Family Zone Cyber Safety Limited

(ACN 167 509 177)

and controlled entities

HALF YEAR FINANCIAL REPORT

for the half year ended 31 December 2018

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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
Sir Peter Westmacott	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
Level 5
126 Phillip Street
Sydney NSW 2000

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 11, 12-14 The Esplanade
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 2018
Previous corresponding period:	Half year ended 31 December 2017

Results for announcement to market

	% increase/ (decrease)	31 December 2018	31 December 2017
Revenue from ordinary activities	171%	$2,138,249	$787,920
Profit/(Loss) from ordinary activities after tax attributable to members	14%	($7,558,963)	($6,630,332)
Net profit/(loss) for the period attributable to members	14%	($7,558,963)	($6,630,332)

Dividends

No dividends have been declared or paid during the period ended 31 December 2018. The Directors do not recommend the payments of a dividend in respect of the period ended 31 December 2018.

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 2018 cents per share	30 June 2018 cents per share
Net tangible assets/(liabilities) per share	0.10	(1.47)

Other

The Group has not gained or lost control of any entities during the period

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 1(e) 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 2018. 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	
Sir Peter Westmacott	Non-Executive Independent Director	Appointed 8 October 2018

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 ecosystem-based approach to cyber safety. The Family Zone ecosystem is a platform from which cyber safety settings, advice and support could be delivered across any network and any device - offering a universal approach to cyber safety at home, at school and anywhere in between. The innovation of the Family Zone Ecosystem is that it not only supports the needs of schools and parents but also that it also permits telcos and device manufacturers to embed world's-best practice cyber safety into their offerings.

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.

RESULTS

The net loss attributable to members of the Group for the half year ended 31 December 2018 amounted to $7,558,963 (31 December 2017: net loss attributable to members $6,630,332).

The net loss attributable to members for the current period included share based payment expenses of $2,093,983 and depreciation and amortisation charges of $2,225,084. The net loss from operations for the period ended 31 December 2018 excluding these non-cash items was $3,239,896.

The Group's cash at bank was $3,653,992 as at 31 December 2018.

REVIEW OF OPERATIONS

Family Zone's sales continue to grow strongly, achieving 171% period-on-period revenue growth from operations for the half year ended 31 December 2018

All three of the Company's sales channels (consumer, education and wholesale) are providing material contributions, and more than 95% of Family Zone's customer revenue is generated through recurring contracts, particularly through schools and parents.

During the period ended 31 December 2018 the Company forged ahead with major product advancements. These included:

- Continued investment in the Company's education solutions including significant upgrades of the renamed Linewize platform (now School Manager);
- Comprehensive upgrade of the user interface of Family Zone's consumer solutions;
- Continued build-out of Family Zone's client (ie installed) technologies, now supporting iOS, Android, PC, MAC and Chromebook plus supporting man-in-the middle and full packet level inspection; and
- Launch of the FZ ONE cyber safe mobile phone, a world-first initiative that has Family Zone's cyber safety controls embedded in a high-spec Android device

Sales and revenues grew strongly in the period driven by strong operational performance. By the end of the period, the Company exceed 90,000 paying accounts, 600 schools and 400,000 daily users.

Key operational highlights and achievements during the period ended 31 December 2018 included:

- In Family Zone's Consumer Business, the Company:
  - grew direct customers by 160% period on period; and
  - signed a distribution deal with iconic retailer chain Woolworths to sell Family Zone's FZ ONE cyber safe mobile phone through 700 supermarkets in Australia and online
- In Family Zone's Education Business, the Company:
  - continued to roll out its platform to new schools, in particular deploying the upgraded Linewize platform (now known as School Manager) into new and existing schools;
  - launched School Manager in the US creating immediate sales traction and a strong sales pipeline;
  - continued to enjoy strong success in New Zealand with contracted revenue exceeding NZ$1 million, up from NZ$600K one year earlier; and
  - reached 217 partner schools and 613 active school clients
- In Family Zone's Wholesale Business, the Company:
  - signed a reseller agreement with Woolworths Mobile;
  - signed a long-form agreement with Vodafone India to reseller Family Zone in India; and
  - reached terms with Bharti Airtel to resell Family Zone in India

Cashflow breakeven acceleration plan

Significant investments made in Family Zone's product and sales in 2018 are creating synergies, opportunities for improvements in productivity and overhead reductions.

