**Family Zone Cyber Safety Limited**
(ACN 167 509 177)

**and controlled entities**

# HALF YEAR FINANCIAL REPORT

for the half year ended 31 December 2017

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## CORPORATE INFORMATION

### Directors

| | |
|---|---|
| Tim Levy | Managing Director |
| John Sims | Non-Executive Chairman |
| Crispin Swan | Executive Director - Sales |
| Phil Warren | Non-Executive Director |

### Company Secretary

Emma Wates

### Registered and principal administrative office

945 Wellington Street
WEST PERTH WA 6005
Telephone: +61 8 9322 7600

### Principal place of business

Level 15, 207 Murray Street
WEST PERTH WA 6000
Telephone: 1300 398 326

### Share register

Automic Registry Services
Suite 310, 50 Holt Street
SURRY HILLS, NSW 2010
Telephone: +61 8 9324 2099

### Solicitors

GTP Legal
68 Aberdeen Street
NORTHBRIDGE WA 6003
Telephone: +61 8 6555 1866

### Bankers

Westpac Banking Corporation
Level 14, 109 St Georges Terrace
Perth WA 6000

### Auditors

Pitcher Partners BA&A Pty Ltd
Level 1, 914 Hay Street
PERTH WA 6000
Telephone: +61 8 9322 2022

### Securities Exchange Listing

Family Zone Cyber Safety Limited is listed on the Australian Securities Exchange (ASX Code: FZO)

# APPENDIX 4D INFORMATION

## Reporting period

Current period: Half year ended 31 December 2017
Previous corresponding period: Half year ended 31 December 2016

## Results for announcement to market

| | % increase/ (decrease) | 31 December 2017 | 31 December 2016 |
|---|---|---|---|
| Revenue from ordinary activities | 204% | $787,920 | $258,868 |
| Profit/(Loss) from ordinary activities after tax attributable to members | 90% | ($6,630,332) | ($3,491,204) |
| Net profit/(loss) for the period attributable to members | 90% | ($6,630,332) | ($3,491,204) |

## Dividends

No dividends have been declared or paid during the period ended 31 December 2017. The Directors do not recommend the payments of a dividend in respect of the period ended 31 December 2017.

The Group does not have any dividend reinvestment plan in operation.

## Explanation of results

Please refer to Results and Review of Operations within the Directors Report for an explanation of the results.

## Net tangible assets per security

| **Net tangible assets/(liabilities) per share** | **31 December 2017** cents per share | **30 June 2017** cents per share |
|---|---|---|
| Net tangible assets/(liabilities) per share | 4.1 | (1.1) |

## Other

On 29 November 2017, Family Zone acquired 100% of the shares in Linewize Services Limited and Linewize Limited (**Linewize**). The Linewize contribution to the Group's loss from ordinary activities for the period ended 31 December 2017 was $119,509. Had the acquisition of Linewize occurred from the beginning of the half year Linewize would have contributed an operating loss of $334,183. Linewize made no contribution to the Group's operating loss for the period ended 31 December 2016.

| Entities acquired during the period | Country of Incorporation | Equity interest |
|---|---|---|
| Linewize Services Limited | New Zealand | 100% |
| Linewize Limited | New Zealand | 100% |

There are no associates or joint ventures held by the Group.

## Audit

The Independent Auditor's Review Report included an unmodified opinion with an Emphasis of Matter drawing attention to Note 2 in the financial report, which notes matters that indicate that a material uncertainty exists that, may cast significant doubt about the Group's ability to continue as a going concern.

# DIRECTORS' REPORT

Your Directors have pleasure in submitting their report together with the condensed consolidated financial statements of Family Zone Cyber Safety Limited (**Company**) and its controlled entities (**Family Zone** or **Group**) for the half year ended 31 December 2017. In order to comply with the provisions of the Corporations Act 2001, the Directors' report as follows:

## DIRECTORS

The Directors in office at any time during the period and until the date of this report are as follows:

| | |
|---|---|
| Mr Tim Levy | Managing Director |
| Mr John Sims | Non-Executive Independent Chairman |
| Mr Crispin Swan | Executive Director – Sales |
| Mr Phil Warren | Non-Executive Independent Director |

The Directors have been in office since the start of the period to the date of this report unless otherwise stated.

## PRINCIPAL ACTIVITIES

Family Zone is a technology group focused on cyber safety. Meeting a growing demand to keep kids safe online and manage digital lifestyles, Family Zone has developed a unique and innovative cloud-based solution which combines Australian innovation with leading global technology. The principal activities of the Group during the period have been the continued sales and distribution, marketing and customer support of its suite of cyber safety products and services.

The Family Zone Platform is a cloud based parental control platform owned and operated by the Group. The Family Zone Platform incorporates networking and application technologies which allow parental controls to be embedded within home, enterprise public and telecommunications carrier networks and installed on mobile devices.

## RESULTS

The net loss attributable to members of the Group for the half year ended 31 December 2017 amounted to $6,630,332 (31 December 2016: net loss attributable to members $3,491,204).

The net loss attributable to members for the current period included share based payment expenses of $2,292,087 and depreciation and amortisation charges of $1,095,758. The net loss from operations for the period ended 31 December 2017 excluding these non-cash items was $3,242,487.

The Group's cash at bank was $7,920,989 as at 31 December 2017.

