

Cipherpoint Limited

ABN 61 120 658 497

Annual Report - 31 March 2022

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Directors	Edward (Ted) Pretty - Chairman Graham Mirabito Steven Bliim
Joint Company secretaries	Patrick Gowans Thomas Carolan
Registered office	Suite 2.01, 157 Walker Street North Sydney, NSW 2060 Telephone: (02) 8412 8200
Share register	Automic Pty Ltd Level 5, 126 Phillip Street Sydney, NSW 2000 Telephone: 1300 288 664
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 2022.

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 - Managing Director and Chairman
Steven Bliim - Non-Executive Director (appointed on 21 September 2021) (formerly Executive Director and COO)
Graham Mirabito - Non-Executive Director

Principal activities

The principal activity of the Group is the provision of cyber security services and data security technology to the enterprise and government sectors.

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 \$9,001,810 (31 March 2021: \$2,946,327).

During the year the Group executed on a strategy of acquiring and integrating cyber security services businesses into the Group along-side its commercialising cyber security software operations. This program has significantly increased operating revenues and delivered a diverse mix of Marquee customers into the business, particularly in Australia.

Investments in sales, pre-sales and technical resources together with enhancements to the Groups's North Sydney Security Operations Centre (SOC) while contributing to higher, short-term operating costs, have resulted in improvements in the Group's pipeline and revenue growth.

Divestment of the Group's software division to archTIS Limited in September 2021, has seen a reduction in operating costs of approximately \$1 million on an annualised basis. Additionally, this divestment has generated \$1.4 million in disposal proceeds, which have been applied to investment in the Group's cyber security services businesses. Following the balance date of 31 March 2022, a further \$107,000 cash was received from archTIS Limited in settlement of the milestone component of the software division divestment.

The Board continues to monitor developments in the pandemic and conditions in the global economic environment. As updated to the market on 1 February 2022, the Board announced the future strategy of the Group will encompass the following three pillars:

- Acquire and grow
- Scale, reduce costs
- Achieve cash flow break-even and profit

As part of the above strategy, the Board has implemented a program to reduce overheads, including director costs as well as taking a more active role in the sales operations of the Brace168 business to ensure that all sales opportunities are aggressively pursued. Action has been taken to reduce investment in business development and marketing resources which did not convert to sales and increased revenues. The Board continues to evaluate opportunities to further grow through strategic partnerships and potential acquisitions.

Significant changes in the state of affairs

On 1 April 2021, the Company completed the acquisition of 100% of the shares in Brace168 Pty Limited ('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. Since acquisition Brace168 has continued to grow its large sales pipeline and deliver strong service revenues.

In August 2021, the Company raised \$2.9m (before costs) to be applied to completion of the upgrade to its security operations centre, acceleration of recruitment activities, further investment into business development and the pursuit of potential acquisition opportunities.

In September 2021, the Company entered into an agreement to sell select assets and products from its software division to archTIS Limited for a purchase price of \$1.5m in cash. The Company retained a right to resell the products.

In October 2021, the Company announced the acquisition of Tasmanian based managed security services provider Virtual Information Technology Pty Limited ('VIT Cyber Security' or 'VITCS') for an initial consideration of \$700,000 in cash and 10.2 million shares with additional share-based consideration as part of an FY22 and FY23 earn out arrangement. The 10.2 million shares were issued on 25 November 2021 at \$0.039 per share, subject to a 6 month escrow period.

In November 2021, the Company announced it had secured new contracts with Vocus, Ingenia, Guide Dogs of NSW and Sandstone Technology.

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 July 2022 the Group successfully raised \$950,000 of additional funding with a share placement of \$150,000 and issuing convertible notes for \$800,000. These funds will support the working capital of the business.

In addition, the Company intends to seek further funding to provide additional working capital and/or fund potential complementary acquisitions by way of a proposed rights issue to shareholders. It is anticipated that the proposed rights issue will involve an offer of 2 new shares for every 3 shares held at the relevant record date with accompanying options (on the same terms as the Placement) to raise up to a further \$1,226,000. This approach is to ensure all shareholders have the right to participate in the capital raising on the same terms as the Placement and Note issue.

No other matter or circumstance has arisen since 31 March 2022 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 deliver its cyber security services to enterprises and the government sector. Operating costs will continue to outpace revenue until sales from current and future contracts commence to generate significant revenue streams and margin improvements can be obtained. The Group has embarked upon a restructuring to reduce its cost base to achieve cash flow breakeven as soon as possible.

Coronavirus (COVID-19) pandemic

The consequences of the Coronavirus (COVID-19) pandemic are continuing to be felt around the world, and its impact on the Group, if any, has been reflected in the results to date. Whilst it would appear that control measures and related government policies, including the roll out of the vaccine and boosters, have started to mitigate the risks caused by COVID-19, it is not possible at this time to state that the pandemic will not subsequently impact the Group's operations going forward. The directors and management continue to monitor the situation both locally and internationally.

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: 14,140,757 ordinary shares
Interests in options: None
Interests in rights: 6,901,540 ordinary shares issued pursuant to employee loan share plan (1,401,540) and performance rights (5,500,000)

Name: Steven Bliim
Title: Non-Executive Director (ceased to be Executive Director and Chief Operational Officer (COO) on 21 September 2021)
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.

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.

Steven is a member of Chartered Accountants Australia & New Zealand, and holds a Bachelor of Commerce – Accounting from the University of South Australia.

Other current directorships: None
Former directorships (last 3 years): None
Interests in shares: 6,021,979 ordinary shares
Interests in options: None
Interests in rights: 5,319,560 ordinary shares issued pursuant to employee loan share plan (319,560) and performance rights (5,000,000)

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.

Graham holds an Associate Diploma in Electrical Engineering from the Queensland University of Technology.

Other current directorships: None
 Former directorships (last 3 years): None
 Interests in shares: 2,534,891 ordinary shares
 Interests in options: None
 Interests in rights: 1,133,300 ordinary shares issued pursuant to employee loan share plan (133,300) and performance rights (1,000,000)

'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.

Thomas Carolan - Joint Company Secretary

Thomas joined the company in July 2021 and is also the CFO. Thomas has a Bachelor of Commerce from The University of Melbourne, a Masters of Business Administration from the Australian Graduate School of Business at UNSW, is a Chartered Accountant and a graduate of the Company Directors Course.

Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') held during the year ended 31 March 2022, and the number of meetings attended by each director were:

	Attended	Held
Edward (Ted) Pretty	9	9
Graham Mirabito	9	9
Steven Bliim	9	9

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 FY2022, 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 below, 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 ('AGM') held on 24 September 2021, where the shareholders approved a maximum annual aggregate remuneration of \$527,936.

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 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 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 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 KMP.

(iv) Performance rights

Selected KMP 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 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')

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.

At the AGM on 24 September 2021, shareholders approved the continuation of the Employee Loan Share Plan ('ELSP'), the Employee Share Option Plan ('ESOP'), and the Performance Rights Plan ('PRP'). The plans were previously adopted at the 2020 AGM on 25 August 2020 and were also refreshed at the general meeting of shareholders on 31 March 2021.

These plans provide 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, and therefore enhance 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 2022, the Board approved the engagement of Guerdon Associates to provide remuneration recommendations regarding the remuneration mix and quantum for the board and executives.

Both Guerdon Associates and Cipherpoint are satisfied the advice received from Guerdon Associates is free from undue influence from the board and KMP to whom the remuneration recommendations apply.

The remuneration recommendations were provided to the Board as an input into decision making only. The Board considered the recommendations, along with other factors, in making its remuneration decisions.

The fees paid to Guerdon Associates for the remuneration recommendations were \$11,800.

Voting and comments made at the Company's 2021 Annual General Meeting ('AGM')

At the 2021 AGM, 95% of the votes received supported the adoption of the remuneration report for the year ended 31 March 2021.

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 - Non-Executive Director (ceased as Executive Director, Chief Operating Officer and Joint Company Secretary on 21 September 2021)
- Graham Mirabito – Non-Executive Director

And the following persons as KMP:

- Hugh Stodart – Head of Product and Delivery
- Greg Bunt - Chief Information Security Officer - Brace168 (appointed on 1 April 2021)
- Matthew Miller - Chief Operating Officer - Brace168 (appointed on 1 April 2021)
- Thomas Carolan - CFO and Joint Company Secretary (appointed on 27 July 2021)
- Mark Hitchcock - Chief Operating Officer - VIT (appointed on 1 November 2021)
- David Grinham - CFO and Joint Company Secretary (appointed on 17 May 2021, resigned on 23 July 2021)

2022	Cash salary and fees \$	Short-term benefits Con- sultancy \$	Cash (allowan- ces) \$	Cash bonus ^(a) \$	Post-employment benefits Super- annuation \$	Long-term benefits Employee benefits \$	Share- based payments Equity- settled \$	Total \$
<i>Non-Executive Directors:</i>								
Edward (Ted) Pretty	120,000	180,000	969	-	-	-	59,125	360,094
Graham Mirabito	88,000	-	-	-	-	-	10,750	98,750
Steven Bliim	49,799	-	504	-	-	-	-	50,303
<i>Executive Directors:</i>								
Steven Bliim	102,305	-	10,178	-	5,597	-	53,750	171,830
<i>Other KMP:</i>								
Hugh Stodart	193,800	-	600	20,000	19,138	-	10,750	244,288
Greg Bunt	200,000	-	600	30,000	19,750	-	53,750	304,100
Matthew Miller	200,000	-	600	30,000	19,750	-	53,750	304,100
Thomas Carolan	121,378	-	450	-	12,138	-	41,450	175,416
Mark Hitchcock	133,219	-	-	-	13,195	-	45,750	192,164
David Grinham ^(b)	66,187	-	-	-	6,085	-	-	72,272
	<u>1,274,688</u>	<u>180,000</u>	<u>13,901</u>	<u>80,000</u>	<u>95,653</u>	<u>-</u>	<u>329,075</u>	<u>1,973,317</u>

^(a) Accrued during the year and settled in April for performance in Brace168. Calculated at 15% of base salary for achieving a revenue target to 31 March 2022.

^(b) Represents remuneration from 1 April 2021 to date of resignation 23 July 2021.

