

**Tesseract Limited**  
**13 605 672 928**

**APPENDIX 4E**

**Reporting period**

Reporting period: Financial year ended 30 June 2018

Comparative period: Financial year ended 30 June 2017

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**Results for announcement to the market**

<b>Key information</b>	<b>\$</b>	<b>Up/Down</b>	<b>% Change</b>
Revenue from ordinary activities	5,327,957	Down	0.9
Loss after tax from ordinary activities attributable to members	(3,095,670)	Down	10.6
Net loss attributable to members	(3,095,670)	Down	10.6

**Key highlights during the year**

- 21.6% revenue growth year-on-year excluding customer contracts sold to Family Zone Cyber Security Ltd (ASX:FZO) in FY17. Reported revenue including sold customer contracts down 0.9%.
- FY18 ended in a solid position, debt-free and with a cash balance of \$1.7M.
- Received \$844K from the ATO in Research and Development tax concessions for the ongoing development and expansion of Tesseract's proprietary technology platform.
- Strategic OEM partnership formed with leading global cybersecurity company Sophos.
- Sustained reduction in operating and personnel costs by 11.9%.
- Strong growth in SIEM (Security Information and Event Management) revenue due to an increased regulatory environment with introduction of the Notifiable Data Breaches Scheme in February 2018. Continued growth expected from this service line.
- Strong growth in secure networking and SD-WAN (Software Defined Wide Area Networking) technologies.

**Post Balance date highlights**

- Announced (in July 2018) intention to acquire innovative ICT company, Asta Solutions Pty Ltd (Asta).
- Appointed CEO Julian Challingsworth in August 2018, with Founding CEO Keith Glennan, remaining as an executive director.
- Appointment of a new Chief Customer Officer (COO) Remko Jacobs to drive an increased focus on customer acquisition.

**Commentary**

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

Tesseract raised \$500K in Q4 in a placement to clients of Phillip Capital Limited at a share price of \$0.07 per share. A Share Purchase Plan (SPP) was also offered to existing shareholders providing an opportunity to buy shares at the same price raised a further \$304K. The SPP closed after the balance date and this raising falls into FY19.

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

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

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

#### TECHNOLOGY

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

- "zero touch" deployment technology, simplifying the networking hardware installation process, enabling rapid customer deployment and configuration; and
- proprietary SD-WAN (Software Defined Wide Area Networking) technology enabling every Tesseract network appliance (including CyberBiz appliances) to act as a secure SD-WAN intelligent device.

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

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

#### ACCELERATING GROWTH

In July 2018, Tesseract appointed Maecenas Capital to refine and drive Tesseract's growth and go-to-market strategies, optimise funding arrangements, and evaluate potential acquisition opportunities. On 27 July 2018, Tesseract announced it had signed a binding terms sheet to acquire innovative ICT company, Asta subject to shareholder approval. The acquisition consideration is based on a multiple of normalised EBITDA, and is payable in a mix of cash and shares. Tesseract expects to seek shareholder approval at the 2018 AGM. Tesseract's expectation (subject to completion of the audit of Asta's financial results) is that the acquisition will, based on FY18 revenue, deliver combined annualised revenue in excess of \$15M and consolidate Tesseract's position as a trusted end-to-end provider of secure IT infrastructure and services. The acquisition will extend the company's presence in Melbourne, Sydney, and Auckland, and significantly increases Tesseract's active customer base.

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

An investor pack will be released by 14 September 2018, further detailing FY19 strategy and acquisition timelines.

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### **Dividends paid and proposed**

No dividend has been proposed to be paid or is payable for the year ended 30 June 2018, nor for the comparative period.

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### **Net tangible assets per share**

	<b>2018</b>	<b>2017</b>
	<b>\$/share</b>	<b>\$/share</b>
Net tangible assets per share	\$0.01	\$0.02

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### **Control gained or lost over entities in the year**

Not applicable

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### **Investment in Associates and Joint Ventures**

Not applicable.

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### **Status of Audit**

The report is based on accounts which are in the process of being audited.

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### **Attachments**

The preliminary financial report of Tesseract Limited for the year ended 30 June 2018 is attached.

