

Tesseract Limited
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APPENDIX 4E

Reporting period

Reporting period: Financial year ended 30 June 2020

Comparative period: Financial year ended 30 June 2019

Results for announcement to the market

Key information	\$	Up/Down	% Change
Revenue from ordinary activities	20,579,789	Up	291%
Loss after tax from ordinary activities attributable to members	(7,854,426)	Down	80%
Net loss attributable to members	7,854,426)	Down	80%

Dividends paid and proposed

No dividend has been proposed to be paid or is payable for the year ended 30 June 2020, nor for the comparative period.

Net tangible assets per share

	2020 \$/share	2019 \$/share
Net tangible assets per share	0.01	0.01

Control gained or lost over entities in the year

Name of business	Reporting entity's percentage holding		Contribution to net profit / (loss) in \$000s	
	30 June 2020	30 June 2019	30 June 2020	30 June 2019
	%	%	\$000s	\$000s
Control Gained				
Rivium Pty Ltd	100%	Nil%	290,592	-
Pure Security Group	100%	Nil%	(301,353)	-
North BDT	100%	Nil%	1,052,327	

Investment in Associates and Joint Ventures

Not applicable.

Status of Audit

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

Attachments

The preliminary financial report of Tesseract Limited for the year ended 30 June 2020 is attached.

Board Review

Tesseract Limited (ASX:TNT, Tesseract or the Company) is pleased to provide the Company's Preliminary Final Report (unaudited) for the year ended 30 June 2020.

This report is based on a draft financial report for the year ended 30 June 2020 which is in the process of being audited. The Preliminary Final Report will be released in the coming weeks following completion of the audit.

The Board notes the following points regarding the progress of the Company's strategy and performance during and after the reporting period:

Explanation of Results

FY20 saw Tesseract become Australia's #1 ASX-listed cybersecurity firm primarily as a result of several substantial acquisitions, a strategy led by TNT's new Chairman, Geoff Lord, appointed in January 2020. Since this date, several important organisational changes and strategic acquisitions have led to exponential business growth, creating shareholder value in a number of key areas including a significant uplift in market capitalisation and share price.

As a result of these acquisitions and organisational changes, significant upfront, one-off costs were incurred (Figure 1) without the full-year financial benefits being recognised in the FY20 statutory accounts (Figure 2). The FY20 statutory results are therefore backward-looking and are not a current reflection of the Company's current or go-forward financial position.

	(\$000)	(\$000)
Statutory NPAT loss		\$7,854
Share Based Payments and Option Expenses	\$2,135	
NPAT loss (excluding non-cash expense)		\$5,719
Interest costs	\$601	
Depreciation	\$812	
Deprecation accelerated IP write-off (TRES)	\$786	
Right of Use Asset Amortisation (AASB16)	\$487	
Acquisition costs expensed	\$994	
Amortisation of PPA	\$441	
Underlying EBITDA Loss (excluding non-cash expenses)		\$1,598

Figure 1: One-off costs incurred on IP write-off and historic acquisition costs

	FY20 Actual	
	Gross Revenue (\$000)	EBITDA (\$000)
Existing Core Business		
TNT SOC, Rivium, Pure Security and North	\$20,579	(\$4,727)
Total	\$20,579	(\$4,727)

Figure 2: FY20 Actual Results for Core Business

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

Existing Core Business (Q4 results on an annualised basis)	Gross Revenue (\$000)	EBITDA (\$000)
TNT SOC, Rivium, Pure Security and North	\$43,857	\$71

Figure 3: Q4 FY20 Revenue and EBITDA during the June 2020 quarter annualised

In addition, the Company has announced three additional acquisitions since 30 June 2020 (Figure 4).

New Acquisitions Announced after 30 June 2020	Gross Revenue (\$000)	EBITDA (\$000)
Seer Security (completed)	\$7,637	\$2,737
Airloom (announced)	\$27,156	\$2,693
Ludus Cybersecurity (announced)	\$1,227	\$350
Total	\$36,020	\$5,780

Figure 4: FY20 Unaudited Actual Results for New Acquisitions announced post 30 June 2020

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

- has an FY21 forward gross revenue run-rate of circa **\$80M**
- is cash-flow positive; and,
- is operationally profitable on a month to month basis
- has an ambition to get gross revenue run-rate to in excess of **\$100M** by December 2020.

The additional acquisitions are fully funded using the Company's Pure Asset Management Debt Facility (announced 20 July 2020).