## REVIEW OF OPERATIONS

Key operational highlights and achievements for period ended 31 December 2017 included:

- Acquisition of New Zealand's leading school cyber safety provider, Linewize;
- Commercial partnerships agreements signed with two Tier 1 Telco's in Asia – Maxis Communications in Malaysia and Philippines Smart Communications;
- Official launch of Telkomsel's locally branded Family Zone service "Family Protect" to its Indonesian customers;
- Continued development and innovation of the Group's services and release of important product updates including a native Parent App called Zone Manager, offering significantly improved user interface and experience;

- Over 30,000 paying subscriber accounts (including 5,000 international accounts) registered at the end of the period, representing a 158% increase during the period;
- 100 Partner Schools signed during the period with a total of 120 Partner Schools underwriting commitments to Family Zone's consumer packs at year end.

**Strong growth in education sector**

The education sector has been a key focus for the Group's distribution strategy. During the period, the Group expanded its educational sales teams and focussed on leveraging consumer sales to parents in the community through the Group's large network of schools.

The acquisition of Linewize in November 2017 provided the Group with access to a rapidly expanding network of schools across New Zealand. At the time of acquisition, the Linewize Platform was installed in approximately 260 schools representing approximately 130,000 students.

Family Zone's Partner Schools program represents a significant innovation in educational technology and cyber safety. Under this commercial model, schools gain subsidised access to speciality cyber safety and security services, as well as the ability to offer a common cyber safety platform to the entire school. During the period the Group signed 100 Partner Schools, including 10 in New Zealand following the Linewize acquisition.

Whilst the Group has achieved significant growth in its education sector sales with approximately $3.5 million of contracted revenues as at 31 December 2017, these contracted revenues relate to services commencing at the start of the 2018 school year (January). Accounting standards require that these revenues are recognised at the time the services are provided, and therefore they have not been reported in the current period but will be recognised as revenues when they are provided over the length of the contracts, which range from 1 to 3 years.

**Telco distribution strategy**

The Group developed the Family Zone platform from the ground up to support partnerships with telecommunication (**telco**) carriers. Telcos offer Family Zone access to large customer bases with established billing relationships. Importantly working with carriers helps to strengthen Family Zone's cyber safety eco-system for the benefit of all.

The Group has continued to develop and expand its wholesale distribution network throughout Asia signing two commercial partnerships agreements with Tier 1 telco's in Asia, via its strategic alliance with Fidelio Partners.

In August 2017, Family Zone entered an agreement with Philippines' leading mobile provider, Smart Communications, to sell Family Zone services into its post-paid and pre-paid customer base. The commercial launch of this service is expected to occur in Q1, 2018.

Family Zone also signed an Application Provider Agreement with Maxis Communications, one of Malaysia's largest telco providers, during the period. This agreement sees Family Zone providing embedded on-device and in-network technologies to make its innovative cyber safety ecosystem available to Maxis consumers throughout Malaysia. Commercial launch of this offering is scheduled for Q2, 2018.

Family Zone also launched in pilot its wholesale partnership deal with Indonesia's largest telco, Telkomsel. Family Zone has achieved more than 10,000 registrations during an initial small targeted pilot phase. The parties are working together to build on this initial rollout with full market launch planned for Q2, 2018.

Extensive development, testing and trials of the Family Zone technology within its telco partner networks was completed during period. Limited revenues were generated from the Group's telco partners in the reporting period as full commercial launch of these partnerships is planned for 2018.

**Continued product innovation and service delivery**

The Group has continued to invest in product innovation and service delivery.

Family Zone's collaboration with Telkomsel resulted in a major enhancement to Family Zone's customer experience, with the development of the Zone Manager App. This App has become the new way that parents can interact with the Family Zone platform and offers an unparalleled parental control experience.

Additional major enhancements include deeper integration of Family Zone's school services with Family Zone's parental controls, providing schools with (subject to parent opt-in) the previously unavailable ability to control and monitor personal devices brought into the school.

Linewize acquisition

Family Zone completed the acquisition of 100% of the shares in Linewize Limited and Linewize Services Limited (**Linewize**), the leading provider of cyber security and safety platforms to the New Zealand school system, during the period.

The Linewize Platform provides an innovative cloud-managed firewall service, specifically developed for the needs of the education sector. Its service covers user authentication, content filtering, network appliances, telecoms services, bring your own device (**BYOD**) support, network access management and an award winning suite of classroom tools. Within a short time, it has achieved significant penetration into New Zealand education, reaching more than 11% of New Zealand's schools and 15% of New Zealand's students.

This acquisition provided Family Zone with access to a rapidly expanding network of New Zealand schools and parents (260 schools and 130,000 students at the time of acquisition) as well as strategic opportunities for Family Zone to build out features, transform service levels and achieve order of magnitude reductions in service costs through Linewize's innovative and world class cloud technology.

The consideration for the acquisition comprised NZ$200,000, and the issue of 9,513,708 Family Zone Ordinary Shares and 9,500,000 Performance Shares. The Performance Shares convert into Ordinary Shares on a one-for-one basis based on the achievement of several operational and financial milestones.

Capital raising

The Group completed a number of successful capital raisings during the period including:

- A placement of 13.0 million Shares at $0.40 per Shares to raise $5.20 million in August 2017; and
- A placement of 8.36 million Shares at $0.60 per Share to raise $5.02 million in December 2017

Family Zone also received $0.98 million from the conversion of options during the period.

Funds raised during the period were utilised to support investment in the Group's service delivery capabilities, business development activities (particularly in education and global partnerships), an aggressive expansion into the New Zealand market, to accelerate the integration of the Family Zone and Linewize platforms and to further strengthen the Group's balance sheet.