**Tesserent Limited and its controlled entities**  
**Consolidated statement of profit or loss and other comprehensive income**  
**For the year ended 30 June 2018**

	Note	2018 \$	2017 \$
Revenue from continuing operations	2	5,327,957	5,375,117
Other income	3	1,103,803	1,788,886
Cost of goods sold		(2,372,554)	(2,347,575)
Employee benefits expense		(2,662,491)	(4,127,401)
Depreciation and amortisation expense		(277,594)	(617,303)
Goodwill written off	5	(777,375)	-
Intellectual property assets written off	5	(67,736)	-
Finance costs		(68,777)	(8,152)
Occupancy costs		(306,395)	(688,074)
Communication costs		(595,152)	(507,645)
Consulting and legal costs		(720,949)	(734,695)
Travel		(78,135)	(170,231)
Bad and doubtful debts		(51,185)	(40,916)
Other expenses		(1,174,244)	(1,148,549)
		(9,152,587)	(10,390,541)
<b>Loss before income tax</b>		<b>(2,720,827)</b>	<b>(3,226,538)</b>
Tax expense		374,843	237,498
<b>Net loss for the year</b>		<b>(3,095,670)</b>	<b>(3,464,036)</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		<b>(3,095,670)</b>	<b>(3,464,036)</b>
<b>Earnings per share</b>			
Basic earnings per share (cents)	1	(2.62)	(2.99)
Diluted earnings per share (cents)	1	(2.62)	(2.99)

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

**Tesserent Limited and its controlled entities**  
**Consolidated statement of financial position**  
**As at 30 June 2018**

	Note	2018 \$	2017 \$
<b>Assets</b>			
Cash and cash equivalents		1,717,221	2,860,648
Trade and other receivables		344,194	799,568
Prepayments		259,231	160,698
Inventories		55,693	25,981
Current tax asset		361,256	765,430
Other assets		834	834
<b>Total current assets</b>		2,738,429	4,613,159
Other financial assets	4	165,810	-
Plant and equipment		623,882	694,727
Intangible assets	5	733,848	867,572
Deferred tax asset		139,619	514,462
Other non-current assets		257,229	298,598
<b>Total non-current assets</b>		1,920,388	2,375,359
<b>Total assets</b>		4,658,817	6,988,518
<b>Liabilities</b>			
Trade and other payables		1,210,577	1,277,767
Other financial liabilities	6	61,212	-
Unearned income		678,792	709,463
Provisions		269,266	646,464
<b>Total current liabilities</b>		2,219,847	2,633,694
Other financial liabilities	6	352,157	-
Provisions		365,117	206,541
<b>Total non-current liabilities</b>		717,274	206,541
<b>Total liabilities</b>		2,937,121	2,840,235
<b>Net assets</b>		1,721,696	4,148,283
<b>Equity</b>			
Issued capital	7	10,763,937	10,140,892
Reserves	7	751,385	705,347
Accumulated losses		(9,793,626)	(6,697,956)
<b>Total equity</b>		1,721,696	4,148,283

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

**Tesserent Limited and its controlled entities**  
**Consolidated statement of changes in equity**  
**For the year ended 30 June 2018**

	Issued capital	Reserves	Accumulated losses	Total equity
	\$	\$	\$	\$
<b>Balance at 1 July 2016 (restated)</b>	9,917,792	235,877	(3,233,920)	6,919,749
<b>Comprehensive income</b>				
Loss for the year	-	-	(3,464,036)	(3,464,036)
Other comprehensive income for the year	-	-	-	-
<b>Total comprehensive income for the year</b>	-	-	(3,464,036)	(3,464,036)
<b>Transactions with owners, in their capacity as owners, and other transfers</b>				
Shares issued during the year	223,100	(223,100)	-	-
Shares and options granted during the year	-	692,570	-	692,570
<b>Total transactions with owners and other transfers</b>	223,100	469,470	-	692,570
<b>Balance at 30 June 2017</b>	10,140,892	705,347	(6,697,956)	4,148,283
<b>Balance at 1 July 2017</b>	10,140,892	705,347	(6,697,956)	4,148,283
<b>Comprehensive income</b>				
Loss for the year	-	-	(3,095,670)	(3,095,670)
Other comprehensive income for the year	-	-	-	-
<b>Total comprehensive income for the year</b>	-	-	(3,095,670)	(3,095,670)
<b>Transactions with owners, in their capacity as owners, and other transfers</b>				
Shares issued during the year	656,300	(92,400)	-	563,900
Capital raising costs	(33,255)	-	-	(33,255)
Shares and options granted during the year	-	138,438	-	138,438
<b>Total transactions with owners and other transfers</b>	623,045	46,038	-	669,083
<b>Balance at 30 June 2018</b>	10,763,937	751,385	(9,739,626)	1,721,696