In addition, the Company has in excess of \$6M in further cash reserves.

Key Highlights

- FY20 Financial Objectives achieved:
 - \$43.8M Revenue per annum run rate achieved in FY20
 - Achieved quarterly EBITDA profitability for the FY20 June quarter
 - Cash flow from operations positive during the FY20 June quarter
- Acquisitions:
 - Phase 1 Acquisitions Completed:
 - Rivium (completed FY20)
 - Pure Security (completed FY20)
 - North Security (completed FY20)
 - Seer Security (completed FY21)
 - Phase 2 Acquisitions Announced:
 - Airloom (SPA signed FY21)
 - Ludus Cybersecurity (SPA signed FY21)
- First Acquisition Integration milestones achieved, including:
 - First cross-sales achieved
 - Single Finance Platform, Oracle NetSuite, rolled out across the Group
 - Rivium and the Tesseract MSSP/SOC absorbed into Pure Security
- Became ASXs largest cybersecurity firm
- Became largest Canberra-based cybersecurity firm

FY21 Future Focus:

The Board and Management Team is focused on creating shareholder value by continuing to build on Tesseract's position as Australia's #1 ASX-listed cybersecurity provider. Important goals over this financial year include:

- Deliver our Cyber 360 capabilities to an increasing number of Australian organisations
- Complete Phase Two acquisitions

- Integrate acquisitions to maximise synergy efficiencies and drive organic revenue through cross-sales
- Focus on capturing market share in three key markets; Government (including Defence), Critical Infrastructure and Banking & Finance
- Continuing to drive the Company's acquisition strategy, by executing strategic Phase Two acquisitions
- Building out high-value recurring annuity revenue streams
- Expand proprietary intellectual property to drive high-margin product and service offerings

The Company looks forward to providing further updates on its future financial and commercial objectives.

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Tesseract Limited

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2020

	Note	2020 \$	2019 \$
Continuing operations			
Revenue	3	20,579,789	5,260,272
Other income	4	175,510	107,266
Software licence and connectivity fees		(5,671,614)	(2,279,416)
Administration expenses		(711,734)	(540,316)
Employee benefits expense		(13,880,173)	(2,905,727)
Bad and doubtful debts		(280,804)	(39,183)
Communication costs		(704,658)	(445,735)
Consulting and legal costs		(4,205,234)	(1,463,141)
Depreciation and amortisation expense		(1,739,840)	(316,993)
Occupancy costs		(249,386)	(442,872)
Advertising and promotion		(198,744)	(75,797)
Other expenses		(242,624)	(941,011)
Finance costs		(601,191)	(57,326)
Travel		(178,864)	(77,032)
Call option investment impaired		-	(165,809)
Impairment of intangible		(786,243)	-
Total expenses		(29,451,109)	(9,750,358)
Loss before income tax		(8,695,810)	(4,382,820)
Income tax benefit		841,384	9,999
Net Loss for the year		(7,854,426)	(4,372,821)
Other Comprehensive income/(loss)			
Other comprehensive loss net of tax		-	-
Total comprehensive loss		(7,854,426)	(4,372,821)
Basic loss per share (cents per share)	2	(2.17)	(2.90)
Diluted loss per share (cents per share)	2	(2.17)	(2.90)

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

Tesseract Limited

Consolidated Statement of Financial Position

As at 30 June 2020

	Note	2020 \$	2019 \$
Current Assets			
Cash and cash equivalents		4,349,619	999,660
Trade and other receivables	5	7,586,496	218,768
Prepayments		1,166,608	292,263
Inventories		450,455	276,620
Contract asset	6	310,274	-
Current tax asset		288,288	137,335
Total Current Assets		<u>14,151,740</u>	<u>1,924,646</u>
Non-Current Assets			
Contract assets	6	158,402	-
Plant and equipment		862,719	510,309
Intangibles	7	7,618,948	977,510
Goodwill	8	17,288,134	-
Right of use assets	9	3,920,482	-
Deferred tax assets		-	149,618
Other non-current assets		466,582	257,229
Total Non-Current Assets		<u>30,315,267</u>	<u>1,894,666</u>
Total Assets		<u>44,467,007</u>	<u>3,819,312</u>
Current Liabilities			
Trade and other payables		7,656,468	1,765,342
Other financial liabilities	10	4,014,376	137,991
Lease liabilities	11	959,046	-
Contract liabilities	12	288,570	614,691
Unearned revenue		2,087,198	-
Provisions		487,075	228,315
Total current liabilities		<u>15,492,733</u>	<u>2,746,339</u>
Non-Current Liabilities			
Other financial liabilities	10	686,281	281,714
Lease liabilities	11	3,546,667	-
Contract liabilities	12	158,734	-
Borrowings	13	3,636,860	-
Provisions		644,033	430,299
Deferred tax liability		1,440,176	-
Total Non-current Liabilities		<u>10,112,751</u>	<u>712,013</u>
Total Liabilities		<u>25,605,484</u>	<u>3,458,352</u>
Net Assets		<u>18,861,523</u>	<u>360,960</u>
Equity			
Issued capital	14	31,507,406	13,754,507
Converting notes	15	6,531,698	-
Reserves	16	3,117,699	772,900
Accumulated losses		(22,295,280)	(14,166,447)
Total Equity		<u>18,861,523</u>	<u>360,960</u>