Research and development (**R&D**)

The Group received $2.58 million in R&D tax grants claimed during the period. As a technology innovator, Family Zone has an active programme to develop intellectual property and expects to continue be eligible for R&D claims in future years.

Share-based payments

In order to align the interests of its employees and consultants with the Group's key objectives and strategy, Family Zone has chosen to use non-cash equity-based incentives as a component of its remuneration structure.

The Group reported share based payments of $2.29 million during the period, which included a $0.89 million expense in respect to Employee Options issued and vesting during the period and $1.0 million expense for shares issued to Fidelio Partners under its Agency Agreement with Fidelio Partners.

**SIGNIFICANT CHANGES IN STATE OF AFFAIRS**

There have been no significant changes in the state of affairs of the Group that occurred during the financial period not otherwise disclosed in this report or the financial statements.

**AFTER BALANCE DATE EVENTS**

On 16 February 2018 the Group announced it had signed a binding term sheet with Aircel India for the wholesaling of Family Zone's on-device (known as Mobile Zone) services across the Aircel customer base. Under the agreement, Aircel may offer Mobile Zone as a value added or bundled service offering. Where sold as a value-add a revenue sharing arrangement has been agreed and otherwise a service fee applies. Aircel is responsible for promotion, marketing, provisioning and first tier support. Family Zone is responsible for back-end services and escalated support.

Apart from the events discussed above, no other matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

**LIKELY DEVELOPMENTS**

Other than as disclosed elsewhere in this report, there are no likely developments in the operations of the Group that were not finalised at the date of this report.

**ENVIRONMENTAL REGULATION**

The Group is not subject to any significant environmental Commonwealth or State regulations or laws.

**ROUNDING OF AMOUNTS**

In accordance with ASIC Corporations (Rounding in Financial/Director's Reports) Instrument 2016/191, the amounts in the directors' report and in the financial report have been rounded to both nearest dollar and nearest million dollars.

**DIVIDENDS**

There were no dividends paid or declared or recommended since the start of the period.

Signed in accordance with a resolution of the Directors.

**Mr Tim Levy**
*Managing Director*
27 February 2018

**AUDITOR'S INDEPENDENCE DECLARATION**

**To the Directors of Family Zone Cyber Safety Limited and its controlled entities.**

In relation to the independent review for the half-year ended 31 December 2017, to the best of my knowledge and belief there have been:

(i) No contraventions of the auditor independence requirements of the *Corporations Act 2001; and*

(ii) No contraventions of any applicable code of professional conduct.

This declaration is in respect of Family Zone Cyber Safety Limited and the entities it controlled during the period.

Pitcher Partners BA&A PTY LTD

PITCHER PARTNERS BA&A PTY LTD

PAUL MULLIGAN
Executive Director
Perth, 27 February 2018

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the half year ended 31 December 2017

| | Note | 31 December 2017 $ | 31 December 2016 $ |
|---|---|---|---|
| Revenue from ordinary activities | | 787,920 | 258,868 |
| Cost of sales | | (398,959) | (190,786) |
| **Gross Profit** | | **388,961** | **68,082** |
| Other income | | 2,624,083 | 9,281 |
| Gain on bargain purchase | 4 | 72,163 | - |
| Advertising and marketing | | (588,274) | (497,345) |
| Administration and corporate costs | | (744,361) | (287,214) |
| Finance | | (10,431) | (3,575) |
| Information technology | | (464,287) | (317,427) |
| Share based payment expense | 11 | (2,292,087) | (480,446) |
| Employee benefits | | (3,849,736) | (1,784,764) |
| Depreciation and amortisation | | (1,095,758) | - |
| Other expenses | | (670,605) | (197,796) |
| **Loss before income tax** | | **(6,630,332)** | **(3,491,204)** |
| Income tax benefit/(expense) | | - | - |
| **Loss after tax for the period attributable to the members of Family Zone Cyber Safety** | | **(6,630,332)** | **(3,491,204)** |
| Other comprehensive income | | - | - |
| **Total comprehensive loss for the period attributable to the members of Family Zone Cyber Safety** | | **(6,630,332)** | **(3,491,204)** |
| Basic and diluted loss per share (cents per share) for the period attributed to the members of Family Zone Cyber Safety | | (6.66) | (10.69) |

The above Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the accompanying notes.

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2017

| | Note | 31 December 2017 $ | 30 June 2017 $ |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | | 7,920,989 | 1,387,577 |
| Trade and other receivables | | 807,066 | 963,183 |
| Inventory | | 140,559 | 169,987 |
| Prepayments | | 86,418 | - |
| **Total Current Assets** | | **8,955,032** | **2,520,747** |
| **Non-Current Assets** | | | |
| Intangibles | 4,5 | 11,085,450 | 3,325,003 |
| Trade and other receivables | | 591,458 | 1,007,424 |
| Plant and equipment | | 301,450 | 217,421 |
| Other | | 17,612 | - |
| **Total Non-current Assets** | | **11,995,970** | **4,549,848** |
| **TOTAL ASSETS** | | **20,951,002** | **7,070,595** |
| **LIABILITIES** | | | |
| **Current Liabilities** | | | |
| Trade and other payables | | 1,826,152 | 3,462,118 |
| Provisions | | 301,716 | 191,099 |
| **Total Current Liabilities** | | **2,127,868** | **3,652,837** |
| **Non- Current Liabilities** | | | |
| Trade and other payables | | 465,970 | 806,424 |
| Contingent consideration | 4 | 2,238,275 | - |
| **Total Non-Current Liabilities** | | **2,704,245** | **806,424** |
| **TOTAL LIABILITIES** | | **4,832,113** | **4,459,261** |
| **NET ASSETS/(LIABILITIES)** | | **16,118,889** | **2,611,334** |
| **EQUITY** | | | |
| Issued capital | 6 | 30,723,345 | 12,582,677 |
| Reserves | 7 | 4,504,068 | 2,506,406 |
| Accumulated losses | | (19,108,524) | (12,477,749) |
| **TOTAL EQUITY/(DEFICIT)** | | **16,118,889** | **2,611,334** |

