Tesserent Limited and Controlled Entities
ABN: 13 605 672 928

2022
Half Year Report
Incorporating the requirements of
Appendix 4D

tesserent

Securing our digital future, together.

ASX ANNOUNCEMENT
Melbourne – 25 February 2022

Appendix 4D

Tesserent Limited and its controlled entities

13 605 672 928

Financial statements for the half-year ended 31 December 2021 as required by ASX listing rule 4.2A

Reporting period: Half-year ended 31 December 2021

Comparative period: Half-year ended 31 December 2020

Results for announcement to the market

Key information (all comparisons to half-year ended 31 December 2020)	$'000	Up/Down	% Change
Statutory revenue from ordinary activities	43,875	Up	52%
Profit/(Loss) after tax from ordinary activities	(3,267)	Down	45%
Profit/(Loss) attributable to members	(3,267)	Down	45%

Note1
Under accounting standard AASB15 "Revenue from Contracts with Customer", some of the Company's product sales are deemed as Agency Sales. The standard requires these sale amounts to be netted down against cost of products, which results in a lower reported 'Statutory' revenue in the Company's formal Financial Statements (this has no impact on Gross profit or Net profit).
Note2
Profit/(Loss) after tax from ordinary activities is presented in accordance with AASB 101.
It is noted that the reported statutory loss includes $1.1m of acquisition related expenses and $1.5m of share option expense, associated with three acquisitions (business combinations) made during the half-year ended 31 December 2021.

Dividends paid and proposed

No dividend has been proposed to be paid or is payable for the half-year ended 31 December 2021, nor for the comparative period.

Control gained over entities during the half-year

Name of business	Completion date	% holding 31-Dec-21
Loop Secure Pty Ltd	1 Oct-21	100%
Claricent Pty Ltd	15 Dec-21	100%
Pearson Corporation Pty Ltd	23 Dec-21	100%

Net tangible assets per share

Net tangible assets per ordinary share	31-Dec-21	30-Jun-21
Net tangible assets per share	(0.04)	(0.03)

Attachments

The Consolidated Financial Report for Tesserent Limited (and its subsidiaries) for the half-year ended 31 December 2021 is attached.

TESSERENT LIMITED
and its controlled entities

ABN 13 605 672 928

CONSOLIDATED FINANCIAL REPORT

FOR THE HALF-YEAR ENDED
31 DECEMBER 2021

Directors' report

The directors present their report together with the consolidated financial statements of Tesserent Limited (Tesserent or the Group) and its subsidiaries (together referred to as the Group), for the half-year ended 31 December 2021 and the Auditor's review report thereon.

The consolidated financial statements have been reviewed and approved by the directors on the recommendation of the Tesserent Audit and Risk Committee.

Directors

The directors of Tesserent Limited in office during the half-year and at the date of this report (unless otherwise stated) were as follows:

- Geoff Lord – Executive Chairman (appointed 10 January 2020)
- Gregory Baxter – Non-Executive Director (appointed 16 November 2016)
- Megan Haas – Non-Executive Director (appointed 19 January 2021)
- Kurt Hansen – CEO (appointed 12 December 2019)

Retired

- Julian Challingsworth – Co-CEO (resigned 23 November 2021)

Operating results

Tesserent is pleased to provide the Group's Consolidated Financial Report for the half-year ended 31 December 2021.

The Board notes the following items regarding the Group's performance and the progress of the company's strategy during and after the reporting period.

Explanation of results

Tesserent continued its expansion in the first half of FY22 with growth in Turnover (+72% vs. PCP) and Operating EBITDA[1] at +161%.

During the half year ended 31 December 2021, the Group reported total turnover of $62.9m, statutory revenue of $43.9m, normalised EBITDA of $5.6m (before acquisition costs and share based payment costs) and a net loss after tax of $3.3m.

On 11 August 2021, Tesserent announced a brand and business unit integration strategy to drive growth in the business, such that, moving forward, TNT would go to market with a single customer-facing brand.

The re-organisation of the business units acquired over the last 2 years has aligned them with the go-to-market channels and form the basis in which the Group's CEO and Board manage and assess business performance. A new brand strategy was adopted to accompany and accentuate the change in the Group's go-to-market approach.

The integration and reorganisation of these business acquisitions has strengthened the Group's trading performance and its commercial position in the market – enabling the Group to enhance its value proposition to existing and new clients and improve gross margins and net margins reported across the business.

During the half-year, TNT completed controlling acquisitions of three separate businesses covering both public and private sector consulting services, managed services and specialised product expertise.

These acquisition activities pursued during the half-year ended 31 December 2021 resulted in the Group incurring significant upfront non-trading costs, which were incurred without the full benefit of the acquired business' contribution to the Group's half-year results.

As noted in the TNT's recent ASX quarterly performance announcement (on 28 January 2022), the earnings of the business are highly seasonal – with Operating EBITDA in H1/H2 FY21 reported at 23% / 77%). Management also expects similar seasonality within the current financial year (FY22).

