

**FOREWORD TO TESSERENT'S
AUDITED FY 21 HALF YEARLY REPORT**

Turnover increases YoY by 500% to \$36.5M
Operational EBITDA increases by \$4.6M to \$2.9M
Net assets increase from \$16.5M to \$65M
Cash at bank increases from \$4M to \$8M

On track to deliver ambition of \$150M turnover run rate at June 30 2021

Tesseract Limited (ASX:TNT, Tesseract or the Company) is pleased to provide the Company's Half Yearly Audited Report for the half-year ended 31 December 2020. The Board notes the following points regarding the progress of the Company's strategy and performance during and after the reporting period.

The Company utilised the extension of time granted by ASIC for lodgment of Half Year Reports for balance dates ending on or before 7 January 2021. There were no material changes between the unaudited/unreviewed accounts and the audited/reviewed accounts. A summary of non-material changes is as follows:

Income Statement:	No Change
Cash Flow Statement:	No Change
Balance Sheet:	A reclassification of c\$800k from Non-Current Assets to Current Assets in regard to lease liabilities, which did not result in a change to Net Assets.

Key Highlights for H1 FY21

- Financial achievements:
 - \$36.5M Turnover¹ achieved (in excess of 500% growth on same period last FY)
 - \$2.9M Operational EBITDA³ achieved against a prior period loss of \$1.7M
 - Maintains the Companies ambition to achieve a \$150M turnover by June 30 2021
- Acquisitions:
 - Seer Security (completed August 2020)
 - Airloom (completed September 2020)
 - Ludus Cybersecurity (completed September 2020)
 - iQ3 (completed November 2020)
 - Lateral Security NZ (completed February 2021)
- Joint Ventures:
 - Optic TNT Security Pty. Ltd. JV with NZ-based Secure Optic (announced November 2020)
- Listed on [ASX All Tech Index \(S&P/ASX All Technology Index\)](#)

- Entered NZ market with acquisition of Lateral Security

The H2 FY21 Results will benefit from:

- The inclusion of 5 months results from Lateral Security which completed in February 21
- The inclusion of the full 6 months revenue and earnings for the following acquisitions :
 - Seer Security (5 months in H1 results)
 - Airloom (4 months in H1 results)
 - Ludus Cybersecurity (4 months in H1 results)
 - iQ3 (2 months in H1 results)
- Strong organic growth with significant uplift across our Government projects.

Explanation of Results

H1 FY21 saw Tesseract achieve transformational business growth, resulting from strategic acquisitions and increased business unit cross-sales which created shareholder value in a number of key areas including a significant uplift in market capitalisation and share price.

Whilst the Company's comparative YoY revenue and earnings is strong, the H1 FY21 statutory results are still backward-looking and are not a current reflection of the Company's current or go-forward financial position.

As a result of these aforementioned acquisitions, significant upfront (one-off) costs were incurred without the full half-year financial benefits (Figure 3) being recognised in the H1 FY21 statutory accounts (Figure 1). The Company's Employee Share Option Plan (ESOP) which is a significant way to attract and maintain a highly skilled workforce in a competitive market and provides tax benefits was another expense recognised in the statutory accounts.

	Six months ending:		Variance (\$)	Variance (%)
	Dec 2020 (\$'000)	Dec 2019 (\$'000)		
Turnover ¹	36,486	6,095	30,391	500%
Statutory Revenue	28,870	5,311	23,559	444%
Underlying EBITDAC ²	4,662	(279)	4,941	n/c
Operational EBITDA ³	2,911	(1,661)	4,572	n/c
Operational Depreciation	(927)	(382)	(545)	143%
Operational EBIT ³	1,984	(2,043)	4,027	n/c
Operational Finance costs	(198)	(236)	38	-16%
Profit/(loss) before tax ⁴	1,786	(2,279)	4,065	n/c
One-off acquisition costs	(2,715)	(1,008)	(1,707)	169%
Acquisition finance costs	(2,219)	(19)	(2,200)	n/c
Amortisation of identifiable intangibles (on acquisition)	(402)	(93)	(309)	332%
ESOP option expense for Staff	(2,630)	(586)	(2,044)	349%
Subtotal	(7,966)	(1,706)		
Statutory loss before tax	(6,180)	(3,985)	(2,195)	55%