The above Condensed Consolidated Statement of Financial Position is to be read in conjunction with the accompanying notes.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half year ended 31 December 2017

| | Issued Capital | Reserves | Accumulated Losses | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **Balance at 1 July 2017** | **12,582,677** | **2,506,406** | **(12,478,192)** | **2,610,891** |
| Loss for the period | - | - | (6,630,332) | (6,690,788) |
| Total other comprehensive income | - | - | - | - |
| **Total comprehensive loss for the period** | **-** | **-** | **(6,630,332)** | **(6,690,788)** |
| *Transaction with owners, directly recorded in equity:* | | | | |
| Issue of ordinary shares, net of transaction costs | 18,140,668 | - | - | 18,140,668 |
| Issue of Options | - | 1,657,738 | - | 1,657,738 |
| Issue of Performance Rights | - | 208,987 | - | 208,987 |
| Issue of Performance Shares | - | 143,300 | - | 143,300 |
| Foreign currency translation | - | (12,363) | - | (12,363) |
| Total transactions with owners | 18,140,668 | 1,997,662 | - | 20,138,330 |
| **Balance at 31 December 2017** | **30,723,345** | **4,504,068** | **(19,108,524)** | **16,118,889** |

| | Issued Capital | Option & Performance Reserve | Accumulated Losses | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **Balance at 1 July 2016** | **1,433,717** | **1,605,348** | **(3,643,014)** | **(603,949)** |
| Loss for the period | - | - | (3,491,204) | (3,491,204) |
| Total other comprehensive income | - | - | - | - |
| **Total comprehensive loss for the period** | **-** | **-** | **(3,491,204)** | **(3,491,204)** |
| *Transaction with owners, directly recorded in equity:* | | | | |
| Issue of ordinary shares, net of transaction costs | 7,586,318 | - | - | 7,586,318 |
| Issue of performance rights & options | - | 102,946 | - | 102,946 |
| Total transactions with owners | 7,586,318 | 102,946 | - | 7,689,264 |
| **Balance at 31 December 2016** | **9,020,035** | **1,708,294** | **(7,134,218)** | **3,594,111** |

The above Condensed Consolidated Statement of Changes in Equity is to be read in conjunction with the accompanying notes.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the half year ended 31 December 2017

| | 31 December 2017 $ | 31 December 2016 $ |
|---|---|---|
| **Cash flows from operating activities** | | |
| Receipt from customers | 1,356,338 | 190,512 |
| Government grants received | 2,583,700 | - |
| Payments to suppliers and employees | (8,543,879) | (3,372,338) |
| Interest received/paid | (2,820) | 3,089 |
| **Net cash flows (used in) operating activities** | **(4,606,661)** | **(3,178,737)** |
| | | |
| **Cash flows from investing activities** | | |
| Purchase of plant & equipment | (167,309) | (34,512) |
| Acquisition of Linewize | (167,039) | - |
| Non-related party loans | (45,208) | - |
| Payments for intangible assets | - | (1,109,225) |
| **Net cash flows (used in) investing activities** | **(379,556)** | **(1,143,737)** |
| | | |
| **Cash flows from financing activities** | | |
| Proceeds from issue of shares, net of share issue costs | 11,531,992 | 5,797,123 |
| Proceeds from / (repayment of) borrowings | - | (44,000) |
| **Net cash flows from financing activities** | **11,531,992** | **5,753,123** |
| | | |
| Net increase/(decrease) in cash and cash equivalents | 6,545,775 | 1,430,649 |
| Net foreign currency exchange differences | (12,363) | - |
| Cash and cash equivalents at beginning period | 1,387,577 | 720,227 |
| **Cash and cash equivalents at end period** | **7,920,989** | **2,150,876** |

The above Condensed Consolidated Statement of Cash Flows is to be read in conjunction with the accompanying notes.

## NOTES TO THE FINANCIAL STATEMENTS
For the period ended 31 December 2017

## NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

Family Zone Cyber Safety Limited (**Company**) is a listed public company incorporated and domiciled in Australia and is the head of the Group. The financial statements of the Group are as at and for the period ended 31 December 2017.

A description of the nature of the Group's operations and its principal activities is included in the Directors' Report which does not form part of this financial report.

The Group has applied the relief available to it under *ASIC Corporations (Rounding in Financial/Director's Reports) Instrument 2016/191*. Accordingly, amounts in the financial statements have been rounded off to the nearest dollar.

The financial statements were authorised by the Board of Directors on the date of signing the Directors' Declaration.

**New and Amended Accounting Policies Adopted by the Group**

a) Business Combinations

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is obtained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured in each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to business combinations, other than those associated with the issue of a financial instrument, are recognised as expenses in profit or loss when incurred.

