Tesserent Limited and Controlled Entities

ABN: 13 605 672 928

About Tesserent

Tesserent is Australia's #1 ASX-listed cybersecurity provider offering full service cybersecurity solutions to our clients, helping them achieve full end-to-end protection for their digital assets.

Cyber 360 utilises a range of products from world-leading cybersecurity vendors, delivering a comprehensive solution to prevent, detect and mitigate potential cyber-attacks.

This is delivered by more than 450 cybersecurity professionals across offices in Melbourne, Sydney, Brisbane, Canberra, Auckland, Wellington and Christchurch.

About this report

This half-year interim report covers the operations, activities and financial performance of Tesserent Limited and its controlled entities for the six months ended 31 December 2022 (HY23).

In this report, references to 'Tesserent', 'the Company' and 'the Group' refer to Tesserent Limited (13 605 672 928) and its controlled entities.

All dollar figures are expressed in Australian dollars (AUD) unless otherwise stated.

The financial statements contained within this Annual Report are prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board.

There are references to IFRS and non-IFRS financial information in this report.

Non-IFRS financial measures are used to enhance the comparability of information between reporting periods.

Non-IFRS financial information should be considered in addition to, and is not intended to be a substitute for, IFRS financial information and measures. Non-IFRS financial measures are not subject to audit or review.

Appendix 4D

Financial information for the half-year ended 31 December 2022 as required by ASX listing rule 4.2A

Reporting period: Half-year ended 31 December 2022

Comparative period: Half-year ended 31 December 2021

Results for announcement to the market

Key information (all comparisons to half-year ended 31 December 2021)	$'000	Up/Down	% Change
Statutory revenue from ordinary activities	61,957	Up	41%
Profit/(Loss) after tax from ordinary activities	(1,079)	Down	67%
Profit/(Loss) attributable to members	(1,079)	Down	67%

Note1
Under accounting standard AASB15 "Revenue from Contracts with Customer", some of the Company's product sales are deemed as Agency Sales. The standard requires these sale amounts to be recognised net of the cost of products, which results in a lower reported 'Statutory' revenue in the Company's formal Financial Statements. The Group's Turnover (or Gross Revenue) for the half year FY23 was $85.1m (this has no impact on Gross profit or Net profit).
Note2
Profit/(Loss) after tax from ordinary activities is presented in accordance with AASB 101.
It is noted that the reported statutory loss includes $0.8m of acquisition related expenses and $0.3m of share option expense incurred during the half-year ended 31 December 2022.

Dividends paid and proposed

No dividend has been proposed to be paid or is payable for the half-year ended 31 December 2022, nor for the comparative period.

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Tesserent Limited and its controlled entities

ABN 13 605 672 928

Consolidated Financial Report for the half-year ended 31 December 2022

Directors' report

The directors present their report together with the consolidated financial statements of Tesserent Limited and its subsidiaries (together 'Tesserent', 'the Company' or 'the Group') for the half-year ended 31 December 2022 and the Auditor's review report thereon.

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

Directors

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

- Geoff Lord – Executive Chairman (appointed 10 January 2020)
- Gregory Baxter – Non-Executive Director (appointed 16 November 2016)
- Megan Haas – Non-Executive Director (appointed 19 January 2021)
- Kurt Hansen – CEO (appointed 12 December 2019)
- Tony Sheehan – Non-Executive Director (appointed 27 January 2023)

Operating results

Tesserent is pleased to provide the Group's Consolidated Financial Report for the half-year ended 31 December 2022.

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

Explanation of results

Tesserent continued its expansion in the first half of FY23 with growth in Turnover (+35% vs. PCP) and EBITDA[1] at +19%.

During the half year ended 31 December 2022, the Group reported total turnover of $85.1m, statutory revenue of $62.0m, normalised EBITDA of $6.6m (before acquisition costs and share based payment costs) and a net loss after tax of $1.1m.

Over FY22 and the first half of FY23, Management has continued to drive its brand and business unit integration strategy to drive top-line growth in the business and cross selling of services to its current customer base under a single customer-facing brand.