¹ Turnover includes gross income on certain third-party software licence sales - treated on a net basis for statutory reporting

ASX ANNOUNCEMENT

Melbourne – 11 March 2021



² EBITDAC is Earnings Before Interest, Tax, Depreciation, Amortisation and Corporate costs

³ Before One-off acquisition costs and Share option expense

⁴ Before One-off acquisition costs, Acquisition finance costs and Share option expense

Figure 1: Actual H1 FY21 Headline Results

- The items highlighted and subtotalled above \$7,966,000 include \$5,364,000 (67%) that were noncash payments.

Future Focus:

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

The Company's previously stated goals for FY21 remain:

- Deliver our Cyber 360 capabilities to an increasing number of Australian organisations
- Integrate acquisitions to maximise synergy efficiencies and drive organic revenue growth through cross-selling
- 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 to expand on Cyber 360 capabilities and increase shareholder value through incremental EPS growth
- Building out high-value recurring annuity revenue streams
- Expand proprietary intellectual property to drive high-margin product and service offerings
- Explore International expansion opportunities with a focus on Australia's key Five Eyes allies, which consists of the USA, UK, NZ and Canada

The Company looks forward to providing further updates on its future financial and commercial objectives no later than the end of March 2021.

For further information, please contact:

Julian Challingsworth

Co-Chief Executive Officer

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Authorised for release by the Tesseract Board



TESSERENT LIMITED

ABN 13 605 672 928

CONSOLIDATED FINANCIAL REPORT

FOR THE HALF-YEAR ENDED

31 DECEMBER 2020

DIRECTORS' REPORT

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Tesseract Limited (referred to hereafter as 'Tesseract' the 'Company' or 'Parent Entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2020.

Directors

The following persons were directors of Tesseract during the whole of the financial half-year and up to the date of this report, unless otherwise stated:

Ongoing

Geoff Lord – Non-Executive Chairman (appointed 10 January 2020)
Gregory Baxter – Non-Executive Director (appointed 16 November 2016)
Julian Challingsworth – Co-Managing Director and Co-CEO (appointed 1 August 2018)
Kurt Hansen - Co-Managing Director and Co-CEO (appointed 12 December 2019)

Newly Appointed

Megan Haas (appointed 19 January 2021) – Non-Executive Director

Retired

Patrick Flannigan (resigned 18 January 2021) – Non-Executive Director

Principal Activities

Tesseract provides full-service, end-to-end Cyber Security via its "Cyber 360" offering, delivered both directly and via industry partners to a wide range of Australian and international customers, including corporate enterprises, government customers and education providers. These services are typically provided on multi-year, fixed term contracts and/or on a project-by-project basis.

Operating Result

The net loss for the consolidated entity after providing for income tax amounted to \$5,972,577 (31 December 2019: loss \$3,765,371). The loss was significantly inflated due to one-off business acquisition costs of \$2,715,237, employee share option expense of \$2,629,520 and loan facility costs of \$2,218,901.

Review of Operations

H1 FY21 saw Tesseract achieve transformational business growth, resulting from strategic acquisitions and increased business unit cross-sales which created shareholder value in a number of key areas including a significant uplift in market capitalisation and share price.

Whilst the Company's comparative YoY revenue and earnings is strong, the H1 FY21 statutory results are still backward-looking and are not a current reflection of the Company's current or go-forward financial position.

As a result of these aforementioned acquisitions, significant upfront (one-off) costs were incurred without the full half-year financial benefits being recognised in the H1 FY21 statutory accounts. The Company's Employee Share Option Plan (ESOP) which is a significant way to attract and maintain a highly skilled workforce in a competitive market and provides tax benefits was another expense recognised in the statutory accounts.