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

## NOTE 2: BASIS OF PREPARATION

The half-year financial statements are general purpose financial statements prepared in accordance with Australian Accounting Standards 134 'Interim Financial Reporting' and the *Corporations Act 2001*.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2017 and any public announcements made by Family Zone Cyber Safety Limited during the half-year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001.*

The accounting policies have been consistently applied by the consolidated entity and are consistent with those applied in the previous financial year and those of the corresponding interim reporting period, other than those as disclosed within Note 1: Significant accounting policies.

The half-year report does not include full disclosures of the type normally included in an annual financial report. For the purposes of preparing the half-year condensed financial statements, the half-year has been treated as a discrete reporting period.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standard Board ("AASB") that are relevant to their operations and effective for the current reporting period. The adoption of all the new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies and has no effect on the amounts reported for the current or prior periods.

Family Zone Cyber Safety Limited is a company limited by shares. The financial report is presented in Australian currency and all amounts noted are in Australian dollars unless otherwise noted. Family Zone Cyber Safety Limited is a for-profit entity.

**Going Concern**

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

The Group incurred a net loss after tax for the half-year ended 31 December 2017 of $6,630,332 (31 December 2016: $3,491,204) and a net cash outflow from operating and investing activities of $4,986,217 (31 December 2016: $4,322,474). Net assets of the Group as at 31 December 2017 were $16,118,889 (30 June 2017: $2,611,334).

The Directors have reviewed the business outlook and cash flow forecasts after taking into account the above matters and are of the opinion that the use of the going concern basis of accounting is appropriate as the Directors believe the Group will be able to pay its debt as and when they fall due.

The interim condensed financial statements are therefore prepared on the assumption that the Group is a going concern and will continue in operation for at least the next 12 months.

## NOTE 3: SEGMENT REPORTING

During the period ended 31 December 2017 the Group had only one operating segment being information technology (and more specifically the provision of cyber safety services). This is the basis on which internal reports are provided to Directors for assessing performance and determining the allocation of resources within the Group.

## NOTE 4: BUSINESS COMBINATIONS

On 29 November 2017, Family Zone acquired 100% of the share capital in Linewize Services Limited and Linewize Limited (**Linewize**) which own and operate an innovative cloud-managed firewall service, specifically developed for the needs of the education sector. Its services covers user authentication, content filtering, network appliances, telecoms services, BYOD support, network access management and an award winning suite of classroom tools. Linewize is the leading provider of cyber security and safety services in New Zealand with its technology represented in a network of 260 schools and 130,000 students at the time of the acquisition.

The key drivers and benefits of this acquisition included providing the Group access to a rapidly expanding network of schools and parents plus access to world leading technology for schools and experienced executives as well as strategic opportunities for Family Zone to build out features, transform service levels and achieve order of magnitude reductions in service costs through Linewize's innovative and world class cloud technology.

**a) Details of the consideration paid to Vendors:**

| | $ |
|---|---|
| Cash deposit paid | 179,578 |
| Ordinary shares issued | 6,326,616 |
| Contingent consideration (Performance Shares issued) | 2,238,275 |
| **Total purchase consideration** | **8,744,469** |

The value of the ordinary shares issued as part of the consideration was assessed at a price of $0.665 per Share which was based on the quoted price at the date of the business combination.

## b) Contingent consideration

The contingent consideration comprised 9,500,000 Performance Shares (Classes D to H Performance Shares) which convert into Shares subject to the achievement of various revenue and customer targets over a 5 year period as outlined in the table below.

| Class of Performance Share | Number of Consideration Performance Shares | Performance Milestones | Range of Contingent Consideration |
|---|---|---|---|
| D | 1,000,000 | NZ$1,250,000 of Recurring Revenue; or<br>310 LW School Deploys; or<br>5,000 FZO NZ Accounts. | $0 - $665,000 |
| E | 1,000,000 | NZ$1,750,000 of Recurring Revenue; or<br>360 LW School Deploys; or<br>10,000 FZO NZ Accounts. | $0 - $665,000 |
| F | 2,000,000 | NZ$3,750,000 of Recurring Revenue; or<br>460 LW School Deploys; or<br>20,000 FZO NZ Accounts. | $0 - $1,330,000 |
| G | 2,500,000 | NZ$6,250,000 of Recurring Revenue; or<br>585 LW School Deploys; or<br>32,500 FZO NZ Accounts. | $0 - $1,662,500 |
| H | 3,000,000 | NZ$9,250,000 of Recurring Revenue and FZO NZ Group Revenue | $0 - $1,995,000 |
| **Total** | **9,500,000** | | **$0 - $6,317,500** |

The value of the contingent consideration has been assessed based on a probability weighted payout approach. The probability weighted value of the contingent consideration was then discounted to determine the net present value of the contingent consideration.

## c) Assets and liabilities acquired

Assets and liabilities held by Linewize at the acquisition date recognised on acquisition at fair value:

| | **$** |
|---|---|
| Cash | 12,539 |
| Accounts receivable | 35,671 |
| Inventory | 10,937 |
| Property plant and equipment | 37,803 |
| Accounts payable and accruals | (45,277) |
| Loans payable | (45,208) |
| Intangible asset - Contracted customers | 339,181 |
| Intangible asset - Linewize IP/Platform | 8,470,986 |
| | |
| **Net identifiable assets acquired** | **8,816,632** |
| Less: Gain on bargain purchase | (72,163) |
| **Total purchase consideration** | **8,744,469** |

**d) Contribution since acquisition**

Since the acquisition Linewize has contributed a loss after tax of $119,507 which is included within the profit of the Group. Had the business combination occurred from the beginning of the half year Linewize would have contributed an operating loss of $334,183.