The recent high-profile cybersecurity breaches reported in the Australian market has confirmed the significance of the risk. Australia was reported as the most frequently hacked nation in the world in the quarter ended 31 December 2022 – with data breaches having surged by 1550 per cent in the last quarter[2]. Australia also currently ranks sixth in the world as targets of "significant" cyber-attacks, having reported 16 major incidents since 2010[2].

Tesserent is continuing to evolve its cyber security offering to meet the needs of both its commercial and enterprise customers and government at both Commonwealth and State and Territory levels – providing these organisations with access to a team of cybersecurity experts and the latest technology solutions.

Tesserent's skilled cyber security consultants work with organisations to assess their current security posture, identify potential vulnerabilities, and develop strategies and solutions to mitigate those risks. Vulnerability assessments are performed to identify and mitigate vulnerabilities in our customers computer systems, networks, and applications.

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[1] *EBITDA excludes one-off acquisition costs and share option expense – see table below for bridge to Statutory NPAT. EBITDA is a non-IFRS measured and is unaudited.*

[2] *Based on data compiled by Centre for Strategic and International Studies*

As organizations continue to migrate their operations to the cloud, Tesserent also assists companies to stay up-to-date with the latest technologies, tools, and techniques to secure their cloud infrastructure and data.

The integration and reorganisation of the Group's business acquisitions has strengthened the Group's capability offering and its commercial position in the market – enabling the Group to enhance its value proposition to existing and new clients.

During the half-year, TNT consolidated the businesses of the last three acquisitions (Loop Secure, Claricent and Pearson) integrating the public and private sector consulting services, managed services and specialised product expertise.

As noted in the TNT's recent ASX quarterly performance announcement (on 31 January 2023), the earnings of the business are highly seasonal – with Operating EBITDA in H1/H2 FY21 reported at 27% / 73%). Management also expects similar seasonality within the current financial year (FY23).

Normalised EBITDA and NPAT

Details	*cash v. non-cash expenses*	31 Dec-22 $'000	31 Dec-21 $'000	*% change*
Turnover		**85,081**	**62,897**	***+35%***
Statutory revenue		61,957	43,875	*+41%*
Operating EBITDA (as reported in 4C quarterly reporting)		**5,021**	**4,557**	***+10%***
add impact of AASB16 lease adjustments		1,604	998	
Normalised EBITDA		**6,625**	**5,556**	***+19%***
Interest expense	*cash*	(1,411)	(1,669)	
Depreciation and amortisation	*non-cash*	(4,593)	(3,571)	
Tax credit / (expense)	*non-cash*	271	-	
Normalised NPAT		**892**	**315**	***+183%***
Less: One-off costs/non-recurring expenses				
Share based payment and option expenses	*non-cash*	(298)	(1,520)	
Acquisition costs and fair value expense on contingent consideration	*cash*	(750)	(1,071)	
Loss on carrying value of innovation investments	*non-cash*	(923)	-	
Non-cash interest - amortisation of warrants and facility costs	*non-cash*	-	(992)	
Statutory NPAT		**(1,079)**	**(3,267)**	

Sum of cash expenses below Normalised NPAT	(2,161)	(2,741)
Sum of non-cash expenses below Normalised NPAT	(4,620)	(6,082)

1 *Turnover represents gross income billed to customers (before AASB15 Agency 'net-down' statutory adjustments)*
2 *Operating EBITDA excludes one-off acquisition costs and share option expenses and excludes upside from non-cash AASB16 adjustments*
3 *Before one-off acquisition costs and share option expenses*

Review of operations

During the half-year period ended 31 December 2022, Tesserent achieved the following strategic goals:

- Implemented a second phase re-organisation programme which achieved the integration of the three business units acquired at the end of 2021, in order to streamline the business operations and customer service offering.
- Increased the number of inter-divisional cross selling opportunities and wins through its Enterprise and Commercial and Federal divisions.
- Continued to grow its Annual Recurring Revenue (ARR) – both in value and as a percentage of revenue – now at 50% (up 6% from prior year).
- Launched a new Incident Response service offering - providing a Cyber Incident Response Team and procedures covering incident response planning, incident analysis and data protection measures, containment, incident data collection and remediation steps.
- Reached an agreement to acquire the business of ALC Group, a prominent Australian Cybersecurity training business. which will be integrated into the Tesserent Academy business division.
- Completed a further investment in Daltrey – Tesserent invested a further $1m into the Daltrey business, alongside other third party investors to drive Daltrey's continued growth.
- Delivered positive operating cashflows for the half year period.

