Decrease in income tax refund due	**–**	215
Decrease in prepayments	**624**	237
Decrease in other operating assets	**–**	3,199
Increase/(decrease) in trade and other payables	**(1,875)**	5,299
Increase in contract liabilities	**6,496**	2,726
Decrease in provision for income tax	**(252)**	(1,797)
Decrease in deferred tax liabilities	**(1,189)**	(2,571)
Increase in employee benefits	**343**	586
Net cash from operating activities	**10,396**	11,790

9. TRADE AND OTHER RECEIVABLES

	2023 $'000	2022 $'000
Trade receivables	**29,477**	29,940
Less: Allowance for expected credit losses	**(175)**	(186)
	29,302	29,754
Other receivables	**1,758**	2,328
	31,060	32,082

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.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2023

9. TRADE AND OTHER RECEIVABLES (CONTINUED)

Allowance for expected credit losses

The consolidated entity has recognised a loss of $175 (2022: $186) in profit or loss in respect of the expected credit losses for the year ended 30 June 2023.

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	
	2023 %	2022 %	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Not overdue	–	–	29,803	30,698	–	–
Past due 30 to 60 days	–	2%	851	864	–	18
Past due 60 to 90 days	3%	13%	153	341	5	45
Past due 90 to 120 days	6%	26%	106	194	6	51
Past due over 120 days	18%	42%	322	171	164	72
			31,235	32,268	175	186

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

	2023 $'000	2022 $'000
Opening balance	186	247
Additional provisions recognised	12	7
Receivables written off during the year as uncollectable	(2)	–
Write back of allowance	(21)	(68)
Closing balance	175	186

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.

10. CONTRACT ASSETS

	2023 $'000	2022 $'000
Current assets		
Contract assets	18,157	13,190
Non-current assets		
Contract assets	5,915	3,041
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	16,231	9,452
Additions	20,936	26,405
Additions through business combinations	–	845
Transfer to trade receivables	(13,095)	(20,431)
Write off of assets	–	(40)
Closing balance	24,072	16,231

Contract assets are recognised when the group has transferred goods or services to the customer but where the group is yet to invoice the customer in relation to those transferred goods or services. Contract assets are treated as financial assets for impairment purposes.

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2023 $'000	2022 $'000
Current assets		
Fair value of call options held	–	500
Opening fair value	**500**	3,000
Impairment of fair value	**(500)**	(2,500)
Closing balance	–	500

In 2023, the Group impaired the full value of the call option in AttackBound Holding Pty Ltd ($0.5m).

	2023 $'000	2022 $'000
Non-current assets		
Investment in Daltrey Pty Ltd	–	2,298
Investment in TrustGrid Holdings Pty Ltd	**84**	–
	84	2,298

	2023 $'000	2022 $'000
Opening balance	**2,298**	–
Additional funds invested in investment	**1,000**	2,298
Transfer of carrying value of investment no longer equity accounted	**84**	–
Write up/(down) on carrying value in investment	**(3,298)**	–
Closing balance	**84**	2,298

In 2023, the Group contributed an additional $1m in the Daltrey Pty Ltd. Later during the period, the carrying value of the investment ($3.3m) was written off due to the appointment of liquidators. The investment was acquired in July 2021.

At 30 June 2023, the Group held a 14.8% interest in TrustGrid Holdings Pty Ltd. At 30 June 2022, the Group held a 20.95% interest in TrustGrid Holdings Pty Ltd and the investment was accounted as an equity accounted associate. At 30 June 2023, the investment was accounted for at fair value through profit and loss.

12. RIGHT-OF-USE ASSETS

	2023 $'000	2022 $'000
Building Leases - right-of-use	**13,521**	13,824
Less: Accumulated depreciation	**(8,989)**	(7,695)
	4,532	6,129

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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 2021	6,812
New leases entered into during the year	2,072
Disposals from early termination	(514)
Depreciation expense	(2,241)
Balance at 30 June 2022	**6,129**
New leases entered into during the year	**1,971**
Disposals from early termination	**–**
Depreciation expense	**(3,568)**
Balance at 30 June 2023	**4,532**

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.