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

**Tesseract Limited and its controlled entities**

**Consolidated statement of cash flows**

**For the year ended 30 June 2018**

	Note	2018 \$	2017 \$
<b>Cash flows from operations</b>			
Receipts from customers (inclusive of GST)		5,922,560	6,385,337
Payments to suppliers and employees (inclusive of GST)		(8,219,859)	(9,144,143)
		(2,297,299)	(2,758,806)
Income tax paid		-	(17,905)
Interest received		27,804	31,983
Interest and other finance costs paid		(6,439)	(8,152)
Research & development tax concession		844,010	-
Proceeds from transaction restructure		150,000	-
<b>Net cash outflow from operating activities</b>		<b>(1,281,924)</b>	<b>(2,752,880)</b>
<b>Cash flows from investing activities</b>			
Purchase of plant and equipment		(83,851)	(728,897)
Proceeds on disposal of plant and equipment		199,779	-
Purchase of intangibles – development costs capitalised		(370,516)	(260,040)
Payment of deferred settlement liability for software additions		(216,210)	-
Proceeds from deferred consideration on sale of software		250,000	-
Acquisitions of business, net of cash paid out		-	(500,000)
Payout on sale of customer contracts		-	(164,401)
Proceeds from sale of available-for-sale financial assets		-	429,000
Proceeds from sale of plant and equipment		-	457,126
Proceeds from disposal of business		-	3,000,000
<b>Net cash (outflow)/ inflow from investing activities</b>		<b>(220,798)</b>	<b>2,232,788</b>
<b>Cash flows from financing activities</b>			
Proceeds from issuing of shares	7	392,550	-
Payments for issuing of shares	7	(33,255)	-
<b>Net cash inflow from financing activities</b>		<b>359,295</b>	<b>-</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(1,143,427)</b>	<b>(520,092)</b>
Cash and cash equivalents at the beginning of the financial year		2,860,648	3,380,740
<b>Cash and cash equivalents at the end of the financial year</b>		<b>1,717,221</b>	<b>2,860,648</b>

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

**Tesseract Limited and its controlled entities**

**Notes to the preliminary final report**

**For the year ended 30 June 2018**

**1. Earnings per share**

Basic earnings per share is calculated by dividing the profit attributable to the owners of Tesseract Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

	2018 \$	2017 \$
<b>Earnings per share from continuing operations</b>		
Loss after income tax (basic)	(3,095,670)	(3,464,036)
Loss after income tax (diluted)	(3,095,670)	(3,464,036)
Weighted average number of shares used in calculating basic earnings per share	118,368,498	115,738,337
Basic earnings per share (cents per share)	(2.62)	(2.99)
Diluted earnings per share (cents per share)	(2.62)	(2.99)

**2. Revenue**

Sales revenue	5,327,957	5,375,117
Total revenue	5,327,957	5,375,117

**3. Other income**

Transaction restructure fee <sup>1</sup>	150,000	-
Onerous provision writeback	399,279	-
Research and development tax concession	457,741	446,398
Interest <sup>2</sup>	27,803	29,387
Gain on sale of intellectual property	-	571,794
Gain on sale of customer contracts	-	569,694
Other	68,980	171,613
	1,103,803	1,788,886

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

(2) In 2017 the Company disclosed interest within Revenue however for more appropriate disclosure, has moved to disclosing interest as Other income. The prior year disclosures have been updated to reflect this change.

	2018 \$	2017 \$
<b>4. Other financial assets</b>		
Non-current assets		
Call option investment <sup>1</sup>	165,810	-
	165,810	-

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

The carrying amount of other financial assets approximates their fair value.



**Tesseract Limited and its controlled entities**  
**Notes to the preliminary final report**  
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	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
<b>5. Intangible assets</b>		
Goodwill	-	777,375
Intellectual property – at wdv	22,607	90,197
IT development and software – at wdv	711,241	-
	733,848	867,572

<b>Consolidated</b>	<b>Goodwill</b>	<b>Intellectual Property</b>	<b>Software</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>30 June 2017</b>				
Cost	777,375	90,197	-	867,572
Accumulated amortisation	-	-	-	-
Net book amount	777,375	90,197	-	867,572
<b>30 June 2018</b>				
Opening net book value	777,375	90,197	-	867,572
Additions	-	146	-	146
Additions – acquisitions <sup>1</sup>	-	-	463,769	463,769
Additions – capitalised development costs	-	-	370,370	370,370
Amortisation charges	-	-	(122,898)	(122,898)
Write off <sup>2</sup>	(777,375)	(67,736)	-	(845,111)
Closing net book value	-	22,607	711,241	733,848
<b>As at 30 June 2018</b>				
Cost	-	22,607	834,139	856,746
Accumulated amortisation	-	-	(122,898)	(122,898)
Net book amount	-	22,607	711,241	733,848

- (1) On 5<sup>th</sup> July 2017 Tesseract IP Pty Ltd acquired a perpetual licence deed for Software IP. Terms were provided by the vendor whereby payments totalling USD675,000 are to be paid over a 5-year period. In recognising the intangible asset value, the Company has completed a present value of the payments using a discount rate of 15.08%. A corresponding liability has also been recognised and disclosed as current and non-current other financial liabilities. The recognised intangible is being amortised over 5 years.
- (2) The company has undertaken a detailed review of all intangible assets at the CGU level. In conjunction with this review, the restructure of various OEM supplier arrangements and the recently announced acquisition the goodwill capitalised on previous acquisitions has been written off.