Future Focus

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

The Company's previously stated goals for FY21 remain:

- Deliver our Cyber 360 capabilities to an increasing number of Australian organisations
- Integrate acquisitions to maximise synergy efficiencies and drive organic revenue growth through cross-selling
- 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 to expand on Cyber 360 capabilities and increase shareholder value through incremental EPS growth
- Building out high-value recurring annuity revenue streams
- Expand proprietary intellectual property to drive high-margin product and service offerings
- Explore International expansion opportunities with a focus on Australia's key Five Eyes allies, which consists of the USA, UK, NZ and Canada

Significant Changes in the State of Affairs

Other than the matters referred to above, in the opinion of the Directors, there were no significant changes in the state of affairs of Tesseract that occurred during the half year ended 31 December 2020.

Post Balance Date Events

Appointment of Megan Haas as a Director

On 19 January 2021, the Board was pleased to announce the appointment of Megan Haas as a non-executive director. Megan has an extensive background as a cyber, risk and governance expert, bringing 30+ years of global cyber experience to the Company.

As part of this appointment, Mr. Patrick Flannigan resigned from the Board. The Board thanks Patrick for his guidance and support during his tenure in which the Company has experienced significant growth.

Completion of acquisition of Lateral Security

The Company has completed the acquisition of NZ based Lateral Security (IT) Services Ltd, announced to the market on 17 December 2020, with an initial cash payment of \$1.068 million on 12 February 2021 and the pending issue of 6.25 million shares.

Apart from the above, there were no other post balance date events.

Dividends

The Directors have resolved to not declare a dividend for the half year (2020: nil).

Proceedings on behalf of the Company

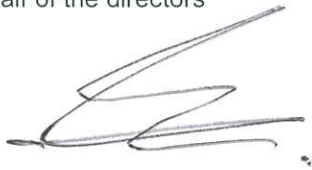
No person has applied to the Court under Section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Auditor's Independence Declaration

A copy of the auditor's independence declaration, as required under section 307C of the Corporations Act 2001, is set out on the following page.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



Julian Challingsworth
Co-Managing Director and Co-CEO
11 March 2021

DECLARATION OF INDEPENDENCE BY DAVID GARVEY TO THE DIRECTORS OF TESSERENT LIMITED

As lead auditor for the review of Tesseract Limited for the half-year ended 31 December 2020, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Tesseract Limited and the entities it controlled during the period.



David Garvey
Director

BDO Audit Pty Ltd

Melbourne, 11 March 2021

TESSERENT LIMITED
Consolidated Statement of Profit or Loss and Other Comprehensive Income
FOR THE HALF-YEAR ENDED 31 DECEMBER 2020

	Notes	December 2020 \$	December 2019 \$
Revenue			
Revenue from continuing operations	2	28,869,560	5,310,730
Other income	2	208,237	44,668
Expenses			
Software licence and connectivity fees		(4,774,872)	(2,375,158)
Employee benefits expense		(14,079,004)	(2,835,187)
Contractor expense		(4,350,422)	(29,208)
Administration expenses		(195,768)	(376,560)
Bad and doubtful debts		(17,500)	(255,804)
Communication costs		(830,956)	(239,101)
Consulting and legal costs		(226,888)	(640,629)
Advertising and promotion		(160,004)	(59,026)
Travel expenses		(116,490)	(76,391)
Business acquisition costs		(2,715,237)	(1,007,860)
Share option expense		(2,629,520)	(585,843)
Depreciation and amortisation		(1,329,295)	(382,548)
Finance costs		(2,416,775)	(254,900)
Other expenses		(1,414,876)	(222,278)
Loss before income tax		(6,179,810)	(3,985,095)
Income tax benefit (expense)		207,233	219,724
Loss after income tax from continuing operations		(5,972,577)	(3,765,371)
Net loss for the period		(5,972,577)	(3,765,371)
Net loss attributable to members of the parent		(5,972,577)	(3,765,371)
Total other comprehensive income for the period		-	-
Total comprehensive income attributable to members of the parent		(5,972,577)	(3,765,371)
Earnings per share (cents per share)			
- Basic earnings per share for the half-year (cents)		(0.82)	(1.46)
- Diluted earnings per share for the half-year (cents)		(0.82)	(1.46)