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

Appendix 4E
Preliminary final report

Tesseract Limited

Consolidated Statement of Changes in Equity

For the year ended 30 June 2020

	Issued capital \$	Converting notes \$	Reserves \$	Accumulated losses \$	Total \$
At 1 July 2018	10,875,937	-	639,385	(9,793,626)	1,721,696
Loss for the year	-	-	-	(4,372,821)	(4,372,821)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	(4,372,821)	(4,372,821)
Transactions with owners in their capacity as owners:					
Issue of shares	2,975,933	-	(153,633)	-	2,822,300
Capital raising costs	(97,363)	-	-	-	(97,363)
Share based payments	-	-	287,148	-	287,148
Total transactions with owners and other transfers	2,878,570	-	133,515	-	3,012,085
As at 30 June 2019	13,754,507	-	772,900	(14,166,447)	360,960
	\$	\$	\$	\$	\$
At 1 July 2019	13,754,507	-	772,900	(14,166,447)	360,960
Impact of AASB 16 Leases, net of tax	-	-	-	49,285	49,285
Loss for the year	-	-	-	(7,854,426)	(7,854,426)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	(7,805,141)	(7,805,141)
Transactions with owners in their capacity as owners:					
Issue of shares	5,065,382	-	-	-	5,065,382
Issue of convertible notes	-	9,433,750	-	-	9,433,750
Capital raising costs	(329,964)	(450,744)	-	-	(780,708)
Share based payments	1,487,481	-	2,654,868	-	4,142,349
Shares issued as part of business combination	8,755,000	-	-	-	8,755,000
Shares issued on conversion of convertible notes	2,775,000	(2,775,000)	-	-	-
Interest on convertible note	-	323,692	-	(323,692)	-
Deferred tax	-	-	(310,069)	-	(310,069)
Total transactions with owners and other transfers	17,752,899	6,531,698	2,344,799	(323,692)	26,305,704
As at 30 June 2020	31,507,406	6,531,698	3,117,699	(22,295,280)	18,861,523

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

Tesseract Limited

Consolidated Statement of Cash Flows

For the year ended 30 June 2020

	Note	2020 \$	2019 \$
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		25,907,029	5,415,067
Payments to suppliers and employees		(27,589,175)	(8,266,862)
Other income			26,382
Interest received		9,429	15,989
Interest and other finance costs paid		(567,040)	-
Research and development tax concession			288,330
Net cash (used in) operating activities		<u>(2,239,757)</u>	<u>(2,521,094)</u>
Cash flows from investing activities			
Purchase of plant and equipment			(27,776)
Development costs capitalised			(418,453)
Business acquisitions net of cash acquired	18	(11,350,124)	-
Payment of deferred settlement liability			(133,874)
Net cash (used in) investing activities		<u>(11,350,124)</u>	<u>(580,103)</u>
Cash flows from financing activities			
Proceeds from issue of shares		3,157,028	2,481,000
Cost of issuing shares			(97,364)
Proceeds from borrowings		5,000,000	-
Proceeds from converting notes		9,433,750	-
Payments of lease liabilities		(650,938)	-
Net cash provided by financing activities		<u>16,939,840</u>	<u>2,383,636</u>
Net (decrease) / increase in cash held		3,349,959	(717,561)
Cash and cash equivalents at the beginning of the year		999,660	1,717,221
Cash and cash equivalents at the end of the year		<u>4,351,619</u>	<u>999,660</u>

The above Consolidated 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 2020

1. Significant accounting policies

This preliminary financial report has been authorised for issue by the directors and is presented in Australia Dollars.