## NOTE 5: INTANGIBLES

| | 31 Dec 2017 | 30 June 2017 |
|---|---|---|
| Development, capitalised and acquisition IP expenses at cost | 13,997,308 | 5,187,142 |
| Less: Accumulated amortisation and impairment | (2,911,858) | (1,862,139) |
| | **11,085,450** | **3,325,003** |

| | |
|---|---|
| Reconciliation of movements in intangible assets | |
| Balance as at 1 July 2017 | 3,325,003 |
| Additions – Linewize customer contracts and IP* | 8,810,167 |
| Amortisation expense | (1,049,720) |
| **Balance as at 31 December 2017** | **11,085,450** |

** Refer to Note 4: Business combinations for further details in respect to Linewize intangible assets acquired.*

## NOTE 6: ISSUED CAPITAL

| **Share Capital** | **31 Dec 2017** | | **30 June 2017** | |
|---|---|---|---|---|
| | **Number** | **$** | **Number** | **$** |
| Issued Ordinary Shares | 121,400,398 | 30,723,345 | 81,795,928 | 12,582,677 |

| | **Number** | **$** |
|---|---|---|
| **Opening balance – 1 July 2016** | **16,000,029** | **1,433,717** |
| Shares issued to Fidelio Partners on 29 July 2016 | 718,750 | 115,000 |
| Conversion of stage 1 convertible note issued 29 August 2016 | 5,187,500 | 600,000 |
| Conversion of stage 2 convertible note issued 29 August 2016 | 8,571,427 | 830,000 |
| Shares issued to Alto Capital on 29 August 2016 | 1,500,000 | 300,000 |
| Shares issued pursuant to public offer on 29 August 2016 | 30,000,000 | 6,000,000 |
| Shares issued to Tesserent on 16 December 2016 | 1,000,000 | 185,000 |
| Shares to issued Tracey Smyth on 16 December 2016 | 833,333 | 154,167 |
| Costs of shares issued | | (597,848) |
| **Closing balance – 31 December 2016** | **63,811,039** | **9,020,035** |

| | **Number** | **$** |
|---|---|---|
| **Opening balance – 1 July 2017** | **81,795,928** | **12,582,677** |
| Shares issued to major shareholder on 20 July 2017 | 3,333,334 | 1,000,000 |
| Share issued under sophisticated investor placement on 9 August 2017 | 13,000,000 | 5,200,000 |
| Shares issued on conversion of Options between 31 August 2017 and 4 December 2017 | 3,841,317 | 985,711 |
| Shares issued to Fidelio on 29 November 2017 | 1,549,443 | 1,045,872 |
| Shares issued to Linewize Vendors on 29 November 2017 | 9,513,708 | 6,326,616 |
| Shares issued under sophisticated investor placement on 4 December 2017 | 8,366,668 | 5,020,001 |
| Costs of shares issued | | (1,437,532) |
| **Closing balance – 31 December 2017** | **121,400,398** | **30,723,345** |

Ordinary shares have the right to receive dividends as declared, and in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid upon shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

## NOTE 7: RESERVES

| | 31 Dec 2017 $ | 30 June 2017 $ |
|---|---|---|
| Options | 2,814,162 | 1,156,424 |
| Performance Shares | 1,493,282 | 1,349,982 |
| Performance Rights | 208,987 | - |
| Foreign currency translation | (12,363) | - |
| | **4,504,068** | **2,506,406** |

### *a) Options outstanding at 31 December 2017*

The following options over ordinary shares existed at reporting date:

| | Exercise Price | Expiry Date | Number of Options |
|---|---|---|---|
| Incentive Options | $0.25 | 20/05/2019 | 4,000,000 |
| IPO Options | $0.25 | 29/08/2019 | 6,659,688 |
| Employee Options | $0.33 | 19/09/2019 | 5,952,340 |
| Employee Options | $0.30 | 16/12/2019 | 6,000,000 |
| Broker Options | $0.30 | 05/05/2020 | 1,750,000 |
| Broker Options | $0.50 | 04/12/2020 | 850,000 |
| Broker Options | $0.60 | 04/12/2020 | 850,000 |
| Total Options on issue 31 December 2017 | | | **25,972,028** |

| | Number of Options | Value $ |
|---|---|---|
| Opening balance – 1 July 2017 | 26,743,524 | 1,156,424 |
| IPO Options ($0.25, 29.08.2019) exercised during reporting period | (3,524,063) | - |
| Employee Options ($0.33, 19.09.2019) issued on 31 August 2017* | 2,433,272 | - |
| Employee Options ($0.33, 19.09.2019) exercised during the reporting period* | (317,254) | - |
| Employee Options ($0.33, 19.09.2019) lapsed during the period* | (1,063,451) | - |
| Broker Options ($0.50, 04.12.2020) issued on 4 December 2017 | 850,000 | 391,415 |
| Broker Options ($0.60, 04.12.2020) issued on 4 December 2017 | 850,000 | 372,397 |
| Employee Options share based payment expense for the period* | - | 893,926 |
| **Closing balance – 31 December 2017** | **25,972,028** | **2,814,162** |

** Refer to Note 11: Share based payments for further details*

The Company issued the following Broker Options in the period ended 31 December 2017. The Broker Options were issued to a nominee of BW Equities for capital raising services provided to the Company.

