

Cipherpoint Limited

ABN 61 120 658 497

Annual Report - 31 March 2021

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Directors	Edward (Ted) Pretty (Non-Executive Chairman) Steven Bliim Graham Mirabito
Joint Company secretaries	Steven Bliim Patrick Gowans
Registered office	Level 8, 171 Clarence Street Sydney, NSW, 2000 Telephone: (02) 8412 8200
Share register	Boardroom Pty Limited Level 12, 225 George Street Sydney, NSW, 2000
Auditor	Nexia Sydney Audit Pty Limited Level 16, 1 Market Street Sydney, NSW 2000
Stock exchange listing	Cipherpoint Limited shares are listed on the Australian Securities Exchange (ASX code: CPT)
Website	www.cipherpoint.com
Corporate Governance Statement	Cipherpoint Limited and the Board of Directors are committed to achieving and demonstrating the highest standards of corporate governance. Cipherpoint Limited has reviewed its corporate governance practices against the Corporate Governance Principles and Recommendations (4th Edition) published by the ASX Corporate Governance Council. Details of the corporate governance report is available on the Group website at https://cipherpoint.com/ir/#governance

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Cipherpoint Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 31 March 2021.

Directors

The following persons were directors of the Company during the whole of the financial period and up to the date of this report, unless otherwise stated:

Edward (Ted) Pretty - Non-Executive Chairman
Steven Bliim - Executive Director and COO
Graham Mirabito - Non-Executive Director

Principal activities

The principal activity of the Group is the development and commercialisation of intellectual property primarily in the field of data security technology.

Dividends

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

Review of operations

The loss for the Group after providing for income tax amounted to \$2,946,327 (31 March 2020: \$673,045). The cash position at 31 March 2021 was \$3,971,549. As noted below, this balance included \$2,500,000 of capital raised from shareholders during the year and was before the acquisition of a cyber security services business immediately after the end of the reporting year.

As a result of the loss incurred and the operating cash outflows for the year ended 31 March 2021 and the liquidity at the reporting date, there is a material uncertainty on whether the Group can continue as a going concern. The directors consider that the Group will continue as a going concern, as explained in note 2 to the financial statements.

Highlights

The Company continued to adapt operating conditions in regions that continue to be impacted by Covid-19 restrictions during the reporting year. Sales meetings and product demonstrations were restricted to on-line presentations and discussions and this did stretch the already long lead times. Long term shut-downs in all regions did adversely impact business capacity for testing and deploying products, particularly cp.Protect, which is generally deployed into on-prem sensitive cyber environments.

Despite this, the Company has progressed on sales opportunities with key customers and new partners in the key regions and target markets. Management continues to see a heightened awareness of cyber security, particularly with more remote access activities and therefore good growth opportunities in the market for data security products and services.

The major achievements for the Company include:

- Bank of Finland joined the Company as an important customer in the European region;
- the local US team secured the renewal of a major contract with California State University;
- the Company and Nucleus Cyber announced a strategic partnership in September 2020, which will deliver enhanced Microsoft O365 protection capability, to complement Cipherpoint's best in class on-prem protection. Together with Nucleus Cyber, work continues on a number of opportunities in Europe, South-East Asia and North-America;
- the European-based team has been working closely with NTT DATA Deutschland to demonstrate its unique encryption solution, culminating in the announcement of a strategic partnership with this leading global innovator; and
- in the SE Asia region, a new partnership was established with Data Assure HK, in Hong Kong and Macau.

In parallel to developing sales opportunities across the reporting year, The Company also focused on significant marketing improvements and product developments, including:

- In the second quarter, the product and marketing teams launched a new digital marketing campaign for cp.Discover, The Company's sensitive data discovery and classification product. The campaign highlighted the value of the product in enterprise digital transformation and cloud migration projects. The new user interface and dashboard reporting features have garnered high interest from potential customers seeking a powerful solution to locate, organize and communicate on sensitive enterprise information.
- The team in our German office have further developed strong relationships with local cyber organisations, enabling access to European government and enterprise opportunities that require the use of local vendors with sovereign capability. The sales pipeline in the European region has directly benefitted and continued to grow – with a number of large government and enterprise end-users who have or continue to evaluate our products.
- Product development and improvements were continuous across the reporting year. Just after the end of the June quarter, the Company released new versions of the cp.Protect product, that extend the number of supported applications and introduce new features. These releases are expected to unlock opportunities to expand our subscription base with existing customers in the near term.

The Company has capitalized on prior efforts to grow the sales pipeline and further develop its products. In the June quarter, the Company announced a number of successes, including:

- Securing contract renewals from 4 key customers, worth over A\$140,000.
- Winning a new media customer, with cp.Discover.
- Commencing proof of concept engagements with 2 new customers in Europe.

Significant changes in the state of affairs

Funding and finance

The Company completed a Share Placement Plan ('SPP') in June 2020. It was strongly supported by existing shareholders and oversubscribed - with acceptances at \$1,264,500, well above the \$500,000 target. As a result, allocations were scaled back to approximately 40% of application amounts. Shares issued under the SPP were allotted in early July 2020. Additionally, following the end of the June quarter, the Company raised a further \$437,000 by way of placement to new investors.

On 25 September 2020, the Company also announced it had completed a non-renounceable pro-rata rights issue to raise \$1,458,806. It entered into a partial underwriting agreement with Cumulus Wealth to subscribe for the shortfall shares. On 2 October 2020, the Group issued 17,979,344 ordinary shares in the Company, raising \$863,009 as part of the completion upon issue of shortfall under rights issue.

On 21 January 2021, the Company announced a placement of ordinary shares of \$1,000,000 plus options. It also proposed a rights issue to raise up to \$4,000,000. On 25 March 2021, the Company announced it has raised a total of \$1,500,000 from the rights issue, with \$1,184,912 from existing shareholders and \$315,087 from the underwriter Viriathus Capital.

Acquisition of Brace168 Pty Limited

As announced to the ASX on 21 January 2021, the Company entered into a binding term sheet to acquire 100% of the shares in cyber security services business Brace168 Pty Limited ('Brace168'). Brace168 has a good mix of project and annuity service revenues, with customers across the financial, property and consumer segments, mostly in Australia. Acquisition of the business will deliver new and exciting customers and growth possibilities to the Company. This transaction was approved by shareholders at the EGM on 31 March 2021 and was subsequently settled on 1 April 2021.

There were no other significant changes in the state of affairs of the Group during the financial year.

Matters subsequent to the end of the financial year

On 1 April 2021, the Company completed the acquisition of 100% of the shares in Brace168. Brace168 is a managed security service provider, who monitor customer networks, applications and data to identify threats and respond to security incidents. They have a high mix of annuity revenue across large enterprise and small business customers, operating in the financial, property, social and consumer sectors in Australia. Total consideration includes up-front and deferred cash and share based consideration. The total consideration, including possible contingent amounts, is \$4,431,577.

The software business of Cipherpoint and the managed services business of Brace168 will operate as separate divisions, with common central support functions, although the new operating model will see software and services offered as part of a single platform. From March 2021, management of the Company and Brace168 have been working well together on business planning, marketing strategy and integrated support functions. Since 1 April 2021, Brace168 has continued to grow its large sales pipeline and deliver strong service revenues and financial results.

Since the end of the reporting year end on 31 March 2021, the Company's lead generation on software products has been strong, particularly in our targeting of government and defence related opportunities in Europe and elsewhere. Our sales pipeline is solid and includes end users introduced by our reseller partners in Europe, who are or have been evaluating our products for deployment.

The Company has seen an improvement in its revenue generating capability as a consequence of the Brace168 acquisition. With purchase orders for five new customers as well as one existing customer for penetration testing, network and application monitoring and code security reviews valued at \$103,000 received subsequent to year end. Additionally, a further two renewals under a master licence agreement with a major customer, valued at \$607,000, were received. This revenue activity was further supplemented by \$42,000 of software sales generated by the European team.

As the pandemic and economic environments improve across the world, the Board is confident of capitalising on the sales groundwork and product development completed in the past year, as well as maximizing the growth trajectory of the combined security software and services business.

No other matter or circumstance has arisen since 31 March 2021 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Likely developments and expected results of operations

The Group will continue to pursue opportunities to commercialise and market its patented security technology across markets in a number of countries around the globe. Operating costs will continue to outpace revenue until sales from current and future contracts commence to generate significant revenue streams.

Environmental regulation

The Group is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Information on directors

Name:	Edward (Ted) Pretty
Title:	Non-Executive Chairman
Experience and expertise:	Edward is a widely recognised senior technology and telecommunications executive with significant experience in complex networks, data hosting and security, as well as a deep knowledge of emerging trends in security and information technology. Joining Cipherpoint as Managing Director and Chief Executive Officer in January 2017, his responsibilities include driving revenue, developing the sales pipeline, guiding new product development and exploring near-term growth opportunities. Most recently, Edward was a senior adviser at Macquarie Group, supporting principal investments in emerging companies, covering information governance, big data and analytics, security and encryption. His career has included roles such as Group Managing Director of Technology Innovation and Product at Telstra Group, Chairman of Fujitsu Limited, Chairman of ASX-listed NEXTDC Limited and RP Data Limited, Advisory Chairman of Tech Mahindra and Managing Director and Chief Executive Officer of Hills Limited.
Other current directorships:	None
Former directorships (last 3 years):	None
Interests in shares:	5,368,030 ordinary shares
Interests in options:	495,949 options over ordinary shares
Interests in rights:	4,151,540 ordinary shares issued pursuant to employee loan share plan (1,401,540) and performance rights (2,750,000)

Name: Steven Bliim
Title: Executive Director and Chief Operational Officer (COO)
Experience and expertise: Steven has been with Cipherpoint since 2012 and during this time has played a key role in the group's expansion into the US, UK and Europe along with the reverse acquisition of Prime Minerals Limited, subsequent re-listing of Cipherpoint Limited on the Australian Securities Exchange and the acquisition of CipherPoint Software Inc. In addition to his role as director and COO, Steven is also Joint Company Secretary.

Prior to joining Cipherpoint, Steven worked in business services and tax advisory for over seven years, consulting primarily to small-to-medium enterprise and primary production businesses.

Other current directorships: Steven is a member of Chartered Accountants Australia & New Zealand, and holds a Bachelor of Commerce – Accounting from the University of South Australia.
Former directorships (last 3 years): None
Interests in shares: 702,419 ordinary shares
Interests in options: 58,535 options over ordinary shares
Interests in rights: 2,826,781 ordinary shares issued pursuant to employee loan share plan (326,781) and performance rights (2,500,000)

Name: Graham Mirabito
Title: Non-Executive Director
Experience and expertise: Graham has over 35 years' experience in the information technology industry including 10 years in engineering and 25 years in sales, marketing, operations, mergers, acquisitions and general management. Graham has held senior roles at Telstra as MD Telstra Europe and EVP Telstra Asia.

Graham's previous role for 12 years was as CEO of RP Data which he took public on the ASX in 2006 and was acquired by strategic shareholder CoreLogic in 2011. His last executive role was as CEO of CoreLogic international and was responsible for operations in Australia, Asia and UK.