Statement of compliance

The preliminary report has been prepared in accordance with ASX Listing Rule 4.3A, the disclosure requirements of ASX Appendix 4E, and in accordance with the recognition and measurement requirements but not the disclosure requirements of Accounting Standards and Australian Accounting Interpretations and the Corporations Act 2001. Accounting Standards includes Australian equivalents to International Financial Reporting Standards (A-IFRS).

The preliminary final report does not include notes of the type normally included in an annual report.

Basis of preparation

The preliminary report is to be read in conjunction with the 2019 Annual Financial Report, the December 2019 half year report and any public announcements made by Tesseract Limited and its controlled entities during the year in accordance with the continuous disclosure obligation arising under ASX Listing Rules.

The preliminary final report has been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the preliminary final report are consistent with those adopted and disclosed in the Company's Annual Financial Report for the year ended 30 June 2019 except for the adoption of AASB 16 *Leases*. The impact of the adoption of AASB16 *Leases* has been disclosed below..

Changes in accounting policies

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

The group has adopted AASB 16 using the modified retrospective approach from 1 July 2019, as such has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019.

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

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

Right of use assets

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

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

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

Tesseract Limited and its controlled entities

Notes to the preliminary final report

For the year ended 30 June 2020

Lease liabilities

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

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

Impact on transition

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

	1 July 2019 \$
Right of use assets	1,594,980
Lease liabilities	(1,666,308)
Deferred tax asset	120,613
	49,285

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

Lease liability recognised as at 1 July 2019:

	1 July 2019 \$
Current lease liabilities	371,427
Non-current lease liabilities	1,294,881
	1,666,308

Critical Accounting Judgements and Key Sources of Estimation Uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Share-based payment transactions

The consolidated entity 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 accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Tesserent Limited and its controlled entities

Notes to the preliminary final report

For the year ended 30 June 2020

Allowance for expected credit losses

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience and historical collection rates.

Estimation of useful lives of assets

The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives. Technically obsolete or non-strategic assets that are abandoned or sold will be written off or written down.

Goodwill and other indefinite life intangible assets

The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Income tax

The consolidated entity is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax audit issues based on the consolidated entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Employee benefits provision

The liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Business combinations

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

In the application of accounting policies, management is required to make judgements, estimates and assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant.

Lease term

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

Tesseract Limited and its controlled entities

Notes to the preliminary final report

For the year ended 30 June 2020

Incremental borrowing rate

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

2. 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.

	2020	2019
	\$	\$
Earnings per share from continuing operations		
Loss after income tax (basic)	(7,854,426)	(4,372,821)
Loss after income tax (diluted)	(7,854,426)	(4,372,821)
Weighted average number of shares used in calculating basic and diluted earnings per share	361,882,054	150,950,488
Basic earnings per share (cents per share)	(2.17)	(2.90)
Diluted earnings per share (cents per share)	(2.17)	(2.90)

3. Revenue

Software Licensing fees	414,221	-
Security services – consulting	12,050,024	93,713
Managed services	3,301,176	3,295,054
Installation and set up	484,855	11,333
Sale of hardware and software	4,329,513	1,860,172
Total sales revenue	20,579,789	5,260,272

4. Other income

Government grant income (1)	100,000	-
Research and development tax concession	-	137,335
Interest	8,106	15,989
Reversal of R&D over accrual in prior year	-	(72,925)
Other	67,404	26,867
	175,510	107,266

(1) Government grant income relate to Cash Flow Boosts provided by the Australian Federal Government in response to COVID-19.

5. Trade and other receivables

Trade receivables	7,585,528	279,135
Allowance for expected credit loss	(81,417)	(60,368)
	7,504,111	218,767
Other receivables	82,834	-
	7,586,945	218,767

Tesserent Limited and its controlled entities
Notes to the preliminary final report
For the year ended 30 June 2020

	2020	2019
	\$	\$
6. Contract balances		
Current contract assets	310,274	-
Non-current contract assets	158,402	-