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total
	Cash salary and fees	Con-sultancy	Cash (allowances)	Super-annuation	Employee benefits	Equity-settled	
2021	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
Edward (Ted) Pretty	123,000	88,000	9,000	-	-	179,075	399,075
Graham Mirabito	82,000	-	-	-	-	46,861	128,861
<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

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

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2022	2021	2022	2021	2022	2021
<i>Non-Executive Directors:</i>						
Edward (Ted) Pretty	84%	55%	-	-	16%	45%
Graham Mirabito	89%	64%	-	-	11%	36%
Steven Bliim	100%	-	-	-	-	-
<i>Executive Directors:</i>						
Steven Bliim	69%	66%	-	-	31%	34%
<i>Other KMP:</i>						
Hugh Stodart	87%	63%	8%	-	5%	37%
Greg Bunt *	72%	-	10%	-	18%	-
Matt Miller *	72%	-	10%	-	18%	-
Thomas Carolan	76%	-	-	-	24%	-
Mark Hitchcock	76%	-	-	-	24%	-
David Grinham	100%	-	-	-	-	-

* STI is equivalent to 30% of the fixed salary.

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:	<ul style="list-style-type: none"> Fixed consulting fee of \$10,000 per month or annual remuneration of \$120,000. In December 2021, the consultant fee increased to \$20,000 per month. Fixed monthly director's fee \$10,000

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 \$88,000

Name: Steven Bilim
Title: Non-Executive Director
Agreement commenced: November 2019 (ceased as Executive Director, COO and Joint Company Secretary on 21 September 2021)
Term of agreement: No fixed duration
Details:

- Fixed Non-Executive Director's fee of €3,500 per month (AUD \$5,385 per month) from 21 September 2021
- Fixed annual remuneration €156,000 (A\$245,000) plus superannuation until ceased date.
- 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 until ceased date.
- Entitled to Company provided health insurance until ceased date.

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 Product and Delivery
Agreement commenced: 1 July 2017 (KMP from 1 April 2019)
Term of agreement: No fixed term
Details:

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

Either party may terminate the employment contract by giving six months written notice.

Name: Greg Bunt
Title: Chief Information Security Officer - Brace168
Agreement commenced: 1 April 2021
Term of agreement: No fixed term
Details:

- Fixed annual remuneration of \$200,000 plus superannuation
- Entitled to participation in a STIP based upon achievement of a range of financial and non-financial objectives set in consultation with the Non-Executive Chairman.

Either party may terminate the employment contract by giving six months written notice.

Name: Matthew Miller
Title: Chief Operating Officer - Brace168
Agreement commenced: 1 April 2021
Term of agreement: No fixed term
Details:

- Fixed annual remuneration of \$200,000 plus superannuation
- Entitled to participation in a STIP based upon achievement of a range of financial and non-financial objectives set in consultation with the Non-Executive Chairman.

Either party may terminate the employment contract by giving six months written notice.

Name: Thomas Carolan
Title: Chief Financial Officer and Joint Company Secretary
Agreement commenced: 23 July 2021
Term of agreement: No fixed term
Details:

- Fixed annual remuneration of \$175,000 plus superannuation
- Entitled to participation in a STIP based upon achievement of a range of financial and non-financial objectives set in consultation with the Non-Executive Chairman.

Either party may terminate the employment contract by giving one month written notice.

Name: Mark Hitchcock
Title: Chief Operating Officer - VIT
Agreement commenced: 1 November 2021
Term of agreement: No fixed term
Details:

- Fixed annual remuneration of \$180,000 plus superannuation
- Entitled to participation in a STIP based upon achievement of a range of financial and non-financial objectives set in consultation with the Non-Executive Chairman.

Either party may terminate the employment contract by giving six months written notice.

Name: David Grinham
Title: Former Chief Financial Officer and Joint Company Secretary (resigned on 23 July 2021)
Agreement commenced: 1 April 2021
Term of agreement: No fixed term
Details:

- Fixed annual remuneration of \$180,000 plus superannuation
- Entitled to participation in a STIP based upon achievement of a range of financial and non-financial objectives set in consultation with the Non-Executive Chairman.

Either party may terminate the employment contract by giving one month written notice.

Share-based compensation

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 2022 are set out below:

Name	Issue date	Performance rights	Amount per performance right	Term in years	Fair value (\$)
Edward (Ted) Pretty - Class C	28/05/2021	2,750,000	0.028	5	59,125
Steven Bliim - Class C	28/05/2021	2,500,000	0.028	5	53,750
Graham Mirabito - Class C	28/05/2021	500,000	0.028	5	10,750
Hugh Stodart - Class C	28/05/2021	500,000	0.028	5	10,750
Greg Bunt - Class C	28/05/2021	2,500,000	0.028	5	53,750
Matthew Miller - Class C	28/05/2021	2,500,000	0.028	5	53,750
Thomas Carolan - Class C	18/11/2021	1,000,000	0.360	5	32,000
Thomas Carolan - Class C	16/03/2022	500,000	0.022	5	9,150
Mark Hitchcock - Class C	16/03/2022	2,500,000	0.022	5	45,750

Additional disclosures relating to KMP

Shareholding - Ordinary shares

The number of shares in the Company held during the financial year by each 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	9,519,570	2,750,000	1,871,187	-	14,140,757
Steven Bliim	3,529,200	2,500,000	-	(7,221)	6,021,979
Graham Mirabito	2,034,891	500,000	-	-	2,534,891
Hugh Stodart	3,278,091	500,000	60,000	-	3,838,091
Greg Bunt	-	2,500,000	14,056,155	-	16,556,155
Matthew Miller	-	2,500,000	14,056,155	-	16,556,155
Thomas Carolan	-	1,500,000	-	-	1,500,000
Mark Hitchcock	-	2,500,000	10,200,000	-	12,700,000
	<u>18,361,752</u>	<u>15,250,000</u>	<u>40,243,497</u>	<u>(7,221)</u>	<u>73,848,028</u>

* The KMP were granted performance rights as part of remuneration.

As at 31 March 2022, 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; 319,560; 133,300 and 2,604,190 respectively.

The shares held by Edward Pretty, Steven Bliim, Graham Mirabito and Hugh Stodart as performance rights are 5,500,000; 5,000,000; 1,000,000; and 1,000,000 respectively.

The shares held by the new KMP, Greg Bunt, Matthew Miller, Thomas Carolan and Mark Hitchcock as performance rights are 2,500,000; 2,500,000; 1,500,000; and 2,500,000 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)	-
Graham Mirabito	127,908	-	-	(127,908)	-
Steven Bliim	58,535	-	-	(58,535)	-
	<u>682,392</u>	<u>-</u>	<u>-</u>	<u>(682,392)</u>	<u>-</u>

* The options expired.

Performance rights holding

The number of performance rights 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	Granted	Vested	Expired/ forfeited/ other	Balance at the end of the year
<i>Performance rights over ordinary shares</i>					
Edward (Ted) Pretty	2,750,000	2,750,000	-	-	5,500,000
Steven Bliim	2,500,000	2,500,000	-	-	5,000,000
Graham Mirabito	500,000	500,000	-	-	1,000,000
Hugh Stodart	500,000	500,000	-	-	1,000,000
Greg Bunt	-	2,500,000	-	-	2,500,000
Matthew Miller	-	2,500,000	-	-	2,500,000
Thomas Carolan	-	1,500,000	-	-	1,500,000
Mark Hitchcock	-	2,500,000	-	-	2,500,000
	<u>6,250,000</u>	<u>15,250,000</u>	<u>-</u>	<u>-</u>	<u>21,500,000</u>

Loans to KMP and their related parties

During the period ended 31 March 2022 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 Board has 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 2022 are summarised below:

	2022 \$	2021 \$	2020 \$	2019 \$	2018 \$
Loss attributable to owners of the Company	(9,001,810)	(2,946,327)	(673,045)	(8,333,570)	(7,443,469)
Change in share price	(0.02)	(0.04)	(0.01)	(0.01)	(0.02)

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
17/08/2017	17/08/2022	\$1.000	50,000
17/08/2017	17/06/2022	\$0.900	278,480
07/09/2018	06/09/2023	\$0.560	580,600
28/10/2020	28/10/2025	\$0.048	4,500,000
05/10/2021	15/02/2023	\$0.080	30,000,000
			35,409,080

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 the employee loan share 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	\$2.940	376,345
20/08/2014	19/08/2024	\$4.000	22,193
11/03/2015	10/03/2025	\$5.700	46,667
12/03/2015	11/03/2025	\$5.700	6,847
08/12/2015	07/12/2015	\$6.600	6,609
27/01/2017	26/01/2027	\$2.400	8,750
04/05/2017	03/05/2027	\$0.580	200,000
04/05/2017	03/05/2027	\$0.540	300,000
23/06/2017	22/06/2027	\$4.000	225,941
24/11/2017	23/11/2027	\$1.100	1,384,905
06/03/2017	05/03/2027	\$1.000	111,953
07/09/2018	06/09/2028	\$0.560	1,403,177
19/10/2018	18/10/2028	\$0.560	383,925
01/11/2019	31/10/2029	\$0.300	133,300
28/10/2020	28/10/2025	\$0.048	2,250,000
01/04/2021	01/04/2026	\$0.312	9,869,000
02/05/2022	02/05/2027	\$0.028	11,580,000
			28,309,612

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)	\$0.060	3,125,000
Class B Performance rights - granted on 11/09/2020 (expire on 07/09/2025)	\$0.080	1,562,500
Class C Performance rights - granted on 11/09/2020 (expire on 07/09/2025)	\$0.100	1,562,500
Class C Performance rights - granted on 25/05/2021 (expire on 28/05/2026)	\$0.028	11,250,000
Class C Performance rights - granted on 18/11/2021 (expire on 18/11/2026)	\$0.360	1,000,000
Class C Performance rights - granted on 16/03/2022 (expire on 16/03/2027)	\$0.100	3,000,000
Class C Performance rights - granted on 02/05/2022 (expire on 02/05/2027)	\$0.100	1,000,000
		<u>22,500,000</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 2022 and up to the date of this report.

Shares issued on the exercise of Employee loan shares

There were no ordinary shares of Cipherpoint Limited issued on the exercise of employee loan shares during the year ended 31 March 2022 and up to the date of this report.