13. PROPERTY, PLANT AND EQUIPMENT

	2023 $'000	2022 $'000
Leasehold improvements - at cost	**1,446**	1,354
Less: Accumulated depreciation	**(573)**	(515)
	873	839
Plant and equipment - at cost	**6,064**	5,456
Less: Accumulated depreciation	**(4,906)**	(4,108)
	1,158	1,348
Fixtures and fittings - at cost	**305**	347
Less: Accumulated depreciation	**(237)**	(265)
	68	82
Motor vehicles - at cost	**10**	10
Less: Accumulated depreciation	**(10)**	(10)
	–	–
Computer equipment - at cost	**4,899**	6,460
Less: Accumulated depreciation	**(4,112)**	(5,834)
	787	626
Office equipment - at cost	**1,085**	1,318
Less: Accumulated depreciation	**(870)**	(1,156)
	215	162
Hardware employed - at cost	**530**	459
Less: Accumulated depreciation	**(431)**	(393)
	99	66
Computer software - at cost	**457**	1,435
Less: Accumulated depreciation	**(181)**	(1,241)
	276	194
Formation expenses - at cost	**1**	–
Less: Accumulated depreciation	**(1)**	–
	–	–
	3,476	3,317

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:

Fixed Asset Category	**Expected Useful Life**
Furniture & fittings	10 years
Hardware employed	3 years
Office equipment	10 years
Computer software	5 years
Leasehold improvements	40 years
Plant & equipment	3 years
Computer equipment	4 years

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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 2021	100	22	865	316	635	762	2,700
Additions	6	70	366	43	349	1,430	2,264
Additions through business combinations (Note 32)	5	–	158	6	2	–	171
Disposals	–	–	(13)	(112)	(16)	–	(141)
Depreciation expense	(29)	(26)	(588)	(59)	(131)	(844)	(1,677)
Balance at 30 June 2022	82	65	788	193	839	1,348	3,317
Additions	**12**	**72**	**568**	**159**	**(131)**	**608**	**1,550**
Disposals	**–**	**(1)**	**(9)**	**(4)**	**–**	**–**	**(14)**
Transfers in/(out)	**(5)**	**–**	**5**	**–**	**–**	**–**	**–**
Depreciation expense	**(21)**	**(38)**	**(350)**	**(73)**	**(97)**	**(798)**	**(1,377)**
Balance at 30 June 2023	**68**	**99**	**1,002**	**276**	**873**	**1,158**	**3,476**

14. INTANGIBLES

	2023 $'000	2022 $'000
Customer contracts - at cost	**45,911**	44,811
Less: Accumulated amortisation	**(11,074)**	(6,565)
	34,837	38,246
Intellectual property - at cost	**1,761**	1,683
Less: Accumulated amortisation	**(94)**	(75)
	1,667	1,608
	36,504	39,854

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

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	Software IP $'000	Trademarks and Copyright $'000	Other Intellectual Property $'000	Total $'000
Balance at 1 July 2021	28,965	666	–	22	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	1,586	–	22	39,854
Capitalised development costs	**–**	**1,658**	**–**	**–**	**1,658**
Additions through business combinations (Note 32)	**1,100**	**–**	**170**	**–**	**1,270**
Impairment of assets	**–**	**(1,751)**	**–**	**–**	**(1,751)**
Amortisation expense	**(4,509)**	**(4)**	**(14)**	**–**	**(4,527)**
Balance at 30 June 2023	**34,837**	**1,489**	**156**	**22**	**36,504**

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 and trademarks are amortised over a 3 year expected useful life.

15. GOODWILL

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

	2023 $'000	2022 $'000
Goodwill		
	135,820	129,635

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 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
Additions through business combinations (Note 32)	**6,185**
Additional amount recognised from prior year business combination	**–**
Balance at 30 June 2023	**135,820**

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15. GOODWILL (CONTINUED)

	2023 $'000	2022 $'000
Goodwill acquired through business combinations has been allocated to the following cash-generating units:		
Tesserent Commercial*	**77,002**	77,002
Tesserent Federal	**52,633**	52,633
Tesserent Academy	**6,185**	–
	135,820	129,635

* In the 2022 annual report, a seperate CGU for Tesserent NZ was reported. In the current year accounts 2022 and 2023 now include goodwill from NZ CGU which has been re-classified into Commercial CGU.

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

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 the higher of:

- 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, discount rates and a terminal value; and
- fair value less cost of disposal approach.