- Appointed new Board member, Tony Sheehan, adding significant cyber experience and knowledge to the Board's current capabilities.

Future focus

The Board has undertaken a strategic planning exercise to set the goals over the coming year and over the next three years. These include:

- Continuing to drive the Company's acquisition strategy to expand on its breadth of service offering and technical capabilities to increase market share and value through incremental EPS growth.
- Focusing on capturing further market share in three key markets: Government (including Defence), Critical Infrastructure and Financial Services.
- Driving growth through deeper and wider customer engagements and increasing business cross selling and average number of services per customer.
- Pursing organic growth initiatives such as new service offerings, automation and partnerships/alliance to drive top line growth and margin enhancement across the business.
- Continue to build out high-value recurring annuity revenue streams via Managed Security Operations Centre (SOC) and Managed Detection and Response (MDR).
- Focusing on specific innovation projects across the Group and with partners such as Daltrey to expand its intellectual property offering and drive high-margin product and services.
- Investing in the Tesserent Academy to deliver programs to help the industry shortage of cyber skills for Tesserent staff, our clients and industry wide.

Dividends

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

Net tangible assets per share

Net tangible assets per ordinary share	31-Dec-22	30-Jun-22
Net tangible assets per share	(0.03)	(0.05)

Rounding of amounts

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

Subsequent events

The Company notes the following subsequent events since the 31 December 2022 reporting date:

- On 27 January 2023, Tony Sheehan was appointed as an Independent, Non-Executive Director of the Company. Mr Sheehan has held the positions of Deputy Director-General ASIO, Deputy Secretary and COO of the Attorney-General's Department and head of Homeland and Border Security Division at the Department of the Prime Minister and Cabinet, as announced in the ASX release on 27 January.
- On 30 January 2023, the Group signed a business and asset sale agreement for the acquisition of ALC Group, a prominent training business providing certified Cybersecurity, IT, Project Management and Governance training from entry level to advanced levels through its operations in Australia, New Zealand, Singapore and Malaysia.
- On 24 February 2023, Tesserent issued a prospectus pertaining to the issue of up to 70 million options under an Employee Share Option Plan. This Employee Share Option Plan was tabled at the Group's AGM on 18 November 2022 and was approved by the shareholders of the Group at that meeting.

No other matter or circumstance has arisen since 31 December 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.

Auditor's independence declaration

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

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

Signed in accordance with a resolution of the directors.

On behalf of the directors

Kurt Hansen
Chief Executive Officer
Melbourne, 27 February 2023

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

As lead auditor for the review of Tesserent Limited for the half-year ended 31 December 2022, I declare that, to the best of my knowledge and belief, there have been:

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

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

Salim Biskri
Director

BDO Audit Pty Ltd

Melbourne, 27 February 2023

Consolidated Statement of Profit and Loss and Other Comprehensive Income

for the half-year ended 31 December 2022

	Note	31 December 2022 $'000	31 December 2021 $'000
Revenue	4	61,957	43,875
Other income		117	297
Expenses			
Software licence and connectivity fees		(6,714)	(5,411)
Employee benefits expense		(35,973)	(26,531)
Operating expenses	5	(13,062)	(6,459)
Business acqusition costs		(62)	(379)
Share option expense		(298)	(1,520)
Depreciation and amortisation expense		(4,593)	(3,571)
Finance costs	5	(1,461)	(2,876)
Fair value loss on contingent consideration		(261)	(600)
Impairment of receivables		(26)	
Impariment of financial instruments		(933)	(92)
Share of loss of equity accounted associates		(41)	-
Loss before income tax benefit		**(1,350)**	**(3,267)**
Income tax benefit		271	-
Loss after income tax benefit for the period		**(1,079)**	**(3,267)**
Other comprehensive income for the period, net of tax		-	-
Total comprehensive income/(loss) for the period		**(1,079)**	**(3,267)**