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

7. Intangible assets

Consolidated	Customer Contracts	Software	Total
	\$	\$	\$
30 June 2019			
Cost	22,607	1,252,592	1,275,199
Accumulated impairment	-	-	-
Accumulated amortisation	-	(297,689)	(297,689)
Net book amount 30 June 2019	22,607	954,903	977,510
30 June 2020			
Opening net book value	22,607	954,903	977,510
Additions – capitalised development costs	-	82,465	82,465
Additions – acquired through business combination	8,037,000	-	8,037,000
Impairment	-	(786,243)	(786,243)
Amortisation charges	(440,659)	(251,125)	(691,784)
Closing net book value	7,618,948	-	7,618,948
As at 30 June 2020			
Cost	8,058,607	2,112,432	10,171,039
Accumulated impairment	-	(786,243)	(786,243)
Accumulated amortisation	(440,659)	(1,326,189)	(1,766,848)
Net book amount 30 June 2020	7,617,948	-	7,617,948

8. Goodwill	2020	2019
	\$	\$
Goodwill arising from business combination:		
Rivium	2,330,555	-
Pure Security Group	9,216,224	-
North Consulting	5,741,355	-
	17,288,134	-

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	2020	2019
	\$	\$
9. Right of use asset		
Property leases - cost	6,086,860	-
Property leases – accumulated depreciation	(2,166,378)	-
	3,920,482	-

10. Other financial liabilities

Current

Deferred consideration	4,014,376	137,991
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Non-current

Deferred consideration	686,281	281,714
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The amounts noted related to outstanding payments and “earn out” clauses included in the Share Purchase Agreements for each of the acquired businesses. The amounts are payable on achievement of set milestones by each business unit.

11. Lease liabilities

Current lease liabilities	959,046	-
Non-current lease liabilities	3,546,667	-
	4,505,713	-

Lease liabilities relate to property leases for Rights to Use assets (Note 9).

12. Contract liabilities

Current contract liabilities	288,570	614,691
Non-current contract liabilities	158,734	-
	447,304	614,691

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

13. Borrowings – non-current

Loan facility	5,000,000	-
Fair value attaching to warrants	(1,448,400)	
Transaction costs	(137,500)	
Amortisation	222,760	-
	3,636,860	-

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

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14. Capital and reserves	2020	2019
Number of shares	No. of shares	No. of share
On issue at start of year	183,043,123	126,041,546
Shares issued pursuant to the capital raising	162,348,748	47,882,837
Issued as part of business combination consideration	137,550,000	-
Shares issued as equity settled expense	25,151,502	5,428,000
Shares issued to employees	3,740,741	3,690,740
Total shares on issue	511,834,114	183,043,123
	\$	\$
On issue at the start of the year	13,754,507	10,875,937
Shares issued pursuant to the capital raising	5,065,382	2,481,002
Shares issued on conversion of convertible notes	2,775,000	-
Capital raise costs	(329,964)	(97,364)
Issued as part of business combination consideration	8,755,000	-
Shares issued as equity settled expense	1,274,074	289,400
Shares issued to employees	213,407	205,532
Share capital at the end of the year	31,507,406	13,754,507
15. Convertible Notes		
Converting notes issued	9,433,750	-
Cost of issue of converting notes	(450,744)	-
Interest accrued on converting notes	323,692	-
Notes converted to share capital	(2,775,000)	-
	6,531,698	

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

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

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

16. Reserves

Share based payments reserve	3,117,699	772,900
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17. 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. The operating segments have been identified as: Cyber Security Consulting, Splunk Software & Licensing, IT Security Managed Services and Other 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.

	Cyber Security Consulting	Splunk software & licensing	IT Security Managed Services	Software Licensing	Inter Segment Eliminations	Totals
2020	\$	\$	\$	\$	\$	\$
Revenues						
Sales to external customers	13,145,582	1,503,191	5,728,477	202,539	-	20,579,789
Inter segment sales	-	-	-	247,793	(247,793)	-
Total sales revenue	<u>13,145,582</u>	<u>1,503,191</u>	<u>5,728,477</u>	<u>450,332</u>	<u>(247,793)</u>	<u>20,579,789</u>
Other revenue	56,631	62,340	56,539	-	-	175,510
Total revenue	<u>13,202,213</u>	<u>1,565,531</u>	<u>5,785,016</u>	<u>450,332</u>	<u>-</u>	<u>20,755,299</u>
Profit /(loss) before income tax expense	<u>156,730</u>	<u>212,609</u>	<u>(6,976,896)</u>	<u>(2,091,253)</u>	<u>-</u>	<u>(8,695,810)</u>
Total segment assets	<u>33,886,396</u>	<u>5,270,752</u>	<u>1,846,276</u>	<u>3,463,583</u>	<u>-</u>	<u>44,467,007</u>
Total segment liabilities	<u>11,240,223</u>	<u>1,730,160</u>	<u>8,843,184</u>	<u>3,791,917</u>	<u>-</u>	<u>25,605,484</u>
			IT Security Managed Services	Software Licensing	Inter Segment Eliminations	Totals
2019			\$	\$	\$	\$
Revenues						
Sales to external customers			4,935,657	324,615	-	5,260,272
Inter segment sales			-	343,630	(343,630)	-
Total sales revenue			<u>4,935,657</u>	<u>668,245</u>	<u>(343,630)</u>	<u>5,260,272</u>
R&D tax concession			137,335	-	-	137,335
Other revenue			(30,554)	485	-	(30,069)
Total revenue			<u>5,042,438</u>	<u>668,730</u>	<u>(343,630)</u>	<u>5,367,538</u>
(Loss)/ Profit before income tax expense			<u>(4,467,898)</u>	<u>95,077</u>	<u>-</u>	<u>(4,382,820)</u>
Total segment assets			<u>3,016,688</u>	<u>802,625</u>	<u>-</u>	<u>3,819,313</u>
Total segment liabilities			<u>3,294,416</u>	<u>163,936</u>	<u>-</u>	<u>3,458,352</u>