Shares issued on the exercise of performance rights

There were no ordinary shares of Cipherpoint Limited issued on the exercise of performance rights during the year ended 31 March 2022 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

There were no non-audit services provided during the financial year by the auditor.

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

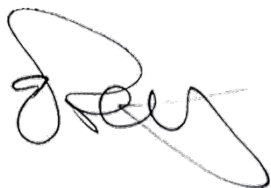
There are no officers of the Company who are former directors of Nexia Sydney Audit Pty Ltd.

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.

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



Ted Pretty
Chairman

25 July 2022
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 2022, 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**

Stephen Fisher
Director

Date: 25 July 2022

Sydney

	Note	Consolidated 2022 \$	2021 \$
Revenue from continuing operations			
Revenue - technology related products and services	5	4,002,775	-
Other income - including COVID-19 stimulus grants	5	100,000	49,911
Fair value gain on financial liability		152,650	-
		<u>4,255,425</u>	<u>49,911</u>
Expenses			
Software and hardware for resale		(799,292)	-
Employee benefit expense	6	(5,039,856)	(1,354,203)
Consultancy fees expense		(4,382)	(111,365)
Depreciation expense	6	(172,722)	(11,288)
Impairment of intangibles	6	(6,202,442)	-
Impairment of receivables	9	(30,000)	(32,039)
Legal and professional fees expense		(1,088,920)	(257,409)
Marketing and promotion expense		(167,626)	(240,180)
Travel and accommodation expense		(98,436)	(11,764)
Office and administration expense		(410,653)	(138,977)
Other expenses		(502,233)	(243,193)
Total expenses		<u>(14,516,562)</u>	<u>(2,400,418)</u>
Results from operating activities		(10,261,137)	(2,350,507)
Finance income calculated using the effective interest method		1,948	594
Finance costs	6	<u>(29,941)</u>	<u>(7,268)</u>
Loss before income tax expense from continuing operations		(10,289,130)	(2,357,181)
Income tax expense	7	<u>(24,846)</u>	-
Loss after income tax expense from continuing operations		(10,313,976)	(2,357,181)
Profit/(loss) after income tax expense from discontinued operations	8	<u>1,312,166</u>	<u>(589,146)</u>
Loss after income tax expense for the year attributable to the owners of Cipherpoint Limited		(9,001,810)	(2,946,327)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		<u>135,006</u>	<u>(18,640)</u>
Other comprehensive income for the year, net of tax		<u>135,006</u>	<u>(18,640)</u>
Total comprehensive income for the year attributable to the owners of Cipherpoint Limited		<u>(8,866,804)</u>	<u>(2,964,967)</u>
Total comprehensive income for the year is attributable to:			
Continuing operations		(10,178,970)	(2,375,821)
Discontinued operations		1,312,166	(589,146)
		<u>(8,866,804)</u>	<u>(2,964,967)</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	30	(3.58)	(2.25)
Diluted earnings per share	30	(3.58)	(2.25)
Earnings per share for profit/(loss) from discontinued operations attributable to the owners of Cipherpoint Limited			
Basic earnings per share	30	0.45	(0.56)
Diluted earnings per share	30	0.45	(0.56)
Earnings per share for loss attributable to the owners of Cipherpoint Limited			
Basic earnings per share	30	(3.12)	(2.82)
Diluted earnings per share	30	(3.12)	(2.82)

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

	Note	Consolidated 2022 \$	2021 \$
Assets			
Current assets			
Cash and cash equivalents		1,893,936	3,971,549
Trade and other receivables	9	1,054,674	163,919
Prepayments		66,962	40,336
Total current assets		<u>3,015,572</u>	<u>4,175,804</u>
Non-current assets			
Property, plant and equipment	10	278,952	14,213
Right-of-use assets	11	279,517	-
Intangibles	12	2,142	15,209
Other assets	13	92,501	64,392
Total non-current assets		<u>653,112</u>	<u>93,814</u>
Total assets		<u>3,668,684</u>	<u>4,269,618</u>
Liabilities			
Current liabilities			
Trade and other payables	14	1,007,755	231,697
Contract liabilities	15	268,520	186,537
Lease liabilities	16	181,743	-
Employee benefits		213,106	40,222
Deferred consideration	21,27	1,450,000	-
Total current liabilities		<u>3,121,124</u>	<u>458,456</u>
Non-current liabilities			
Contract liabilities	15	-	67,438
Lease liabilities	16	94,798	-
Employee benefits		14,458	-
Deferred consideration	21,27	400,000	-
Total non-current liabilities		<u>509,256</u>	<u>67,438</u>
Total liabilities		<u>3,630,380</u>	<u>525,894</u>
Net assets		<u>38,304</u>	<u>3,743,724</u>
Equity			
Issued capital	17	103,122,027	98,468,154
Reserves	18	4,090,135	3,557,850
Accumulated losses		<u>(107,173,858)</u>	<u>(98,282,280)</u>
Total equity		<u>38,304</u>	<u>3,743,724</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 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 17)	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	98,468,154	3,557,850	(98,282,280)	3,743,724
Consolidated	Share capital \$	Reserves \$	Accumulated losses \$	Total equity \$
Balance at 1 April 2021	98,468,154	3,557,850	(98,282,280)	3,743,724
Loss after income tax expense for the year	-	-	(9,001,810)	(9,001,810)
Other comprehensive income for the year, net of tax	-	135,006	-	135,006
Total comprehensive income for the year	-	135,006	(9,001,810)	(8,866,804)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 17)	4,537,376	-	-	4,537,376
Share based payments – share options (lapsed)	-	(10,620)	10,620	-
Share based payments – employee loan shares	-	216,686	-	216,686
Share options - performance rights	-	317,322	-	317,322
Share based payments - performance rights conversion	116,497	(107,500)	(8,997)	-
Share options consulting (lapsed)	-	(108,609)	108,609	-
Share options - Brokers	-	90,000	-	90,000
Balance at 31 March 2022	103,122,027	4,090,135	(107,173,858)	38,304

	Note	Consolidated 2022 \$	2021 \$
Cash flows from operating activities			
Loss before income tax expense for the year		(8,976,964)	(2,946,327)
Adjustments for:			
Depreciation and amortisation	6	172,722	11,288
Impairment of goodwill	6	6,202,442	-
Share-based payments	6	534,008	751,519
Foreign exchange differences		-	26,416
Gain on disposal of business		(1,699,303)	-
Gain on reversal of contingent consideration		(152,650)	-
		(3,919,745)	(2,157,104)
Change in operating assets and liabilities:			
Increase in trade and other receivables		(91,813)	(80,210)
Decrease/(increase) in prepayments		(13,441)	868
Increase/(decrease) in trade and other payables		479,776	(267,354)
Increase in contract liabilities		111,569	36,453
Increase in employee benefits		167,134	9,086
		(3,266,520)	(2,458,261)
Income taxes paid		(24,846)	-
Net cash used in operating activities		(3,291,366)	(2,458,261)
Cash flows from investing activities			
Payment for purchase of business, net of cash acquired	27	(2,890,226)	-
Payments for property, plant and equipment	10	(244,472)	(3,000)
Payments for security deposits		(68,102)	-
Proceeds from other assets		1,400,000	-
Net cash used in investing activities		(1,802,800)	(3,000)
Cash flows from financing activities			
Proceeds from issue of shares	17	1,500,100	5,758,815
Payment of share issue costs		-	(213,001)
Proceeds from borrowings		1,510,000	-
Repayment of lease liabilities		(128,547)	-
Net cash from financing activities		2,881,553	5,545,814
Net increase/(decrease) in cash and cash equivalents		(2,212,613)	3,084,553
Cash and cash equivalents at the beginning of the financial year		3,971,549	920,935
Effects of exchange rate changes on cash and cash equivalents		135,000	(33,939)
Cash and cash equivalents at the end of the financial year		<u>1,893,936</u>	<u>3,971,549</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 2.01, 157 Walker Street
North Sydney, NSW 2060

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 25 July 2022.

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

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

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 revenue growth stage of its cyber security services in order to achieve scale. During the year ended 31 March 2022, the Group incurred a loss after tax of \$9,001,810 (2021: \$2,946,327), current liabilities exceeded current assets by \$105,552 (2021: current assets exceeded current liabilities by \$3,717,348) and incurred net cash outflows from operating activities of \$3,291,366 (2021: \$2,458,261). At 31 March 2022, the Group had cash and cash equivalents of \$1,893,936 (2021: \$3,971,549). The Group has prepared cash flow forecasts as at 31 March 2022 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 service contracts from existing customers;
- Management continuing to maintain costs in line with available resources; and
- \$950,000 of additional capital raised via a share placement and the issue of convertible notes on 1st July 2022 which have been achieved and an anticipated rights issue in August 2022.

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 operations and at the amounts stated in the financial statements.

The Group expects to remain well-resourced to meet the challenges of growing scale in its cyber security services and products. The acquisition of Brace168, and recent acquisition of Virtual Information Technology, combined with the divestiture of its software assets, will enable the business to narrow its focus on core services and 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.

Note 2. Significant accounting policies (continued)

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 26.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Cipherpoint Limited as at 31 March 2022 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.

Foreign currency translation

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

Note 2. Significant accounting policies (continued)

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.

(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.

Note 2. Significant accounting policies (continued)

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.

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.

Note 2. Significant accounting policies (continued)

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
Motor vehicles	3 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.

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.

Note 2. Significant accounting policies (continued)

Right-of-use assets

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

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

The Group 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.

Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

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.

Patents and trademarks

Significant costs associated with patents and trademarks are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years.

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other 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

Trade and other payables 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.

Note 2. Significant accounting policies (continued)

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.

Lease liabilities

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

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

Provisions

Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

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.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

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.

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.

Note 2. Significant accounting policies (continued)

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.

Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the Group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the Group remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

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.

Note 2. Significant accounting policies (continued)

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 2022. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below, as follows:

Amending accounting standards issued are not considered to have a significant impact on the financial statements of the Group as their amendments provide either clarification of existing accounting treatment or editorial amendments.

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.

Note 3. Critical accounting judgements, estimates and assumptions (continued)

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 have suffered any impairment, in accordance with the accounting policy stated in note 2. 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.