	Note	cents	cents
Basic loss per share (cents per share)	18	(0.08)	(0.29)
Diluted loss per share (cents per share)	18	(0.08)	(0.29)

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

Consolidated Statement of Financial Position

as at 31 December 2022

	Note	31 December 2022 $'000	30 June 2022 $'000
Assets			
Current Assets			
Cash and cash equivalents		7,255	14,339
Trade and other receivables	6	23,136	32,082
Contract assets		17,313	13,190
Prepayments		2,179	1,751
Inventories		54	104
Lease asset receivable		270	265
Financial assets held at fair value through profit or loss	7	-	500
Total current assets		**50,207**	**62,231**
Non-current Assets			
Contract assets		5,556	3,041
Property, plant and equipment		3,621	3,317
Intangibles	9	38,320	39,854
Goodwill	10	129,634	129,634
Right-of-use assets		5,598	6,129
Lease asset receivable		169	296
Investments in equity-accounted associates	8	69	941
Financial assets at fair value through profit or loss	7	3,696	2,298
Other non-current asset		123	790
Total non-current assets		**186,786**	**186,300**
Total Assets		**236,993**	**248,532**
Liabilities			
Current Liabilities			
Trade and other payables	11	25,137	35,853
Contract liabilities		13,421	11,313
Lease liabilities		3,335	3,110
Provisions		4,280	4,119
Income tax payable		124	233
Deferred settlement liabilities	12	6,654	23,600
Total current liabilities		**52,950**	**78,228**
Non-current liabilities			
Contract liabilities		4,661	2,285
Lease liabilities		2,692	3,516
Borrowings	13	44,535	34,473
Provisions		996	1,027
Deferred settlement liabilities	12	-	5,485
Deferred tax liability		6,108	6,524
Total non-current liabilities		**58,992**	**53,310**
Total liabilities		**111,942**	**131,538**
Net assets		**125,051**	**116,994**

Consolidated Statement of Financial Position (continued)

as at 31 December 2022

	Note	31 December 2022 $'000	30 June 2022 $'000
Equity			
Contributed equity	14	149,525	138,666
Reserves	15	11,421	13,145
Accumulated losses		(35,895)	(34,817)
Total Equity		**125,051**	**116,994**

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

Consolidated Statement of Changes in Equity

for the half-year ended 31 December 2022

	Contributed equity $'000	Reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2021	**102,992**	**11,200**	**(26,558)**	**87,635**
Loss for the period	-	-	(3,267)	(3,267)
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	**-**	**-**	**(3,267)**	**(3,267)**
Issue of shares	708	-	-	708
Capital raise	25,000	-	-	25,000
Capital raising costs	(1,363)	-	-	(1,363)
Shares issued as part of business combination	10,669	-	-	10,669
Warrants exercised	128	(128)	-	-
Options expense	-	1,520	-	1,520
Options exercised	99	(99)	-	-
Options forfeited	-	(164)	164	-
Deferred tax	409	-	-	409
Translation of foreign operations	-	25	-	25
As at 31 December 2021	**138,642**	**12,353**	**(29,662)**	**121,333**

	Contributed equity $'000	Share based payments reserve $'000	Foreign currency translation reserve	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2022	**138,666**	**13,180**	**(35)**	**(34,816)**	**116,995**
Loss for the period	-	-	-	(1,079)	(1,079)
Other comprehensive income for the period	-	-	-	-	-
Total comprehensive income for the period	**-**	**-**	**-**	**(1,079)**	**(1,079)**
Issue of shares	2,705	-	-	-	2,705
Shares issued as part of business combination	6,043	-	-	-	6,043
Warrants exercised	2,111	(2,111)	-	-	-
Options expense	-	314	-	-	314
Options forfeited	-	(16)	-	-	(16)
Translation of foreign operations	-	-	89	-	89
As at 31 December 2022	**149,525**	**11,367**	**54**	**(35,895)**	**125,051**