The following are the key assumptions applied in calculating the recoverable amount under the value-in-use approach:

Input	Tesserent Commercial	Tesserent Federal	Tesserent Academy
Revenue growth rate - post year 1	6.8%	7.9%	8.5%
EBITDA as a % of revenue	11.7%	19.9%	19.5%
Discount rate (post-tax, nominal)	13.0%	13.0%	13.0%
Terminal growth rate	5.0%	5.0%	5.0%

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 2023.

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.

15. GOODWILL (CONTINUED)

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.

Management has performed sensitivity analysis for Tesserent Federal and Tesserent Academy CGUs which indicated that no reasonably possible change in key assumptions would result in an impairment loss.

16. INVESTMENTS IN EQUITY ACCOUNTED ASSOCIATES

	2023 $'000	2022 $'000
Investment in TrustGrid Holdings Pty Ltd	**–**	831
Investment in AttackBound Holdings Pty Ltd	**43**	110
	43	941

	2023 $'000	2022 $'000
Opening balance	**941**	2,867
Equity accounting - share of profit/(loss) in associates	**(67)**	(322)
Write up/(down) on carrying value of investment	**(747)**	(1,604)
Transfer of carrying value of investment no longer equity accounted	**(84)**	–
Closing balance	**43**	941

At 30 June 2023, the Group held a 14.8% interest in TrustGrid Holdings Pty Ltd. At 30 June 2022, the Group held a 20.95% interest in TrustGrid Holdings Pty Ltd and the investment was accounted as an equity accounted associate. At 30 June 2023, the investment was accounted for at fair value through profit and loss.

At 30 June 2023, the Group held 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 this company is accounted for using the equity method.

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

	TrustGrid 2023 $'000	TrustGrid 2022 $'000	AttackBound 2023 $'000	AttackBound 2022 $'000
Total Assets	**–**	2,089	**876**	873
Total Liabilities	**–**	(903)	**(544)**	(223)
Net assets	**–**	1,186	**332**	650
Group's share of equity (%)	**–**	21	**25**	25
Group's share of equity ($'000)	**–**	248	**83**	162
Goodwill	**–**	583	**–**	–
Group's carrying amount of the investment	**–**	831	**43**	110
	–	–	**–**	–
Revenue of associate entity	**–**	568	**–**	384
Net profit of associate entity	**–**	(1,150)	**(267)**	(326)

The associates had no contingent liabilities or capital commitments as at 30 June 2022 and 2023.

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17. TRADE AND OTHER PAYABLES

	2023 $'000	2022 $'000
Trade payables	**21,455**	21,771
Other payables	**10,960**	14,082
	32,415	35,853

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

	2023 $'000	2022 $'000
Current liabilities		
Contract liabilities	**16,930**	11,313
Non-current liabilities		
Contract liabilities	**4,198**	2,285

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	**13,598**	8,514
Additions	**28,809**	18,794
Additions through business combinations (Note 32)	**917**	2,359
Transfer to revenue	**(22,196)**	(16,069)
Closing balance	**21,128**	13,598

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

19. LEASE LIABILITIES

	2023 $'000	2022 $'000
Current liabilities		
Lease liability	**3,151**	3,110
Non-current liabilities		
Lease liability	**1,742**	3,516

	2023 $'000	2022 $'000
Balance as at 1 July	**6,226**	7,468
Additions	**1,971**	1,557
Cash Payments	**(3,958)**	(2,770)
Interest Expense	**254**	271
Balance as at 30 June	**4,893**	6,626

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% (2022: 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

	2023 $'000	2022 $'000
Current liabilities		
Annual leave	**3,738**	3,569
Long service leave	**1,051**	550
	4,789	4,119
Non-current liabilities		
Long service leave	**550**	877
Lease make good	**150**	150
	700	1,027

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.

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21. DEFERRED SETTLEMENT LIABILITIES

	2023 $'000	2022 $'000
Current liabilities		
Deferred settlement liability	**10,415**	23,600
Non-current liabilities		
Deferred settlement liability	**2,337**	5,485
Reconciliation		
Reconciliation of the fair values at the beginning and end of the current and previous financial year are set out below:		
Opening balance	**29,085**	13,351
Deferred and contingent consideration from business acquisitions	**5,098**	28,521
Change in completion adjustments	**1,000**	1,924
Cash paid on prior period acquisitions	**(16,648)**	(13,933)
Issued capital from prior period acquisitions	**(5,783)**	(778)
Closing balance	**12,752**	29,085