Other current directorships: Graham holds an Associate Diploma in Electrical Engineering from the Queensland University of Technology.
Former directorships (last 3 years): None
Interests in shares: 1,401,591 ordinary shares
Interests in options: 127,908 options over ordinary shares
Interests in rights: 633,300 ordinary shares issued pursuant to employee loan share plan (133,300) and performance rights (500,000)

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Company secretaries

Patrick Gowans - Joint Company Secretary

Patrick graduated from La Trobe University in 2006 with a Bachelor of Laws/Arts. He was admitted to practice as a lawyer in March 2008. Patrick is currently a Partner of Quinert Rodda & Associates Lawyers.

Steven Bliim - Joint Company Secretary

Steven has held the role of Company Secretary since 2012. See 'Information on directors' above for further information.

Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') held during the year ended 31 March 2021, and the number of meetings attended by each director were:

	Attended	Held
Edward (Ted) Pretty	5	5
Steven Bliim	5	5
Graham Mirabito	5	5

Held: represents the number of meetings held during the time the director held office.

Remuneration report (audited)

The remuneration report details the key management personnel remuneration ('KMP') arrangements for the Group, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Consequences of performance on shareholders' wealth
- Additional disclosures relating to KMP

Principles used to determine the nature and amount of remuneration

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage / alignment of executive compensation; and
- transparency.

The performance of the Group depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high-quality personnel.

In FY2021, it was the role of the Board to review and make recommendations in relation to the remuneration arrangements for its directors and executives.

The reward framework is designed to align executive reward to shareholders' interests. The Board has considered that it should seek to enhance shareholders' interests by:

- having economic profit as a core component of plan design;
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value; and
- attracting and retaining high calibre executives.

Additionally, the reward framework should seek to enhance executives' interests by:

- rewarding capability and experience;
- reflecting competitive reward for contribution to growth in shareholder wealth; and
- providing a clear structure for earning rewards.

In accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

Non-executive directors' remuneration

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, these directors. The Board decides the total amount paid to each non-executive director as remuneration for their services as a director.

As described in the Long-Term Incentive Plan, the Board may elect at their discretion to issue share options to non-executive directors in order to attract individuals who bring the necessary leadership and strategic skills to the Group.

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. The most recent determination was at the Annual General Meeting held on 7 August 2019, where the shareholders approved a maximum annual aggregate remuneration of \$480,000.

Executive remuneration

The Group aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits;
- short-term performance incentives;
- long-term incentives; and
- other remuneration such as superannuation and long service leave.

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Board based on individual and business unit performance, the overall performance of the Group and comparable market remunerations.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the Group and provides additional value to the executive.

Equity instruments

(i) Loan funded share plan

In the loan funded share plan, shares are purchased by the participant and funded by a loan provided by the Company. The shares are held by the participant until they vest (or are forfeited) and are eligible for dividends. Should the Company pay dividends or make capital distributions in the future, any dividends paid or distributions made to the participant will be applied to repay the loan and to meet the tax liability on those dividends or distributions.

The loan is for a period of 10 years from issue, is limited recourse and interest free. The loan is repayable in full on the earlier of the termination date of the loan or when the shares are sold.

In the event that the vesting / performance conditions are not met and shares do not vest for any other reason, the shares will be compulsorily acquired by the Company for the value of the outstanding loan.

The shares are forfeited in the event that the participant ceases employment prior to vesting. Where there is a change of control event, the Board may at its discretion make a determination that some or all of a participant's unvested shares may vest.

For accounting purposes, the loan funded share plan is treated and valued as options.

(ii) Share options

Selected KMP and directors are made individual offers of specific numbers of share options at the discretion of the Board. The Board may determine the number of share options, vesting conditions, vesting period, exercise price and expiry date. Share options may be granted at any time, subject to the Corporations Act and ASX Listing Rules.

The grant of share options is designed to attract and provide appropriate incentives to directors and KMP who have recently joined the Group and/or relocated. These share options are subject to time-based vesting. There are no specific performance conditions attached to the vesting of those options as the early stage of the Group's business does not readily allow for the returns and results of the performance by executives to be measured quantitatively on a regular basis.

(iii) Ordinary share issues

The Board may offer KMP and selected directors' incentives that are settled in ordinary shares of the Company from time to time. This assists the Board in balancing the needs of the Company, while providing an appropriate mix of cash and non-cash incentives to directors and KMP.

(iv) Performance rights

Selected KMP and directors are made individual offers of specific numbers of performance rights securities at the discretion of the Board. The Board determines the number of securities, maturity conditions, maturity price, and expiry date. Performance rights are designed to incentivise KMP and directors in the achievement of strategic and operational objectives that deliver enhanced value for shareholders. Performance rights plan facilitates the automatic conversion performance rights securities issued to KMP into ordinary fully paid shares once a set share price has been achieved for a number of days, or if a certain market capitalisation is reached. These securities may be granted at any time, subject to the Corporations Act and ASX Listing Rules.

Short-term incentive plan ('STIP')

The KMP are eligible to participate in the STIP in a manner determined by the Board from time to time. Participants in the STIP have a target cash payment which is set as a percentage of their total fixed annual remuneration.

Payments under the STIP in any given year depend on the achievement of a range of financial and non-financial key performance indicators and objectives ('KPIs') for both the participant and the Group overall. Bonus awards granted to KMP may be settled in either cash or equity instruments of the Company at the discretion of the Board.

Amounts awarded under the STIP to KMP during the year were in connection with the Company achieving revenue targets; securing new customers and contracts; expanding the Company's sales pipeline; delivering new products to market; eliminating technical debt and achieving new product integrations.

Long-term incentive plan ('LTIP')

KMP, including non-executive directors, are eligible to participate in the LTIP as determined by the Board. The LTIP is designed to align the long-term goals of the Group with those of the KMP. The LTIP comprises the share options and loan funded shares.

Following the Annual General Meeting ('AGM') on 16 October 2018, shareholders approved the renewal of the Employee Share Option Plan ('ESOP'). This plan, in addition to the existing Employee Loan Share Plan ('ELSP'), provides the Company with the means to incentivise its KMP with instruments that have the purpose of aligning the medium to long-term goals of the Board with the success of the Group.

At the AGM held 25 August 2020, shareholders approved the adoption of the Performance Rights Plan. The plan facilitates the automatic conversion performance rights securities issued to KMP into ordinary fully paid shares once a specified share price has been achieved for a number of days, or if a certain market capitalisation is reached. This plan is designed to align incentives for KMP with the achievement of enhanced value for shareholders.

Future grants

The Board may consider amending the vesting terms and the performance hurdles from time to time to ensure that they are aligned to market practices and to ensure the best outcomes for the Group. The Board has the absolute discretion to replace the LTIP in any one or more years with an equivalent LTIP or any other program.

Consolidated entity performance and link to remuneration

Any amount that may be awarded to the participants under the STIP is subject to the absolute discretion of the Board, and will be subject to the approval of the Board, after taking into account performance against KPIs, and any other matters determined by the Board to be relevant at its discretion including, without limitation, the participant's conduct and the financial performance and position of the Group.

Use of remuneration consultants

During the financial year ended 31 March 2021, the Group did not engage remuneration consultants, to review its existing remuneration policies and provide recommendations on how to improve both the STI and LTI programs. Following feedback from the 2020 AGM, the Company engaged Guerdon Associates as remuneration consultant to benchmark director's remuneration practices. This work will be done before the end of June 2021, with the cost anticipated to be about \$12,000.

Voting and comments made at the Company's 2020 Annual General Meeting ('AGM')

At the 2020 AGM, 65% of the votes received supported the adoption of the remuneration report for the year ended 31 March 2020. The Board proposes to engage a remuneration consultant to benchmark directors' remuneration practices.

Details of remuneration

Details of the remuneration of the KMP of the Group are set out in the following tables. Remuneration paid in US dollars is converted to Australian dollars using a weighted-average exchange rate determined each month during the year.

The options and rights in the following table include the fair-value expense recognition for the loan funded share plan, share option plan, and performance rights.

Amounts of remuneration

Details of the remuneration of KMP of the Group are set out in the following tables.

The KMP of the Group consisted of the following directors of Cipherpoint Limited:

- Edward (Ted) Pretty - Non-Executive Chairman
- Steven Bliim - Executive Director, Chief Operating Officer and Joint Company Secretary
- Graham Mirabito – Non-Executive Director

And the following persons as KMP:

- Hugh Stodart – Head of Product and Delivery (KMP from 1 April 2019)

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
	Cash salary and fees	Con-sultancy	Cash (allowan-ces)	Super-annuation	Employee benefits	Equity-settled	Total
2021	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
Graham Mirabito	82,000	-	-	-	-	46,861	128,861
Edward (Ted) Pretty	123,000	88,000	9,000	-	-	179,075	399,075
<i>Executive Directors:</i>							
Steven Bliim	253,337	-	20,774	21,348	-	148,842	444,301
<i>Other KMP:</i>							
Hugh Stodart	193,800	-	600	18,411	14,908	122,924	350,643
	652,137	88,000	30,374	39,759	14,908	497,702	1,322,880

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
	Cash salary and fees	Com-mission	Cash bonus (a)	Super-annuation 401K	Employee benefits	Equity-settled (b)	Total
2020	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
Graham Mirabito	33,333	-	-	-	-	11,453	44,786
William McCluggage (c)	40,833	-	-	-	-	(2,425)	38,408
<i>Executive Directors:</i>							
Edward (Ted) Pretty	518,010	-	(270,600)	24,970	-	111,988	384,368
Steven Bliim (d)	305,541	-	(17,200)	24,772	-	32,571	345,684
<i>Other KMP:</i>							
Hugh Stodart	192,850	-	30,278	21,197	8,413	35,816	288,554
	1,090,567	-	(257,522)	70,939	8,413	189,403	1,101,800

- (a) Cash-settled award issued under the STIP were accrued for Edward Pretty and Steven Bliim in the nine months ended 31 March 2019 and a portion reversed in the year ended 31 March 2020.
- (b) Represents the fair value of vested share-based payments granted in prior years to William and represents the fair value vesting of loan funded share plan shares issued to Graham, Edward, Steven and Hugh.
- (c) Represents remuneration from 1 April 2019 to date of resignation 31 October 2019.
- (d) Cash payments to Steven Bliim include a travel allowance and relocation costs totalling \$35,256 in relation to his relocation to Germany.

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

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2021	2020	2021	2020	2021	2020
<i>Non-Executive Directors:</i>						
Graham Mirabito	64%	74%	-	-	36%	26%
William McCluggage	-	106%	-	-	-	(6%)
Edward (Ted) Pretty	55%	-	-	-	45%	-
<i>Executive Directors:</i>						
Edward (Ted) Pretty	-	141%	-	(70%)	-	29%
Steven Bliim	66%	96%	-	(5%)	34%	9%
<i>Other KMP:</i>						
Hugh Stodart	63%	77%	-	11%	37%	12%

Service agreements

Non-executive directors

Non-executive directors do not have fixed term contracts with the Company. On appointment to the Board, all non-executive directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation.

Name: Edward (Ted) Pretty
Title: Non-Executive Chairman
Agreement commenced: Originally commenced on 23 January 2017. In February 2020, stepped down from an Executive Director role to that of Non-Executive Chairman of the Group.
Term of agreement: An initial term of 12 months
Details:

- Fixed consulting fee of \$10,000 per month or annual remuneration of \$120,000. In December 2020, the consultant fee increased to \$11,000 per month.
- Fixed monthly director's fee \$10,000
- Fixed monthly allowance \$1,000

Ted or the Company may terminate the employment contract by giving either party 3 months written notice.