The above consolidated statement of profit and loss and other comprehensive income should be read in conjunction with the accompanying notes

TESSERENT LIMITED

Consolidated Statement of Financial Position
AS AT 31 DECEMBER 2020

	Notes	December 2020 \$	June 2020 \$
ASSETS			
Current Assets			
Cash and cash equivalents		7,984,163	4,349,619
Trade and other receivables		15,451,154	7,422,720
Prepayments		1,746,183	1,381,921
Inventories		62,647	63,616
Other current assets		2,346,611	779,888
Current tax asset		184,933	288,288
Total Current Assets		27,775,691	14,286,052
Non-current Assets			
Plant and equipment		2,650,800	862,719
Intangible assets	4	7,217,099	7,618,949
Goodwill	5	71,434,391	15,964,917
Right-of-use assets		7,716,316	3,920,481
Other non-current assets		808,445	624,984
Total Non-current Assets		89,827,051	28,992,050
TOTAL ASSETS		117,602,742	43,278,102
LIABILITIES			
Current Liabilities			
Trade and other payables		12,771,736	7,468,588
Contract liabilities		3,615,416	2,651,341
Lease liabilities		2,158,982	1,046,478
Provisions		2,513,709	842,917
Current tax payable		1,144,881	-
Deferred settlement liabilities		10,724,561	4,713,959
Total Current Liabilities		32,929,285	16,723,283
Non-current Liabilities			
Contract liabilities		117,987	128,501
Lease liabilities		5,432,373	3,489,468
Borrowings	6	9,910,423	3,636,860
Provisions		494,556	666,071
Deferred settlement liabilities		1,450,648	686,281
Deferred tax liability		2,147,220	1,440,176
Total Non-current Liabilities		19,553,207	10,047,357
TOTAL LIABILITIES		52,482,492	26,770,640
NET ASSETS		65,120,250	16,507,462
EQUITY			
Issued capital	7	86,858,201	29,484,606
Converting notes		-	6,531,698
Reserves		6,029,384	1,840,523
Accumulated losses		(27,767,335)	(21,349,365)
TOTAL EQUITY		65,120,250	16,507,462

The above consolidated statement of financial position should be read in conjunction with the accompanying notes

Consolidated Statement of Changes in Equity

FOR THE HALF-YEAR ENDED 31 DECEMBER 2020

	Issued Capital \$	Converting Notes \$	Reserves \$	Accumulated Losses \$	Total Equity \$
At 1 July 2019	13,754,507	-	772,900	(14,166,447)	360,960
Adjustment from adoption of AASB 16, net of tax	-	-	-	(13,612)	(13,612)
Profit/(loss) after tax for the period	-	-	-	(3,765,371)	(3,765,371)
Total comprehensive income for the period	-	-	-	(3,778,983)	(3,778,983)
Transactions with owners in their capacity as owners:					
Shares issued during the period	9,394,749	-	(221,250)	-	9,173,499
Convertible notes issued during the period	-	8,495,000	-	-	8,495,000
Warrants issued during the period	-	-	1,448,400	-	1,448,400
Capital raising costs	(354,171)	(426,540)	-	-	(780,711)
Share option expense, net of tax	-	-	343,106	-	343,106
	9,040,578	8,068,460	1,570,256	-	18,679,294
At 31 December 2019	22,795,085	8,068,460	2,343,156	(17,945,430)	15,261,271
At 1 July 2020	29,484,606	6,531,698	1,840,523	(21,349,365)	16,507,462
Profit/(loss) after tax for the period	-	-	-	(5,972,577)	(5,972,577)
Total comprehensive income for the period	-	-	-	(5,972,577)	(5,972,577)
Transactions with owners in their capacity as owners:					
Shares issued during the period	9,092,502	-	-	-	9,092,502
Share based payments	1,731,401	-	-	-	1,731,401
Shares issued as part of business combinations	37,517,240	-	-	-	37,517,240
Distributions to convertible note holders	-	189,704	-	(189,704)	-
Shares issued on conversion of convertible notes	7,172,176	(6,721,402)	-	(450,774)	-
Shares to be issued on conversion of convertible notes	162,500	-	-	-	162,500
Capital raising costs	(168,518)	-	-	-	(168,518)
Warrants issued during the period	-	-	4,994,096	-	4,994,096
Warrants exercised	1,448,400	-	(1,448,400)	-	-
Share option expense	-	-	2,629,520	-	2,629,520
Options converted	417,894	-	(417,894)	-	-
Options expired	-	-	(195,085)	195,085	-
Deferred tax	-	-	(1,373,376)	-	(1,373,376)
	57,373,595	(6,531,698)	4,188,861	(445,393)	54,585,365
At 31 December 2020	86,858,201	-	6,029,384	(27,767,335)	65,120,250