18. Business Combinations

During the year Tesseract Group completed the acquisitions of Rivium Pty Ltd, PS & C Limited and north BDT. Details of the acquisitions were as follows:

Rivium

On 1 July 2019, TNT Cyber Services Pty Ltd a subsidiary of Tesseract Limited acquired 100% of the ordinary shares of Rivium Pty Ltd for total consideration of \$3,250,000, plus adjusting payments of \$283,217.

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

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

The acquisition is the first under Tesseract's aggressive new growth strategy focused on the acquisition of cybersecurity products and services that allow it to become Australia's leading end-to-end cyber security business.

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

Contingent consideration is in the form of "earn out" shares calculated as a multiple of EBITDA. At the date of acquisition, the directors determined it was probable that the deferred consideration would be realised and therefore recognised the maximum exposure as its fair value.

Pure Security

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

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

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

north BDT

On 26 March 2020 Tesseract announced the completion of the acquisition of 100% of the share capital of north BDT consultancy business for a total consideration of \$7,819,293. Consideration includes:

- cash payment of \$1.25 million;
- deferred payments of \$2.05 million;
- the issue of 20 million ordinary shares in Tesseract ("Consideration shares") at an issue price of \$0.10 per share, subject to 12 months voluntary escrow;
- An earn out payment equal to twice the increase in EBITDA between FY19 and FY20. FY19 EBITDA has been agreed at \$766k. The earn out will be paid out in the following proportions:
 - 37.5% payment of cash;
 - 62.5% to be issued as Shares in the Company ("Earn out shares").

North's team of management consultants and cybersecurity experts are highly trained in providing ICT services to the Australian Government agencies. They bring significant knowledge in building ICT and cybersecurity businesses. The TNT group now boasts a team of 140+ staff servicing approximately 700+ customers. The acquisition gives Tesseract access to north's government and private client base in Canberra and provides the

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Company an opportunity to leverage north's existing relationships to enable cross-sales opportunities into TNT's other business units.

Details of acquisitions:

	Rivium Fair value	Pure Security Fair value	North BDT Fair value
	\$	\$	\$
Cash	440,700	76,161	57,001
Trade and other debtors	1,247,800	3,965,827	1,338,705
Plant and equipment	2,619	472,898	39,492
Contract assets	537,131	-	875,745
Right of use assets	-	2,715,956	541,921
Trade and other creditors	(1,163,991)	(2,784,275)	(1,502,407)
Contract liabilities	(435,729)	-	-
Lease liabilities	-	(2,803,838)	(567,154)
Employee benefit provisions	(190,017)	(736,837)	(60,827)
Deferred tax liabilities	(286,632)	(1,166,366)	(799,266)
Net assets acquired	151,881	(260,474)	(76,790)
Goodwill	2,330,555	9,216,224	5,741,355
Customer contracts	1,048,000	4,834,000	2,155,000
	<u>3,530,436</u>	<u>13,789,750</u>	<u>7,819,565</u>
Represented by:			
Cash	1,778,217	8,000,000	1,250,000
Issued capital	772,200	5,000,000	2,000,000
Contingent consideration	699,583	1,000,000	4,046,844
Adjustment to consideration	280,436	(210,250)	522,721
	<u>3,533,217</u>	<u>13,789,750</u>	<u>7,819,565</u>