Name: Graham Mirabito
Title: Non-Executive Director
Agreement commenced: 1 November 2019
Term of agreement: No fixed duration
Details: Fixed annual remuneration of \$80,000

Executive directors

Remuneration and other terms of employment for the executive directors are formalised in service agreements in the form of employment agreements. Details of these agreements are as follows:

Name: Steven Bliim
Title: Executive Director, Chief Operating Officer and Joint Company Secretary
Agreement commenced: November 2019
Term of agreement: No fixed term
Details:

- Fixed annual remuneration €156,000 (A\$245,000) plus superannuation
- Entitled to participate in a STIP capped at a maximum of 30% of his fixed annual remuneration based upon achievement of a range of financial and non-financial objectives set in consultation with the Board.
- Entitled to Company provided health insurance

Steven or the Company may terminate the employment contract by giving either party 1 months and 2 months written notice, respectively. Under specific circumstances, employment may be terminated by the Company at any time with or without notice (serious misconduct, failure to perform duties, or other specified circumstances).

Other KMP

Other KMP have employment contracts setting out the terms and conditions of their employment.

These contracts generally provide for:

- A base salary denominated in either Australian Dollars or Euros and paid monthly
- For European KMP, payment of health insurance and eligible social security contributions
- Eligibility to participate in the STIP, with target participation in the STIP individually capped at a maximum percentage of total fixed annual remuneration up to 50%
- A grant of loan-share securities over the ordinary shares of Cipherpoint Limited

KMP have no entitlement to termination payments in the event of removal for misconduct.

Details of these agreements are as follows:

Name: Hugh Stodart
Title: Head of Engineering
Agreement commenced: 1 July 2017
Term of agreement: No fixed term
Detail:

- Fixed annual remuneration of \$193,800 plus superannuation
- Monthly phone allowance \$50
- Entitled to participate in a STIP based upon achievement of a range of financial and non-financial objectives set in consultation with the Chief Executive Officer

Share-based compensation

Employee Loan Share Plan

Details of ordinary shares issued to directors and other KMP under the Employee Loan Share Plan Agreement ('ELSP') as part of compensation during the period ended 31 March 2021 are set out below:

Name	Issue date	ELSP shares	Loan amount per share	Term in years	Fair value (\$)
Hugh Stodart	28/10/2020	2,250,000	0.048	5	84,825

Performance rights

Details of ordinary shares issued to directors and other KMP under performance rights as part of compensation during the year ended 31 March 2021 are set out below:

Name	Issue date	Performance rights	Amount per performance rights	Term in years	Fair value (\$)
Edward (Ted) Pretty - Class A	11/09/2020	1,375,000	0.056	5	78,086
Edward (Ted) Pretty - Class B	11/09/2020	687,500	0.055	5	38,108
Edward (Ted) Pretty - Class C	11/09/2020	687,500	0.054	5	37,208
		<u>2,750,000</u>			<u>153,402</u>
Steven Bliim - Class A	11/09/2020	1,250,000	0.056	5	70,988
Steven Bliim - Class B	11/09/2020	625,000	0.055	5	34,644
Steven Bliim - Class C	11/09/2020	625,000	0.054	5	33,824
		<u>2,500,000</u>			<u>139,456</u>
Graham Mirabito - Class A	11/09/2020	250,000	0.056	5	14,198
Graham Mirabito - Class B	11/09/2020	125,000	0.055	5	6,929
Graham Mirabito - Class C	11/09/2020	125,000	0.054	5	6,765
		<u>500,000</u>			<u>27,892</u>
Hugh Stodart - Class A	11/09/2020	250,000	0.056	5	14,198
Hugh Stodart - Class B	11/09/2020	125,000	0.055	5	6,929
Hugh Stodart - Class C	11/09/2020	125,000	0.054	5	6,765
		<u>500,000</u>			<u>27,892</u>

Additional disclosures relating to KMP

Shareholding - Ordinary shares

The number of shares in the Company held during the financial year by each director and other members of KMP of the Group, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
<i>Ordinary shares</i>					
Edward (Ted) Pretty *	1,844,689	2,750,000	4,924,881	-	9,519,570
Steven Bliim *	334,803	2,500,000	694,397	-	3,529,200
Graham Mirabito *	615,506	500,000	919,385	-	2,034,891
Hugh Stodart **	376,008	2,750,000	152,083	-	3,278,091
	<u>3,171,006</u>	<u>8,500,000</u>	<u>6,690,746</u>	<u>-</u>	<u>18,361,752</u>

* These KMP were granted performance rights received as part of remuneration.

** This KMP was granted loan shares and performance rights as part of remuneration.

As at 31 March 2021, the number of ordinary shares above held by Edward Pretty, Steven Bliim, Graham Mirabito and Hugh Stodart include shares issued under the Employee Loan Share Plan and Performance Rights.

The shares held by Edward Pretty, Steven Bliim, Graham Mirabito and Hugh Stodart under the Employee Loan Share Plan are 1,401,540; 326,781; 133,300 and 2,604,190 respectively.

The shares held by Edward Pretty, Steven Bliim, Graham Mirabito and Hugh Stodart as performance rights are 2,750,000; 2,500,000; 500,000; and 500,000 respectively.

Shareholding - share options

The number of options over ordinary shares in the Company held during the financial year by each director and other members of KMP of the Group, including their personally related parties, is set out below:

	Balance at the start of the year	Attaching free options **	Additions	Disposals/ other	Balance at the end of the year
<i>Options over ordinary shares</i>					
Edward (Ted) Pretty	-	495,949	-	-	495,949
Steven Bliim *	15,000	58,535	-	(15,000)	58,535
Graham Mirabito	-	127,908	-	-	127,908
	15,000	682,392	-	(15,000)	682,392

* The options expired in February 2021.

** Options were issued due to normal shareholder participation in the rights issue.

Loans to KMP and their related parties

During the period ended 31 March 2021 there were no loans granted to KMP and their related parties.

Consequences of performance on shareholders' wealth

In considering the Group's performance and benefits for shareholder's wealth, the Remuneration Committee have regard to the following financial and share price information in respect of the current financial year and the previous four financial years.

The earnings of the Group for the five years to 31 March 2021 are summarised below:

	2021 \$	2020 \$	2019 \$	2018 \$	2017 \$
Loss attributable to owners of the Company	(2,946,327)	(673,045)	(8,333,570)	(7,443,469)	(10,179,664)
Change in share price	(0.04)	(0.01)	(0.01)	(0.02)	(0.20)

This concludes the remuneration report, which has been audited.

Shares under option

Unissued ordinary shares of Cipherpoint Limited under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
21/07/2016	20/07/2021	\$3.9000	7,500
04/05/2017	04/05/2022	\$4.0000	40,000
22/06/2017	21/06/2022	\$1.0000	14,000
17/08/2017	17/08/2022	\$1.0000	50,000
24/11/2017	22/11/2022	\$0.9000	278,480
07/09/2018	06/09/2023	\$0.5600	580,600
28/10/2020	28/10/2025	\$0.0480	4,500,000
15/02/2021	15/02/2022	\$0.0800	4,000,000
15/02/2021 *	15/02/2022	\$0.0800	5,319,132
26/03/2021 *	15/02/2022	\$0.0800	6,302,793
30/03/2021 *	15/02/2022	\$0.0800	1,675,997
			<u>22,768,502</u>

* 13,297,922 options over ordinary shares were attaching as free options associated with the capitalisation raises from 1 February 2021.

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the Company or of any other body corporate.

Shares under Employee loan share plan

Unissued ordinary shares of Cipherpoint Limited under employee loan shares plan at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under rights
02/12/2013	01/12/2023	\$2.9400	376,345
20/08/2014	19/08/2024	\$4.0000	22,193
11/03/2015	10/03/2025	\$5.7000	46,667
12/03/2015	11/03/2025	\$5.7000	6,847
08/12/2015	07/12/2015	\$6.6000	6,609
27/01/2017	26/01/2027	\$2.4000	8,750
04/05/2017	03/05/2027	\$0.5800	200,000
04/05/2017	03/05/2027	\$0.5400	300,000
23/06/2017	22/06/2027	\$4.0000	225,941
24/11/2017	23/11/2027	\$1.1000	1,384,905
06/03/2017	05/03/2027	\$1.0000	111,953
07/09/2018	06/09/2028	\$0.5600	1,403,177
19/10/2018	18/10/2028	\$0.5600	383,925
01/11/2019	31/10/2029	\$0.3000	133,300
28/10/2020	28/10/2025	\$0.0480	2,250,000
			<u>6,860,612</u>

No person entitled to exercise the performance rights had or has any right by virtue of the performance right to participate in any share issue of the Company or of any other body corporate.

Shares under performance rights

Unissued ordinary shares of Cipherpoint Limited under performance rights at the date of this report are as follows:

	Exercise price	Number of shares issued
Class A Performance rights - granted on 11/09/2020 (expire on 07/09/2025)	\$0.0600	3,125,000
Class B Performance rights - granted on 11/09/2020 (expire on 07/09/2025)	\$0.0800	1,562,500
Class C Performance rights - granted on 11/09/2020 (expire on 07/09/2025)	\$0.1000	1,562,500
		<u>6,250,000</u>

No person entitled to exercise the performance rights had or has any right by virtue of the performance right to participate in any share issue of the Company or of any other body corporate.

Shares issued on the exercise of options

There were no ordinary shares of Cipherpoint Limited issued on the exercise of options during the year ended 31 March 2021 and up to the date of this report.

Indemnity and insurance of officers

The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

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.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 19 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 19 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Officers of the company who are former directors of Nexia Sydney Audit Pty Ltd

There are no officers of the Company who are former directors of Nexia Sydney Audit Pty Ltd.

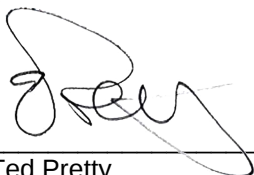
Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

Nexia Sydney Audit Pty Ltd continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

A handwritten signature in black ink, appearing to read 'Ted Pretty', is written over a horizontal line.

Ted Pretty
Chairman

11 June 2021
Sydney

Auditor's Independence Declaration under section 307C of the *Corporations Act 2001*

As lead audit director for the audit of the financial statements of Cipherpoint Limited for the year ended 31 March 2021, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) any applicable code of professional conduct in relation to the audit.

Yours sincerely

**Nexia Sydney Audit Pty Ltd**

Lester Wills
Director

Date: 11 June 2021

Sydney

Nexia Sydney Audit Pty Ltd

Level 16, 1 Market Street
Sydney NSW 2000
PO Box H195

Australia Square NSW 1215

p +61 2 9251 4600

f +61 2 9251 7138

e info@nexiasydney.com.au

w nexia.com.au

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Nexia Sydney Audit Pty Ltd (ABN 77 606 785 399) is an independent firm of Chartered Accountants. It is affiliated with, but independent from Nexia Australia Pty Ltd, which is a member of Nexia International, a worldwide network of independent accounting and consulting firms. Neither Nexia International nor Nexia Australia Pty Ltd, deliver services in its own name or otherwise. Nexia International Limited and the member firms of the Nexia International network (including those members which trade under a name which includes NEXIA) are not part of a worldwide partnership.