During the period, Family Zone initiated a program to bring forward the achievement of cashflow breakeven. This program is targeting annualised cash cost savings of circa $4 million through reductions in the Company's overheads and costs of sale. Since October 2018, the Company has achieved circa $1.1 million of annual savings from measures implemented to date.

The Company's cost reduction program is continuing with an additional $2.5 million of identified annualised cash cost savings that will be implemented by the end of March 2019. These savings come primarily from reductions in non-sales focused headcount and the consolidation of operating systems and services.

The Company expects effective annual overheads to reduce to between $10 million and $11 million per annum within the next 3-6 months. With top line revenue for FY19 (including tax incentives) expected to approach or exceed $9 million, the Company believes it is well-positioned to deliver growth in shareholder value.

Launch of Family Zone Insights

Family Zone's next phase and focus for 2019 is on scalability. The Company will deliver this through a significantly streamlined approach to sales, deployment and support.

Key to this strategy is the introduction of Family Zone Insights, which will ultimately be a free monitoring tool:

1. Available for parents to download on their children's devices;
2. Included free when schools install Family Zone technology on student devices;
3. Included free for telcos and device manufacturers to re-brand and bundle with their offerings; and
4. Included free for parents purchasing Family Zone hardware (ie. the FZ ONE and Family Zone Box).

Under this go-to-market model, schools, telcos and device manufacturers become Family Zone's distribution partners, driving cyber safety messages and introducing the Company's premium paid services to their constituents. This strategy allows the Company to more cost effectively identify, connect and inform those parents who are the best candidates for the upsell of the Family Zone premium services.

Family Zone's partners are excited about introducing this "Insights-led" model. In addition, several telcos are working with the Company to bundle the Family Zone Insights service (ie free to the customer) into their premium service model.

Insights is scheduled for launch in H2, FY 2019.

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

Subsequent to the end of the reporting period, the Group:

- announced on 10 January 2019 it was implementing a program to simplify its operations, reduce its cost base and improve margins and bring forward the Group's cashflow breakeven. The cost saving were to be primarily from reductions in non-sales focussed headcount and the consolidation of operating systems and services. In addition the Board and a number of senior executives and consultants to the Group had agreed to support cash flow by converting cash-based to security based remuneration for the 2019 calendar year. The measures being implemented were estimated to result in at least a $4 million cash cost saving in FY2019;
- completed its placement of shares to sophisticated investors on 18 January 2019 with the issue of 11,228,889 shares at $0.225 per share, raising $2.5 million before issue costs;
- announced on 18 February 2019 that it had extended its partnership with Woolworths with the signing of a reseller agreement whereby Woolworths will make Family Zone subscription services available to its customers; and
- announced on 26 February 2019 the issue of 216,00 Shares (escrowed for one year) and 615,085 Performance Rights to executives and consultants as security based remuneration in lieu of cash based remuneration for CY2019.

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.

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.

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
28 February 2019

AUDITOR'S INDEPENDENCE DECLARATION

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

In relation to the independent auditor's review for the half-year ended 31 December 2018, 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 APES 110 *Code of Ethics for Professional Accountants*.