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

TESSERENT LIMITED

Consolidated Statement of Cash Flows
FOR THE HALF-YEAR ENDED 31 DECEMBER 2020

Notes	December 2020 \$	December 2019 \$
Cash flows from operating activities		
Receipts from customers	35,539,180	3,804,576
Payments to suppliers and employees	(38,800,368)	(6,494,879)
Government grant income	175,000	-
Research and development tax concession	137,335	-
Income tax paid/(refund)	35,017	-
Net cash flows from operating activities	(2,913,836)	(2,690,303)
Cash flows from investing activities		
Purchase of plant and equipment	-	-
Payments for business combinations (net of cash acquired)	(5,326,356)	(9,760,907)
Business combination acquisition costs	(882,758)	(47,005)
Net cash flows from investing activities	(6,209,114)	(9,807,912)
Cash flows from financing activities		
Proceeds from share issues, net of costs	9,024,232	1,997,004
Proceeds from borrowings	10,000,000	5,000,000
Proceeds from converting notes	-	8,495,000
Repayment of lease liabilities	(2,963,130)	(207,541)
Payment of deferred settlement liabilities	(2,348,157)	(146,435)
Interest received	3,168	6,507
Interest and other finance costs paid	(958,619)	(91,693)
Net cash flows from financing activities	12,757,494	15,052,842
Net increase/(decrease) in cash and cash equivalents	3,634,544	2,554,627
Cash and cash equivalents at beginning of period	4,349,619	999,660
Cash and cash equivalents at end of period	7,984,163	3,554,287

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

Notes to the Consolidated Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2020

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation of the half-year financial report

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore does not provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report. It is therefore recommended that the half-year consolidated financial report should be read in conjunction with the annual consolidated Financial Report of Tesserent Limited as at 30 June 2020, together with any public announcements made by Tesserent Limited and its controlled entities during the half-year ended 31 December 2020 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001 and the ASX listing rules.

The consolidated financial statements comprise the financial statements of the parent entity, Tesserent Limited and its subsidiaries ('the Group').

The half-year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and applicable Accounting Standards including AASB 134 - Interim Financial Reporting. Compliance with AASB 134 ensures that the financial statements and notes comply with International Financial Reporting Standard IAS 34 - Interim Financial Reporting. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

The half-year financial report has been prepared on a historical cost basis.

For the purposes of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

(b) New Accounting Standards

The Group has adopted all new and revised Australian Accounting Standards and Interpretations that became effective for the first time and are relevant to the Group.

(c) Significant Accounting Policies

The half-year consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2020 and the corresponding interim reporting period.

(d) Reviewed accounts status

The Company applied class relief under ASIC instrument 2020/1080 to extend the lodgement date of its reviewed accounts on 26 February 2021. The only change from the unreviewed accounts dated 26 February 2021 and these accounts is the reclassification of lease liabilities between current and non-current liabilities, upon review.