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	Note	Consolidated 2021 \$	2020 \$
Revenue from continuing operations			
Revenue - technology related products and services	5	317,558	673,478
Other income - including Covid-19 stimulus grants	5	49,911	-
		<u>367,469</u>	<u>673,478</u>
Expenses			
Employee benefit expense	6	(2,047,656)	(2,210,535)
Consultancy fees expense		(111,365)	(95,609)
Depreciation and amortisation expense	6	(11,288)	(361,304)
Impairment of assets	11	-	(1,012,828)
(Impairment)/recovery of receivables		(32,039)	8,039
Legal and professional fees expense		(270,774)	(685,462)
Marketing and promotion expense		(240,180)	(297,202)
Travel and accommodation expense		(11,764)	(235,071)
Office and administration expense		(138,977)	(209,890)
Other expenses		(443,079)	(467,034)
Total expenses		<u>(3,307,122)</u>	<u>(5,566,896)</u>
Results from operating activities		<u>(2,939,653)</u>	<u>(4,893,418)</u>
Finance income calculated using the effective interest method		594	47,029
Finance costs	6	<u>(7,268)</u>	<u>(4,270)</u>
Loss before income tax expense from continuing operations		<u>(2,946,327)</u>	<u>(4,850,659)</u>
Income tax expense	7	-	-
Loss after income tax expense from continuing operations		<u>(2,946,327)</u>	<u>(4,850,659)</u>
Profit after income tax expense from discontinued operations	8	-	4,177,614
Loss after income tax expense for the year attributable to the owners of Cipherpoint Limited		<u>(2,946,327)</u>	<u>(673,045)</u>
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		(18,640)	(173,598)
Other comprehensive income for the year, net of tax		<u>(18,640)</u>	<u>(173,598)</u>
Total comprehensive income for the year attributable to the owners of Cipherpoint Limited		<u><u>(2,964,967)</u></u>	<u><u>(846,643)</u></u>
Total comprehensive income for the year is attributable to:			
Continuing operations		(2,964,967)	(5,024,257)
Discontinued operations		-	4,177,614
		<u><u>(2,964,967)</u></u>	<u><u>(846,643)</u></u>

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

		Cents	Cents
Earnings per share for loss from continuing operations attributable to the owners of Cipherpoint Limited			
Basic earnings per share	26	(2.82)	(14.16)
Diluted earnings per share	26	(2.82)	(14.16)
Earnings per share for profit from discontinued operations attributable to the owners of Cipherpoint Limited			
Basic earnings per share	26	-	12.20
Diluted earnings per share	26	-	12.20
Earnings per share for loss attributable to the owners of Cipherpoint Limited			
Basic earnings per share	26	(2.82)	(1.97)
Diluted earnings per share	26	(2.82)	(1.97)

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

	Note	Consolidated 2021 \$	2020 \$
Assets			
Current assets			
Cash and cash equivalents		3,971,549	920,935
Trade and other receivables	9	163,919	83,709
Prepayments		40,336	41,204
Total current assets		<u>4,175,804</u>	<u>1,045,848</u>
Non-current assets			
Property, plant and equipment	10	14,213	24,086
Other non-current assets	12	79,601	88,949
Total non-current assets		<u>93,814</u>	<u>113,035</u>
Total assets		<u>4,269,618</u>	<u>1,158,883</u>
Liabilities			
Current liabilities			
Trade and other payables	13	231,697	409,051
Contract liabilities	14	186,537	188,990
Employee benefits		40,222	31,136
Total current liabilities		<u>458,456</u>	<u>629,177</u>
Non-current liabilities			
Contract liabilities	14	67,438	28,532
Total non-current liabilities		<u>67,438</u>	<u>28,532</u>
Total liabilities		<u>525,894</u>	<u>657,709</u>
Net assets		<u><u>3,743,724</u></u>	<u><u>501,174</u></u>
Equity			
Issued capital	15	98,468,154	93,120,766
Reserves	16	3,557,850	3,311,334
Accumulated losses		(98,282,280)	(95,930,926)
Total equity		<u><u>3,743,724</u></u>	<u><u>501,174</u></u>

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

Consolidated	Share capital \$	Reserves \$	Accumulated losses \$	Total equity \$
Balance at 1 April 2019	93,120,766	8,758,203	(101,232,897)	646,072
Loss after income tax expense for the year	-	-	(673,045)	(673,045)
Other comprehensive income for the year, net of tax	-	(173,598)	-	(173,598)
Total comprehensive income for the year	-	(173,598)	(673,045)	(846,643)
<i>Transactions with owners in their capacity as owners:</i>				
Share based payments – share options	-	88,865	-	88,865
Share based payments – employee loan shares	-	373,154	-	373,154
Share options lapsed	-	(1,367,766)	1,367,766	-
Warrants issued	-	239,726	-	239,726
Cancellation of Cisco warrants	-	(4,607,250)	4,607,250	-
Balance at 31 March 2020	<u>93,120,766</u>	<u>3,311,334</u>	<u>(95,930,926)</u>	<u>501,174</u>
Consolidated	Share capital \$	Reserves \$	Accumulated losses \$	Total equity \$
Balance at 1 April 2020	93,120,766	3,311,334	(95,930,926)	501,174
Loss after income tax expense for the year	-	-	(2,946,327)	(2,946,327)
Other comprehensive income for the year, net of tax	-	(18,640)	-	(18,640)
Total comprehensive income for the year	-	(18,640)	(2,946,327)	(2,964,967)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 15)	5,347,388	-	-	5,347,388
Share based payments – share options	-	307,119	-	307,119
Share based payments – employee loan shares	-	204,368	-	204,368
Share options - performance rights	-	348,642	-	348,642
Share based payments – share options lapsed	-	(87,228)	87,228	-
Cancellation of warrants	-	(507,745)	507,745	-
Balance at 31 March 2021	<u>98,468,154</u>	<u>3,557,850</u>	<u>(98,282,280)</u>	<u>3,743,724</u>

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

	Note	Consolidated 2021 \$	2020 \$
Cash flows from operating activities			
Loss before income tax expense for the year		(2,946,327)	(673,045)
Adjustments for:			
Depreciation and amortisation		11,288	361,304
Impairment of non-current assets		-	1,012,828
Net loss on disposal of property, plant and equipment		-	2,698
Share-based payments		751,519	456,597
Foreign exchange differences		26,416	(173,598)
Gain on disposal of business	8	-	(5,240,593)
		(2,157,104)	(4,253,809)
Change in operating assets and liabilities:			
(Increase)/decrease in trade and other receivables		(80,210)	809,536
Decrease in prepayments		868	19,956
Decrease in trade and other payables		(274,028)	(670,888)
Increase in contract liabilities		36,453	35,091
Increase/(decrease) in employee benefits		9,086	(55,267)
		(2,464,935)	(4,115,381)
Net finance costs		6,674	411,635
Net cash used in operating activities		(2,458,261)	(3,703,746)
Cash flows from investing activities			
Refund of investments in term deposits		-	102,293
Payment of deposits		-	(24,960)
Payment for acquisition of intellectual property		-	(485,010)
Acquisition of controlled entity (net of cash received)		-	(6,032)
Payment for acquisition of property, plant and equipment		(3,000)	(32,005)
Proceeds from disposal of business		-	3,024,200
Net cash (used in)/from investing activities		(3,000)	2,578,486
Cash flows from financing activities			
Proceeds from issue of shares	15	5,758,815	-
Payment of share issue costs		(213,001)	-
Payment of convertible note issue costs		-	(71,446)
Proceeds from borrowings - convertible notes payable		-	500,000
Net cash from financing activities		5,545,814	428,554
Net increase/(decrease) in cash and cash equivalents		3,084,553	(696,706)
Cash and cash equivalents at the beginning of the financial year		920,935	1,605,067
Effects of exchange rate changes on cash and cash equivalents		(33,939)	12,574
Cash and cash equivalents at the end of the financial year		<u>3,971,549</u>	<u>920,935</u>

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

Note 1. General information

The financial statements cover Cipherpoint Limited (the 'Company' or 'parent entity') as a consolidated entity consisting of Cipherpoint Limited and the entities it controlled ('the Group') at the end of, or during, the year. The financial statements are presented in Australian dollars, which is Cipherpoint Limited's functional and presentation currency.

Cipherpoint Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Suite 4, Level 8, 171 Clarence Street
Sydney, NSW 2000

A description of the nature of the Group's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 11 June 2021.

Note 2. Significant accounting policies

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

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period with the following standards and amendments applied for the annual reporting period commencing 1 April 2020:

- *Conceptual Framework for Financial Reporting (Conceptual Framework)*
- *AASB 2019-1 Amendments to Australian Accounting Standards - References to the Conceptual Framework*
- *AASB 2018-6 Amendments to Australian Accounting Standards - Definition of a Business*
- *AASB 2018-7 Amendments to Australian Accounting Standards - Definition of Material*
- *AASB 2019-3 Amendments to Australian Accounting Standards - Interest Rate Benchmark Reform*
- *AASB 2019-5 Amendments to Australian Accounting Standards - Disclosure of the Effect of New IFRS Standards Not Yet issued in Australia*

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

Going concern

The financial statements of the Group have been prepared on a going concern basis, which contemplates the continuation of normal business operations and the realisation of assets and settlement of liabilities in the normal course of business.

The Group is in the commercialisation stage of its data security technology. During the year ended 31 March 2021, the Group incurred a loss after tax of \$2,946,327 (2020: \$673,045), current assets exceeded current liabilities by \$3,717,348 (2020: \$416,671) and incurred net cash outflows from operating activities of \$2,458,261 (2020: \$3,703,746). At 31 March 2021, the Group had cash and cash equivalents of \$3,971,549 (2020: \$920,935). The Group has prepared cashflow forecasts as at 31 March 2021 to determine the appropriateness of the going concern assumption.

The key assumptions underlying these forecasts are as follows:

- The Group's ability to raise further debt or equity funding from new and existing investors;
- The continuation of renewals in licences from existing customers; and
- Management continuing to maintain costs in line with available resources.

The inability to complete the above key assumptions would have a material impact on the anticipated trading results and cash flows, which gives rise to a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern. In this event the Group may not be able to realise its assets and settle its liabilities in the normal course of operation and at the amounts stated in the financial statements

Note 2. Significant accounting policies (continued)

The Group remains well-resourced to meet the challenges of commercialising its unique data security services and products. The recent acquisition of Brace168 will enable the business to quickly scale revenues and improve financial performance. Accordingly the Directors remain confident the Group will be able to realise its assets and settle liabilities in the normal course of operations. Consequently, the directors believe the going concern assumption is appropriate for the Group.

However, forecast events may not occur as expected as many external and internal factors impact on future events. The financial statements do not contain any adjustments relating to the recoverability and classification of recorded assets or liabilities that might be necessary should the Group not be able to continue as a going concern.

Basis of preparation

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

Historical cost convention

The financial statements have been prepared under the historical cost convention. Historical cost is generally based on the fair values of the consideration given in exchange for goods and services.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 23.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Cipherpoint Limited as at 31 March 2021 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Note 2. Significant accounting policies (continued)

Foreign currency translation

The financial statements are presented in Australian dollars, which is Cipherpoint Limited's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into the Company's functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Revenue recognition

The Group recognises revenue as follows:

Revenue from contracts with customers

Revenue is recognised at an amount that reflects the consideration to which the Group is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the Group: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are initially recognised as deferred revenue in the form of a separate refund liability.