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

PAUL MULLIGAN
Executive Director
Perth, 28 February 2019

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the half year ended 31 December 2018

	Note	31 December 2018 $	31 December 2017 $
Revenue from ordinary activities	3	2,138,249	787,920
Cost of sales		(1,109,937)	(398,959)
Gross Profit		**1,028,312**	**388,961**
Other income	3	2,791,698	2,624,083
Revaluation gain on Contingent Consideration	4	862,113	-
Gain on bargain purchase	4	-	72,163
Advertising and marketing		(580,107)	(588,274)
Administration and corporate costs		(956,557)	(744,361)
Finance costs		(27,646)	(10,431)
Information technology		(680,121)	(464,287)
Share based payments	5	(2,093,983)	(2,292,087)
Employee benefits		(5,169,163)	(3,849,736)
Depreciation and amortisation		(2,225,084)	(1,095,758)
Other expenses		(508,425)	(670,605)
Loss before income tax		**(7,558,963)**	**(6,630,332)**
Income tax benefit/(expense)		-	-
Loss after tax for the period attributable to the members of Family Zone Cyber Safety		**(7,558,963)**	**(6,630,332)**
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations, net of tax		(5,750)	(12,363)
Total comprehensive loss for the period attributable to the members of Family Zone Cyber Safety		**(7,564,713)**	**(6,642,695)**
Basic and diluted loss per share (cents per share) for the period attributed to the members of Family Zone Cyber Safety		(5.29)	(6.66)

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 2018

	Note	31 December 2018 $	30 June 2018 $
ASSETS			
Current Assets			
Cash and cash equivalents		3,653,992	2,461,222
Trade and other receivables	6	2,474,957	1,053,639
Inventory		152,176	149,929
Prepayments		1,049,197	143,373
Total Current Assets		**7,330,322**	**3,808,163**
Non-Current Assets			
Intangibles	7	6,944,384	9,025,186
Trade and other receivables	6	105,740	321,928
Plant and equipment		553,521	257,682
Total Non-current Assets		**7,603,645**	**9,604,796**
TOTAL ASSETS		**14,933,967**	**13,412,958**
LIABILITIES			
Current Liabilities			
Trade and other payables	8	5,903,987	3,372,409
Provisions		487,073	508,157
Contingent consideration	4	470,000	-
Total Current Liabilities		**6,861,060**	**3,880,566**
Non- Current Liabilities			
Trade and other payables	8	71,066	243,883
Contingent consideration	4	913,393	2,245,505
Total Non-Current Liabilities		**984,459**	**2,489,388**
TOTAL LIABILITIES		**7,845,519**	**6,369,954**
NET ASSETS		**7,088,448**	**7,043,004**
EQUITY			
Issued capital	9	37,078,612	30,873,178
Reserves	10	8,252,758	6,853,786
Accumulated losses		(38,242,922)	(30,683,960)
TOTAL EQUITY		**7,088,448**	**7,043,004**

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 2018

	Issued Capital	Reserves	Accumulated Losses	Foreign Currency Translation Reserve	Total
	$	$	$	$	$
Balance at 1 July 2018	**30,873,178**	**6,842,123**	**(30,683,960)**	**11,663**	**7,043,004**
Loss for the period	-	-	(7,558,963)	-	(7,558,963)
Total other comprehensive income	-	-	-	(5,750)	(5,750)
Total comprehensive loss for the period	**-**	**-**	**(7,558,963)**	**(5,750)**	**(7,564,713)**
Transaction with owners, directly recorded in equity:					
Issue of ordinary shares, net of transaction costs	6,205,434	-	-	-	6,205,434
Issue of Options	-	701,296	-	-	701,296
Issue of Performance Rights	-	628,670	-	-	628,670
Issue of Performance Shares	-	74,756	-	-	74,756
Total transactions with owners	6,205,434	1,404,722	-	-	7,610,156
Balance at 31 December 2018	**37,078,612**	**8,246,845**	**(38,242,922)**	**5,913**	**7,088,448**

	Issued Capital	Reserves	Accumulated Losses	Foreign Currency Translation Reserve	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)	-	(6,630,332)
Total other comprehensive income	-	-	-	(12,363)	(12,363)
Total comprehensive loss for the period	**-**	**-**	**(6,630,332)**	**-**	**(6,642,695)**
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
Total transactions with owners	18,140,668	2,010,025	-	-	20,150,693
Balance at 31 December 2017	**30,723,345**	**4,516,431**	**(19,108,524)**	**(12,363)**	**16,118,889**