[1] *Operating EBITDA excludes one-off acquisition costs and non-cash statutory AASB16 adjustments – see table below for bridge to Statutory EBITDA. As previously noted, Management report on Operating EBITDA as this measure better represents cash earnings of the Group. Operating EBITDA is a non-IFRS measured and is unaudited.*

Normalised NPAT and EBITDA

	31-Dec-21 $'000	30-Dec-20 $'000	% change
Turnover[1]	**62,897**	**36,486**	+72%
Statutory revenue	43,875	28,870	
Underlying EBITDAC[2]	**7,571**	**3,801**	+99%
Corporate costs	(3,013)	(2,053)	
Operating EBITDA[3] (as reported in 4C quarterly reporting)	**4,557**	**1,748**	+161%
add Impact of AASB16 lease adjustments	998	982	
Normalised Statutory EBITDA	**5,556**	**2,748**	+102%
Interest expense	(1,669)	(583)	
Non-cash interest - amortisation of warrants and facility costs	(992)	(1,777)	
Depreciation and amortisation	(3,571)	(1,222)	
Tax	-	207	
Normalised NPAT[4]	**(676)**	**(628)**	
Less: One-off costs			
Share based payment and option expenses	(1,520)	(2,630)	
Acquistion costs	(1,071)	(2,715)	
Statutory NPAT	**(3,267)**	**(5,973)**	

1 Turnover represents gross income billed to customers (before AASB15 Agency 'net-down' statutory adjustments)
2 EBITDAC is Earnings Before Interest, Tax, Depreciation, Amortisation and Corporate costs
3 Operating EBITDA excludes one-off acquisition costs and share option expenses and excludes upside from non-cash AASB16 adjustments
4 Before one-off acquisition costs and share option expenses

Review of operations

During the half-year period ended 31 December 2021, Tesserent achieved the following strategic goals:

- Implemented a re-organisation programme which achieved the integration of the business units acquired over the course of FY20 and FY21 – in order to streamline the business operations and the customer service offering
- Completed a company-wide brand refresh – to accompany the business unit integration programme
- Increased the number of inter-divisional cross selling opportunities and wins through its newly defined divisions (Defend, Detect and Cloud)
- Continued to grow its Annual Recurring Revenue (ARR) – both in value and as a percentage of revenue (now at 44%)
- Completed a $25m capital raise (via an equity placement) to strengthen the balance sheet and fund identified acquisitions
- Successfully completed three targeted acquisitions (Loop Secure, Claricent and Pearson Corporation), extending depth of capability in both government and commercial sectors
- Completed an investment in Daltrey – a strategic innovation partner business
- Delivered strong operating cashflows for the half year period

Future focus

The Board and Management Team continue to focus on creating shareholder value by building on Tesserent's position as Australia's #1 ASX-listed cybersecurity provider. Important goals over this new financial year include:

- Continuing to drive the Company's acquisition strategy to expand on our Cyber 360 capabilities and market share, increasing shareholder value through incremental EPS growth
- Fostering innovation across the Group and expanding proprietary intellectual property to drive high-margin product and service offerings
- Focusing on capturing further market share in three key markets: Government (including Defence), Critical Infrastructure and Financial Services
- Driving growth through deeper and wider customer engagements and increasing our average number of services per customer

- Integrating acquisitions into “Capability Business Units” to maximise synergy efficiencies and drive organic revenue growth through cross-selling
- Building out high-value recurring annuity revenue streams via Managed Security Operations Centre (SOC) and Managed Detection and Response (MDR).
- Investing in the Tesserent Academy to deliver programs to help the industry shortage of cyber skills for Tesserent staff, our clients and industry wide.

Dividends

The directors have resolved to not declare a dividend for the half year.

Rounding of amounts

The company is of a kind referred to in ASIC Legislative Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the ‘rounding off’ of amounts in the directors’ report and financial report. Amounts in the directors’ report and financial report have been rounded off to the nearest one hundred thousand dollars in accordance with that Legislative Instrument.

Subsequent events

The company notes the following subsequent event after the 31 December 2021 reporting date, being the settlement of Daltrey Pty Ltd deferred consideration of $1.1m on 4 January 2022, completing the committed investment contributions.

No matters or other circumstances has arisen since 31 December 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 periods.

Auditor’s independence declaration

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

The company looks forward to providing further updates on its future financial and strategic objectives.

Signed in accordance with a resolution of the directors.

On behalf of the directors

Kurt Hansen
Chief Executive Officer
Melbourne, 25 February 2022

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DECLARATION OF INDEPENDENCE BY SALIM BISKRI TO THE DIRECTORS OF TESSERENT LIMITED

As lead auditor for the review of Tesserent Limited for the half-year ended 31 December 2021, I declare that, to the best of my knowledge and belief, there have been:

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

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

Salim Biskri
Director

BDO Audit Pty Ltd

Melbourne, 25 February 2022

Consolidated Statement of Profit and Loss and Other Comprehensive Income

for the half-year ended 31 December 2021

	Note	31 December 2021 $'000	31 December 2020 $'000
Revenue	3	43,875	28,870
Other income		297	208
Expenses			
Software licence and connectivity fees		(5,411)	(4,775)
Employee benefits expense		(26,531)	(14,079)
Contractor expense		(3,980)	(4,350)
Administration expenses		(578)	(1,143)
Bad and doubtful debts		-	(18)
Consulting and legal costs		(707)	(508)
Advertising and promotion		(325)	(160)
Business acquisition costs		(471)	(2,715)
Revaluation expense on contingent consideration		(600)	-
Share option expense		(1,520)	(2,630)
Depreciation and amortisation expense		(3,571)	(1,329)
Finance costs	5	(2,876)	(2,417)
Other expenses		(869)	(1,134)
Loss before income tax benefit		**(3,267)**	**(6,180)**
Income tax benefit		-	207
Loss after income tax benefit for the period		**(3,267)**	**(5,973)**
Other comprehensive income for the period, net of tax		-	-
Total comprehensive income/(loss) for the period		**(3,267)**	**(5,973)**

	Note	cents	cents
Basic loss per share (cents per share)	2	(0.29)	(0.82)
Diluted loss per share (cents per share)	2	(0.29)	(0.82)

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

Consolidated Statement of Financial Position

for the half-year ended 31 December 2021

	Note	31 December 2021 $'000	30 June 2021 $'000
Assets			
Current Assets			
Cash and cash equivalents		13,457	14,860
Trade and other receivables		25,204	24,799
Contract assets		10,253	9,293
Prepayments		1,963	1,906
Inventories		85	85
Lease asset receivable		259	254
Financial assets held at fair value through profit or loss	12	4,100	3,000
Current tax asset		151	215
Other current asset		395	76
Total current assets		**55,866**	**54,488**
Non-current Assets			
Contract assets		36	159
Property, plant and equipment		2,856	2,700
Intangibles	6	31,798	29,577
Goodwill	7	131,303	83,259
Right-of-use assets		6,752	6,812
Lease asset receivable		417	534
Investments in equity-accounted associates	13	2,775	2,867
Investment held at fair value through profit or loss	12	600	-
Other non-current asset		887	735
Total non-current assets		**177,424**	**126,642**
Total Assets		**233,289**	**181,130**
Liabilities			
Current Liabilities			
Trade and other payables		29,810	28,973
Contract liabilities		9,897	7,335
Lease liabilities		2,616	2,390
Provisions		3,484	2,831
Income tax payable		1,843	172
Deferred settlement liabilities	9	22,982	11,699
Total current liabilities		**70,632**	**53,400**
Non-current liabilities			
Contract liabilities		-	1,179
Lease liabilities		4,689	5,078
Borrowings	8	26,594	25,603
Provisions		938	675
Deferred settlement liabilities	9	2,925	1,652
Deferred tax liability		6,178	5,910
Total non-current liabilities		**41,325**	**40,097**
Total liabilities		**111,957**	**93,497**
Net assets		**121,333**	**87,633**

Consolidated Statement of Financial Position (continued)

for the half-year ended 31 December 2021

	Note	31 December 2021 $'000	30 June 2021 $'000
Equity			
Contributed equity	10	138,642	102,992
Reserves	10	12,353	11,200
Accumulated losses		(29,662)	(26,558)
Total Equity		**121,333**	**87,633**

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

Consolidated Statement of Changes in Equity

for the half-year ended 31 December 2021

	Contributed equity $'000	Converting notes $'000	Reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2020	**29,485**	**6,532**	**1,840**	**(21,349)**	**16,507**
Loss for the period	-	-	-	(5,973)	(5,973)
Other comprehensive income for the period	-	-	-	-	-
Total comprehensive income for the period	**-**	**-**	**-**	**(5,973)**	**(5,973)**
Issue of shares	9,093	-	-	-	9,093
Capital raising costs	(169)	-	-	-	(169)
Share based payments	1,731	-	-	-	1,731
Shares issued or accrued as part of business combinations	37,517	-	-	-	37,517
Shares issued on conversion of convertible notes	7,335	(6,721)	-	(451)	163
Distributions to convertible note holders	-	190	-	(190)	-
Warrants issued	-	-	4,994	-	4,994
Warrants exercised	1,448	-	(1,448)	-	-
Options issued	-	-	2,630	-	2,630
Options exercised	418	-	(418)	-	-
Options expired or forfeited	-	-	(195)	195	-
Deferred tax	-	-	(1,373)	-	(1,373)
As at 31 December 2020	**86,858**	**-**	**6,029**	**(27,768)**	**65,120**
Balance at 1 July 2021	**102,992**	**-**	**11,200**	**(26,558)**	**87,633**
Loss for the period	-	-	-	(3,267)	(3,267)
Other comprehensive income for the period	-	-	-	-	-
Total comprehensive income for the period	**-**	**-**	**-**	**(3,267)**	**(3,267)**
Issue of shares	708	-	-	-	708
Issue of convertible notes	-	-	-	-	-
Capital raise	25,000	-	-	-	25,000
Capital raising costs	(1,363)	-	-	-	(1,363)
Share based payments	-	-	-	-	-
Shares issued as part of business combinations	10,669	-	-	-	10,669
Shares issued or accrued to employees or consultants	-	-	-	-	-
Shares issued on conversion of convertible notes	-	-	-	-	-
Distributions to convertible note holders	-	-	-	-	-
Warrants issued	-	-	-	-	-
Warrants exercised	128	-	(128)	-	-
Options issued	-	-	1,520	-	1,520
Options exercised	99	-	(99)	-	-
Options expired or forfeited	-	-	(164)	164	-
Deferred tax	409	-	-	-	409
Translation of foreign operations	-	-	25	-	25
As at 31 December 2021	**138,642**	**-**	**12,353**	**(29,662)**	**121,333**