	2023 $'000	2022 $'000
Deferred settlement liability represented by:		
Cash		
Current	**7,672**	16,171
Non-current	**1,936**	3,085
Equity settled liabilities	**3,144**	9,829
	12,752	29,085

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

	2023 $'000	2022 $'000
Current		
Borrowings	**227**	–
Non-current liabilities		
Borrowings	**49,307**	34,473

	2023 $'000	2022 $'000
Loan facility - CBA	**35,000**	35,000
Proceeds from drawdown on CBA loan	**14,000**	–
Loan obligation arising from commercial customer contract	**1,915**	–
Repayment of loan principal - Dell Financial Services	**(1,003)**	–
Transaction costs	**(378)**	(527)
	49,534	34,473

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.

22. BORROWINGS (CONTINUED)

On 23 June 2022, Tesserent entered into agreements with Commonwealth Bank of Australia (CBA) to refinance its debt facilities. A summary table of the facility and the used and unused balances is presented below.

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

On 1 March 2023, Tesserent entered into a loan with Dell Financial Services. The loan of $1.9m relates to asset finance and will be repaid over a five year term.

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

	2023 $'000	2022 $'000
Total facilities		
Bank loan - facility A	**35,000**	35,000
Bank loan - facility B	**20,000**	20,000
Credit card facility	**800**	500
Asset finance facility	**1,700**	2,000
Bank guarantee facility	**1,500**	1,500
	59,000	59,000
Used at the reporting date		
Bank loan - facility A	**35,000**	35,000
Bank loan - facility B	**14,000**	–
Credit card facility	**217**	–
Asset finance facility	**–**	–
Bank guarantee facility	**1,463**	–
	50,680	35,000
Unused at the reporting date		
Bank loan - facility A	**–**	–
Bank loan - facility B	**6,000**	20,000
Credit card facility	**583**	500
Asset finance facility	**1,700**	2,000
Bank guarantee facility	**37**	1,500
	8,320	24,000

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23. CONTRIBUTED EQUITY

	2023 Shares	2022 Shares	2023 $'000	2022 $'000
Ordinary shares - fully paid	**1,354,182,117**	1,258,183,427	**149,525**	138,666

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	**1 July 2022**	**1,258,183,427**		**138,666**

23. CONTRIBUTED EQUITY (CONTINUED)

Details	Date	Shares	Issue price	$
Shares issued as consideration in business combination	26 August 2022	10,926,052	$0.12	1,311
Shares issued on conversion of warrants (warrants expense)	14 September 2022	–	$0.00	2,111
Shares issued on conversion of warrants	14 September 2022	25,000,000	$0.05	1,214
Shares issued on conversion of options	6 October 2022	14,622,500	$0.10	1,462
Shares issued as consideration in business combination	7 October 2022	2,341,335	$0.12	277
Shares issued on conversion of options	13 October 2022	290,000	$0.10	29
Shares issued as consideration in business combination	14 November 2022	34,514,684	$0.11	3,624
Shares issued as consideration in business combination	21 November 2022	8,304,119	$0.10	831
Balance	**30 June 2023**	**1,354,182,117**		**149,525**

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.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2023

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	Director OPB	ESOP Series 4
No. issued	28,000,000	58,900,000
Grant Date	18-Nov-22	13-Mar-23
Expiry Date	18-Nov-26	16-Aug-26
Terms (days)	1,461	1,252
Exercise price (cents)	$0.15	$0.15
Share price at grant date (cents)	$0.11	$0.07
Volatility	71%	70%
Risk free rate	3.2%	3.0%
Dividend yield	0%	0%
Early exercise multiple	2	2
Value per option	$0.045	$0.021
Total cost	$1,249,309	$1,265,029
Cost recognised	$382,825	$246,024
Value forfeited	$0	$23,625
Future costs	**$866,484**	**$995,380**

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-22	Granted	Exercised	Expired/ Forfeited/ other	Balance 30-Jun-23
Options							
Converting Note Options	01/10/2022	0.10	26,470,000	–	(11,080,000)	(15,390,000)	–
Converting Note Options	01/10/2022	0.10	3,832,500	–	(3,232,500)	(600,000)	–
Converting Note Options	01/10/2022	0.10	2,400,000	–	(600,000)	(1,800,000)	–
Employee Options	29/11/2022	0.13	1,000,000	–	–	(1,000,000)	–
Employee Options	02/11/2023	0.35	16,963,632	–	–	(4,001,636)	12,961,996
Employee Options	02/11/2023	0.28	17,963,632	–	–	(4,251,636)	13,711,996
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	–	–	(1,000,000)	6,400,000
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
Director Options	18/11/2026	0.15	–	28,000,000	–	–	28,000,000
Employee Options	16/08/2026	0.15	–	58,900,000	–	–	58,900,000
Total Options			91,029,764	86,900,000	(14,912,500)	(30,043,272)	132,973,992

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.