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 2018

	31 December 2018 $	31 December 2017 $
Cash flows from operating activities		
Receipt from customers	1,396,229	1,356,338
Government grants received	1,882,977	2,583,700
Payments to suppliers and employees	(9,109,729)	(8,543,879)
Interest received/paid	3,015	(2,820)
Net cash flows (used in) operating activities	**(5,827,508)**	**(4,606,661)**
Cash flows from investing activities		
Purchase of plant & equipment	(388,027)	(167,309)
Acquisition of Linewize	-	(167,039)
Non-related party loans	-	(45,208)
Payments for intangible assets	(52,094)	-
Net cash flows (used in) investing activities	**(440,122)**	**(379,556)**
Cash flows from financing activities		
Proceeds from issue of shares, net of share issue costs	5,516,173	11,531,992
Proceeds received for shares not yet issued	1,950,250	-
Net cash flows from financing activities	**7,466,423**	**11,531,992**
Net increase/(decrease) in cash and cash equivalents	1,198,793	6,545,775
Net foreign currency exchange differences	(6,023)	(12,363)
Cash and cash equivalents at beginning period	2,461,222	1,387,577
Cash and cash equivalents at end period	**3,653,992**	**7,920,989**

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 2018

NOTE 1: BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT

Family Zone Cyber Safety Limited (**Company**) is a listed public company incorporated and domiciled in Australia and is the head of the Group. The half-year financial statements of the Group are as at and for the period ended 31 December 2018.

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

a) 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.

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.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2018 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.

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.

Except as disclosed in note 1(c), 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.

b) Rounding of amounts

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.

c) Adoption of new and revised accounting standards

These consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2018, except for the impact of the new and amended standards and interpretations issued by the AASB. The adoption of the new and amended standards and interpretations, other than AASB 15 as outlined below, did not result in any significant changes to the Group's accounting policies.

AASB 9 Financial Instruments

AASB 9 supersedes pronouncement AASB 139 'Financial Instruments: Recognition and Measurement' and was adopted by the Group from 1 July 2018. This, and the related amendments to other accounting standards, introduced three significant areas of change from AASB 139 Financial Instruments: Classification and Measurement:

- A new model for classification and measurement of financial assets and liabilities
- A new expected loss impairment model for determining impairment allowances; and
- A redesigned approach to hedge accounting.

With the exception of hedge accounting which is not applicable to the Group as the Group has not entered in to any such arrangements, the Group has applied AASB 9 retrospectively, with the initial application date of 1 July 2018. The redesigned approach to hedge accounting will apply prospectively if the Group enters in to any such arrangements.

At the date of initial application, the Group has determined that it will:

- Apply the simplified approach for trade receivables in the calculation of the expected credit loss (ECL) rather than the general approach.

As a result of the adoption of the above, as at the date of initial application, there is no material impact on the transactions and balances recognised in the financial statements.

The Group's accounting policy for financial instruments is detailed as follows:

Financial Assets
Financial assets are classified, at initial recognition, and subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit and loss.

The classification of financial instruments at initial recognition depends on the financial asset's contractual cashflow characteristics and the Group's business model for managing them. With the exception of the Group's trade receivables that do not contain a significant financing component, the Group initially measures the financial asset at its fair value plus, in the case of a financial asset not at fair value through profit and loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined in accordance with the Group's accounting policy for revenue recognition.

The trade receivables, the Group applies a simplified approach in calculating expected credit losses. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime expected credit losses at each reporting date. In determining the provision required, the Group utilises its historical credit loss experience, adjusted only where appropriate for forward-looking factors specific to the debtors and economic environment.

Financial Liabilities
Financial liabilities are classified, at initial recognition, as financial liabilities through fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables.

AASB 15 Revenue from contracts with Customers

AASB 15 was adopted by the Group from 1 July 2018. AASB 15 supersedes AASB 111 Construction Contracts, AASB 118 Revenue and related interpretations and it applies with limited exceptions, to all revenue arising from contracts with its customers.