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 and losses only if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Lease term

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

Incremental borrowing rate

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

Deferred consideration

The deferred consideration liability is the difference between the total purchase consideration, usually on an acquisition of a business combination, and the amounts paid or settled up to the reporting date, discounted to net present value. The Group applies provisional accounting for any business combination. Any reassessment of the liability during the earlier of the finalisation of the provisional accounting or 12 months from acquisition-date is adjusted for retrospectively as part of the provisional accounting rules in accordance with AASB 3 'Business Combinations'. Thereafter, at each reporting date, the deferred consideration liability is reassessed against revised estimates and any increase or decrease in the net present value of the liability will result in a corresponding gain or loss to profit or loss. The increase in the liability resulting from the passage of time is recognised as a finance cost.

Note 3. Critical accounting judgements, estimates and assumptions (continued)

Business combinations

As discussed in note 2, 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.

Note 4. Operating segments

Identification of reportable operating segments

The Group is organised into three operating segments based on acquisition entity: Brace168 Pty Ltd (Brace168), Virtual Information Technology Pty Ltd (VIT) and the Corporate entities. These operating segments are 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. There is no aggregation of operating segments.

The CODM reviews EBITDA (earnings before interest, tax, depreciation and amortisation). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

The information reported to the CODM is on a monthly basis.

Types of products and services

The principal products and services of each of these operating segments are as follows:

Brace168	the provision of cybersecurity services predominantly in NSW
VIT	the provision of cybersecurity services predominantly in Tasmania
Corporate	management of the Group, acquisitions and divestiture, and previously the security software development and sales.

Intersegment transactions

There were no intersegment transactions during the period.

Intersegment receivables, payables and loans

Intersegment loans are initially recognised at the consideration received. Intersegment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates. Intersegment loans are eliminated on consolidation.

Major customers

During the year ended 31 March 2022, the Group had three major customers that contributed \$1,626,647 to the total Group's external revenue (\$782,487 -18%; \$616,420 -15% and \$227,800 -5% (2021: three major customers that contributed \$144,186 to the total Group's external revenue (\$49,517 -16%; \$49,119 -15% and \$45,550 -14%).

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.

Note 4. Operating segments (continued)

Operating segment information

Consolidated - 2022	Brace168 \$	VIT \$	Corporate \$	Total \$
Revenue				
Sales to external customers	3,648,314	354,461	-	4,002,775
Other income - including COVID-19 stimulus grants	-	-	100,000	100,000
Fair value gain on financial liability	-	-	152,650	152,650
Total revenue	<u>3,648,314</u>	<u>354,461</u>	<u>252,650</u>	<u>4,255,425</u>
EBITDA	(900,668)	(144,089)	(2,307,208)	(3,351,965)
Depreciation and amortisation	(119,080)	(8,009)	(45,633)	(172,722)
Impairment of intangibles	(4,277,352)	(1,909,881)	(15,209)	(6,202,442)
Share-based payment expense	-	-	(534,008)	(534,008)
Interest revenue	342	17	1,589	1,948
Finance costs	(10,048)	-	(19,893)	(29,941)
Loss before income tax expense	<u>(5,306,806)</u>	<u>(2,061,962)</u>	<u>(2,920,362)</u>	<u>(10,289,130)</u>
Income tax expense				(24,846)
Loss after income tax expense from continuing operations				<u>(10,313,976)</u>
Assets				
Segment assets	1,175,177	461,344	3,345,704	4,982,225
Intersegment eliminations				(1,313,541)
Total assets				<u>3,668,684</u>
Liabilities				
Segment liabilities	2,132,516	583,119	2,228,286	4,943,921
Intersegment eliminations				(1,313,541)
Total liabilities				<u>3,630,380</u>

Note 5. Revenue

	Consolidated	
	2022	2021
	\$	\$
Revenue from contracts with customers from continuing operations:		
Revenue - technology related products and services	4,002,775	-
<i>Other income</i>		
Other income - including COVID-19 stimulus grants	100,000	49,911

Note 5. Revenue (continued)

Disaggregation of revenue

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

	Consolidated	
	2022	2021
	\$	\$
<i>Major product lines</i>		
Maintenance and Support	26,100	-
Hardware and software resale	392,193	-
Services	3,584,482	-
	<u>4,002,775</u>	<u>-</u>
<i>Geographical regions</i>		
Australasia	3,976,675	-
Germany	26,100	-
	<u>4,002,775</u>	<u>-</u>
<i>Timing of revenue recognition</i>		
Goods transferred at a point in time	292,193	-
Services transferred over time	3,710,582	-
	<u>4,002,775</u>	<u>-</u>

Other income

During the year the Company received payments from the Australian Government amounting to \$100,000 (2021: \$27,000) under the 'JobKeeper' scheme in response to the Covid-19 pandemic.

Note 6. Expenses

	Consolidated	
	2022	2021
	\$	\$
Loss before income tax from continuing operations includes the following specific expenses:		
<i>Depreciation</i>		
Leasehold improvements (note 10)	17,578	-
Plant and equipment (note 10)	29,573	11,288
Office right-of-use assets (note 11)	118,036	-
Motor vehicles right-of-use assets (note 11)	7,535	-
	<hr/>	<hr/>
Total depreciation expense	172,722	11,288
<i>Impairment of assets</i>		
Goodwill (note 12)	6,187,233	-
Domain names (note 12)	15,209	-
	<hr/>	<hr/>
Total impairment of assets	6,202,442	-
<i>Employee benefit expense</i>		
Wages and salaries	3,003,633	227,487
Non-executive director fees	295,464	185,000
Termination benefits	16,244	31,241
Recruitment and sourcing	297,209	4,751
Other employee related expenses	331,318	80,160
Payroll taxes	37,084	26,437
Defined contribution superannuation expense	307,040	69,037
Bonus - cash component (reversed)	217,856	(43,562)
Equity settled share-based payments	534,008	751,519
Commissions	-	22,133
	<hr/>	<hr/>
Total employee benefits	5,039,856	1,354,203
<i>Finance costs</i>		
Interest and finance charges paid/payable on borrowings	6,196	7,268
Interest and finance charges paid/payable on lease liabilities	23,745	-
	<hr/>	<hr/>
Finance costs expensed	29,941	7,268

Note 7. Income tax

	Consolidated	Consolidated
	2022	2021
	\$	\$
<i>Income tax expense</i>		
Adjustment recognised for current acquisition and prior period	24,846	-
Aggregate income tax expense	<u>24,846</u>	<u>-</u>
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Loss before income tax expense from continuing operations	(10,289,130)	(2,357,181)
Profit/(loss) before income tax expense from discontinued operations	1,312,166	(589,146)
	<u>(8,976,964)</u>	<u>(2,946,327)</u>
Tax at the statutory tax rate of 25% (2021: 26%)	(2,244,241)	(766,045)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Permanent differences	1,413,339	196,237
Effect of tax losses and temporary differences not taken to account	5,611	(74,080)
Current year losses not recognised	825,291	643,888
	-	-
Adjustment recognised for current acquisition and prior period	24,846	-
Income tax expense	<u>24,846</u>	<u>-</u>

	Consolidated	Consolidated
	2022	2021
	\$	\$
<i>Deferred tax assets not recognised</i>		
Deferred tax assets not recognised comprises temporary differences attributable to:		
Temporary differences	(66,567)	421,096
Tax losses	8,278,887	7,317,472
Total deferred tax assets not recognised	<u>8,212,320</u>	<u>7,738,568</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

In September 2021, the Company entered into an agreement to sell select assets and products from its software division to archTIS Limited for a purchase price of \$1,400,000 in cash (\$1,200,000 at execution and \$200,000 as cash contingent on the novation of five contracts by 31 March 2022) . Additional archTIS (AR9) share consideration was settled on the 27 April 2022 in cash for \$107,265, bringing total consideration to \$1,507,265. The Company retained the right to resell the products.

Note 8. Discontinued operations (continued)

Financial performance information

	Consolidated	
	2022	2021
	\$	\$
Revenue - technology related products and services	339,781	317,558
Employee benefit expense	(593,534)	(693,453)
Recovery of receivables	34,548	-
Legal and professional fees expense	(8,402)	(13,365)
Other expenses	(159,530)	(199,886)
Total expenses	<u>(726,918)</u>	<u>(906,704)</u>
Loss before income tax expense	(387,137)	(589,146)
Income tax expense	-	-
Loss after income tax expense	<u>(387,137)</u>	<u>(589,146)</u>
Gain on disposal after income tax expense	1,699,303	-
Income tax expense	-	-
Gain on disposal after income tax expense	<u>1,699,303</u>	<u>-</u>
Profit/(loss) after income tax expense from discontinued operations	<u><u>1,312,166</u></u>	<u><u>(589,146)</u></u>

Cash flow information

	Consolidated	
	2022	2021
	\$	\$
Net cash used in operating activities	(643,749)	(625,598)
Net cash from investing activities	1,400,000	-
Net increase/(decrease) in cash and cash equivalents from discontinued operations	<u><u>756,251</u></u>	<u><u>(625,598)</u></u>

Details of the disposal

	Consolidated	
	2022	2021
	\$	\$
Total sale consideration	1,400,000	-
Deferred consideration receivable	107,265	-
Net liabilities disposed	<u>192,038</u>	<u>-</u>
Gain on disposal before income tax	<u>1,699,303</u>	<u>-</u>
Gain on disposal after income tax	<u><u>1,699,303</u></u>	<u><u>-</u></u>

Note 9. Trade and other receivables

	Consolidated	
	2022	2021
	\$	\$
<i>Current assets</i>		
Trade receivables	457,350	148,057
Less: Allowance for expected credit losses	-	(34,548)
	<u>457,350</u>	<u>113,509</u>
Other receivables	39,993	-
Deferred consideration receivable * (note 21)	557,331	-
	<u>597,324</u>	<u>-</u>
GST/ VAT receivables	-	50,410
	<u>1,054,674</u>	<u>163,919</u>

* This includes \$450,043 deposit in escrow for Brace168 acquisition (note 27) and \$107,288 receivable from the sale of software assets to archTIS.

Allowance for expected credit losses

The Group has recognised an impairment of \$30,000 (2021: \$32,039) in profit or loss in respect of the expected credit losses for the year ended 31 March 2022.