Rendering of services

Revenue from a contract to provide services is recognised over time as the services are rendered based on either a fixed price or an hourly rate.

Technology related products and services are comprised of the following services:

(a) Software licence

For a sale of a software licence that the Group is not subject to significant integration services or continued maintenance and support, control transfers at the point in time the customer takes undisputed delivery of the goods. When such items are either customised or sold together with significant integration services, the goods and services represent a single combined performance obligation over which control is considered to transfer over time. This is because the combined product is unique to each customer (has no alternative use) and the Group has an enforceable right to payment for the work completed to date. Revenue for these performance obligations is recognised over time as the Group continues to support the license.

Note 2. Significant accounting policies (continued)

(b) Maintenance and support

The Group enters into maintenance and support contracts with its customers generally between one and three years in length, which includes customer support, updates and upgrades. Customers generally pay in advance for each 12-month service period and the relevant payment due dates are specified in each contract. Revenue is recognised over the life of the contract.

Other income

Other income is recognised when it is received or when the right to receive payment is established.

Government grants

Grants from the government are recognised at their fair value when there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Interest calculated using the effective interest method

Interest is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

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

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

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

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

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

Cipherpoint Limited (the 'head entity') and its wholly owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

Note 2. Significant accounting policies (continued)

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

Discontinued operations

A discontinued operation is a component of the Group that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the statement of profit or loss and other comprehensive income.

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Leasehold improvement	Over the lease term
Plant and equipment	1.5 - 5 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

Note 2. Significant accounting policies (continued)

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Leases

The Company 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.

Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Intellectual property

Significant costs associated with intellectual property are deferred and amortised on a straight-line basis over the period of their expected benefit, being their life of 4-5 years.

Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Contract liabilities

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

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Share-based payments

Equity-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

Note 2. Significant accounting policies (continued)

Market conditions are taken into consideration in determining fair value. Therefore, any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Earnings per share

Basic earnings per share

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

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 31 March 2021. The Group has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

Note 3. Critical accounting judgements, estimates and assumptions

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.

Covid-19 pandemic

Judgement has been exercised in considering the impacts that the Covid-19 pandemic has had, or may have, on the Group based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the Group operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the Group unfavourably as at the reporting date or subsequently as a result of the Covid-19 pandemic. The Group has taken all restrictions and precautions suggested such as; working from home, practicing physical distancing, limiting travel, limiting external meetings with customers, etc.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Trinomial lattice methodology 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.

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.

Impairment of non-financial assets

The Group assesses impairment of non-financial assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Income tax

The Group 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 Group recognises liabilities for anticipated tax audit issues based on the Group'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.

Recovery of deferred tax assets

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

Note 4. Operating segments

Identification of reportable operating segments

The Group operates in one segment, based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

Note 4. Operating segments (continued)

As a result, the operating segment information is as disclosed in the statements and notes to the financial statements throughout the report.

For information on revenue from products and services and geographical information, refer to note 5.

No seasonality in the business segment has been identified that would have a significant impact on the results of the Group.

Major customers

During the year ended 31 March 2021, the Group had three major customers that contributed \$144,186 to the total Group's external revenue (\$49,517 -16%; \$49,119 -15% and \$45,550 -14% (2020: one major customer contributed with \$348,924 being 52% of the revenue).

Note 5. Revenue

	Consolidated	
	2021	2020
	\$	\$
Revenue from contracts with customers:		
Revenue - technology related products and services	<u>317,558</u>	<u>673,478</u>

Disaggregation of revenue

The disaggregation of revenue from contracts with customers is as follows:

	Consolidated	
	2021	2020
	\$	\$
Major product lines		
License	40,308	328,468
Maintenance and Support	228,534	66,034
Services	<u>48,716</u>	<u>278,976</u>
	<u>317,558</u>	<u>673,478</u>
Geographical regions		
Australasia	81,543	48,408
United States of America	196,256	239,596
United Kingdom	-	10,820
Germany	39,759	351,772
Singapore	<u>-</u>	<u>22,882</u>
	<u>317,558</u>	<u>673,478</u>
Timing of revenue recognition		
Goods transferred at a point in time	48,716	394,502
Services transferred over time	<u>268,842</u>	<u>278,976</u>
	<u>317,558</u>	<u>673,478</u>

Other income

During the year the Company received payments from the Australian Government amounting to \$27,000 under the 'JobKeeper' scheme in response to the Covid-19 pandemic.

Note 6. Expenses

	Consolidated	
	2021	2020
	\$	\$
Loss before income tax from continuing operations includes the following specific expenses:		
<i>Depreciation</i>		
Plant and equipment	11,288	16,452
<i>Amortisation</i>		
Intellectual property	-	344,852
Total depreciation and amortisation	11,288	361,304
<i>Impairment of assets</i>		
Intellectual property	-	1,012,828
<i>Employee benefit expense</i>		
Wages and salaries	920,940	1,512,693
Non-executive director fees	185,000	74,166
Termination benefits	31,241	-
Recruitment and sourcing	4,751	31,536
Other employee related expenses	80,160	118,998
Payroll taxes	26,437	77,777
Defined contribution superannuation expense	69,037	113,324
Bonus - cash component reversed	(43,562)	(85,384)
Equity settled share-based payments	751,519	291,973
Commissions	22,133	75,452
Total employee benefits	2,047,656	2,210,535
<i>Finance costs</i>		
Interest and finance charges paid/payable on borrowings	7,268	4,270

Note 7. Income tax

	Consolidated	
	2021	2020
	\$	\$
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Loss before income tax expense from continuing operations	(2,946,327)	(4,850,659)
Profit before income tax expense from discontinued operations	-	4,177,614
	(2,946,327)	(673,045)
Tax at the statutory tax rate of 27.5%	(810,240)	(185,087)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Permanent differences	207,558	528,751
Effect of tax losses and temporary differences not taken to account	(78,354)	(42,078)
Current year losses not recognised	681,036	(301,586)
Income tax expense	-	-

Note 7. Income tax (continued)

	Consolidated 2021 \$	2020 \$
<i>Deferred tax assets not recognised</i>		
Deferred tax assets not recognised comprises temporary differences attributable to:		
Temporary differences	445,390	471,610
Tax losses	8,085,816	8,051,316
Total deferred tax assets not recognised	<u>8,531,206</u>	<u>8,522,926</u>

Deferred tax assets have not been recognised in respect of tax losses and temporary differences. Deferred tax assets will be recognised when it becomes probable that future taxable profits will be earned by the Group against which the Group can utilise the benefits therefrom.

Note 8. Discontinued operations

Divestment of SafeShare

The Company completed the disposal of the SafeShare business in July 2019 for \$5,000,000 in respect of the Cocoon sale which was discharged as follows:

- \$2,000,000 through the extinguishment of the Company's obligations under convertible notes;
- \$2,000,000 in cash at completion of the Cocoon sale; and
- \$1,000,000 in the form of a vendor terms loan from Cipherpoint (on terms which would be customary for unsecured loans obtained from any major Australian bank, such as a business overdraft account, or such other terms as agreed between Cybr5 and Cipherpoint).

The sale was subject to a global, perpetual, royalty-free licence of the IP and platforms developed by Cocoon and Covata Australia Pty Limited ('CVA') back to Cipherpoint for use in its ongoing businesses, other than to be used for a development of a product not connected to the Company's core product range. Cipherpoint and Cybr5 also entered into a mutual collaboration and reselling relationship.

Excluded from the sale are all assets in and shares of CipherPoint Software, Inc. and all customers of its Eclipse (cp.Protect) product, the rights to the dataglobal GmbH classification IP, all IP to Cipherpoint's data security console, and all other IP and/or associated technical support and architecture materials which are held outside of Cocoon or CVA.

The sale freed up resources to allow management to focus on the Eclipse (cp.Protect) and cp.Discover products along with the continued partnership with dataglobal.

Note 8. Discontinued operations (continued)

Financial performance information

	Consolidated	
	2021	2020
	\$	\$
Revenue - technology related products and services	-	316,718
Research and development tax concession	-	104,788
Total revenue	-	421,506
Employee benefit expense	-	(648,617)
Consultancy fees expense	-	(151,451)
Impairment of receivables	-	(16,934)
Legal and professional fees expense	-	(51,653)
Marketing and promotion expense	-	(14,371)
Travel and accommodation expense	-	(10,488)
Office and administration expense	-	(97,447)
Other expenses	-	(38,697)
Finance costs	-	(454,827)
Total expenses	-	(1,484,485)
Loss before income tax expense	-	(1,062,979)
Income tax expense	-	-
Loss after income tax expense	-	(1,062,979)
Gain on disposal after income tax expense	-	5,240,593
Income tax expense	-	-
Gain on disposal after income tax expense	-	5,240,593
Profit after income tax expense from discontinued operations	-	4,177,614

Cash flow information

	Consolidated	
	2021	2020
	\$	\$
Net cash used in operating activities	-	(1,062,979)
Net cash from investing activities	-	3,024,200
Net increase in cash and cash equivalents from discontinued operations	-	1,961,221

Note 8. Discontinued operations (continued)

Cash flows from investing activities relate solely to the proceeds from the disposal of the SafeShare business.

Carrying amounts of assets and liabilities disposed

	Consolidated	
	2021	2020
	\$	\$
Trade and other receivables	-	4,147
Prepayments	-	19,460
Property, plant and equipment	-	28,237
Total assets	-	51,844
Contract liabilities - current	-	303,017
Provisions	-	69,420
Total liabilities	-	372,437
Net liabilities	-	(320,593)

Details of the disposal

	Consolidated	
	2021	2020
	\$	\$
Carrying amount of net liabilities disposed	-	320,593
Cash	-	2,000,000
Assumption of convertible notes including interest	-	2,000,000
Vendor terms loan	-	1,000,000
Less working capital adjustment	-	(150,000)
Sub-total	-	5,170,593
Intangible license received (\$7,000 per license for up to 10 users)	-	70,000
Gain on disposal before income tax	-	5,240,593

Note 9. Trade and other receivables

	Consolidated	
	2021	2020
	\$	\$
<i>Current assets</i>		
Trade receivables	148,057	57,702
Less: Allowance for expected credit losses	(34,548)	(2,509)
	113,509	55,193
GST/ VAT receivables	50,410	28,516
	163,919	83,709

Allowance for expected credit losses

The Group has recognised an impairment of \$32,039 (2020: gain of \$3,653) in profit or loss in respect of the expected credit losses for the year ended 31 March 2021.