The core principle of AASB 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under AASB 15, a company recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted AASB 15 in accordance with the transition requirements in AASB 15, which permits companies to transition to AASB 15 by applying the Standard:

- retrospectively to each prior reporting period presented; or
- retrospectively with the cumulative effect of initially applying the Standard recognised as at the date of initial application (i.e., at the beginning of the annual reporting period in which the entity first applies the Standard).

The Group adopted AASB 15 using the full retrospective method of adoption. The effect of the transition on the current period has not been disclosed as the standard provides an optional practical expedient. However, the impact on the current period is immaterial. The Group did not apply any of the other available optional practical expedients.

At the initial date of application, the effect of adopting AASB 15 did not have a material impact on the transactions and balances recognised in the financial statements, including comparatives.

The Group's revenue accounting policy is detailed below:

The principal activities of the Group are the sale and distribution, marketing and customer support of its suite of cyber safety products and services.

<u>Sales of Hardware</u>
Revenue from the sale of equipment is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the equipment. The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties, customer loyalty points). In determining the transaction price for the sale of equipment, the Group considers the effects of variable consideration, the existence of significant financing components, non-cash consideration, and consideration payable to the customer (if any).

<u>Subscription revenues</u>
Subscription/service revenue is recognised over the life of the service contract as the Groups service obligations under the contract are satisfied.

Contract balances

Contract Assets:
A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Trade receivables
A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets under AASB 9: Financial Instruments above.

Contract liabilities
A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Costs to fulfil a contract
Incremental costs of obtaining a contract and certain costs to fulfil a contract are recognised as an asset if the following criteria are met:

- the costs relate directly to a customer contract;
- the costs generate or enhance resources of the entity that will be used in satisfying performance obligations attaching to the customer contracts; and
- the costs are recoverable from the customer.

Any capitalised contract costs assets are amortised on a systematic basis that is consistent with the Group's transfer of the related goods or services to the customer.

Government grants
Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed.
When the grant relates to an asset, it is recognised as reducing the carrying amount of the asset.

d) Changes to critical accounting estimates and judgements

The preparation of the Group’s financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of asset or liabilities affected in future periods.

Please refer to the Group’s 30 June 2018 financial statements for information on the Group’s judgements, estimates and assumptions.

Judgements

Revenue from contracts with customers:

Identifying performance obligations in a sale of services and hardware

The Group provides subscription licences for cyber safety services which are either sold separately or may be bundled together with the sale of hardware (the FZ One phone or Family Zone Box) to a customer. The subscription licences for cyber safety services are a promise to transfer services in the future and are part of the negotiated exchange between the Group and the customer.

The Group has determined that both the subscription licences for cyber safety services and the sale of hardware are capable of being distinct and that the promises contained in service agreements for each service are distinct within the context of the contract.

Estimates

Provision for expected credit losses of trade receivables:

The Group groups its client base into clients of similar credit risk to calculate expected credit losses for trade receivables with the use of a provision matrix. The provision rates used are based on past days for groupings of customers with similar loss patterns. The provision applied is initially based on the Group's historical observed default rates for each customer grouping (namely schools and retailers). A default event is defined by the Group to be any trade receivables aged greater than 120 days as this is when an amount receivable is considered to unlikely be paid. Where forward-looking information (such as a significant change in economic conditions) may provide evidence that there may be an increasing number of defaults, historical default rates are adjusted.

At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed. The Group then applies its provision matrix in order to determine its expected credit losses.

e) Going concern

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

The Statement of Comprehensive Income shows that the Group incurred a net loss of $7,558,963 during the half-year ended 31 December 2018 (half-year ended 31 December 2017: loss of $6,630,332). The Statement of Financial Position shows that the Group had cash and cash equivalents of $3,653,992 as at 31 December 2018 (30 June 2017: $2,461,222).