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

Consolidated Statement of Cash Flows

for the half-year ended 31 December 2021

	Note	31 December 2021 $'000	31 December 2020 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		77,590	35,539
Payments to suppliers and employees (inclusive of GST)		(72,755)	(38,800)
Other revenue		78	312
Interest received		3	3
Interest and other finance costs paid		(1,508)	(959)
Income taxes paid/(refunded)		(176)	35
Net cash from / (used in) operating activities		**3,232**	**(3,869)**
Cash flows from investing activities			
Purchase of plant and equipment		(522)	-
Development costs capitalised		(50)	-
Business acquisitions net of cash acquired	11	(12,990)	(5,326)
Business acqusition costs		(246)	(883)
Other investment costs	13	(600)	-
Net cash from / (used in) investing activities		**(14,407)**	**(6,209)**
Cash flows from financing activities			
Proceeds from issue of shares	10	25,000	9,024
Cost of issuing shares	10	(1,363)	-
Proceeds from borrowings		-	10,000
Repayment of lease liabilities		(1,160)	(2,963)
Proceeds from warrants and convertible notes		708	-
Payment of deferred settlement liabilities	9	(13,413)	(2,348)
Net cash from / (used in) financing activities		**9,772**	**13,713**
Net increase / (decrease) in cash held		(1,404)	3,635
Cash and cash equivalents at the beginning of the year		14,860	4,350
Cash and cash equivalents at the end of the period		**13,457**	**7,984**

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

Notes to the financial report

for the half-year ended 31 December 2021

1. Statement of significant accounting policies

This general purpose financial report for the half-year ended 31 December 2021 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting, the Corporations Act 2001 and the Australian Securities Exchange (ASX) Listing Rules. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 Interim Financial Reporting.

This half-year financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2021 and any public announcements made by Tesserent Limited during the half-year reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Basis of preparation

The half-year report includes the consolidated financial statements of the parent entity, Tesserent Limited and its subsidiaries (together 'the Group'). The Company is a company limited by shares that are publicly traded on the Australian Stock Exchange, incorporated and domiciled in Australia.

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

The accounting policies and methods of computation adopted in the preparation of the half-year report are consistent with those adopted and disclosed in the Company's Annual Financial Report for the year ended 30 June 2021.

The Group has adopted all new and revised Australian Accounting Standards and Interpretations that are relevant to the Group and have become effective for the first time since the 2021 Annual Financial Report. None of the new standards or amendments to standards that are mandatory for the first time materially affected any of the amounts recognised in the current period or any prior period.

Comparatives

Where necessary, comparative information has been reclassified and repositioned for consistency with current year disclosures.

Critical accounting judgements, estimates and assumptions

In the process of applying the Group's accounting policies, management has made a number of judgements and applied estimates of future events. 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 judgements, estimates and assumptions that are material to the financial reports are discussed below.

Going concern

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

For the half-year ended 31 December 2021, the Group made a net loss of $3.3m (2020: $6.0m), had net cash from operating activities of $3.2m (2020: net cash used in operating activities: $3.9m) and a net current liability position of $14.8m (30 June 2021: net current asset position of $1.1m) . The Group has cash reserves of $13.5m at 31 December 2021 (30 June 2021: $14.9m).

The directors have prepared projected cash flow information for 24 months from the date of approval of these financial statements taking into consideration how current events and conditions impact its operations, in particular, its revenue, expenses, funding and liquidity, with the key focus being whether it will have sufficient liquidity to continue to meet its obligations as they fall due.

These forecasts indicate that, taking into account of reasonably possible downsides, the Group is expected to continue to operate, with headroom, within available cash levels and also within the terms of its debt facilities. Accordingly, the directors believe that the Group will be able to continue as a going concern and that it is appropriate to adopt that basis of accounting for the preparation of the financial report.

The COVID-19 pandemic continues to have an impact on global economies and remains a source of uncertainty. Certain sectors, including tourism, hospitality, commercial property and air travel, are not expected to return to pre-COVID-19 activity levels in the short-term. The Group has considered the impact of COVID-19 in determining the estimates, assumptions and judgements used to prepare the interim financial report and note that the negative impact on the Tesserent business is limited. Consistent with prior periods the most significant areas of consideration in respect of COVID-19 are the measurement of expected credit losses and its subsequent impact on deferred income tax.

Share based payment transactions

Notes to the financial report

for the half-year ended 31 December 2021

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model, taking into account the terms and conditions upon which the instruments were granted. The 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.

Goodwill and other indefinite life intangible assets

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

Fair Value of TrustGrid and AttackBound options held

The Group is entitled to call options to acquire additional shares in either TrustGrid or AttackBound to maintain its shareholding in the relevant business when each business raises additional capital by issuing new shares. Significant judgment is required to assess the fair value of those call options.