2 REVENUE

	December 2020 \$	December 2019 \$
(i) Revenue		
Hardware and software sales	2,842,440	1,082,617
Managed Services	7,368,686	3,204,337
Professional services	18,658,434	1,023,776
	28,869,560	5,310,730
(ii) Other income		
Interest	3,168	6,810
Government grant income	175,000	-
Other	30,069	37,858
	208,237	44,668

Notes to the Consolidated Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2020

3 SEGMENT REPORTING

The Group operates predominantly in Australia.

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 (Chief Executive Officer) in order to effectively allocate Group resources and assess performance.

Half year ended 31 December 2020	Professional Services \$	Managed Services \$	Unallocated \$	Inter Segment \$	Total \$
Sales to external customers	9,910,006	18,959,554	-	-	28,869,560
Inter segment sales	371,670	336,144	-	(707,814)	-
Total sales revenue	10,281,676	19,295,698	-	(707,814)	28,869,560
Other revenue	22,602	185,615	20	-	208,237
Total revenue	10,304,278	19,481,313	20	(707,814)	29,077,797
EBITDA	1,840,111	2,054,344	(6,328,195)	-	(2,433,740)
Depreciation and amortisation	(34,609)	(889,723)	(404,963)	-	(1,329,295)
Finance expense	(11,053)	(186,821)	(2,218,901)	-	(2,416,775)
Profit/(loss) before income tax	1,794,449	977,800	(8,952,059)	-	(6,179,810)
Total segment assets	5,631,011	33,135,308	78,836,423	-	117,602,742
Total segment liabilities	3,296,349	24,953,291	24,232,852	-	52,482,492
Half year ended 31 December 2019 *	Professional Services \$	Managed Services \$	Unallocated \$	Inter Segment \$	Total \$
Sales to external customers	1,023,776	4,286,954	-	-	5,310,730
Inter segment sales	-	139,408	-	(139,408)	-
Total sales revenue	1,023,776	4,426,362	-	(139,408)	5,310,730
Other revenue	8	44,660	-	-	44,668
Total revenue	1,023,784	4,471,022	-	(139,408)	5,355,398
Profit/(loss) before income tax	(37,953)	(3,947,142)	-	-	(3,985,095)
Total segment assets	10,052,835	22,134,150	-	-	32,186,985
Total segment liabilities	1,542,086	15,383,628	-	-	16,925,714

* The December 2019 segment analysis reflected how the chief operating decision maker reviewed the business at the time

Notes to the Consolidated Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2020

4 INTANGIBLES

	Customer contracts and relationships \$	Intellectual property \$	Software \$	Total \$
Opening net book value at 1 July 2020	7,596,342	22,607	-	7,618,949
Amortisation charge	(401,850)	-	-	(401,850)
Net book value at 31 December 2020	7,194,492	22,607	-	7,217,099
As at 31 December 2020				
Cost	8,037,000	22,607	2,112,432	10,172,039
Accumulated impairment	-	-	(786,243)	(786,243)
Accumulated amortisation	(842,508)	-	(1,326,189)	(2,168,697)
Net book value	7,194,492	22,607	-	7,217,099
As at 30 June 2020				
Cost	8,037,000	22,607	2,112,432	10,172,039
Accumulated impairment	-	-	(786,243)	(786,243)
Accumulated amortisation	(440,658)	-	(1,326,189)	(1,766,847)
Net book value	7,596,342	22,607	-	7,618,949

Notes to the Consolidated Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2020

5 GOODWILL

	\$
Opening net book value at 1 July 2020	15,964,917
Additional amounts recognised through business combinations ¹	54,912,674
Additional amount recognised from prior year business combination	556,800
Impairment charge	-
Net book value at 31 December 2020	71,434,391

¹ Current period acquisitions have been provisionally accounted for

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

	December 2020 \$	June 2020 \$
Managed services	46,530,735	11,263,562
Consulting services	24,903,656	4,701,355
	71,434,391	15,964,917

6 BORROWINGS

	December 2020 \$	June 2020 \$
Loan facility	15,000,000	5,000,000
Fair value of attaching warrants	(4,994,096)	(1,448,400)
Transaction costs	(375,000)	(137,500)
	9,630,904	3,414,100
Amortisation of finance component (warrants and transaction costs)	279,519	222,760
	9,910,423	3,636,860