| Tranche | Valuation Date | Expiry Date | Exercise Price | Issued during the period | Vested during the period | Total Expense for the period |
|---|---|---|---|---|---|---|
| 1 | 04/12/2017 | 04/12/2020 | $0.50 | 850,000 | 850,000 | $391,415 |
| 2 | 04/12/2017 | 04/12/2020 | $0.60 | 850,000 | 850,000 | $372,397 |
| **Total** | | | | **1,700,000** | **1,700,000** | **763,812** |

These Broker Options have been valued using the Black Scholes Model. There were no vesting conditions attached to the Broker Option issued during the period.

| | Tranche 1 | Tranche 2 |
|---|---|---|
| Underlying share price | $0.675 | $0.675 |
| Exercise price | $0.50 | $0.60 |
| Expected volatility | 100% | 100% |
| Expiry date (years) | 3.00 | 3.00 |
| Expected dividends | Nil | Nil |
| Risk free rate | 2.28% | 2.28% |
| Value per option | $0.46 | $0.44 |

### *b) Performance Shares at 31 December 2017*

The following Performance Shares of the Company existed at reporting date:

| | Number of Performance Shares | Value $ |
|---|---|---|
| Opening Balance - 1 July 2017 | 31,499,997 | 1,349,982 |
| Share based payment expense for the period in respect to Performance Shares on issue as at 1 July 2017 | - | 143,300 |
| Performance Shares issued on 29 November 2017* | 9,500,000 | - |
| | **40,999,997** | **1,493,282** |

** Performance Shares issued during in the period were in part consideration for the Linewize acquisition. The Performance Shares convert into Shares on subject to the achievement various performance targets and have been reported as contingent consideration for the acquisition. Refer to Note 4: Business combinations for further details.*

### *c) Performance Rights at 31 December 2017*

The following Performance Rights of the Company existed at reporting date:

| | Number of Performance Rights | Value $ |
|---|---|---|
| Opening Balance - 1 July 2017 | - | - |
| Performance Rights issued on 4 December 2017 | 5,450,000 | 208,987 |
| | **5,450,000** | **208,987** |

These Performance Rights have been valued at grant date and each Class has been expensed over the vesting period.

| Performance Rights | Valuation Date | Vesting Date | Share Value at Grant Date | Number Issued | Total Expense for the period |
|---|---|---|---|---|---|
| Class A | 04/12/2017 | 29/08/2018 | $0.675 | 1,483,333 | $100,873 |
| Class B | 04/12/2017 | 29/08/2019 | $0.675 | 1,483,331 | $42,707 |
| Class C | 04/12/2017 | 29/08/2020 | $0.675 | 1,483,336 | $27,061 |
| Class D | 04/12/2017 | 29/08/2018 | $0.675 | 333,340 | $22,668 |
| Class E | 04/12/2017 | 29/08/2019 | $0.675 | 333,330 | $9,597 |
| Class F | 04/12/2017 | 29/08/2020 | $0.675 | 333,330 | $6,081 |
| **Total** | | | | **5,450,000** | **$208,987** |

## NOTE 8: EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 16 February 2018 the Group announced it had signed a binding term sheet with Aircel India for the wholesaling of Family Zone's on-device (known as Mobile Zone) services across the Aircel customer base. Under the agreement, Aircel may offer Mobile Zone as a value added or bundled service offering. Where sold as a value-add a revenue sharing arrangement has been agreed and otherwise a service fee applies. Aircel is responsible for promotion, marketing, provisioning and first tier support. Family Zone is responsible for back-end services and escalated support.

Apart from the events discussed above, no other matters or circumstances have arisen since the end of the period which significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

## NOTE 9: CONTINGENT LIABILITIES & ASSETS

The Directors are not aware of any contingent liabilities, other than those as disclosed within Note 4: Business combinations, that may arise from the Group's operations as at 31 December 2017.

## NOTE 10: DIVIDENDS

There has been no dividends declared or recommended and no distributions made to shareholders or other persons during the period.

## NOTE 11: SHARE BASED PAYMENTS

Share based payments made during the period ended 31 December 2017 are summarised below:

***a) Recognised share based payment expenses:***

| | 31 Dec 2017<br>$ | 31 Dec 2016<br>$ |
|---|---|---|
| Shares issued to consultants in lieu of services | 1,045,874 | 415,000 |
| Options issued to employees as incentives and for services | 893,926 | 52,478 |
| Performance Rights issued to employees as incentive and for services | 208,987 | - |
| Performance Share issued to employees as incentive and for services | 143,300 | 12,968 |
| **Total** | **2,292,087** | **480,446** |

***b) Employee Options***

The Company's current Employee Share Option Plan (**ESOP**) was approved by the board of directors on 7 July 2016. The ESOP is designed to provide medium and long term incentives for all employees (including non-executive and executive directors) and to attract and retain experienced employees, board members and executive officers and provide motivation to make the group more successful.

Under the ESOP, participants have been granted options which only vest if certain performance milestones are met. Participation in the plan is at the board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefit.

Any option may only be exercised after the option has vested and other conditions imposed by the board have been satisfied. Options are granted under the plan for no consideration. Options granted under the plan carry no dividend or voting rights. When exercisable, shares allotted pursuant to the exercise of options will be allotted following receipt of relevant documentation and payments will rank equally with all other shares.