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

Consolidated Statement of Cash Flows

for the half-year ended 31 December 2022

	Note	31 December 2022 $'000	31 December 2021 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		95,378	77,590
Payments to suppliers and employees (inclusive of GST)		(93,668)	(72,755)
Other revenue		170	78
Interest received		1	3
Interest and other finance costs paid		(1,256)	(1,508)
Income taxes paid/(refunded)		(239)	(176)
Net cash from / (used in) operating activities		**385**	**3,232**
Cash flows from investing activities			
Purchase of plant and equipment		(1,009)	(522)
Payment for development costs capitalised		(708)	(50)
Business acquisitions net of cash acquired		-	(12,990)
Business acqusition costs paid		-	(246)
Payment for investment in Daltrey		(1,000)	(600)
Net cash from / (used in) investing activities		**(2,717)**	**(14,407)**
Cash flows from financing activities			
Proceeds from issue of shares	14	-	25,000
Cost of issuing shares		-	(1,363)
Proceeds from borrowings		10,000	-
Repayment of lease liabilities		(1,477)	(1,160)
Proceeds from security deposits		668	
Proceeds from warrants and options		2,705	708
Payment of deferred settlement liabilities		(16,648)	(13,413)
Net cash from / (used in) financing activities		**(4,752)**	**9,772**
Net increase / (decrease) in cash held		(7,084)	(1,404)
Cash and cash equivalents at the beginning of the year		14,339	14,860
Cash and cash equivalents at the end of the period		**7,255**	**13,457**

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

Notes to the financial report

for the half-year ended 31 December 2022

1. Statement of significant accounting policies

These general purpose financial statements for the half-year reporting period ended 31 December 2022 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2022 and any public announcements made by the Group during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

Basis of preparation

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

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

The 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.

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

Going concern

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

For the half-year ended 31 December 2022, the Group made a net loss of $1.1m (2021: loss of $3.3m), had net cash from operating activities of $0.4m (2021: $3.2m) and a net current liability position of $2.7m (30 June 2022: $16.0m). The Group had cash reserves of $7.3m at 31 December 2022 (30 June 2022: $14.3m) and undrawn facilities of $13.0m (30 June 2022: $24.0m).

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

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

Comparatives

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

2. 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.

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 Binomial or Black-Scholes model, taking into account the terms and conditions upon which the instruments were granted. The accounting estimates

Notes to the financial report

for the half-year ended 31 December 2022

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

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

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 1. 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 other than goodwill and other indefinite life intangible assets

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

Income tax

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

Recovery of deferred tax assets

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

Deferred consideration

The Group's provision for deferred consideration is recognised within 'Deferred Settlement Liabilities' in the Consolidated Statement of Financial Position. 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.

Business combinations

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

Notes to the financial report

for the half-year ended 31 December 2022

Rounding of amounts

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

3. Operating segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer.

Identification of reportable operating segments

The Group operates predominantly in Australia and New Zealand and its internal reporting and management comprises two primary operating segments being:

1. Tesserent Commercial segment – comprising the Group's core customer offerings Defend, Cloud, and Detect customer service offerings.

2. Tesserent Federal segment – comprising the Group's services primarily to the Federal and State Governments.

As of September 2022, the New Zealand division was integrated into Tesserent's Commercial Division such that these businesses have a single sales team and operating model in order to improve resource utilisation and enhance cross selling opportunities across these businesses. As such, the Group has reduced its operating segments from three to two.

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

Half-year ended 31 December 2022	Tesserent Commercial $'000	Tesserent Federal $'000	Other / unallocated $'000	Total $'000
Net Sales to external customers	33,833	28,124	-	61,957
Other sales	117	-	-	117
Total revenue	**33,950**	**28,124**	-	**62,074**
EBITDA before corporate (and one-off costs - see below*)	5,498	4,417	(517)	**9,398**
Corporate costs	-	-	(4,377)	(4,377)
add impact of AASB16 lease adjustments	-	-	1,604	1,604
EBITDA	**5,498**	**4,417**	(3,290)	**6,625**
Depreciation and amortisation	-	-	(4,593)	(4,593)
Interest expense	-	-	(1,411)	(1,411)
*Acquisition costs, one-off impairments and Share based payments	-	-	(1,971)	(1,971)
Profit/(loss) before income tax expense	**5,498**	**4,417**	**(9,293)**	**(1,350)**
Income tax expense	-	-	271	271
Profit/(loss) after income tax expense	**5,498**	**4,417**	(9,022)	**(1,079)**
Total segment assets	125,802	81,408	29,783	236,993
Total segment liabilities	(39,630)	(6,014)	(66,297)	(111,942)