**Tesseract Limited and its controlled entities**  
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	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
<b>6. Other financial liabilities</b>		
Deferred settlement liabilities		
Current	61,212	-
Non-current	352,157	-
<p>Deferred settlement liability is recognised when the company has a legal or constructive obligation, as a result of a past event, for which an outflow of economic benefits will result and that outflow can be reliably measured. Future payments are discounted to their net present value at contract commencement using a discount rate of 15.08%. The difference between actual payments and the discounted amount is recognised as a finance cost.</p> <p>Where the discounted payment is due within 12 months of the balance date, the deferred settlement liability will be recorded as a current liability. The balance is represented as non-current.</p>		
<b>7. Capital and reserves</b>		
	<b>2018</b>	<b>2017</b>
<b>Number of shares</b>	<b>No</b>	<b>No</b>
On issue at start of year	116,774,600	115,334,600
Shares issued to directors	412,086	-
Shares issued pursuant to the capital raising	7,142,860	-
Shares issued as equity settled expense	352,000	-
Shares issued to employees	1,360,000	1,440,000
Total shares on issue	126,041,546	116,774,600
	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
On issue at the start of the year	10,140,892	9,917,792
Shares issued to directors	37,500	-
Shares issued pursuant to the capital raising	500,000	-
Capital raise costs	(33,255)	-
Shares issued as equity settled expense	26,400	-
Shares issued to employees	92,400	223,100
Share capital at the end of the year	10,763,937	10,140,892
	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
<b>Reserves</b>		
Share based payments reserve	751,385	705,347

**Tesseract Limited and its controlled entities**

**Notes to the preliminary final report**

**For the year ended 30 June 2018**

**8. Segment report**

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

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

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

	IT Security Managed Services	Software Licensing	Inter segment eliminations	Totals
<b>2018</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Revenues</b>				
Sales to external customers	5,033,889	294,068	-	5,327,957
Inter segment sales	33,820	384,030	(417,850)	-
Total sales revenue	5,067,709	678,098	(417,850)	5,327,957
Onerous provision write back	-	399,279	-	399,279
Transaction restructure fee	150,000	-	-	150,000
Research & development tax concession	457,741	-	-	457,741
Other revenue	96,783	-	-	96,783
<b>Total revenue</b>	<b>5,772,233</b>	<b>1,077,377</b>	<b>(417,850)</b>	<b>6,431,760</b>
<b>Profit/loss before income tax expense</b>	<b>(2,858,959)</b>	<b>138,132</b>	<b>-</b>	<b>(2,720,827)</b>
<b>Total segment assets</b>	<b>4,486,149</b>	<b>686,832</b>	<b>(409,361)</b>	<b>4,763,620</b>
<b>Total segment liabilities</b>	<b>2,793,901</b>	<b>143,220</b>	<b>-</b>	<b>2,937,121</b>
	IT Security Managed Services	Software Licensing	Inter segment eliminations	Totals
<b>2017</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Revenues</b>				
Sales to external customers	5,043,856	331,261	-	5,375,117
Inter segment sales	7,530	359,763	(367,293)	-
Total sales revenue	5,051,386	691,024	(367,293)	5,375,117
Gain on sale of intellectual property	571,794	-	-	571,794
Gain on sale of customer contracts	569,694	-	-	569,694
Research & development tax concession	446,398	-	-	446,398
Other revenue	201,000	-	-	201,000
<b>Total revenue</b>	<b>6,840,272</b>	<b>691,024</b>	<b>(367,293)</b>	<b>7,164,003</b>
<b>Profit/loss before income tax expense</b>	<b>(3,680,868)</b>	<b>454,330</b>	<b>-</b>	<b>(3,226,538)</b>
<b>Total segment assets</b>	<b>5,802,316</b>	<b>1,348,460</b>	<b>(162,258)</b>	<b>6,988,518</b>
<b>Total segment liabilities</b>	<b>2,233,724</b>	<b>606,511</b>	<b>-</b>	<b>2,840,235</b>