Business combinations

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

Recovery of deferred tax assets

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

Provision for deferred consideration

The Group's provision for deferred consideration is recognised within 'Deferred Settlement Liabilities' in the Consolidated Statement of Financial Position. Deferred consideration represents purchase consideration payable for acquisitions once certain conditions are met as stipulated in the contracts. These are measured at the discounted value of the best estimate of the cash payable based on conditions existing at the balance date. The measurement of deferred consideration at fair value at each reporting date requires estimates to be made about expected EBITDA over the measurement period to which the deferred consideration relates.

Credit Loss Allowance

The Group's credit loss allowance is recognised within 'Trade and Other Receivables' in the Consolidated Statement of Financial Position. The Group applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Expected credit losses are measured by grouping trade receivables and contract assets based on shared credit risk characteristics and the days past due.

The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. A provision matrix is then determined based on the historic credit loss rate for each group of clients, adjusted for any material expected changes to the future credit risk for that client group. The adjustment for material expected changes to credit risk for each client group requires judgment about future events and as such a significant increase in actual credit losses from that expected would lead to a significant impact on financial performance.

Rounding of amounts

The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Notes to the financial report

for the half-year ended 31 December 2021

2. Earnings per share

	31 December 2021 $'000	31 December 2020 $'000
Loss after income tax	(3,267)	(5,973)
Weighted average number of ordinary shares outstanding during the period used in the calculation of basic loss per share	1,140,083,653	730,151,437
Weighted average number of ordinary shares and convertible redeemable preference shares outstanding during the year used in the calculation of diluted loss per share	1,140,083,653	730,151,437

	cents	cents
Basic loss per share	(0.29)	(0.82)
Diluted loss per share	(0.29)	(0.82)

3. Revenue and other income

	31 December 2021 $'000	31 December 2020 $'000
Managed services	5,983	3,403
Consulting services	33,632	21,150
Software licence subscriptions	3,091	2,049
Hardware equipment sales	311	888
Support and maintenance renewals	842	1,318
Other sales revenue	17	61
	43,875	**28,870**

4. Operating segment reporting

As announced in its ASX release on 11 August 2021, the Group has updated its internal management reporting structure and go to market approach. This revised structure has evolved through the management reporting developed in the 30 June 2021 financial year given the significant number of acquisitions during the year and forms the basis in which the Group's chief operating decision makers (CODMs) manage the business and assessment performance.

Under the revised structure, the Group's internal reporting and management comprises three primary operating segments, being:

1. **Tesserent Commercial segment –** comprising the Group's core customer offerings Defend, Cloud and Detect customer service offerings
2. **Tesserent Federal segment** – comprising the North Security, Ludus and Seer Security businesses
3. **Tesserent New Zealand segment** – comprising the Lateral business plus the newly incorporated Tesserent NZ entity to cross sell services from the Australian Commercial Division into Lateral and new NZ customers

The CODMs review these segments down to the EBIDAC level (Earnings before interest, tax, depreciation, amortisation and corporate overhead costs), with reporting of corporate overhead costs and non-cash costs done on a consolidated group basis.

Notes to the financial report

for the half-year ended 31 December 2021

Half-year ended 31 December 2021	Tesserent Commercial $'000	Tesserent Federal $'000	Tesserent New Zealand $'000	Other / unallocated $'000	Total $'000
Net Sales to external customers	26,653	13,290	2,470	1,462	43,875
Other sales	399	-	9	(111)	297
Total revenue	**27,053**	**13,290**	**2,479**	**1,351**	**44,172**
EBITDAC	3,985	2,468	393	(103)	**6,743**
Corporate costs (including acqusition costs and SBP*)	-	-	-	(3,778)	(3,778)
EBITDA	**3,985**	**2,468**	**393**	**(3,881)**	**2,964**
Depreciation and amortisation	-	-	-	(3,571)	(3,571)
Interest expense and PAM facility amortisation	-	-	-	(2,661)	(2,661)
Profit/(loss) before income tax expense	**3,985**	**2,468**	**393**	**(10,113)**	**(3,267)**
Income tax expense	-	-	-	-	-
Profit/(loss) after income tax expense	**3,985**	**2,468**	**393**	**(10,113)**	**(3,267)**
Material items include:					
** Share based payments*					*(1,520)*
** Acqusition costs*					*(1,071)*
Total segement assets	93,986	75,258	7,629	56,416	233,289
Total segement liabilities	(31,156)	(7,809)	(542)	(72,450)	(111,957)