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	
	2023 $'000	2022 $'000	2023	2022
Buy US dollars				
Maturity:				
0 - 3 months	**6,859**	9,898	**0.6849**	0.7005

Notes to the Consolidated Financial Statements

for the year ended 30 June 2023

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

The holdings of cash and cash equivalents, trade receivables, contract assets, trade payables and contract liabilities analysed by nominated currency at 30 June 2023, along with prior year comparatives, were as follows:

30 June 2023	Denominated in AUD $'000	Denominated in USD $'000	Denominated in NZD $'000	Denominated in SGD $'000	Total in AUD $'000
Financial Assets					
Cash and cash equivalents	**15,553**	**1**	**919**	**187**	**16,660**
Trade and other receivables	**29,549**	**276**	**1,088**	**147**	**31,060**
Contract assets	**8,696**	**15,311**	**65**	**-**	**24,072**
	53,798	**15,588**	**2,072**	**334**	**71,792**
Financial Liabilities					
Trade and other payables	**19,858**	**12,310**	**226**	**26**	**32,420**
Contract liabilities	**8,972**	**11,930**	**199**	**27**	**21,128**
	28,830	**24,240**	**425**	**53**	**53,548**

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 $33,158 (2022:$24,293 unfavourable) on the profit and equity for the 2023 financial year. A sensitivity analysis has not been completed against the United States Dollar (US$) due to forward exchange contracts being taken out against these transactions.

30 June 2022	Denominated in AUD $'000	Denominated in USD $'000	Denominated in NZD $'000	Denominated in SGD $'000	Total in AUD $'000
Financial Assets					
Cash and cash equivalents	13,469	1	252	616	14,338
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

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

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:

	2023	
	Weighted average interest rate %	Balance $'000
Borrowings	**5.12%**	**49,307**
Net exposure to cash flow interest rate risk		**49,307**

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

Sensitivity analysis

In 2023, the interest paid on the debt facilities was $2,798,675. The majority of the interest paid was related to the CBA. The weighted average interest rate with the CBA facility is 5.12%.

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:

	2023 $'000	2022 $'000
Bank loan - facility B	**6,000**	20,000
Credit card facility	**583**	500
Asset finance facility	**1,700**	2,000
Bank guarantee facility	**37**	1,500
	8,320	24,000

Bank facilities are subject to the continuance of satisfactory covenant reporting, and have an average maturity of 2 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.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2023

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

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.

2023	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	–	32,414	–	–	–	32,414
Other financial liabilities	–	10,415	2,337	–	–	12,752
Other liabilities	–	16,930	4,198	–	–	21,128
Interest-bearing						
Borrowings - variable	5.12%	1,365	50,422	341	–	52,128
Lease liability - fixed	4.00%	3,151	1,106	1,101	99	5,457
Total non-derivatives		**64,275**	**58,063**	**1,442**	**99**	**123,879**

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	–	35,852	–	–	–	35,852
Other financial liabilities	–	23,600	5,485	–	–	29,085
Other liabilities	–	11,313	2,285	–	–	13,598
Interest-bearing						
Borrowings - variable	3.25%	1,138	1,138	36,138	–	38,414
Lease liability - fixed	4.00%	3,110	1,969	1,635	333	7,047
Total non-derivatives		**75,013**	**10,877**	**37,773**	**333**	**123,996**

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

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

Fair value of financial measurement

Fair value hierachy

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 - 2023	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Call option investments	–	–	–	–
Investment in Daltrey Pty Ltd	–	–	–	–
Total assets	–	–	–	–
Liabilities				
Deferred settlement liabilities	–	–	12,752	12,752
Total liabilities	–	–	12,752	12,752

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

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 value using a weighted average probability assessment of the likelihood of the instrument being exercised before the expiry date.

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 Note 21 for movements in Level 3 assets and liabilities.