7 ISSUED CAPITAL

a) Issued capital

	31 December 2020		30 June 2020	
	No.	\$	No.	\$
Ordinary shares - fully paid	998,319,200	86,858,201	511,834,114	29,484,606

b) Reconciliation of issued capital

	Shares No.	\$
Balance at start of the period	511,834,114	29,484,606
Conversion of convertible notes	143,443,516	7,172,176
Conversion of options	56,450,000	3,657,896
Shares issued as consideration in business combinations	155,907,658	35,141,518
Deferred settlement share issue	33,671,652	2,375,722
Conversion of warrants	73,357,612	7,300,900
Equity settled payments	23,310,898	1,702,526
Shares issued to employees	343,750	28,875
Shares to be issued in conversion of convertible notes		162,500
Costs of issuing equity		(168,518)
Balance at end of the period	998,319,200	86,858,201

Notes to the Consolidated Financial StatementsFOR THE HALF-YEAR ENDED 31 DECEMBER 2020

8 BUSINESS COMBINATIONS

During the half year, Tesserent Group completed the acquisitions of Seer Security Pty Ltd, Airloom Holdings Pty Ltd, Ludus Information Security Pty Ltd and iQ3 Pty Ltd. Details of the acquisitions were as follows:

Seer Security

On 4 August 2020, TNT Cyber Services Pty Ltd, a subsidiary of Tesserent Limited, acquired 100% of the ordinary shares of Seer Security Pty Ltd for consideration of \$20 million, with \$5.0 million cash and \$13,653,846 in issued share capital, being 76,923,077 shares issued at a fair value of \$0.1775 per share. In addition, a cash payment of \$1,383,158 was made post-completion as a working capital adjustment.

The cash consideration has been split, with \$2.5 million paid on completion, \$1.25 million payable 13 months after completion and the final payment 25 months after completion.

Airloom

On 11 September 2020, TNT Cyber Services Pty Ltd, a subsidiary of Tesserent Limited, acquired 100% of the ordinary shares of Airloom Holdings Pty Ltd for consideration of \$19,326,463, with \$8,440,028 cash and \$10,886,435 in issued share capital, being 39,950,221 shares issued at fair value of \$0.2725 per share.

The cash consideration has been split, with \$7.44 million paid on completion and \$1 million payable 12 months after completion upon achievement of set milestones.

Ludus Cybersecurity

On 11 September 2020, TNT Cyber Services Pty Ltd, a subsidiary of Tesserent Limited, acquired 100% of the ordinary shares of Ludus Information Security Pty Ltd for consideration of \$1,623,400 million, with \$535,500 cash and \$1,087,900 in issued share capital, being 4,440,410 shares issued at a fair value of \$0.245 per share.

The cash consideration has been split, with \$267,750 paid on completion and \$267,750 payable 12 months after completion.

In addition, an earnout capped at a maximum \$760,000 is due, 50% in cash, 50% in shares, based on a measure of FY21 EBITDA.

iQ3

On 28 October 2020, TNT Cyber Services Pty Ltd, a subsidiary of Tesserent Limited, acquired 100% of the ordinary shares of iQ3 Pty Ltd for consideration of \$18,147,986 with \$8,634,650 cash and \$9,513,336 in issued share capital, being 34,593,950 shares at fair value of \$0.275 per share.

The cash consideration has been split, with \$4,317,325 paid on completion and four deferred quarterly payments of \$1,079,331, payable over a 12-month period after completion.

The above Business combinations have been initially accounted for on a provisional basis.