The method used to calculate the expected credit loss rate for the international software was based on revenue type and categorisation for each customer based on their life cycle. This hasn't been applied to the local Brace168 and VIT businesses. 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	
	2022	2021
	\$	\$
Opening balance	34,548	2,509
Additional provisions recognised	-	34,548
Amounts classified as discontinued operations	(34,548)	-
Unused amounts reversed	-	(2,509)
	<u>-</u>	<u>34,548</u>
Closing balance	<u>-</u>	<u>34,548</u>

Note 10. Property, plant and equipment

	Consolidated	
	2022	2021
	\$	\$
<i>Non-current assets</i>		
Leasehold improvements - at cost	75,746	-
Less: Accumulated depreciation	(17,578)	-
	<u>58,168</u>	<u>-</u>
Plant and equipment - at cost	288,196	47,121
Less: Accumulated depreciation	(67,412)	(32,908)
	<u>220,784</u>	<u>14,213</u>
	 <u>278,952</u>	 <u>14,213</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	Leasehold improve- ments	Plant and equipment	Total
	\$	\$	\$
Balance at 1 April 2020	-	24,086	24,086
Additions	-	3,000	3,000
Exchange differences	-	(1,585)	(1,585)
Depreciation expense	-	(11,288)	(11,288)
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2021	-	14,213	14,213
Additions	75,746	168,726	244,472
Additions through business combinations (note 27)	-	67,418	67,418
Depreciation expense	(17,578)	(29,573)	(47,151)
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2022	<u>58,168</u>	<u>220,784</u>	<u>278,952</u>

Note 11. Right-of-use assets

	Consolidated	
	2022	2021
	\$	\$
<i>Non-current assets</i>		
Office right-of-use	359,881	-
Less: Accumulated depreciation	(118,036)	-
	<u>241,845</u>	<u>-</u>
Motor vehicles - right-of-use	45,207	-
Less: Accumulated depreciation	(7,535)	-
	<u>37,672</u>	<u>-</u>
	 <u>279,517</u>	 <u>-</u>

The Group leases office space and motor vehicle under an agreement of between 2 to 3 years with options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

Note 11. Right-of-use assets (continued)

The Group leases office equipment under agreements of less than 1 year. These leases are either short-term or low value, so have been expensed as incurred and not capitalised as right-of-use assets.

Reconciliations

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

Consolidated	Office right-of-use \$	Motor vehicles \$	Total \$
Balance at 1 April 2020	-	-	-
Balance at 31 March 2021	-	-	-
Additions	359,881	45,207	405,088
Depreciation expense	(118,036)	(7,535)	(125,571)
Balance at 31 March 2022	<u>241,845</u>	<u>37,672</u>	<u>279,517</u>

For other right-of-use related disclosures, refer to the following:

- note 6 for details of depreciation on right-of-use assets and interest on lease liabilities;
- note 16 for lease liabilities at year end; and
- consolidated statement of cash flows for repayment of lease liabilities.

Note 12. Intangibles

	Consolidated	
	2022 \$	2021 \$
<i>Non-current assets</i>		
Goodwill - at cost	7,035,207	847,974
Less: Impairment	(7,035,207)	(847,974)
	-	-
Intellectual property - at cost	-	3,300,713
Less: Accumulated amortisation	-	(1,581,000)
Less: Impairment	-	(1,719,713)
	-	-
Patents and trademarks - at cost	2,142	-
Domain names - at cost	15,209	15,209
Less: Impairment	(15,209)	-
	-	15,209
	<u>2,142</u>	<u>15,209</u>

Note 12. Intangibles (continued)

Reconciliations

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

Consolidated	Goodwill \$	Patents and trademarks \$	Domain names \$	Total \$
Balance at 1 April 2020	-	-	15,209	15,209
Balance at 31 March 2021	-	-	15,209	15,209
Additions through business combinations (note 27)	6,187,233	2,142	-	6,189,375
Impairment of assets	(6,187,233)	-	(15,209)	(6,202,442)
Balance at 31 March 2022	-	2,142	-	2,142

Impairment testing

The recoverable amount of the Group's goodwill, specifically the acquisitions of Brace168 Pty Ltd and Virtual Information Technology Pty Ltd (VIT), has been determined by a value-in-use calculation using a discounted cash flow model, based on a 2-year projection period approved by management, and extrapolated for a further 3 years using a steady rate, together with a terminal value.

Key assumptions are those to which the recoverable amount of an asset or cash-generating unit is most sensitive.

The following key assumptions were used in the discounted cash flow model for the acquisitions:

- 16% (2021: n/a) pre-tax discount rate;
- Revenue growth rates in year one and two ranging between 5% to 30% (2021: n/a) for various revenue streams and declining thereafter to 3% per annum projected revenue growth rate in year three and later years; and
- Growth rates in year one in operating costs and overheads in line with revenue growth and declining thereafter to 3% per annum increase in operating costs and overheads in year three and later years.

The discount rate of 16% pre-tax reflects management's estimate of the time value of money and the Group's weighted average cost of capital, the risk-free rate, and the volatility of the share price relative to market movements.

Management believes the projected 3% revenue growth rate is prudent and justified, based on Brace168 and VIT's revenue growth during the year, the investment in capabilities, and growth in the cyber-security market.

Management have maintained their estimation of the increase in operating costs and overheads, balancing higher inflation rates offset by efforts by the Group to contain costs.

There were no other key assumptions for the Brace168 or VIT divisions.

Sensitivity

As disclosed in note 3, the directors have made judgements and estimates in respect of impairment testing of goodwill. As Goodwill has been fully impaired, there is no further sensitivity to market forces that would impact the carrying value.

Note 13. Other assets

	Consolidated 2022	2021
	\$	\$
<i>Non-current assets</i>		
Security deposits	87,301	64,392
Other deposits	5,200	-
	<u>92,501</u>	<u>64,392</u>

Note 14. Trade and other payables

	Consolidated 2022	2021
	\$	\$
<i>Current liabilities</i>		
Trade payables	266,471	132,059
Other payables and accrued expenses	741,284	99,638
	<u>1,007,755</u>	<u>231,697</u>

Refer to note 20 for further information on financial instruments.

Note 15. Contract liabilities

	Consolidated 2022	2021
	\$	\$
<i>Current liabilities</i>		
Contract liabilities	268,520	186,537
<i>Non-current liabilities</i>		
Contract liabilities	-	67,438
	<u>268,520</u>	<u>253,975</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	253,975	217,522
Payments received in advance	3,822,151	277,735
Additions through business combinations (note 27)	95,014	-
Transfer to revenue - performance obligations satisfied	(3,710,582)	(262,248)
Foreign currency change	-	20,966
Amounts transferred as part of the sale of software assets (note 8)	(192,038)	-
Closing balance	<u>268,520</u>	<u>253,975</u>

Note 15. Contract liabilities (continued)

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 \$268,520 as at 31 March 2022 (\$253,975 as at 31 March 2021) and is expected to be recognised as revenue in future periods as follows:

	Consolidated	
	2022	2021
	\$	\$
Within 6 months	141,020	117,322
6 to 12 months	127,500	69,011
12 to 18 months	-	25,514
18 to 24 months	-	24,018
More than 24 months	-	18,110
	<u>268,520</u>	<u>253,975</u>

Note 16. Lease liabilities

	Consolidated	
	2022	2021
	\$	\$
<i>Current liabilities</i>		
Lease liability	<u>181,743</u>	-
<i>Non-current liabilities</i>		
Lease liability	<u>94,798</u>	-
	<u>276,541</u>	-

Refer to note 20 for further information on the maturity analysis of lease liabilities.

Note 17. Issued capital

	Consolidated			
	2022	2021	2022	2021
	Shares	Shares	\$	\$
Ordinary shares - fully paid	<u>354,776,234</u>	<u>193,268,606</u>	<u>103,122,027</u>	<u>98,468,154</u>

Note 17. Issued capital (continued)

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$
Balance (a)	1 April 2020	34,244,326		93,120,766
Share purchase plan (b)	6 July 2020	38,461,651	\$0.013	500,000
Issue of rights (c)	8 July 2020	19,000,000	\$0.023	437,000
Issue of rights (d)	29 September 2020	30,391,797	\$0.048	1,458,806
Issue of rights (e)	2 October 2020	17,979,344	\$0.048	863,009
Issue of rights (f)	1 February 2021	21,276,597	\$0.047	1,000,000
Issue of rights (g)	26 March 2021	25,210,906	\$0.047	1,184,913
Issue of rights (h)	30 March 2021	6,703,985	\$0.047	315,087
Less: share issue costs				(411,427)
Balance	31 March 2021	193,268,606		98,468,154
Issue of shares on acquisition of Brace168 Pty Ltd (i)	1 April 2021	21,750,000	\$0.047	1,022,250
Issue of shares (j)	6 August 2021	26,300,001	\$0.027	710,100
Issue of shares (k)	10 August 2021	26,296,296	\$0.027	710,000
Conversion of convertible notes with Peak (l)	30 September 2021	28,148,150	\$0.027	755,000
Conversion of convertible notes with Variathus (m)	30 September 2021	28,148,150	\$0.027	755,000
Brace168 Acquisition contingent consideration-transfer from performance rights (n)	30 September 2021	4,480,500	\$0.026	116,497
Brace168 Acquisition contingent consideration-earn out (o)	30 September 2021	6,362,310	\$0.031	197,232
Issue of shares on acquisition of Peak and Variathus in lieu of brokerage (p)	11 October 2021	6,488,888	\$0.027	175,200
Issue of shares on VIT (q)	25 November 2021	10,200,000	\$0.039	397,800
Issue of shares on Ben Cowan (VCF Capital) (r)	24 March 2022	3,333,333	\$0.024	80,000
Less: share issue costs				(265,206)
Balance	31 March 2022	<u>354,776,234</u>		<u>103,122,027</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.