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

There has not been any transfer of balances between levels at 30 June 2023 or 30 June 2022.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2023

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:

	2023 $	2022 $
Audit services - BDO Audit Pty Ltd		
Audit or review of the financial statements	**496,000**	510,000
Other services - BDO		
Tax compliance and advisory services - BDO Services Pty Ltd	**93,513**	103,900
Other non-audit services - BDO Corporate Finance Pty Ltd	**–**	35,000
	93,513	138,900
	589,513	648,900

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 2023. (30 June 2022: 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:

	2023 $'000	2022 $'000
Short term employment benefits	**3,036**	3,622
Post-employment benefits	**129**	181
Long term benefits	**201**	285
Share based payments	**765**	447
	4,131	4,535

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 2022 or 2023. Products and services sold to Belgravia totalled $206,672 being professional services and software subscriptions and support to Belgravia Group Pty Ltd and two of its subsidiaries.

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.

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

	2023 $'000	2022 $'000
Loss after income tax	**(5,860)**	(18,196)
Total comprehensive income	**(5,860)**	(18,196)

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

	2023 $'000	2022 $'000
Total current assets	**167,150**	148,867
Total non-current assets	**6,976**	7,145
Total assets	**174,126**	156,012
Total current liabilities	**786**	509
Total non-current liabilities	**48,624**	34,693
Total liabilities	**49,410**	35,202
Net assets	**124,716**	120,810
Equity		
Contributed equity	**153,979**	143,120
Share-based payments reserve	**7,326**	9,437
Options reserve	**7,378**	6,453
Accumulated losses	**(43,967)**	(38,200)
Total equity	**124,716**	120,810

Notes to the Consolidated Financial Statements

for the year ended 30 June 2023

31. PARENT ENTITY INFORMATION (CONTINUED)

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 2023 and 30 June 2022.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2023 and 30 June 2022.

Capital commitments

The parent entity had no capital commitments for purchase of property, plant and equipment as at 30 June 2023 and 30 June 2022.

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.

ALC Training Pty Ltd

On 22 March 2023, TNT Academy Pty Ltd, a subsidiary of Tesserent Limited, completed an acquisition of the business and assets of ALC Training Pty Ltd and its subsidiaries.

The acquisition had a total purchase consideration of $6,206,312, with $1,108,465 cash payment on completion, plus further deferred cash consideration payments of $2,761,208 payable in September 2023 and $2,336,639 payable in September 2024.

ALC Training is a leading Australian cybersecurity training business. The completion of the acquisition by Tesserent Academy is a key part of the Academy's strategy to develop a pipeline of high-quality cybersecurity talent to the Tesserent business and to key clients, by delivering foundation training programs and advanced training programs to graduates and lateral members entering the Cyber industry.

32. BUSINESS COMBINATIONS (CONTINUED)

Details of the acquisition are as follows:

	ALC Training Fair value $'000
Cash and cash equivalents	–
Trade and other receivables	–
Prepaid exam modules	51
Other prepaid expenses	101
Trade and other payables	–
Prepaid training vouchers	(219)
Prepaid training courses	(698)
Employee benefit provisions	(104)
Fair value of trademarks and copyrights	170
Fair value of contracts and relationships acquired	1,100
Deferred tax liability arising from acquisition	(381)
Net assets acquired	20
Goodwill	6,186
Acquisition-date fair value of the total consideration transferred	6,206
Representing:	
Cash paid or payable to vendor	1,108
Deferred consideration	5,098
Total Consideration	6,206
Acquisition-date fair value of the total consideration transferred	1,108
Less: cash and cash equivalents acquired	–
Net cash used	1,108

Since acquisition dates, the acquired business contributed the following results to the consolidated revenue and loss of the Group:

	ALC Training $'000
Revenue contribution	1,985
Profit contribution	1,033

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.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2023

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:

		Ownership interest	
Name	Principal place of business/ Country of incorporation	2023 %	2022 %
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	Australia	**100%**	100%
Claricent Pty Ltd	Australia	**100%**	100%
Pearson Corporation Pty Ltd	Australia	**100%**	100%
Tesserent Academy Pty Ltd	Australia	**100%**	100%

34. EVENTS AFTER THE REPORTING PERIOD

The Company notes the following subsequent event, since the 30 June 2023 reporting date.