Half-year ended 31 December 2020	Tesserent Commercial $'000	Tesserent Federal $'000	Tesserent New Zealand $'000	Other / unallocated $'000	Total $'000
Net Sales to external customers	26,697	10,107	-	(7,934)	28,870
Other sales	187	23	-	(1)	208
Total revenue	**26,883**	**10,130**	**-**	**(7,935)**	**29,078**
EBITDAC	2,134	1,800	-	(3,364)	**570**
Corporate costs (including acqusition costs and SBP*)	-	-	-	(3,003)	(3,003)
EBITDA	**2,134**	**1,800**	**-**	**(6,368)**	**(2,434)**
Depreciation and amortisation	-	-	-	(1,329)	(1,329)
Interest expense and PAM facility amortisation	-	-	-	(2,417)	(2,417)
Profit/(loss) before income tax expense	**2,134**	**1,800**	**-**	**(10,114)**	**(6,180)**
Income tax expense	-	-	-	207	207
Profit/(loss) after income tax expense	**2,134**	**1,800**	**-**	**(9,907)**	**(5,973)**
Material items include:					
** Share based payments*					*(2,630)*
** Acqusition costs*					*(2,715)*
Total segement assets	81,338	37,839	-	(1,574)	117,603
Total segement liabilities	(29,073)	(3,904)	-	(19,506)	(52,483)

Notes to the financial report

for the half-year ended 31 December 2021

5. Finance costs

	31 December 2021 $'000	31 December 2020 $'000
Interest and finance charges paid/payable on borrowings (cash)	1,669	608
Interest and finance charges paid/payable on borrowings (warrant amortisation)	992	1,777
Interest and finance charges paid/payable on lease liabilities	1	56
Other finance costs	214	(25)
	2,876	**2,417**

6. Intangible assets

	31 December 2021 $'000	30 June 2021 $'000
Current Assets		
Customer contracts - at cost	35,511	31,611
Less: Accumulated amortisation	(4,325)	(2,647)
	31,187	**28,964**
Other intangible assets - at cost	684	684
Less: Accumulated amortisation	(73)	(71)
	611	**613**
	31,798	**29,577**

Reconciliation	Customer contracts and relationships $'000	Intellectual property $'000	Software $'000	Total $'000
Balance as at 30 Jun 2021	**28,964**	**614**	**-**	**29,578**
Capitalised development costs	-	-	-	**-**
Additional through business combinations	3,900	-	-	**3,900**
Amortisation expenses	(1,678)	(2)	-	**(1,680)**
Balance as at 31 December 2021	**31,186**	**612**	**-**	**31,798**

Notes to the financial report

for the half-year ended 31 December 2021

7. Goodwill

	31 December 2021 $'000	30 June 2021 $'000
Goodwill - at cost	131,303	83,259
Less: impairment	-	-
	131,303	**83,259**

	Total $'000
Balance at 1 July 2020	15,965
Additions through business combinations	66,738
Additional amount recognised from prior year business combination*	557
Balance at 30 June 2021	**83,259**

	Total $'000
Balance at 1 July 2021	83,258
Additions through business combinations	46,961
Fair value adjustment to provisional accounting	1,084
Balance at 31 December 2021	**131,303**

	31 December 2021 $'000	30 June 2021 $'000
Goodwill acquired thorugh business combinations has been allocated to the following cash-generating units:		
Tesserent Commercial	70,119	56,022
Tesserent Federal	55,918	21,972
Tesserent New Zealand	5,266	5,266
	131,303	**83,259**

* Following, the issue of the annual report for the year ended 30 June 2021, Tesserent obtained new information which has allowed the Group to update its provisional accounting for the acquisition of Secure Logic Pty Ltd. The change in the fair value of other receivables and settlement of the completion accounts and agreement on the treatment of the disbursement of the escrow funds has resulted in a change to the total consideration amount for the acquisition. This is reported in the table above as a fair value adjustment to provisional accounting.

Notes to the financial report

for the half-year ended 31 December 2021

8. Borrowings

	December 2021 $'000	June 2021 $'000
Non-current liabilities		
Borrowings	26,594	25,603
	26,594	**25,603**

	December 2021 $'000	June 2021 $'000
Loan facility	35,000	35,000
Fair value of attaching warrants[1]	(9,498)	(9,498)
Transaction costs[1]	(797)	(797)
Balance at 31 December 2020	**24,705**	**24,705**
Amortisation of finance component (warrants and transaction costs)	1,889	898
Period end	**26,594**	**25,603**

1 *The fair value of long-term borrowings are based on cash flows discounted using effective interest rates available to the Group. Finance costs of $10.3m have been recognised to be amortised over the life of the borrowings, which in effect discounts the face value of the borrowings of $35m. The effective interest rate method is a method calculating the amortised cost of a financial liability and allocating interest expense over the relevant period. The effective interest rate method is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or where appropriate shorter period.*

Notes to the financial report

for the half-year ended 31 December 2021

9. Deferred settlement liabilities

	31 December 2021 $'000	30 June 2021 $'000
Current liabilities		
Deferred settlement liability	22,982	11,699
Non-current liabilities		
Deferred settlement liability	2,925	1,652
Reconciliation		
Reconciliation of the fair values at the beginning and end of the current and previous period are set out below :		
Opening balance	**13,351**	**5,401**
Deferred and contingent consideration from business acquisitions[1]	23,880	18,955
Amount due in relation to Daltrey investment	1,100	-
Change in completion adjustments	1,767	(3,119)
Cash paid on prior period acquisitions	(13,413)	(5,778)
Issued capital from prior period acquisitions	(778)	(2,108)
Closing balance	**25,907**	**13,351**