Note 9. Trade and other receivables (continued)

The method used to calculate the expected credit loss rate was based on revenue type and categorisation for each customer based on their life cycle. The following rates were applied:

- 5% for continuing SaaS customers
- 30% for new customers
- 10% for maintenance and support renewals

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

	Consolidated 2021 \$	2020 \$
Opening balance	2,509	6,162
Additional provisions recognised	34,548	4,386
Unused amounts reversed	(2,509)	(8,039)
Closing balance	<u>34,548</u>	<u>2,509</u>

Note 10. Property, plant and equipment

	Consolidated 2021 \$	2020 \$
<i>Non-current assets</i>		
Plant and equipment - at cost	47,121	47,578
Less: Accumulated depreciation	(32,908)	(23,492)
	<u>14,213</u>	<u>24,086</u>

Reconciliations

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

Consolidated	Plant and equipment \$
Balance at 1 April 2019	11,745
Additions	32,005
Disposals	(3,212)
Depreciation expense	<u>(16,452)</u>
Balance at 31 March 2020	24,086
Additions	3,000
Exchange differences	(1,585)
Depreciation expense	<u>(11,288)</u>
Balance at 31 March 2021	<u>14,213</u>

Note 11. Intangibles

	Consolidated 2021 \$	2020 \$
<i>Non-current assets</i>		
Intellectual property - at cost	3,300,713	3,300,713
Less: Accumulated amortisation	(1,581,000)	(1,581,000)
Less: Impairment	(1,719,713)	(1,719,713)
	<u>-</u>	<u>-</u>

Reconciliations

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

Consolidated	Intellectual property \$
Balance at 1 April 2019	1,287,680
Additions	70,000
Impairment of assets	(1,012,828)
Amortisation expense	(344,852)
	<u>-</u>
Balance at 31 March 2020	-
Balance at 31 March 2021	<u>-</u>

For the year ended 31 March 2020, the Group assessed internal and external impairment indicators in relation to the intellectual property of the acquired dataglobal IP. However, the value in use calculations were speculative as the Group has one year's history of sales and cannot accurately predict future growth. Consequently, an impairment loss of \$959,385 was recognised in profit or loss at 31 March 2020.

The divestment of SafeShare included a global, perpetual, royalty-free licence of the IP and platforms developed by Cocoon and Covata Australia Pty Limited ('CVA') back to Cipherpoint for use in its ongoing businesses, other than to be used for a development of a product not connected to the Group's core product range. The Group recognised a fair value of \$70,000 at 16 July 2019 and fully impaired the written down value of \$53,443 during the year ended 31 March 2020.

Note 12. Other non-current assets

	Consolidated 2021 \$	2020 \$
<i>Non-current assets</i>		
Security deposits	64,392	73,740
Domain names	15,209	15,209
	<u>79,601</u>	<u>88,949</u>

Note 13. Trade and other payables

	Consolidated 2021 \$	2020 \$
<i>Current liabilities</i>		
Trade payables	132,059	108,117
Other payables and accrued expenses	99,638	300,934
	<u>231,697</u>	<u>409,051</u>

Refer to note 18 for further information on financial instruments.

Note 14. Contract liabilities

	Consolidated 2021 \$	2020 \$
<i>Current liabilities</i>		
Contract liabilities	186,537	188,990
<i>Non-current liabilities</i>		
Contract liabilities	67,438	28,532
	<u>253,975</u>	<u>217,522</u>

Reconciliation

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

Opening balance	217,522	163,882
Payments received in advance	277,735	571,025
Contract liabilities disposed	-	(178,176)
Transfer to revenue - performance obligations satisfied	(262,248)	(367,741)
Foreign currency change	20,966	28,532
Closing balance	<u>253,975</u>	<u>217,522</u>

Unsatisfied performance obligations (current and non-current)

The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied at the end of the reporting period was \$253,975 as at 31 March 2021 (\$217,522 as at 31 March 2020) and is expected to be recognised as revenue in future periods as follows:

	Consolidated 2021 \$	2020 \$
Within 6 months	117,322	124,112
6 to 12 months	69,011	60,198
12 to 18 months	25,514	10,445
18 to 24 months	24,018	8,696
More than 24 months	18,110	14,071
	<u>253,975</u>	<u>217,522</u>

Note 15. Issued capital

		2021 Shares	Consolidated 2020 Shares	2021 \$	2020 \$
Ordinary shares - fully paid		<u>193,268,606</u>	<u>34,244,326</u>	<u>98,468,154</u>	<u>93,120,766</u>
<i>Movements in ordinary share capital</i>					
Details	Date	Shares	Issue price	\$	
Balance	1 April 2019	684,875,584		93,120,766	
Share consolidation at 20:1 (a)	15 August 2019	(650,631,258)	\$0.0000	-	
Balance	31 March 2020	34,244,326		93,120,766	
Share purchase plan (b)	6 July 2020	38,461,651	\$0.0130	500,000	
Issue of rights (c)	8 July 2020	19,000,000	\$0.0230	437,000	
Issue of rights (d)	29 September 2020	30,391,797	\$0.0480	1,458,806	
Issue of rights (e)	2 October 2020	17,979,344	\$0.0480	863,009	
Issue of rights (f)	1 February 2021	21,276,597	\$0.0470	1,000,000	
Issue of rights (g)	26 March 2021	25,210,906	\$0.0470	1,184,913	
Issue of rights (h)	30 March 2021	6,703,985	\$0.0470	315,087	
Less: share issue costs		-	\$0.0000	(411,427)	
Balance	31 March 2021	<u>193,268,606</u>		<u>98,468,154</u>	

During the period ended 31 March 2021, the Group completed the following transactions in respect of the issue of ordinary shares with the exception of transaction (a) which took place in the prior year:

- (a) The Group consolidated its shareholding by 20 shares to 1 share.
- (b) The Group issued 38,461,651 ordinary shares in the Company totalling \$500,000 as part of the Share Purchase Plan ('SPP').
- (c) The Group issued 19,000,000 ordinary shares in the Company totalling \$437,000 to participants in a placement.
- (d) The Group issued 30,391,797 ordinary shares in the Company totalling \$1,458,806 (11,313,039 ordinary shares to participants in a placement and 19,078,758 ordinary shares as part of the non-renounceable rights issue).
- (e) The Group issued 17,979,344 ordinary shares in the Company totalling \$863,009 to participants in a placement.
- (f) The Group issued 21,276,597 ordinary shares in the Company totalling \$1,000,000 to participants in a placement.
- (g) The Group issued 25,210,906 ordinary shares in the Company totalling \$1,184,913 as part of the non-renounceable rights issue.
- (h) The Group issued 6,703,985 ordinary shares in the Company totalling \$315,087 to participants in a placement.

Ordinary shares

Ordinary shares entitle the holder to participate in any dividends declared and any proceeds attributable to shareholders should the Company be wound up in proportions that consider both the number of shares held and the extent to which those shares are paid up. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Options:

- In relation to the placement (f), 5,319,132 free options were issued on 15 February 2021, with an exercise price of 8 cents and an expiry date of 5 February 2022.
- In relation to the non-renounceable rights issue (g), 6,302,793 free options were issued on 26 March 2021, with an exercise price of 8 cents and an expiry date of 5 February 2022.
- Also in relation to the rights issue (h), a further 1,675,997 options were issued on 30 March 2021, with an exercise price of 8 cents and expiry date of 5 February 2022.

Note 15. Issued capital (continued)

Share buy-back

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

Capital risk management

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

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

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

The Group would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current Company's share price at the time of the investment. At the date of this report, the Group has not entered into discussions to invest in further businesses, but will continue to evaluate opportunities as they arise.

The capital risk management policy remains unchanged from the 31 March 2020 Annual Report.

Note 16. Reserves

	Consolidated	
	2021	2020
	\$	\$
Foreign currency reserve	(475,393)	(456,753)
Share-based payments reserve	4,033,243	3,260,342
Warrants reserve	-	507,745
	<u>3,557,850</u>	<u>3,311,334</u>

Foreign currency reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Warrants reserve

The reserve reflects the warrants issued in conjunction with new shares that were issued under the rights issue.

Note 16. Reserves (continued)

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Foreign currency \$	Share-based payments \$	Warrants \$	Total \$
Balance at 1 April 2019	(283,155)	4,166,089	4,875,269	8,758,203
Foreign currency translation	(173,598)	-	-	(173,598)
Share-based payments - share options	-	88,865	-	88,865
Share-based payments - employee loan shares	-	373,154	-	373,154
Share options lapsed	-	(1,367,766)	-	(1,367,766)
Warrants issued	-	-	239,726	239,726
Cancellation of Cisco warrants	-	-	(4,607,250)	(4,607,250)
Balance at 31 March 2020	(456,753)	3,260,342	507,745	3,311,334
Foreign currency translation	(18,640)	-	-	(18,640)
Share-based payments - share options	-	307,119	-	307,119
Share-based payments - employee loan shares	-	204,368	-	204,368
Share options - performance rights	-	348,642	-	348,642
Share options lapsed	-	(87,228)	-	(87,228)
Cancellation of warrants	-	-	(507,745)	(507,745)
Balance at 31 March 2021	<u>(475,393)</u>	<u>4,033,243</u>	<u>-</u>	<u>3,557,850</u>

Note 17. Dividends

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

Note 18. Financial instruments

Financial risk management objectives

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program seeks to minimise potential adverse effects on the financial performance of the Group.

The Group's policy is not to trade in or use financial instruments to hedge its risks.

Risk management is carried out by the Board of Directors ('the Board'). The Board uses different methods to measure different types of risks to which the Group is exposed. These methods include ageing analysis for credit risk and sensitivity analysis in the case of foreign currency risk and interest rate risk.

Market risk

Foreign currency risk

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

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

The Group is exposed to currency risk to the extent that there is a mismatch between the currencies in which sales, purchases and borrowings are denominated and the respective functional currencies of Group companies. The currencies in which transactions are denominated are primarily US dollars (USD), Australian dollars (AUD), British pounds (GBP) and Euros (EUR), whilst cash and cash equivalents and term deposits are predominantly denominated in Australian dollars.

Note 18. Financial instruments (continued)

The carrying amount of the Group's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

Consolidated	Assets		Liabilities	
	2021 \$	2020 \$	2021 \$	2020 \$
USD	175,387	84,454	(136,521)	(207,925)
EUR	163,196	177,027	(129,422)	(49,739)
GBP	16,416	18,267	-	-
	<u>354,999</u>	<u>279,748</u>	<u>(265,943)</u>	<u>(257,664)</u>

A strengthening/(weakening) of the AUD against the GBP, USD or EUR by 10 percent at the reporting date would have decreased/(increased) equity and profit/(loss) for the year by the amounts shown. This analysis assumes that all other variables, in particular interest rates, remain constant.

Consolidated - 2021	% change	AUD strengthened Effect on		% change	AUD weakened Effect on	
		profit before tax	Effect on equity		profit before tax	Effect on equity
USD	10%	3,887	2,721	10%	(3,887)	(2,721)
EUR	10%	3,377	2,364	10%	(3,377)	(2,364)
GBP	10%	1,642	1,149	10%	(1,642)	(1,149)
		<u>8,906</u>	<u>6,234</u>		<u>(8,906)</u>	<u>(6,234)</u>

Consolidated - 2020	% change	AUD strengthened Effect on		% change	AUD weakened Effect on	
		profit before tax	Effect on equity		profit before tax	Effect on equity
USD	10%	(12,347)	(8,643)	10%	12,347	8,643
EUR	10%	12,729	8,910	10%	(12,729)	(8,910)
GBP	10%	1,827	1,279	10%	(1,827)	(1,279)
		<u>2,209</u>	<u>1,546</u>		<u>(2,209)</u>	<u>(1,546)</u>

Price risk

The Group is not exposed to any significant price risk.

Interest rate risk

At the reporting date, the Group had no variable rate borrowings. Cash at bank earns interest at floating rates based on daily bank deposit rates.