Note 17. Issued capital (continued)

During the period ended 31 March 2022, the Group completed the following transactions in respect of the issue of ordinary shares:

- (i) The Group issued 21,750,000 ordinary shares in the Company totalling \$1,022,250 to the vendors of Brace168 in connection with its acquisition by the Company.
- (j) The Group issued 26,300,001 ordinary shares in the Company totalling \$710,100 to participants in a placement.
- (k) The Group issued 26,296,296 ordinary shares in the Company totalling \$710,000 to participants in a placement.
- (l) The Group issued 27,962,965 ordinary shares in the Company totalling \$750,000 to the clients of Peak Asset Management Pty Ltd upon conversion of convertible notes.
- (m) The Group issued 27,962,964 ordinary shares in the Company totalling \$750,000 to the clients of Variathus Capital Pty Ltd upon conversion of convertible notes.
- (n) Performance rights were exercised during the year and a transfer adjustment was recognised between reserves and share capital following the issue of 4,480,500 shares to employees of the Company.
- (o) The Group issued 6,362,310 ordinary shares in the Company totalling \$197,232 to the vendors of Brace168 for the deferred share milestone one in connection with its acquisition by the Company.
- (p) The Group issued 6,488,888 ordinary shares in the Company totalling \$175,200 to Peak Asset Management and Variathus Capital in lieu of brokerage fees.
- (q) The Group issued 10,200,000 ordinary shares in the Company totalling \$397,800 to the vendor of Virtual Information Technology in connection with its acquisition by the Company.
- (r) The Group issued 3,333,333 ordinary shares in the Company totalling \$80,000 to Ben Cowan of VCF Capital in lieu of fees for Corporate Advisory.

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 share placement (j and k), 2:1 attaching free options were issued in August 2021, with an exercise price of 8 cents and an expiry date of 15 February 2023.
- In relation to the convertible notes shares issue (l and m), 2:1 attaching free options were issued on 30 September 2021, with an exercise price of 8 cents and an expiry date of 15 February 2023.

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 advanced 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 2021 Annual Report.

Note 18. Reserves

	Consolidated	
	2022	2021
	\$	\$
Foreign currency reserve	(340,387)	(475,393)
Share-based payments reserve	4,430,522	4,033,243
	<u>4,090,135</u>	<u>3,557,850</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.

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 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	(475,393)	4,033,243	-	3,557,850
Foreign currency translation	135,006	-	-	135,006
Share-based payments - share options	-	(10,620)	-	(10,620)
Share-based payments - employee loan shares	-	216,686	-	216,686
Share based payments - performance rights	-	317,322	-	317,322
Share based payments - performance rights - conversion	-	(107,500)	-	(107,500)
Share options consulting	-	(108,609)	-	(108,609)
Share options - Brokers	-	90,000	-	90,000
Balance at 31 March 2022	<u>(340,387)</u>	<u>4,430,522</u>	<u>-</u>	<u>4,090,135</u>

Note 19. Dividends

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

Note 20. 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.

Note 20. Financial instruments (continued)

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 was previously exposed to currency risk to the extent that there was 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 were denominated were 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.

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	
	2022 \$	2021 \$	2022 \$	2021 \$
USD	56,524	175,387	(30,994)	(136,521)
EUR	47,171	163,196	-	(129,422)
GBP	30,667	16,416	-	-
	<u>134,362</u>	<u>354,999</u>	<u>(30,994)</u>	<u>(265,943)</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 - 2022	% change	AUD strengthened		% change	AUD weakened	
		Effect on profit before tax	Effect on equity		Effect on profit before tax	Effect on equity
USD	10%	2,553	1,915	10%	(2,553)	(1,915)
EUR	10%	4,717	3,538	10%	(4,717)	(3,538)
GBP	10%	3,067	2,300	10%	(3,067)	(2,300)
		<u>10,337</u>	<u>7,753</u>		<u>(10,337)</u>	<u>(7,753)</u>

Note 20. Financial instruments (continued)

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>

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.

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

Consolidated	2022		2021	
	Weighted average interest rate %	\$	Weighted average interest rate %	\$
Cash and cash equivalents	0.010%	1,893,936	0.010%	3,971,549
Term deposits and rental bonds	0.200%	<u>76,876</u>	0.200%	<u>64,392</u>
Net exposure to cash flow interest rate risk		<u>1,970,812</u>		<u>4,035,941</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	
	2022 \$	2021 \$
Impact on profit/(loss) for the period	19,563	40,361

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.

Note 20. Financial instruments (continued)

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.

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 - 2022	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 contractua l maturities \$
Non-derivatives							
<i>Non-interest bearing</i>							
Trade and other payables	-	1,007,755	-	-	-	-	1,007,755
<i>Interest-bearing - fixed rate</i>							
Lease liability	3.750%	10,986	231,066	34,489	-	-	276,541
Total non-derivatives		<u>1,018,741</u>	<u>231,066</u>	<u>34,489</u>	<u>-</u>	<u>-</u>	<u>1,284,296</u>

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 contractua l maturities \$
Non-derivatives							
<i>Non-interest bearing</i>							
Trade and other payables	-	231,697	-	-	-	-	231,697
Total non-derivatives		<u>231,697</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>231,697</u>

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

Note 21. Fair value measurement

Fair value hierarchy

The following tables detail the Group's assets and liabilities, measured or disclosed at fair value, using a three-level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

Consolidated - 2022	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Deferred consideration receivable (note 9)	-	557,331	-	557,331
Total assets	-	557,331	-	557,331
<i>Liabilities</i>				
Deferred consideration payable (note 27)	-	1,450,000	-	1,450,000
Non-current liabilities				
Deferred consideration payable (note 27)	-	400,000	-	400,000
Total liabilities	-	1,850,000	-	1,850,000

There were no transfers between levels during the financial year.

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.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

Note 22. 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	
	2022	2021
	\$	\$
<i>Audit services - Nexia Sydney Audit Pty Ltd</i>		
Audit or review of the financial statements	85,000	68,000

Note 23. Contingent liabilities

The Group had no contingent liabilities as at 31 March 2022 and 31 March 2021.

Note 24. 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	
	2022	2021
	\$	\$
Short-term employee benefits	1,548,589	770,511
Post-employment benefits	95,653	39,759
Long-term benefits	-	14,908
Share-based payments	329,075	497,702
	<u>1,973,317</u>	<u>1,322,880</u>

Note 25. Related party transactions

Parent entity

Cipherpoint Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 28.

Key management personnel

Disclosures relating to key management personnel are set out in note 24 and the remuneration report included in the directors' report.

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	2022	2021
	\$	\$
Sale of goods and services:		
Sale of goods to other related party *	9,250	-
Payment for goods and services:		
Purchase of goods from other related party *	40,400	-

* Related party is Insicon Pty Ltd which is owned by the Brace168 founders. As a part of the Brace168 acquisition, some contracts and staff required novation.

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.

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

Note 26. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent	
	2022	2021
	\$	\$
Loss after income tax	(8,959,621)	(1,333,970)
Other comprehensive income for the year, net of tax	-	-
Total comprehensive income	(8,959,621)	(1,333,970)

Statement of financial position

	Parent	
	2022	2021
	\$	\$
Total current assets	1,720,133	3,822,232
Total non-current assets	108,528	41,650
Total assets	1,828,661	3,863,882
Total current liabilities	1,647,728	201,280
Total non-current liabilities	445,993	19,193
Total liabilities	2,093,721	220,473
Net assets/(liabilities)	<u>(265,060)</u>	<u>3,643,409</u>
Equity		
Issued capital	103,122,027	98,468,154
Share-based payments reserve	4,430,522	4,033,243
Accumulated losses	(107,817,609)	(98,857,988)
Total equity/(deficiency)	<u>(265,060)</u>	<u>3,643,409</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 2022 and 31 March 2021.

Contingent liabilities

The parent entity had no contingent liabilities as at 31 March 2022 and 31 March 2021.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 31 March 2022 and 31 March 2021.

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 27. Business combinations

Acquisition of Brace168 Pty Ltd

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 for the acquisition includes up-front and deferred cash and share based consideration. The total consideration of \$4,440,242 is comprised of the following:

- Deferred consideration of \$1,000,000 (note 21) due 1 April 2022, of which \$450,043 (note 9) is on deposit in escrow; and
- Contingent consideration of two parcels of 7.1m shares, which were contingent on the achievement of revenue performance targets as adjusted at the AGM on 24 September 2021.

Cipherpoint and the managed services business of Brace168 will operate as separate divisions, with common central support functions. Through the reporting period, management of the Company and Brace168 have been working well together on business planning, marketing strategy and integrated support functions. Since acquisition, Brace168 has continued to grow its sales pipeline and deliver strong service revenues.

The acquired business contributed revenues of \$3,648,314 and adjusted loss (exclusive of share based payment expense and impairment of goodwill) of \$1,029,454 to the Group for the year ended 31 March 2022.

Details of the acquisition are as follows:

	Fair value \$
Cash and cash equivalents	146,582
Trade and other receivables	194,692
Prepayments	10,680
Plant and equipment	13,885
Patents and trademarks	2,142
Trade payables and other payables	(47,140)
Other payables	(127,979)
Contract liabilities	(9,764)
Employee benefits	(20,208)
	<hr/>
Net assets acquired	162,890
Goodwill	4,277,352
	<hr/>
Acquisition-date fair value of the total consideration transferred	<u>4,440,242</u>
Representing:	
Cash paid or payable to vendor	3,068,100
Share-based consideration issued to vendor	1,022,250
Share-based contingent consideration	349,892
	<hr/>
	<u>4,440,242</u>
Cash used to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	4,440,242
Less: cash and cash equivalents	(146,582)
Less: shares issued by Company as part of consideration	(1,022,250)
Less: deferred consideration payable	(1,000,000)
Less: share-based contingent consideration	(349,892)
	<hr/>
Net cash used	<u>1,921,518</u>

Note 27. Business combinations (continued)

Note that \$450,000 payable for the Brace168 acquisition was held in escrow at year end (note 9) and released post year end.

Goodwill recognised is attributable to the existing customer base acquired and revenue attributed to it; to the expertise of the two founders, and their team; and to the quality of the Brace168 brand and its reputation in this specific market. Total acquisition costs (including legal and broker fees) paid and expensed to profit and loss was \$168,507. The acquisition accounting was final as at 31 March 2022.

Details of shares issued

The issue price of shares was \$0.031 per share.