Notes to the financial report
for the half-year ended 31 December 2022

Half-year ended 31 December 2021	Tesserent Commercial $'000	Tesserent Federal $'000	Other / unallocated $'000	Total $'000
Net Sales to external customers	29,123	13,290	1,462	43,875
Other sales	408	-	(111)	297
Total revenue	**29,531**	**13,290**	1,351	**44,172**
EBITDA before corporate (and one-off costs - see below*)	4,378	2,468	(103)	**6,743**
Corporate costs	-	-	(2,185)	(2,185)
add impact of AASB16 lease adjustments	-	-	998	998
EBITDA	**4,378**	**2,468**	(1,290)	**5,556**
Depreciation and amortisation	-	-	(3,571)	(3,571)
Interest expense and PAM facility amortisation	-	-	(2,661)	(2,661)
*Acquisition costs, one-off impairments and Share based payments	-	-	(2,591)	(2,591)
Profit/(loss) before income tax expense	**4,378**	**2,468**	**(10,113)**	**(3,267)**
Income tax expense	-	-	0	0
Profit/(loss) after income tax expense	**4,378**	**2,468**	(10,113)	**(3,267)**
Total segment assets	106,044	84,518	57,971	248,533
Total segment liabilities	(31,215)	(12,496)	(87,827)	(131,538)

Notes to the financial report

for the half-year ended 31 December 2022

4. Revenue and other income

	31 December 2022 $'000	31 December 2021 $'000
Managed services	4,275	5,983
Consulting services	52,754	33,632
Software licence subscriptions	3,958	3,091
Hardware equipment sales	513	311
Support and maintenance renewals	439	842
Other sales revenue	18	17
	61,957	**43,875**

5. Expenses

	31 December 2022 $'000	31 December 2021 $'000
Finance costs		
Interest and finance charges paid/payable on borrowings (cash)	1,489	1,669
Interest and finance charges paid/payable on borrowings (warrant amortisation)	-	992
Interest and finance charges paid/payable on lease liabilities	-	1
Other finance costs	(27)	214
Finance costs expensed	**1,461**	**2,876**
Contractor expense	10,071	3,980
Consulting and legal costs	598	707
Advertising and promotion	245	325
Adminsitration expesnes	877	578
Other expenses	1,271	869
Operating expenses	**13,062**	**6,459**

6. Trade and other receivables

	31 December 2022 $'000	30 June 2022 $'000
Current assets		
Trade receivables	21,670	29,940
Less: allowance for expected credit losses	(189)	(186)
	21,481	**29,754**
Other receivables	1,655	2,328
	23,136	**32,082**

Notes to the financial report

for the half-year ended 31 December 2022

7. Financial assets at fair value through profit and loss

	31 December 2022 $'000	30 June 2022 $'000
Current assets		
Fair value of call options held	-	500
Opening balance	500	3,000
Additions	-	-
Fair value adjustment	(500)	(2,500)
Closing balance	**-**	**500**

During the period, the Group impaired the remainder of the call option investment in AttackBound Holdings Pty Ltd.

	31 December 2022 $'000	30 June 2022 $'000
Non-current assets		
Investment in Daltrey Pty Ltd	3,298	2,298
Investment in TrustGrid Pty Ltd	398	-
Closing balance	**3,696**	**2,298**

At 31 December 2022, the Group held a 7.86% interest in Daltrey Pty Ltd. The Group invested an additional $1 million on 3 November 2022.