On 15 August 2023, the Scheme Booklet for the scheme of arrangement between Tesserent and its shareholders for the acquisition by Thales Australia, was registered with ASIC.

The Scheme Booklet containing information about the Share Scheme and the Option Scheme, the independent expert's report, the notice convening the meeting of Tesserent shareholders to consider and vote on the Share Scheme and the notice convening the meeting of the holders of Tesserent Options to consider and vote on the Option Scheme has been sent to security holders and is also available for viewing and downloading at: https://investors.tesserent.com/site/investor-information/generalmeetings

The Share Scheme Meeting will be held at 10.00am (Melbourne time) on Monday, 18 September 2023 as a virtual (online only) meeting conducted on the online platform at: https://meetnow.global/M6PYRPY

35. LOSS PER SHARE

	2023 $'000	2022 $'000
Loss after income tax	**(4,836)**	(8,783)
	Number	**Number**
Weighted average number of ordinary shares outstanding during the year used in calculating basic loss per share	**1,326,394,891**	1,197,938,015
Weighted average number of ordinary shares and convertible redeemable cumulative preference shares outstanding and performance rights during the year used in calculating diluted earnings per share	**1,326,394,891**	1,197,938,015
	Cents	**Cents**
Basic loss per share	**(0.36)**	(0.73)
Diluted loss per share	**(0.36)**	(0.73)

Directors' Declaration

for the year ended 30 June 2023

In the Directors' opinion:

(a) the financial statements and notes set out on pages 41 to 83 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 2023 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 2023

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INDEPENDENT AUDITOR'S REPORT

To the members of Tesserent Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Tesserent Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2023, 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 2023 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.

Independent Auditor's Report

for the year ended 30 June 2023

Impairment goodwill and other intangible assets

Key audit matter	*How the matter was addressed in our audit*
As disclosed in Notes 14 and 15, at 30 June 2023 the Group has intangible assets related to customer 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. Significant judgment and estimates are used by the Group in determining the recoverable amounts of the Group's cash generating units ('CGUs'). The recoverable amount is determined as the higher of value in use or fair value less cost of disposal. The recoverable amount is based on expected future cash flows that are based on future operating results, discount rates and the broader market conditions in which the Group operates. The impairment assessment of the CGUs was considered a key audit matter of the consolidated financial report due to the inherent uncertainty, significant judgments, assumptions and estimates applied in determining the recoverable amounts of the CGUs.	Our procedures included, amongst others: • We obtained an understanding of the process that management undertook to perform the Group's impairment assessment; • We evaluated the level at which goodwill is monitored for impairment, including the identification of CGUs; In conjunction with our internal valuation specialists: • We evaluated the 5-year value-in-use discounted cashflow 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. • We agreed the forecasted cashflows for year 1 of the 5-year value-in-use discounted cashflow models to the latest Board approved FY24 budget. • We assessed historical forecasting accuracy. • We compared market capitalisation of the Group to the net assets. • We confirmed the integrity and mathematical accuracy of the value-in-use discounted cashflow models. • We subjected the growth and discount rates assumptions to sensitivity analysis to understand the change that would be required for goodwill and intangible assets to be impaired, and assessed the likelihood of such movement in those key assumptions arising. • We assessed the appropriateness of the disclosures in the financial report with reference to the requirements of the Australian Accounting Standards.

Revenue Recognition

Key audit matter	*How the matter was addressed in our audit*
As disclosed in Note 4, at 30 June 2023 the Group generated revenue from five distinct streams (managed services, consulting services, software licences, 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 Standard. 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 the amount of audit attention required.	Our procedures included, amongst others: • We obtained an understanding of the process undertaken by management to account for the recognition of revenue for each revenue stream, including factors influencing whether revenue is recognised on a principal or agency basis; • For a sample of contracts, we assessed the reasonableness of the revenue recognition applied with reference to the requirements of the Australian Accounting Standards; • We validated the accuracy and occurrence of a sample of revenue transactions to underlying evidence; • We recalculated a sample of contract assets and contract liabilities transactions based on the terms set out in the customer contracts; • We performed cut-off testing procedures on some revenue streams to verify that the revenue has been recognised in the right period; and • We assessed the appropriateness of the disclosures in the financial report with reference to the requirements of the Australian Accounting Standards.

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 2023, 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.

Independent Auditor's Report

for the year ended 30 June 2023

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (http://www.auasb.gov.au/Home.aspx) at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 30 to 38 of the directors' report for the year ended 30 June 2023.