Details of contingent consideration

The Group agreed to issue key Brace168 management two parcels of 7.1m shares to the value of up to A\$349,892 based on achievement of two deferred milestone events. The revenue targets for these events were updated at the AGM on 24 September 2021. As a result of the AGM and revenue achieved, the first parcel of 7.1m shares was reduced to 6,362,310 shares, originally valued at \$197,232 and was issued on 30 September 2021. The revenue milestone for the second parcel of shares has not been met and the financial liability has been derecognised resulting in a gain of \$152,650.

Note 27. Business combinations (continued)

Acquisition of Virtual Information Technology Pty Limited ('VIT' Cyber Security or 'VITCS')

In October 2021, the Company announced the acquisition of Tasmanian based managed security services provider Virtual Information Technology Pty Limited ('VIT Cyber Security' or 'VITCS') for an initial consideration of \$700,000 in cash and 10.2 million shares with additional share-based consideration as part of an FY22 and FY23 earn out arrangement. The 10.2 million shares were issued on 25 November 2021 at \$0.039 per share, subject to a 6 month escrow period.

The acquired business contributed revenues of \$354,461 and adjusted loss (exclusive of share based payment expense and impairment of goodwill) of \$152,081 to the Group for the year ended 31 March 2022. If the acquisition occurred on 1 April 2021, the full year contributions would have been revenues of \$832,684 and loss after tax of \$209,561. The acquisition accounting was final as at 31 March 2022.

Details of the acquisition are as follows:

	Fair value
	\$
Cash and cash equivalents	181,345
Trade receivables	6,926
Inventories	1,285
Prepayments	1,220
Plant and equipment	53,533
Trade and other payables	(60,616)
Contract liabilities	(85,250)
Secured loans	(60,524)
	<hr/>
Net assets acquired	37,919
Goodwill	1,909,881
	<hr/>
Acquisition-date fair value of the total consideration transferred	<u>1,947,800</u>
Representing:	
Cash paid or payable to vendor	700,000
Share-based consideration issued to vendor	397,800
Contingent share consideration	850,000
	<hr/>
	<u>1,947,800</u>
Cash used to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	1,947,800
Less: cash and cash equivalents	(181,345)
Less: shares issued by Company as part of consideration	(397,800)
Less: contingent share consideration	(850,000)
	<hr/>
Net cash used	<u>518,655</u>

Note 28. 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	
		2022 %	2021 %
CipherPoint Software, Inc.	United States of America	100%	100%
Cipherpoint Australia Pty Limited	Australia	100%	100%
Cipherpoint GmbH	Germany	100%	100%
Brace168 Pty Ltd	Australia	100%	-
Virtual Information Technology Pty Limited	Australia	100%	-

Note 29. Changes in liabilities arising from financing activities

Consolidated	Borrowings \$	Lease liabilities \$	Total \$
Balance at 1 April 2020	-	-	-
Balance at 31 March 2021	-	-	-
Net cash from/(used in) financing activities	1,510,000	(128,547)	1,381,453
Acquisition of ROU office and plant and equipment by means of leases	-	405,088	405,088
Settlement of convertible notes	(1,510,000)	-	(1,510,000)
Balance at 31 March 2022	-	276,541	276,541

Note 30. Earnings per share

	Consolidated	
	2022 \$	2021 \$
<i>Earnings per share for loss from continuing operations</i>		
Loss after income tax attributable to the owners of Cipherpoint Limited	(10,313,976)	(2,357,181)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	288,395,510	104,615,638
Weighted average number of ordinary shares used in calculating diluted earnings per share	288,395,510	104,615,638
	Cents	Cents
Basic earnings per share	(3.58)	(2.25)
Diluted earnings per share	(3.58)	(2.25)
	Consolidated	
	2022 \$	2021 \$
<i>Earnings per share for profit/(loss) from discontinued operations</i>		
Profit/(loss) after income tax attributable to the owners of Cipherpoint Limited	1,312,166	(589,146)

Note 30. Earnings per share (continued)

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	288,395,510	104,615,638
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>288,395,510</u>	<u>104,615,638</u>
	Cents	Cents
Basic earnings per share	0.45	(0.56)
Diluted earnings per share	0.45	(0.56)
	Consolidated	
	2022	2021
	\$	\$

Earnings per share for loss

Loss after income tax attributable to the owners of Cipherpoint Limited	<u>(9,001,810)</u>	<u>(2,946,327)</u>
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	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	288,395,510	104,615,638
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>288,395,510</u>	<u>104,615,638</u>
	Cents	Cents
Basic earnings per share	(3.12)	(2.82)
Diluted earnings per share	(3.12)	(2.82)

The 127,768,719 (2021: 35,879,114) options, employees loan shares 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 31. Share-based payments

Share option programme

The Group has a share option programme that entitles directors, employees and contractors to purchase shares in the Company. In accordance with this programme, holders of vested options are entitled to purchase shares in the Company at a price per share as detailed below. Awarding of options is at the discretion of the Directors under approved provisions granted at General Meetings.

Note 31. Share-based payments (continued)

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

Employee Share Option Plan ('ESOP')

2022

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ Lapsed	Balance at the end of the year
21/07/2016	20/07/2021	\$3.900	7,500	-	-	(7,500)	-
04/05/2017	04/05/2022	\$4.000	40,000	-	-	-	40,000
22/06/2017	21/06/2022	\$1.000	14,000	-	-	-	14,000
17/08/2017	17/08/2022	\$0.900	50,000	-	-	-	50,000
17/08/2017	17/06/2022	\$0.900	278,480	-	-	-	278,480
07/09/2018	06/09/2023	\$0.560	580,600	-	-	-	580,600
28/10/2020	28/10/2025	\$0.048	4,500,000	-	-	-	4,500,000
			5,470,580	-	-	(7,500)	5,463,080
Weighted average exercise price			\$0.619	\$0.000	\$0.000	\$0.000	\$0.000

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	\$5.700	15,000	-	-	(15,000)	-
17/12/2015	16/12/2020	\$6.600	24,535	-	-	(24,535)	-
21/07/2016	20/07/2021	\$3.900	7,500	-	-	-	7,500
04/05/2017	04/05/2022	\$4.000	40,000	-	-	-	40,000
22/06/2017	21/06/2022	\$1.000	14,000	-	-	-	14,000
17/08/2017	17/08/2022	\$0.900	172,088	-	-	(122,088)	50,000
24/11/2017	22/11/2022	\$0.900	294,150	-	-	(15,670)	278,480
07/09/2018	06/09/2023	\$0.560	580,600	-	-	-	580,600
28/10/2020	28/10/2025	\$0.048	-	4,500,000	-	-	4,500,000
			1,147,873	4,500,000	-	(177,293)	5,470,580
Weighted average exercise price			\$1.067	\$0.048	\$0.000	\$3.525	\$0.619

None of the options issued were exercisable at the end of the financial period.

The weighted average remaining contractual life of options outstanding at the end of the financial period was 3 years (2021: 4 years).

Note 31. Share-based payments (continued)

**Employee Loan Share Plan ('ELSP')
2022**

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	\$2.940	376,345	-	-	-	376,345
20/08/2014	19/08/2024	\$4.000	22,193	-	-	-	22,193
11/03/2015	10/03/2025	\$5.700	46,667	-	-	-	46,667
12/03/2015	11/03/2025	\$5.700	6,847	-	-	-	6,847
08/12/2015	07/12/2025	\$6.600	6,609	-	-	-	6,609
27/01/2017	26/01/2027	\$2.400	8,750	-	-	-	8,750
04/05/2017	03/05/2027	\$0.580	200,000	-	-	-	200,000
04/05/2017	03/05/2027	\$0.540	300,000	-	-	-	300,000
23/06/2017	22/06/2027	\$4.000	225,941	-	-	-	225,941
24/11/2017	23/11/2027	\$1.100	1,384,905	-	-	-	1,384,905
06/03/2017	05/03/2027	\$1.000	111,953	-	-	-	111,953
07/09/2018	06/09/2028	\$0.560	1,403,177	-	-	-	1,403,177
19/10/2018	18/10/2028	\$0.560	383,925	-	-	-	383,925
01/11/2019	31/10/2029	\$0.300	133,300	-	-	-	133,300
28/10/2020	28/10/2025	\$0.048	2,250,000	-	-	-	2,250,000
22/07/2021	21/07/2026	\$0.031	-	9,869,000	-	-	9,869,000
			6,860,612	9,869,000	-	-	16,729,612

Weighted average exercise price \$0.806 \$0.031 \$0.000 \$0.000 \$0.349

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	\$2.940	376,345	-	-	-	376,345
20/08/2014	19/08/2024	\$4.000	22,193	-	-	-	22,193
11/03/2015	10/03/2025	\$5.700	46,667	-	-	-	46,667
12/03/2015	11/03/2025	\$5.700	6,847	-	-	-	6,847
08/12/2015	07/12/2025	\$6.600	6,609	-	-	-	6,609
27/01/2017	26/01/2027	\$2.400	8,750	-	-	-	8,750
04/05/2017	03/05/2027	\$0.580	200,000	-	-	-	200,000
04/05/2017	03/05/2027	\$0.540	300,000	-	-	-	300,000
23/06/2017	22/06/2027	\$4.000	225,941	-	-	-	225,941
24/11/2017	23/11/2027	\$1.100	1,384,905	-	-	-	1,384,905
06/03/2017	05/03/2027	\$1.000	111,953	-	-	-	111,953
07/09/2018	06/09/2028	\$0.560	1,403,177	-	-	-	1,403,177
19/10/2018	18/10/2028	\$0.560	383,925	-	-	-	383,925
01/11/2019	31/10/2029	\$0.300	133,300	-	-	-	133,300
28/10/2020	28/10/2025	\$0.048	-	2,250,000	-	-	2,250,000
			4,610,612	2,250,000	-	-	6,860,612

Weighted average exercise price \$1.176 \$0.048 \$0.000 \$0.000 \$2.330

The weighted average remaining contractual life of Employee Loan Shares outstanding at the end of the financial period was 5 years (2021: 5 years).

During the year ended 31 March 2022 9,869,000 ordinary shares in the Company were granted under the ELSP to employees as bonus remuneration (2021: 2,250,000).

Note 31. Share-based payments (continued)

For the ELSP 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
22/07/2021	06/09/2028	\$0.036	\$0.031	120.40%	-	0.58%	\$0.033

None of the ELSP granted were exercisable at the end of the financial period.