Note 18. Financial instruments (continued)

As at the reporting date, the Group had the following exposure to interest rate risk:

Consolidated	2021		2020	
	Weighted average interest rate		Weighted average interest rate	
	%	\$	%	\$
Cash and cash equivalents	0.010%	3,971,549	0.004%	920,935
Term deposits and rental bonds	0.200%	64,392	0.001%	73,740
Net exposure to cash flow interest rate risk		<u>4,035,941</u>		<u>994,675</u>

Sensitivity analysis

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit/(loss) for the period by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for the comparative period.

	Consolidated	
	2021	2020
	\$	\$
Impact on profit/(loss) for the period	40,361	9,947

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The Group obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The Group does not hold any collateral.

The Group has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the Group based on recent sales experience, historical collection rates and forward-looking information that is available.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

Liquidity risk

Vigilant liquidity risk management requires the Group to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The Group manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Note 18. Financial instruments (continued)

Remaining contractual maturities

The following tables detail the Group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Consolidated - 2021	Weighted average interest rate %	6 months or less \$	Between 6 months and 1 year \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Over 5 years \$	Remaining contractual maturities \$
Non-derivatives							
<i>Non-interest bearing</i>							
Trade and other payables	-	132,059	-	-	-	-	132,059
Total non-derivatives		132,059	-	-	-	-	132,059

Consolidated - 2020	Weighted average interest rate %	6 months or less \$	Between 6 months and 1 year \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Over 5 years \$	Remaining contractual maturities \$
Non-derivatives							
<i>Non-interest bearing</i>							
Trade and other payables	-	242,805	-	-	-	-	242,805
Total non-derivatives		242,805	-	-	-	-	242,805

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

Fair value of financial instruments

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

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

Note 19. Remuneration of auditors

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

	Consolidated	
	2021 \$	2020 \$
<i>Audit services - Nexia Sydney Audit Pty Ltd</i>		
Audit or review of the financial statements	68,000	72,032
<i>Other services - Nexia Sydney Partnership</i>		
In relation to other assurance, taxation and due diligence services	-	130,662
	<u>68,000</u>	<u>202,694</u>

Note 20. Contingent liabilities

The Group had no contingent liabilities as at 31 March 2021 and 31 March 2020.

Note 21. Key management personnel disclosures

Compensation

The aggregate compensation made to directors and other members of key management personnel of the Group is set out below:

	Consolidated	
	2021	2020
	\$	\$
Short-term employee benefits	770,511	833,045
Post-employment benefits	39,759	70,939
Long-term benefits	14,908	8,413
Share-based payments	497,702	189,403
	<u>1,322,880</u>	<u>1,101,800</u>

Note 22. Related party transactions

Parent entity

Cipherpoint Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 24.

Key management personnel

Disclosures relating to key management personnel are set out in note 21 and the remuneration report included in the directors' report.

Transactions with related parties

There were no transactions with related parties during the current and previous financial year.

Receivable from and payable to related parties

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

Loans to/from related parties

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

Note 23. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	Parent	
	2021	2020
	\$	\$
Profit/(loss) after income tax	(1,333,970)	4,309,686
Other comprehensive income for the year, net of tax	-	-
Total comprehensive income	<u>(1,333,970)</u>	<u>4,309,686</u>

Note 23. Parent entity information (continued)

Statement of financial position

	Parent	
	2021	2020
	\$	\$
Total current assets	3,822,232	734,201
Total non-current assets	41,650	48,637
Total assets	3,863,882	782,838
Total current liabilities	201,280	374,344
Total non-current liabilities	19,193	25,986
Total liabilities	220,473	400,330
Net assets	<u>3,643,409</u>	<u>382,508</u>
Equity		
Issued capital	98,468,154	93,120,766
Share-based payments reserve	4,033,243	3,260,342
Warrants reserve	-	507,745
Accumulated losses	(98,857,988)	(96,506,345)
Total equity	<u>3,643,409</u>	<u>382,508</u>

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

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 31 March 2021 and 31 March 2020.

Contingent liabilities

The parent entity had no contingent liabilities as at 31 March 2021 and 31 March 2020.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 31 March 2021 and 31 March 2020.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.

Note 24. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2021 %	2020 %
CipherPoint Software, Inc.	United States of America	100%	100%
Cipherpoint Australia Pty Limited *	Australia	100%	100%
Cipherpoint GmbH **	Germany	100%	100%

* incorporated in April 2019

** shelf company acquired in November 2019

Note 25. Changes in liabilities arising from financing activities

Consolidated	Borrowings- convertible notes \$
Balance at 1 April 2019	1,400,000
Net cash from financing activities	500,000
Capitalised interest	100,000
Settlement of convertible notes through divestment	(2,000,000)
Balance at 31 March 2020	-
Balance at 31 March 2021	-

Note 26. Earnings per share

	Consolidated	
	2021 \$	2020 \$
<i>Earnings per share for loss from continuing operations</i>		
Loss after income tax attributable to the owners of Cipherpoint Limited	(2,946,327)	(4,850,659)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	104,615,638	34,244,326
Weighted average number of ordinary shares used in calculating diluted earnings per share	104,615,638	34,244,326
	Cents	Cents
Basic earnings per share	(2.82)	(14.16)
Diluted earnings per share	(2.82)	(14.16)
	Consolidated	
	2021 \$	2020 \$
<i>Earnings per share for profit from discontinued operations</i>		
Profit after income tax attributable to the owners of Cipherpoint Limited	-	4,177,614

Note 26. Earnings per share (continued)

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	-	34,244,326
Weighted average number of ordinary shares used in calculating diluted earnings per share	-	34,244,326
	Cents	Cents
Basic earnings per share	-	12.20
Diluted earnings per share	-	12.20
	Consolidated 2021 \$	2020 \$
<i>Earnings per share for loss</i>		
Loss after income tax attributable to the owners of Cipherpoint Limited	(2,946,327)	(673,045)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	104,615,638	34,244,326
Weighted average number of ordinary shares used in calculating diluted earnings per share	104,615,638	34,244,326
	Cents	Cents
Basic earnings per share	(2.82)	(1.97)
Diluted earnings per share	(2.82)	(1.97)

The 35,879,114 (2020: 14,749,844) options, employees loan shares, warrants and performance rights could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they are antidilutive for the periods presented.

Note 27. Share-based payments

Share option programme

The Group has a share option programme that entitles non-Australian based directors, employees and contractors to purchase shares in the Company. In accordance with this programme, holders of vested options are entitled to purchase shares at a price per share as detailed below.

Note 27. Share-based payments (continued)

Set out below are summaries of options granted under the plan:

Employee Share Option Plan

2021

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ Lapsed	Balance at the end of the year
30/10/2015	29/10/2020	\$5.7000	15,000	-	-	(15,000)	-
17/12/2015	16/12/2020	\$6.6000	24,535	-	-	(24,535)	-
21/07/2016	20/07/2021	\$3.9000	7,500	-	-	-	7,500
04/05/2017	04/05/2022	\$4.0000	40,000	-	-	-	40,000
22/06/2017	21/06/2022	\$1.0000	14,000	-	-	-	14,000
17/08/2017	17/08/2022	\$0.9000	172,088	-	-	(122,088)	50,000
24/11/2017	22/11/2022	\$0.9000	294,150	-	-	(15,670)	278,480
07/09/2018	06/09/2023	\$0.5600	580,600	-	-	-	580,600
28/10/2020	28/10/2025	\$0.0480	-	4,500,000	-	-	4,500,000
			1,147,873	4,500,000	-	(177,293)	5,470,580
Weighted average exercise price			\$1.0671	\$0.0480	\$0.0000	\$3.5250	\$0.6190

2020

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Lapsed	Balance at the end of the year
31/10/2014	30/10/2019	\$4.4410	519,242	-	-	(519,242)	-
12/03/2015	11/03/2020	\$6.6000	11,570	-	-	(11,570)	-
30/10/2015	29/10/2020	\$5.7000	15,000	-	-	-	15,000
17/12/2015	16/12/2020	\$6.6000	24,535	-	-	-	24,535
21/07/2016	20/07/2021	\$3.9000	7,500	-	-	-	7,500
04/05/2017	04/05/2022	\$4.0000	123,334	-	-	(83,334)	40,000
22/06/2017	21/06/2022	\$1.0000	34,685	-	-	(20,685)	14,000
17/08/2017	17/08/2022	\$0.9000	202,761	-	-	(30,673)	172,088
21/08/2017	20/08/2022	\$1.0000	31,687	-	-	(31,687)	-
24/11/2017	22/11/2022	\$1.0000	443,948	-	-	(149,798)	294,150
07/09/2018	06/09/2023	\$0.5600	868,786	-	-	(288,186)	580,600
			2,283,048	-	-	(1,135,175)	1,147,873
Weighted average exercise price			\$1.8984	\$0.0000	\$0.0000	\$2.7399	\$1.0671

The weighted average remaining contractual life of options outstanding at the end of the financial period was 4 years (2020: 5 years).

Note 27. Share-based payments (continued)

**Employee Loan Share Plan
2021**

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Lapsed	Balance at the end of the year
02/12/2013	01/12/2023	\$2.9400	376,345	-	-	-	376,345
20/08/2014	19/08/2024	\$4.0000	22,193	-	-	-	22,193
11/03/2015	10/03/2025	\$5.7000	46,667	-	-	-	46,667
12/03/2015	11/03/2025	\$5.7000	6,847	-	-	-	6,847
08/12/2015	07/12/2025	\$6.6000	6,609	-	-	-	6,609
27/01/2017	26/01/2027	\$2.4000	8,750	-	-	-	8,750
04/05/2017	03/05/2027	\$0.5800	200,000	-	-	-	200,000
04/05/2017	03/05/2027	\$0.5400	300,000	-	-	-	300,000
23/06/2017	22/06/2027	\$4.0000	225,941	-	-	-	225,941
24/11/2017	23/11/2027	\$1.1000	1,384,905	-	-	-	1,384,905
06/03/2017	05/03/2027	\$1.0000	111,953	-	-	-	111,953
07/09/2018	06/09/2028	\$0.5600	1,403,177	-	-	-	1,403,177
19/10/2018	18/10/2028	\$0.5600	383,925	-	-	-	383,925
01/11/2019	31/10/2029	\$0.3000	133,300	-	-	-	133,300
28/10/2020	28/10/2025	\$0.0480	-	2,250,000	-	-	2,250,000
			4,610,612	2,250,000	-	-	6,860,612

Weighted average exercise price \$1.1761 \$0.0480 \$0.0000 \$0.0000 \$2.3300

2020

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Lapsed	Balance at the end of the year
02/12/2013	01/12/2023	\$2.9400	376,345	-	-	-	376,345
20/08/2014	19/08/2024	\$4.0000	22,193	-	-	-	22,193
11/03/2015	10/03/2025	\$5.7000	46,667	-	-	-	46,667
12/03/2015	11/03/2025	\$5.7000	6,847	-	-	-	6,847
08/12/2015	07/12/2025	\$6.6000	6,609	-	-	-	6,609
27/01/2017	26/01/2027	\$2.4000	8,750	-	-	-	8,750
04/05/2017	03/05/2027	\$0.5800	200,000	-	-	-	200,000
04/05/2017	03/05/2027	\$0.5400	300,000	-	-	-	300,000
23/06/2017	22/06/2027	\$4.0000	288,135	-	-	(62,194)	225,941
24/11/2017	23/11/2027	\$1.1000	1,446,719	-	-	(61,814)	1,384,905
06/03/2017	05/03/2027	\$1.0000	197,058	-	-	(85,105)	111,953
07/09/2018	06/09/2028	\$0.5600	1,529,084	-	-	(125,907)	1,403,177
19/10/2018	18/10/2028	\$0.5600	383,925	-	-	-	383,925
01/11/2019	31/10/2029	\$0.3000	-	133,300	-	-	133,300
			4,812,332	133,300	-	(335,020)	4,610,612

Weighted average exercise price \$1.2167 \$0.3000 \$0.0000 \$1.4100 \$1.1761

The weighted average remaining contractual life of Employee Loan Shares outstanding at the end of the financial period was 5 years (2020: 8 years).