	31 December 2021 $'000	30 June 2021 $'000
Deferred settlement liability represented by:		
Cash settled liabilities		
Current	15,719	11,029
Non-current	1,703	1,544
Equity settled liabilities	8,485	778
Closing balance	**25,907**	**13,351**

1 *Balance relates to deferred and contingent consideration elating to Pearson, Loop Secure & Claricent business combinations. Refer to Note 11 for additional information on deferred consideration & estimated earnout payments.*

10. Issued capital and reserves

	31 December 2021		30 June 2021	
	No. of shares	$'000	No. of shares	$'000
Shares on issue at the start of the period	1,063,019	102,992	511,834	29,485
Shares issued pursuant to capital raisings	119,048	25,000	59,000	-
Shares issued from conversion of Warrants	1,167	140	74,087	7,213
Shares issued from conversion of Convertible Notes	-	-	146,699	7,172
Issued as part of business combination consideration	58,000	10,669	243,994	50,480
Shares issued or accrued to employees or consultants	5,989	-	1,094	4,744
Shares issued as equity settled expense	-	227	26,311	-
Shares from options exercised	4,850	568	-	4,114
Cost of issuing equity	-	(1,363)	-	(216)
Deferred tax	-	409	-	-
Shares on issue at the end of the period	1,252,071	138,642	1,063,019	102,992

Notes to the financial report

for the half-year ended 31 December 2021

	31 December 2021 $'000	30 June 2021 $'000
Opening balance	11,199	1,841
Share based compensation recognised during the year	612	8,050
Share options issued	779	4,213
Share options exercised during the year	(99)	(169)
Share options expired during the year	(164)	(365)
Deferred tax	-	(2,400)
Translation of foreign operations	25	31
Balance at end of the period	12,353	11,200

11. Business combinations

During the half-year, the Group completed the acquisitions of Loop Secure Pty Ltd, Claricent Pty Ltd, and Pearson Corporation Pty Ltd. Details of the acquisitions were as follows:

Loop Secure Pty Ltd

On 1 October 2021, TNT Cyber Services Pty Ltd, a subsidiary of Tesserent Limited, acquired 100% of the ordinary shares of Loop Secure Pty Ltd for consideration of $15,793,930, with $7,000,000 cash and $3,508,150 in issued share capital, being 15,946,135 shares issued at a fair value of $0.220 per share. Further cash payments of $2,000,000 in deferred consideration and an estimated completion accounts payment $490,780, plus estimated earnout payments of $2,795,000 (contingent on the Loop business meeting agreed earnings targets), make up the balance of the total acquisition cost.

Loop Secure's Offensive Security, GRC and Managed Security Services strengthens TNT's Cyber 360 capabilities with significant synergy benefits and cross-sell opportunities

Claricent Pty Ltd

On 15 December 2021, TNT Cyber Services Pty Ltd, a subsidiary of Tesserent Limited, acquired 100% of the ordinary shares of Claricent Pty Ltd for consideration of $4,553,079, with $1,239,000 cash and $791,958 in issued share capital, being 4,728,105 shares issued at a fair value of $0.1675 per share. Further cash payments of $1,173,122 in deferred consideration and deferred issued capital of $824,000, plus estimated earnout payments of $525,000 (contingent on the Claricent business meeting agreed earnings targets), make up the balance of the total acquisition cost.

Pearson Corporation Pty Ltd

On 23 December 2021, TNT Cyber Services Pty Ltd, a subsidiary of Tesserent Limited, acquired 100% of the ordinary shares of Pearson Corporation Pty Ltd for consideration of $30,303,138, with $8,640,000 cash and $5,591,230 in issued share capital, being 33,886,663 shares issued at a fair value of $0.1650 per share. Further cash payments of $8,071,839 in deferred consideration and deferred issued capital of $5,600,000 are contingent on the Pearson business meeting agreed earnings targets. Also contingent on Pearson meeting earnings targets, are estimated earnout payments of $2,400,000, which make up the balance of the total acquisition cost.

Both Claricent Pty Ltd and Pearson Corporation Pty Ltd have leading positions in the Federal Government marketplace and enable Tesserent to further strengthen its position and deliver large multi-year projects that support the Federal Government to achieve their cybersecurity goals.

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

Notes to the financial report

for the half-year ended 31 December 2021

Details of acquisitions	Loop Secure Fair value $'000	Claricent Fair value $'000	Pearson Fair value $'000	Total $'000
Cash and cash equivalents	2,958	280	651	3,889
Trade and other receivables	1,364	128	2,031	3,523
Deposits	112	215	-	327
Contract assets	67	112	666	845
Prepayments	237	-	-	237
Plant and equipment	171	-	-	171
Trade and other payables	(1,406)	(210)	(1,491)	(3,107)
Contract liabilities	(2,352)	-	(7)	(2,359)
Provision for income tax	(534)	(74)	(1,251)	(1,859)
Deferred tax (liability)/asset	(1,033)	(11)	221	(823)
Employee benefit provisions	(705)	(228)	(122)	(1,055)
Fair value of contracts and relationships acquired	3,900	-	-	3,900
Net assets acquired	**2,779**	**212**	**698**	**3,689**
Goodwill*	13,015	4,341	29,605	46,961
Total Consideration	**15,794**	**4,553**	**30,303**	**50,650**
Represented by:				
Cash paid or payable to the vendor	7,000	1,239	8,640	16,879
Tesserent Limited shares issued to the vendor	3,508	792	5,591	9,891
Deferred consideration & estimated earnout payments	5,286	2,522	16,072	23,880
	15,794	**4,553**	**30,303**	**50,650**
Cash used to acquire businesses:				
Acquisition-date fair value of consideration transferred	7,000	1,239	8,640	16,879
Less: cash and cash equivalents acquired	(2,958)	(280)	(651)	(3,889)
Net cash payments for business combinations	**4,042**	**959**	**7,989**	**12,990**