During the period the following Employee Options were granted and vested:

| Tranche | Valuation Date | Expiry Date | Exercise Price | Issued during the period | Vested during the Period | Total Share-Based Payment Expense for the period |
|---|---|---|---|---|---|---|
| 1 | 19/09/2016 | 19/09/2019 | $0.33 | - | 1,037,729 | $113,769 |
| 2 | 02/12/2016 | 19/09/2019 | $0.33 | - | 807,140 | $85,164 |
| 3 | 20/02/2017 | 19/09/2019 | $0.33 | - | 317,328 | $22,925 |
| 4 | 31/08/2017 | 19/09/2019 | $0.33 | 2,433,272 | 972,601 | $367,076 |
| 5 | 16/12/2016 | 15/12/2019 | $0.30 | - | 3,000,000 | $304,992 |
| **Total** | | | | **2,433,272** | **6,134,796** | **$893,926** |

As these Employee Options were considered to represent the value of the services received over the vesting period, the Company has determined the most appropriate values for these Employee Options using the Black Scholes Model applying the following inputs.

| | Tranche 1 | Tranche 2 | Tranche 3 | Tranche 4 | Tranche 5 |
|---|---|---|---|---|---|
| Underlying share price | $0.30 | $0.195 | $0.18 | $0.51 | $0.20 |
| Exercise price | $0.33 | $0.33 | $0.33 | $0.33 | $0.30 |
| Expected volatility | 100% | 100% | 100% | 100% | 100% |
| Expiry date (years) | 3.00 | 3.00 | 3.00 | 2.05 | 3.00 |
| Expected dividends | Nil | Nil | Nil | Nil | Nil |
| Risk free rate | 2.28% | 2.28% | 2.28% | 2.28% | 2.28% |
| Value per option | $0.182 | $0.102 | $0.082 | $0.325 | $0.106 |

The vesting conditions attached to the Tranche 1-4 Employee Options are as follows:

| Vesting Date | Vesting condition |
|---|---|
| 31/12/2017 | 25% of the Options will vest and become exercisable upon the Company having 20,000 paying subscribers registered by 31 December 2017 |
| 31/12/2017 | 25% of the Options vest and become exercisable upon the Company having 30,000 paying subscribers registered by 31 December 2017 |
| 30/06/2019 | 50% of the Options will vest and become exercisable upon the Company achieving $10,000,000 of customer revenue in any of the financial years ended 30 June 2017, 30 June 2018 or 30 June 2019. |

The vesting conditions attaching to the Tranche 5 Employee Options are as follows:

| Vesting Date | Vesting condition |
|---|---|
| 16/12/2018 | Family Zone achieving $2.0m Cumulative Revenue in 24 months from engagement or 20,000 Paying Zones |
| 16/12/2018 | Family Zone achieving $4.0m Cumulative Revenue in 24 months from engagement or 30,000 Paying Zones |
| 16/12/2018 | Family Zone achieving $8.0m Cumulative Revenue in 24 months from engagement or 40,000 Paying Zone |
| 16/12/2018 | Family Zone achieving $10.0m Cumulative Revenue in 24 months from engagement or 50,000 Paying Zone |

***c) Performance Rights***

During the financial period, the Company issued 5,450,000 Performance Rights to key executives. The Performance Rights issued convert into ordinary shares on a one for one basis subject to the achievement of a series of vesting conditions.

These Performance Rights were considered to represent the value of the services received over the vesting period. The Performance Rights have been valued based on the share price of the Company at the date of approval of the issue of the Performance Rights with a share based payment expense recognised over the vesting period of the Performance Rights.

The total share based payment expense for the period in respect to the Performance Rights on issue was $208,987.

***d) Performance Shares***

During the financial period, the Company issued 9,500,000 Performance Shares as part of the consideration for the Linewize acquisition. These Performance Shares were considered to be contingent consideration for the acquisition of Linewize. Refer to Note 4 Business Combinations for further details.

The total share based payment expense for the period in respect to the 31,499,997 Performance Shares that had been issued to employees in lieu of services in the prior period was $143,300.

## DIRECTORS' DECLARATION

The directors of the Group declare that:

(a) the financial statements comprising the condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of cash flows, condensed consolidated statement of changes in equity and accompanying notes, are in accordance with the *Corporations Act 2001* and:

i. comply with Accounting Standard AASB 134 Interim Financial Reporting, the Corporations Regulations 2001, and other mandatory professional reporting requirements; and

ii. give a true and fair view of the Group's financial position as at 31 December 2017 and of its performance of the half year ended on that date

(b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

On behalf of the Directors

Tim Levy
27 February 2018

**INDEPENDENT AUDITOR'S REVIEW REPORT**
**TO THE MEMBERS OF FAMILY ZONE CYBER SAFETY LIMITED**

We have reviewed the accompanying half-year financial report of Family Zone Cyber Safety Limited (the "Company") and its controlled entities (the "Group"), which comprises the condensed consolidated statement of financial position as at 31 December 2017, the condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

*Directors' Responsibility for the Half-Year Financial Report*

The directors of the Group 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*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the 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 2017 and its performance for the half- year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Family Zone Cyber Safety Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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. 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.

**INDEPENDENT AUDITOR'S REVIEW REPORT**
**TO THE MEMBERS OF FAMILY ZONE CYBER SAFETY LIMITED**

*Independence*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Family Zone Cyber Safety Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

*Material Uncertainty Related to Going Concern*

We draw attention to Note 2 in the financial report, which indicates that the Family Zone Cyber Safety Limited incurred a net loss of $6,630,332 during the half-year ended 31 December 2017 and, as of that date, a net cash outflow from operating and investing activities of $4,986,217. These conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Pitcher Partners BA&A PTY LTD

PITCHER PARTNERS BA&A PTY LTD

PAUL MULLIGAN
Executive Director
Perth, 27 February 2018