Consultant options

The Company issued options to brokers for their assistance in the placements.

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)	-
30/09/2021	15/02/2023	\$0.08	-	30,000,000	-	-	30,000,000
			<u>4,000,000</u>	<u>30,000,000</u>	<u>-</u>	<u>(4,000,000)</u>	<u>30,000,000</u>

For the options 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
30/09/2021	15/02/2023	\$0.031	\$0.080	182.90%	-	3.50%	\$0.003

Performance rights

2022			Exercise price	Balance at the start of the period	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the period
Tranche	Grant date	Expiry date						
Class A	11/09/2020	07/09/2025	\$0.060	3,125,000	-	-	-	3,125,000
Class B	11/09/2020	07/09/2025	\$0.080	1,562,500	-	-	-	1,562,500
Class C	11/09/2020	07/09/2025	\$0.100	1,562,500	-	-	-	1,562,500
Class C (Type 1)	21/05/2021	20/05/2026	\$0.028	-	11,250,000	-	-	11,250,000
Class C (Type 2)	18/11/2021	18/11/2026	\$0.036	-	1,000,000	-	-	1,000,000
Class C (Type 3)	16/03/2022	16/05/2027	\$0.022	-	3,000,000	-	-	3,000,000
				<u>6,250,000</u>	<u>15,250,000</u>	<u>-</u>	<u>-</u>	<u>21,500,000</u>

Weighted average exercise price			\$0.067	\$0.092	\$0.000	\$0.000	\$0.085
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Note 31. Share-based payments (continued)

2021				Balance at			Expired/	Balance at
Tranche	Grant date	Expiry date	Exercise price	the start of	Granted	Exercised	forfeited/ other	the end of
				the period				the period
Class A	11/09/2020	07/09/2025	\$0.060	-	3,125,000	-	-	3,125,000
Class B	11/09/2020	07/09/2025	\$0.080	-	1,562,500	-	-	1,562,500
Class C	11/09/2020	07/09/2025	\$0.100	-	1,562,500	-	-	1,562,500
				-	6,250,000	-	-	6,250,000

Weighted average exercise price	\$0.000	\$0.067	\$0.000	\$0.000	\$0.067
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For the performance rights 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
21/05/2021	21/05/2026	\$0.028	\$0.010	80.00%	-	0.68%	\$0.021
18/11/2021	18/11/2026	\$0.035	\$0.010	80.00%	-	1.38%	\$0.032
11/09/2021	11/09/2026	\$0.022	\$0.010	80.00%	-	2.15%	\$0.018

Share-based payment expense recognised in profit or loss

	Consolidated 2022	Consolidated 2021
Options granted	87,448	198,509
Employee loan share plan shares granted	129,238	204,368
Performance rights granted	317,322	348,642
Total recognised as employee benefits expense	534,008	751,519

Note 32. Events after the reporting period

On 1 July 2022 the Group successfully raised \$950,000 of additional funding with a share placement of \$150,000 and issuing convertible notes for \$800,000. These funds will support the working capital of the business.

In addition, the Company intends to seek further funding to provide additional working capital and/or fund potential complementary acquisitions by way of a proposed rights issue to shareholders. It is anticipated that the proposed rights issue will involve an offer of 2 new shares for every 3 shares held at the relevant record date with accompanying options (on the same terms as the Placement) to raise up to a further \$1,226,000. This approach is to ensure all shareholders have the right to participate in the capital raising on the same terms as the Placement and Note issue.

No other matter or circumstance has arisen since 31 March 2022 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.

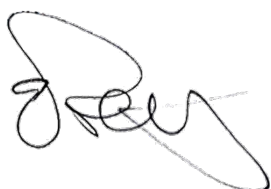
In the directors' opinion:

- 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 2022 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

25 July 2022
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 2022, 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 consolidated 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 2022 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 to the consolidated financial statements in the financial report, which indicates that the Group incurred a net loss after tax of \$9,001,810 and net cash outflows from operating activities of \$3,291,366 during the year ended 31 March 2022 and had net current liabilities of \$105,552.

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.

Key audit matter	How our audit addressed the key audit matter
<p>Share Based Payments</p> <p>Refer to notes 18 (Reserves) and 31 (Share-based payments)</p> <p>The Group has issued a number of share-based payments in the current and previous years, including Performance Rights which include future market price targets.</p> <p>We consider share-based payments to be a key audit matter due to:</p> <ul style="list-style-type: none"> ▪ 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 	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> ▪ verified the key terms of the share-based payments to announcements and supporting documentation; ▪ 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; ▪ tested the assumptions, data and methodology of other share-based payments prepared by management and performed a recalculation of the fair value; ▪ tested the accuracy of the share-based payment recognition as either recognised immediately or amortised over the vesting periods; and ▪ checked the accuracy of disclosure of share-based payments arrangements in the financial statements.
<p>Business Acquisitions</p> <p>Refer to note 27 (Business combinations)</p> <p>During the year the group acquired Brace168 Pty Limited and Virtual Information Technology Pty Limited. As a result, there was goodwill on acquisition amounting to \$4,277,352 and \$1,909,881 respectively.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> ▪ verified the key terms of the business acquisitions to announcements and supporting documentation; ▪ reviewed and challenged the management assumptions used in the calculation of contingent consideration paid/payable for the business acquisitions. We have re-performed the business acquisitions calculations to ensure it complies with AASB 3 “Business Combinations”; ▪ checked the accuracy of the disclosure of the business acquisitions and goodwill acquired in the notes to the financial statements.

Key audit matter	How our audit addressed the key audit matter
<p>We consider the above business acquisitions to be a key audit matter due to:</p> <ul style="list-style-type: none"> the complexity in the calculations of the business acquisitions due to the deferred consideration component paid/payable being based on future earn-out targets being met. 	
<p>Impairment testing of goodwill</p> <p>Refer to Note 12 (Intangibles)</p> <p>The goodwill from the two new acquisitions (refer above business acquisitions key audit matter) was fully impaired amounting to \$6,187,233.</p> <p>We consider the above to be a key audit matter due to:</p> <ul style="list-style-type: none"> its importance to the intended users' understanding of the financial report as a whole, in particular, its materiality to the financial report 	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> assessed the impairment models used to calculate the discounted cash flow projections against the requirements of AASB 136 "Impairment of Assets"; assessed the key assumptions used in the discounted cash flow projections such as revenue growth, operating cost growth, discount rate and terminal value and challenged these assumptions with management; assessed the weighted average cost of capital (discount rate) for reasonableness which was prepared by management's expert; performed sensitivity analysis on key assumptions such as growth rate and discount for any further impairment resulting and have discussed our findings of impairment with management; and assessed the accuracy of the disclosure of goodwill impairment assessment including key assumptions used in the impairment models in the notes to 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 2022, 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 6 to 15 of the directors' Report for the year ended 31 March 2022.

In our opinion, the Remuneration Report of Cipherpoint Limited for the year ended 31 March 2022, 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



Stephen Fisher

Director

Dated: 25 July 2022

Sydney

The shareholder information set out below was applicable as at 27 June 2022.

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	1,013	0.09	-	-
1,001 to 5,000	505	0.47	-	-
5,001 to 10,000	192	0.42	1	0.98
10,001 to 100,000	652	6.97	6	31.62
100,001 and over	336	92.05	4	67.40
	<u>2,698</u>	<u>100.00</u>	<u>11</u>	<u>100.00</u>
Holding less than a marketable parcel	<u>1,961</u>	<u>-</u>	<u>-</u>	<u>-</u>

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
BNP Paribas Nominees Pty Ltd (IB AU Noms Retailclient Drp)	31,740,123	8.95
Kyriaco Barber Pty Ltd	19,425,807	5.48
GE Equity Investments Pty Ltd	14,950,000	4.21
Altor Capital Management Pty Ltd (Altor Alpha Fund A/C)	14,701,516	4.14
Network 1 Pty Limited (Bunt Family A/C)	14,056,155	3.96
Mr Matthew Paul Miller & Mrs Suzanne Nicole Miller (Yalip A/C)	14,056,155	3.96
Mark Edward Hitchcock	10,200,000	2.88
10 Bolivianos Pty Ltd	9,625,561	2.71
Pecklyn Pty Ltd (G & L Peck Super Fund A/C)	6,000,000	1.69
G & L Peck Pty Ltd (G & L Peck Family A/C)	5,940,236	1.67
Mr Salvatore Di Vincenzo	4,147,983	1.17
Mr Trevor Kjell Giacometti (Linlong Investment A/C)	3,700,000	1.04
Vagana Pty Ltd (Pretty Super Fund A/C)	3,352,310	0.94
TPG Telecom Limited	3,152,175	0.89
Mr Peter Howells	3,065,821	0.86
Mr John Pierre Abi-Younes	3,000,000	0.85
Mr Stephen Anthony Parsonage & Mrs Katheryn Anne Parsonage (Parso Super Fund A/C)	3,000,000	0.85
Mr Brenton Speechley & Mrs Margaret Speechley (Brenthill Super Fund A/C)	2,854,964	0.80
Mr Justin Craig Vaughan	2,838,567	0.80
Citicorp Nominees Pty Limited	2,829,745	0.80
	<u>172,637,118</u>	<u>48.65</u>

Unquoted equity securities

	Number on issue	Number of holders
Options over ordinary shares issued	923,692	11
Employee share loan plan shares over ordinary shares issued	14,524,830	38
Performance rights over ordinary shares issued	21,500,000	8

Substantial holders

Substantial holders in the Company are set out below:

Name	Ordinary shares	
	Number held	% of total shares issued
BNP Paribas Nominees Pty Ltd (IB AU Noms Retailclient DRP)	28,712,259	8.09
Kyriaco Barber Pty Ltd	18,588,846	5.24
Altor Capital Management Pty Ltd (Altor Alpha Fund A/C)	14,701,516	4.14
GE Equity Investments Pty Ltd	14,106,035	3.98
Network 1 Pty Limited (Bunt Family A/C)	14,056,155	3.96
Mr Matthew Paul Miller & Mrs Suzanne Nicole Miller (Yalip A/C)	14,056,155	3.96
Mark Edward Hitchcock	10,200,000	2.88

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.