As required under AASB 3, Tesserent is required to identify the fair value of the assets and liabilities of entities acquired at the acquisition date. Given the timing of the acquisitions of Claricent Pty Ltd and Pearson Corporation Pty Ltd in December 2021, the exercise to confirm that the carrying value of intangible assets and goodwill has not been completed and may differ from the fair value. Additional intangibles such as customer contracts and customer relationships are expected to be recognised in the FY22 full year financial statements.

During the period under which the above acquired entities were controlled by the Group:

- Loop Secure (which was acquired on 1 October 2021) contributed net revenue of $3.2m (turnover of $6.9m) and profit before tax of $0.8m to the Group's financial results for the half year ended 31 December 2021. If the business had been acquired on 1 July 2021, it would have contributed net revenue of $6.4m and net profit before tax of $1.6m.
- Both Claricent and Pearson contributed immaterial financial contributions to the Group's financial results – due to the timing of the acquisitions – with acquisition dates of 15 December 2021 and 23 December 2021, respectively. If Claricent had been acquired on 1 July 2021, it would have contributed gross revenues of $1.5m and net profit before tax of $0.3m. If Pearson had been acquired on 1 July 2021, it would have contributed gross revenues of $7.6m and net profit before tax of $1.4m.

Secure Logic Pty Ltd

Following the issue of the annual report for the year ended 30 June 2021, Tesserent obtained new information which has allowed it to update its provisional accounting for the acquisition of Secure Logic Pty Ltd. The change in fair value of other receivables and agreement on the treatment of the disbursement of the escrow funds has resulted in a change to the total consideration amount for the acquisition from $17.9 million as reported at 30 June 2021 to $18.9 million at 31 December 2021.

Notes to the financial report

for the half-year ended 31 December 2021

12. Financial assets held at fair value through profit or loss

	31 December 2021 $'000	30 June 2021 $'000
Current assets		
Call option financial instrument – TrustGrid	2,000	2,000
Call option financial instrument – AttackBound	1,000	1,000
Amount for future Daltrey investment held at fair value	1,100	-
	4,100	**3,000**
Non-current assets		
Investment in Daltrey held at fair value	600	-
	600	**-**

The other financial assets of the business as at 31 December 2021 represent call options held in TrustGrid of $2m, AttackBound $1m and a contractual agreement to acquire additional interest in Daltrey of $1.1m, which was settled on 4 January 2022.

Under Accounting Standard AASB9, it is determined that the investment in Daltrey should be accounted for by measuring the investment at fair value through profit or loss (FVPL). Management has considered the carrying value of this investment but have determined that in this early stage of the business it is most appropriate to record the investment at carrying value.

13. Investments in associates and joint ventures

	31 December 2021 $'000	30 June 2021 $'000
Non-current assets		
Investment in TrustGrid	2,622	2,676
Investment in AttackBound	153	191
	2,775	**2,867**
Represented by:		
Opening balance	2,867	**-**
Consideration paid for investments - cash	-	1,500
Consideration paid for investments - shares	-	1,367
Equity accounting - share of profit/(loss) on TrustGrid and Attackbound	(92)	-
	2,775	**2,867**

The Group has accounted for the TrustGrid and AttackBound investments by the application of the equity method when accounting for investments in associates. Tesserent has accounted for its share of the losses incurred in each of these businesses for the half-year to 31 December 2021. As both of these businesses are start-ups and undertaking software development work in their early stages it is anticipated that they would be loss making over this period.

14. Dividends

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

15. Events after the reporting period

On 4 January 2022, the Group increased its interest into Daltrey Pty Ltd through an additional investment of $1.1 million

Apart from the item above, there has been no other matter or circumstance has arisen since 31 December 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 periods.

Directors' Declaration

for the half-year ended 31 December 2021

The directors declare that:

(a) In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debt as and when they become due and payable; and

(b) In the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the financial position as at 31 December 2021 and the performance of the Group for the half-year ended on that date; and

(ii) compliance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*

Signed in accordance with a resolution of directors made pursuant to section 303(5) of the Corporations Act 2001.

On behalf of the directors

Mr K Hansen

Chief Executive Officer

25 February 2022

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Tesserent Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Tesserent Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

(i) Giving a true and fair view of the Group's financial position as at 31 December 2021 and of its financial performance for the half-year ended on that date; and

(ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Responsibility of the directors for the financial report

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

Auditor's responsibility for the review of the financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2021 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

BDO Audit Pty Ltd

BDO

Salim Biskri
Director

Melbourne, 25 February 2022