In our opinion, the Remuneration Report of Tesserent Limited, for the year ended 30 June 2023, 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 2023

Shareholder Information

for the year ended 30 June 2023

The shareholder information set out below was applicable as at 24 August 2023.

A. DISTRIBUTION OF EQUITABLE SECURITIES

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

Range	Total holders	Units	% Units
1 - 1,000	423	134,780	0.01%
1001 - 5,000	2,816	8,470,120	0.63%
5001 - 10,000	1,758	13,916,516	1.03%
10,001 - 100,000	3,775	132,852,988	9.81%
100,001 and over	1,045	1,198,807,712	88.53%
	9,817	**1,354,182,116**	

Based on the price per security, the number of holders with an unmarketable holding: 2,435 with total 4,983,766 units, amounting to 0.4% 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	7	308,152	0.16%
100,001 and over	131	195,193,619	99.84%
	138	**195,501,771**	

Shareholder Information

for the year ended 30 June 2023

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
1	CITICORP NOMINEES PTY LIMITED	121,274,734	8.96
2	G & N LORD SUPERANNUATION PTY LTD <GNR SUPERANNUATION FUND A/C>	91,708,122	6.77
3	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	75,757,950	5.59
4	SCOTT CEELY <CEELY INVESTMENTS A/C>	48,717,206	3.60
5	MORGAN STANLEY AUSTRALIA SECURITIES (NOMINEE) PTY LIMITED <NO 1 ACCOUNT>	41,453,207	3.06
6	NATIONAL NOMINEES LIMITED	37,935,116	2.80
7	PEARSON HOLDINGS (AUST) PTY LTD <PEARSON FAMILY A/C>	34,514,684	2.55
8	PEARSON HOLDINGS (AUST) PTY LTD <PEARSON FAMILY A/C>	29,376,663	2.17
9	BNP PARIBAS NOMS PTY LTD <DRP>	29,257,099	2.16
10	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	22,307,848	1.65
11	C14N PTY LTD	21,327,456	1.57
12	CRAIG OWEN HUMPHREYS <COSEAR A/C>	20,410,431	1.51
13	G & N LORD SUPERANNUATION PTY LTD <GNR S/F A/C>	16,433,334	1.21
14	MRS SHAYNE MARCIA DAVENPORT	15,738,909	1.16
15	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	15,000,681	1.11
16	WARBONT NOMINEES PTY LTD <UNPAID ENTREPOT A/C>	14,482,587	1.07
17	MR JOHN GEORGOPOULOS	13,300,534	0.98
18	SHANE PHILLIP ANDERSON <THE ANDERSON INVESTMENT A/C>	13,032,224	0.96
19	MRS CHLOE ELIZABETH BUTLER	10,100,000	0.75
20	ECAPITAL NOMINEES PTY LIMITED <ACCUMULATION A/C>	9,215,756	0.68
	Totals: Top 20 holders of ORDINARY FULLY PAID SHARES (Total)	**681,344,541**	**50.31**
	Total Remaining Holders Balance	**672,837,575**	**49.69**

As at 24 August 2023, the 20 largest shareholders held ordinary shares representing 50.31% of the issued share capital.

Unquoted equity securities

There are no unquoted equity securities.

D. SUBSTANTIAL HOLDERS

Substantial holders in the company are set out below:

*G Lord holds 7.99% through BELGRAVIA STRATEGIC EQUITIES PTY LTD - 100,000 shares, and G & N LORD SUPERANNUATION PTY LTD GNR S/F A/C - 108,141,456 shares.

E. VOTING RIGHTS

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

Shareholder Information

for the year ended 30 June 2023

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.

F. SHARE BUY BACKS

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

There are no other classes of equity securities.

G. ESCROWED SHARES

The following shares under escrow are on issue:

Class	Expiry date	Number of shares
Ordinary Shares	16 November 2023	34,514,684
Ordinary Shares	22 November 2023	8,304,119
		42,818,803

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 2023

DIRECTORS

Geoff Lord	Non-Executive Chairman
Kurt Hansen	Managing Director
Gregory Baxter	Non-Executive Director
Megan Haas	Non-Executive Director
Tony Sheehan	Non-Executive Director

COMPANY SECRETARIES

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)

WEBSITE

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TESSERENT LIMITED

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MEDIA ENQUIRIES

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