Notes to the Consolidated Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2020

8 BUSINESS COMBINATIONS (continued)

Details of acquisitions:	Seer Fair value \$	Airloom Fair value \$	Ludus Fair value \$	iQ3 Fair value \$	Total \$
Cash	2,492,896	3,664,525	210,146	2,731,473	9,099,041
Trade and other receivables	942,971	1,572,651	217,499	1,327,701	4,060,822
Prepayments	-	52,093	696	258,444	311,233
Deposits	46,453	41,015	-	103,762	191,230
Plant and equipment	-	-	-	1,559,178	1,559,178
Right of use assets	-	-	-	4,412,479	4,412,479
Deferred tax assets	29,970	(8,763)	226,127	211,766	459,100
Trade and other payables	(473,406)	(2,118,646)	(138,831)	(2,534,919)	(5,265,803)
Contract liabilities	(320,000)	(348,267)	-	(40,000)	(708,267)
Lease liabilities	-	-	-	(6,018,539)	(6,018,539)
Employee benefit provisions	(194,095)	(570,407)	(19,294)	(573,369)	(1,357,165)
Provision for income tax	(695,904)	(133,995)	(71,838)	(245,980)	(1,147,717)
Net assets acquired	1,828,885	2,150,207	424,505	1,191,996	5,595,593
Goodwill	18,208,119	18,372,274	1,437,381	16,894,899	54,912,674
	20,037,004	20,522,481	1,861,886	18,086,895	60,508,267
Represented by:					
Cash paid	3,883,158	7,440,028	267,750	2,834,461	14,425,397
Issued capital	13,653,846	10,886,435	1,087,900	9,513,336	35,141,518
Deferred consideration	2,500,000	2,196,018	506,236	5,739,098	10,941,352
	20,037,004	20,522,481	1,861,886	18,086,895	60,508,267
Cash used to acquire businesses:					
Purchase consideration paid	3,883,158	7,440,028	267,750	2,834,461	14,425,397
Less: cash and cash equivalents acquired	(2,492,896)	(3,664,525)	(210,146)	(2,731,473)	(9,099,041)
Net cash payments for business combinations	1,390,262	3,775,503	57,604	102,988	5,326,356

9 CONTINGENT ASSETS AND LIABILITIES

There are no contingent assets or liabilities as at 31 December 2020.

10 EVENTS AFTER THE END OF THE INTERIM PERIOD

Director changes

On 19 January 2021, the Board was pleased to announce the appointment of Megan Haas as a non-executive director. Megan has an extensive background as a cyber, risk and governance expert, bringing 30+ years of global cyber experience to the Company.

As part of this appointment, Mr. Patrick Flannigan resigned from the Board. The Board thanks Patrick for his guidance and support during his tenure in which the Company has experienced significant growth.

Completion of acquisition of Lateral Security

The Company completed the acquisition of NZ based Lateral Security (IT) Services Ltd, announced to the market on 17 December 2020, with an initial cash payment of \$1.068 million on 12 February 2021 and the pending issue of 6.25 million shares.

Apart from the items above, there has been no other matter or circumstance, which has arisen since 31 December 2020 that has significantly affected or may significantly affect the operations of the consolidated entity or the results of those operations or the state of affairs of the consolidated entity.

TESSERENT LIMITED



Directors' Declaration

FOR THE HALF-YEAR ENDED 31 DECEMBER 2020

In the opinion of the Directors of Tesserent Limited (the Company):

- (a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position as at 31 December 2020 and the performance for the half-year ended on that date of the consolidated entity; and
 - (ii) complying with Accounting Standard *AASB 134 - Interim Financial Reporting*; 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.

On behalf of the Board of Directors

A handwritten signature in black ink, appearing to be "J. Challingsworth", written over a light grey grid background.

Julian Challingsworth
Co-Managing Director and Co-CEO

11 March 2021

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Tesseract Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Tesseract Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, a summary of statement of accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of the Group does not comply with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2020 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of 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 the audit of the annual 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 the same terms if given to the directors as at the time of this auditor's review report.

Responsibility of the directors for the financial report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.



Auditor's responsibility for the review of the financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2020 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

BDO Audit Pty Ltd

A handwritten signature in blue ink, appearing to read 'David Garvey', written over a small BDO logo.

David Garvey
Director

Melbourne, 11 March 2021