Note 27. Share-based payments (continued)

Consultant options

The Company issued 4 million options to brokers for their assistance in the February 2021 placement.

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Lapsed	Balance at the end of the year
15/02/2021	15/02/2022	\$0.08	-	4,000,000	-	-	4,000,000

For the options and loan shares granted during the current financial period, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
28/10/2020	28/10/2025	\$0.0460	\$0.0480	1.20%	-	0.27%	\$0.037
15/02/2021	15/02/2022	\$0.0470	\$0.0800	1.37%	-	0.09%	\$0.027

During the year ended 31 March 2021 2,250,000 ordinary shares in the Company were granted under the ELSP to employees as bonus remuneration (2020: 133,000).

Grant date	Vesting conditions	Granted	Exercise price \$
28/10/2020	Expected life of 5 years	<u>2,250,000</u>	\$0.048

Performance rights

During the period, on 11 September 2020, the Company granted 6,250,000 performance rights in three tranches (Class A: 3,125,000; Class B: 1,562,500 and Class C: 1,562,500) and the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
11/09/2020	07/09/2025	\$0.0570	\$0.0600	100.00%	-	0.46%	\$0.056
11/09/2020	07/09/2025	\$0.0570	\$0.0800	100.00%	-	0.46%	\$0.055
11/09/2020	07/09/2025	\$0.0570	\$0.1000	100.00%	-	0.46%	\$0.054

Share-based payment expense recognised in profit or loss

	Consolidated 2021	Consolidated 2020
Options granted	198,509	83,443
Employee loan share plan shares granted	204,368	373,154
Performance rights granted	<u>348,642</u>	<u>-</u>
Total recognised as employee benefits expense	<u>751,519</u>	<u>456,597</u>

Warrants

During the year ended 31 March 2021, no warrants were granted (2020: 7,392,230).

Note 28. Events after the reporting period

On 1 April 2021, the Company completed the acquisition of 100% of the shares in Brace168. Brace168 is a managed security service provider, who monitor customer networks, applications and data to identify threats and respond to security incidents. They have a high mix of annuity revenue across large enterprise and small business customers, operating in the financial, property, social and consumer sectors in Australia. Total consideration includes up-front and deferred cash and share based consideration. The total consideration, including possible contingent amounts, is \$4,431,577.

The software business of Cipherpoint and the managed services business of Brace168 will operate as separate divisions, with common central support functions, although the new operating model will see software and services offered as part of a single platform. From March 2021, management of the Company and Brace168 have been working well together on business planning, marketing strategy and integrated support functions. Since 1 April 2021, Brace168 has continued to grow its large sales pipeline and deliver strong service revenues and financial results.

Details of the acquisition are as follows:

	Fair value \$
Cash and cash equivalents	146,582
Trade receivables	194,692
Prepayments	10,680
Plant and equipment	13,885
Intellectual property (including goodwill)	4,342,228
Patents and trademarks	2,142
Trade payables	(47,140)
Other payables	(127,979)
Contract liabilities	(9,764)
Deferred tax liability	(73,541)
Employee benefits	(20,208)
Net assets acquired	4,431,577
Goodwill	-
Acquisition-date fair value of the total consideration transferred	<u><u>4,431,577</u></u>
Representing:	
Cash paid or payable to vendor	3,002,689
Share-based consideration issued to vendor	1,047,263
Contingent consideration	381,625
	<u><u>4,431,577</u></u>

Since the end of the reporting year end on 31 March 2021, the Company's lead generation on software products has been strong, particularly in our targeting of government and defence related opportunities in Europe and elsewhere. Our sales pipeline is solid and includes end users introduced by our reseller partners in Europe, who are or have been evaluating our products for deployment.

The Company has seen an improvement in its revenue generating capability as a consequence of the Brace168 acquisition. With purchase orders for five new customers as well as one existing customer for penetration testing, network and application monitoring and code security reviews valued at \$103,000 received subsequent to year end. Additionally, a further two renewals under a master licence agreement with a major customer, valued at \$607,000, were received. This revenue activity was further supplemented by \$42,000 of software sales generated by the European team.

As the pandemic and economic environments improve across the world, the Board is confident of capitalising on the sales groundwork and product development completed in the past year, as well as maximizing the growth trajectory of the combined security software and services business.

Note 28. Events after the reporting period (continued)

No other matter or circumstance has arisen since 31 March 2021 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

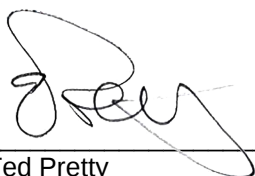
In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 March 2021 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

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

On behalf of the directors



Ted Pretty
Chairman

11 June 2021
Sydney

Independent Auditor's Report to the Members of Cipherpoint Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Cipherpoint Limited (the Company and its subsidiaries (the Group)), which comprises the consolidated statement of financial position as at 31 March 2021, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the Corporations Act 2001, including:

- i) giving a true and fair view of the Group's financial position as at 31 March 2021 and of its financial performance for the year then ended; and
- ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the 'auditor's responsibilities for the audit of the financial report' section of our report. We are independent of the Group in accordance with the Corporations Act 2001 and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 2 in the financial report, which indicates that the Group incurred a net loss of \$2,946,327 during the year ended 31 March 2021, and incurred net cash outflows from operating activities of \$2,458,261. Subsequent to year-end the Group has completed the acquisition of Brace168 which included cash payment of \$2,000,000. As stated in Note 2, these events or conditions, along with other matters as set forth in the note, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Nexia Sydney Audit Pty Ltd

Level 16, 1 Market Street

Sydney NSW 2000

PO Box H195

Australia Square NSW 1215

p +61 2 9251 4600

f +61 2 9251 7138

e info@nexiasydney.com.au

w nexia.com.au

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Key audit matter	How our audit addressed the key audit matter
Share-based payments Refer to notes 17 (reserves) and 27 (share-based payments) The Group has issued a number of share-based payments in the current and previous years, including Performance Rights in the current year which include future market price targets. We consider share-based payments to be a key audit matter due to: - the complexity in the calculation of the Performance Rights; - share-based payments expense represents a material expense during the year and a material component of Key Management Personnel Remuneration.	Our procedures included, amongst others: - We have verified the key terms of the share-based payments to announcements and supporting documentation; - We have tested the independent valuer's fair value calculation of Performance Rights for reasonableness of assumptions and data used, and verified the calculation methodology with our own experts. Further we have evaluated the independent valuer's qualifications, experience and independence; - We have tested the assumptions, data and methodology of share-based payments prepared by management and performed a recalculation of the fair value; - We have tested the accuracy of the share-based payment recognition as either recognised immediately or amortised over the vesting periods; and - We have checked the accuracy of disclosure of share-based payments arrangements in the financial statements.

Other information

The directors are responsible for the other information. The other information comprises the information in Cipherpoint Limited's annual report for the year ended 31 March 2021, but does not include the financial report and the auditor's report thereon. Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information we are required to report that fact. We have nothing to report in this regard.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going

concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibility for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at The Australian Auditing and Assurance Standards Board website at: www.auasb.gov.au/admin/file/content102/c3/ar2_2020.pdf. This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 7 to 14 of the directors' Report for the year ended 31 March 2021.

In our opinion, the Remuneration Report of Cipherpoint Limited for the year ended 31 March 2021, complies with section 300A of the Corporations Act 2001.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



Nexia Sydney Audit Pty Ltd



Lester Wills

Director

Dated: 11 June 2021

Sydney

The shareholder information set out below was applicable as at 30 April 2021.

Distribution of equitable securities

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

	Ordinary shares		Options over ordinary shares	
	Number of holders	% of total shares issued	Number of holders	% of total shares issued
1 to 1,000	1,061	0.17	65	0.08
1,001 to 5,000	579	0.75	88	0.94
5,001 to 10,000	240	0.96	28	0.91
10,001 to 100,000	909	17.77	107	17.36
100,001 and over	357	80.35	42	80.71
	3,146	100.00	330	100.00
Holding less than a marketable parcel	2,084	-	-	-

Equity security holders

Twenty largest security holders

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

Name	Ordinary shares	
	Number held	% of total shares issued
MS CHUNYAN NIU	5,690,184	2.94
BNP PARIBAS NOMINEES PTY LTD (IB AU NOMS RETAILCLIENT DRP)	5,427,780	2.81
PECKLYN PTY LTD (G & L PECK SUPER FUND A/C)	5,230,882	2.71
VAGANA PTY LTD (PRETTY SUPER FUND A/C)*	4,541,291	2.35
CITICORP NOMINEES PTY LIMITED	4,078,123	2.11
TPG TELECOM LIMITED*	3,802,175	1.97
G & L PECK PTY LTD (G & L PECK FAMILY A/C)	2,569,118	1.33
ALTOR CAPITAL MANAGEMENT PTY LTD (ALTOR ALPHA FUND A/C)	2,367,412	1.22
MR PETER HOWELLS	2,249,771	1.16
MR EDWARD NOEL PRETTY	2,134,341	1.10
IBT HOLDINGS PTY LTD (IBT HOLDINGS PTY LTD FAM A/C)	2,127,660	1.10
MR ARTHUR BROMIDIS	1,744,821	0.90
MR EMERY ANTHONY FEYZENY & MRS JUDY EVE FEYZENY (PLUVIAL SUPER FUND A/C)	1,700,000	0.88
MR MATTHEW JOSEPH ZAPPULLA	1,597,500	0.83
RIYA INVESTMENTS PTY LTD	1,500,000	0.78
MR JUSTIN CRAIG VAUGHAN	1,431,765	0.74
DR NEIL TANUDISASTRO & MRS YANI SUTANIMAN (NEIL & YANI TAN SUPER A/C)	1,387,490	0.72
DEMASIADO PTY LTD (DEMASIADO FAMILY A/C)	1,340,426	0.69
MR MICHAEL PATRICK SANDERS	1,226,149	0.63
MRS DANIELA JOLANTA BARNETT	1,200,000	0.62
	53,346,888	27.59

* Two holdings combined

Unquoted equity securities

	Number on issue	Number of holders
Options over ordinary shares issued	28,206,002	332
Employee share loan plan shares over ordinary shares issued	6,860,612	41
Performance rights over ordinary shares issued	6,250,000	4

Substantial holders

Substantial holders in the Company are set out below:

Name	Ordinary shares	
	Number held	% of total shares issued
MS CHUNYAN NIU	5,690,184	2.94
BNP PARIBAS NOMINEES PTY LTD (IB AU NOMS RETAILCLIENT DRP)	5,427,780	2.81
PECKLYN PTY LTD (G & L PECK SUPER FUND A/C)	5,230,882	2.71

Voting rights

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.