At 31 December 2022, the Group held a 14.8% interest in TrustGrid Holdings Pty Ltd. At 30 June 2022, the Group held a 20.95% interest in TrustGrid Holdings Pty L and the investment was accounted as an equity accounted associate. At 31 December 2022, the investment was accounted for at fair value through profit and loss

8. Investments in equity accounted associates

	31 December 2022 $'000	30 June 2022 $'000
Non-current assets		
Investment in TrustGrid Pty Ltd	-	831
Investment in Attackbound Pty Ltd	69	110
	69	**941**
Opening balance	941	2,867
Equity accounting - share of profit/(loss) in associates	(41)	(322)
Write up/(down) on carrying value of investment based on impairment review	(433)	(1,604)
Transfer of carrying value of investment no longer equity accounted	(398)	-
Closing balance	**69**	**941**

The associates had no contingent liabilities or capital commitments as at 31 December 2022 (June 2022: nil).

Notes to the financial report
for the half-year ended 31 December 2022

9. Intangible assets

	31 December 2022 $'000	30 June 2022 $'000
Non-current assets		
Customer contracts - at cost	44,811	44,811
Less: Accumulated amortisation	(8,806)	(6,565)
	36,005	**38,246**
Other intangible assets - at cost	2,392	1,683
Less: Accumulated amortisation	(77)	(75)
	2,315	**1,608**
	38,320	**39,854**

Reconciliation

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

	Customer contracts and relationships $'000	Intellectual property $'000	Total $'000
Balance at 1 July 2022	38,246	1,608	39,854
Capatilised development costs	-	708	708
Amortisation expense	(2,241)	(2)	(2,243)
Closing balance	**36,005**	**2,315**	**38,320**

10. Goodwill

	31 December 2022 $'000	30 June 2022 $'000
Goodwill	**129,634**	129,634

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

	31 December 2022 $'000	30 June 2022 $'000
Tesserent Commercial	77,001	77,001
Tesserent Federal	52,633	52,633
	129,634	**129,634**

As of September 2022, the New Zealand division was integrated into Tesserent's Commercial Division such that these businesses have a single sales team and operating model in order to improve resource utilisation and enhance cross selling opportunities across these businesses. As such, the Group has reduced its cash-generating units from three to two.

Notes to the financial report

for the half-year ended 31 December 2022

11. Trade and other payables

	31 December 2022 $'000	30 June 2022 $'000
Current liabilities		
Trade payables	15,243	21,771
Other payables	9,893	14,082
	25,137	**35,853**

12. Deferred settlement liabilities

	31 December 2022 $'000	30 June 2022 $'000
Current liabilities		
Deferred settlement liability	**6,654**	23,600
Non-current liabilities		
Deferred settlement liability	-	5,485

Reconciliation

Reconciliation of the fair values at the beginning and end of the current and previous financial half-year are set out below:

Opening balance	**29,085**	**13,351**
Deferred and contingent consideration from business acquisitions	-	28,521
Change in completion adjustments	(34)	1,924
Cash paid on prior period acquisitions	(16,614)	(13,933)
Issued capital from prior period acquisitions	(5,782)	(778)
Closing balance	**6,654**	**29,085**

Deferred settlement liability represented by:		
Cash settled liabilities		
Current	3,794	16,171
Non-current	-	3,085
Equity settled liabilities	2,860	9,829
Closing balance	**6,654**	**29,084**

Deferred settlement liabilities represent purchase consideration payable for acquisitions once certain conditions are met as stipulated in the contracts. These are measured at the discounted value of the best estimate of the cash payable based on conditions existing at the balance date.

The measurement of deferred consideration at fair value at each reporting date requires estimates to be made about expected revenue and expenses over the measurement period to which the deferred consideration relates.

Notes to the financial report
for the half-year ended 31 December 2022

13. Borrowings

	31 December 2022 $'000	30 June 2022 $'000
Non-current liabilities		
Borrowings	44,535	34,473
	44,535	**34,473**

	31 December 2022 $'000	30 June 2022 $'000
Loan facility	34,473	-
Proceeds from drawdown on CBA loan	10,000	35,000
Transaction costs	(26)	(527)
Balance	**44,447**	**34,473**
Amortisation of finance component (warrants and transaction costs)	87	-
Period end	**44,535**	**34,473**

14. Issued capital

	31 December 2022		30 June 2022	
	No. of shares	$'000	No. of shares	$'000
Shares on issue at the start of the period	1,258,183,426	138,666	1,063,019	102,992
Issued to consultant (share issue deferred)	-	-	5,989	-
Shares issued on conversion of options	14,912,500	1,491	5,150	598
Shares issued as consideration in business combination	56,086,190	6,043	58,000	10,669
Shares issued as consideration on raising of capital	-	-	119,048	25,000
Costs of issuing equity	-	-	-	(960)
Shares issued on conversion of warrants (warrant expense)	-	2,111	-	-
Shares issued on conversion of warrants	25,000,000	1,214	1,167	140
Shares issued as consideration in business combination (share issued deferred)	-	-	5,812	-
Shares issued on conversion of options (options expense)	-	-	-	227
Shares on issue at the end of the period	1,354,182,116	149,525	1,258,183	138,666

Notes to the financial report

for the half-year ended 31 December 2022

15. Reserves

	31 December 2022 $'000	30 June 2022 $'000
Share-based payments reserve	5,952	8,064
Options reserve	6,751	6,453
Tax consolidation reserve	(1,337)	(1,337)
Foreign currency translation reserve	54	(35)
	11,421	**13,145**
Reconciliation		
Opening balance	13,145	11,200
Adjustment to opening reserves	-	(17)
Share options issued	314	2,401
Share options exercised during the year	(2,111)	(227)
Share options expired during the year	(15)	(164)
Translation of foreign operations	89	(48)
Closing balance	**11,421**	**13,145**

16. Dividends

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

17. Events after the reporting period

The Company notes the following subsequent events since the 31 December 2022 reporting date:

- On 27 January 2023, Tony Sheehan was appointed as an Independent, Non-Executive Director of the Company. Mr Sheehan has held the positions of Deputy Director-General ASIO, Deputy Secretary and COO of the Attorney-General's Department and head of Homeland and Border Security Division at the Department of the Prime Minister and Cabinet, as announced in the ASX release on 27 January.
- On 30 January 2023, the Group signed a business and asset sale agreement for the acquisition of ALC Group, a prominent training business providing certified Cybersecurity, IT, Project Management and Governance training from entry level to advanced levels through its operations in Australia, New Zealand, Singapore and Malaysia.
- On 24 February 2023, Tesserent issued a prospectus pertaining to the issue of up to 70 million options under an Employee Share Option Plan. This Employee Share Option Plan was tabled at the Group's AGM on 18 November 2022 and was approved by the shareholders of the Group at that meeting.

No other matter or circumstance has arisen since 31 December 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.

Notes to the financial report

for the half-year ended 31 December 2022

18. Earnings per share

	31 December 2022 $'000	31 December 2021 $'000
Loss after income tax	(1,079)	(3,267)
Weighted average number of ordinary shares outstanding during the period used in the calculation of basic loss per share	1,299,060,719	1,140,083,653
Weighted average number of ordinary shares and convertible redeemable preference shares outstanding during the year used in the calculation of diluted loss per share	1,299,060,719	1,140,083,653

	cents	cents
Basic loss per share	(0.08)	(0.29)
Diluted loss per share	(0.08)	(0.29)

Directors' Declaration
for the half-year ended 31 December 2022

The directors declare that:

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

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

(i) giving a true and fair view of the financial position as at 31 December 2022 and the performance of the Group for the half-year ended on that date; and

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

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

On behalf of the directors

Mr K Hansen
Chief Executive Officer
27 February 2023

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Tesserent Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Tesserent Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2022, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

(i) Giving a true and fair view of the Group's financial position as at 31 December 2022 and of its financial performance for the half-year ended on that date; and

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

Basis for conclusion

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

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

Responsibility of the directors for the financial report

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

Auditor's responsibility for the review of the financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2022 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

BDO Audit Pty Ltd

BDO

Salim Biskri
Director

Melbourne, 27 February 2023