The ability of the Group to continue as a going concern is dependent on it being able to successfully raise new debt or capital funding. The Directors believe that it is reasonable that the Group can raise additional capital, if required, as a result of the following:

- The Group has successfully raised substantial capital during the half year, and at a premium price to that of the market, which highlights the support of sophisticated and professional investors for the Group; and,
- The Directors intend to raise capital as needed

The financial statements do not include any additional adjustments relating to the recoverability and classification of recorded asset amounts, nor to amounts or classification of liabilities that might be necessary should the Group not be able to continue as a going concern.

NOTE 2: SEGMENT REPORTING

The chief operating decision maker has been identified as the Board of Directors.

The Group has two operating segments being information technology (and more specifically the provision of cyber safety services) Australia, and information technology (and more specifically the provision of cyber safety services) New Zealand that is consistent with internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Board of Directors. The Group also operates in Asia, and America, however these are in the early stages of development, and have been allocated to other. Other also includes head office & corporate expenditure.

In the half year ended 31 December 2017 the Group operated in one segment only, being cyber security services in Australia. As a result of the acquisition of Linewize (see note 4), the Group now has two operating segments that are consistent with the internal reporting provided to the chief operating decision maker. Because of this, no comparative segment income or expenses are presented.

31 December 2018	Australia $	New Zealand $	Other $	Total $
Segment Income				
Service revenue	1,371,326	359,405	22,997	1,753,728
Hardware revenue	383,828	693	-	384,521
Other income	3,648,095	5,688	28	3,653,811
Total Income	**5,403,249**	**365,786**	**22,868**	**5,792,060**
Segment Expenses				
Cost of sales	(1,030,732)	(68,503)	(10,702)	(1,109,937)
Operating expenses	(5,482,414)	(1,188,320)	(571,163)	(7,241,898)
Research and Development	(658,985)	(656)	(20,480)	(680,121)
Share based payments	-	-	(2,093,983)	(2,093,983)
Loss before depreciation and amortisation	**(1,768,882)**	**(891,694)**	**(2,673,460)**	**(5,333,879)**
Depreciation and amortisation	(720,078)	(1,493,183)	(11,823)	(2,225,084)
Loss before Income Tax	**(2,488,960)**	**(2,384,876)**	**(2,685,126)**	**(7,558,963)**

31 December 2018	Australia $	New Zealand $	Other $	Total $
Segment Assets and Liabilities				
Cash	3,364,515	147,902	141,575	3,653,992
Trade and other receivables	3,230,769	226,121	173,004	3,629,894
Inventory	152,177	-	-	152,177
Plant and equipment	296,248	115,423	141,850	553,521
Intangible assets	1,318,267	5,626,117	-	6,944,384
Trade and other payables	(5,368,905)	(469,672)	(136,476)	(5,975,053)
Provisions	(426,128)	(60,947)	-	(487,075)
Contingent consideration	(1,383,392)	-	-	(1,383,392)
Net Assets	**1,183,551**	**5,584,944**	**319,953**	**7,088,448**

30 June 2018	Australia $	New Zealand $	Other $	Total $
Segment Assets and Liabilities				
Cash	2,366,182	53,342	41,698	2,461,222
Trade and other receivables	1,365,988	118,181	34,771	1,518,939
Inventory	92,423	57,507	-	149,929
Plant and equipment	218,390	39,291	-	257,681
Intangible assets	1,930,708	7,094,478	-	9,025,186
Trade and other payables	(3,108,858)	(498,205)	(9,229)	(3,655,209)
Provisions	(426,800)	(56,357)	-	(508,157)
Contingent consideration	(2,245,505)	-	-	(2,245,505)
Net Assets	**167,527**	**6,808,237**	**67,240**	**7,043,004**

NOTE 3: REVENUE AND OTHER INCOME

	31 December 2018 $	31 December 2017 $
Operating Revenue		
Service revenue	1,753,728	677,482
Hardware revenue	384,521	110,438
	2,138,249	**787,920**
Interest and other income		
Interest revenue	3,015	7,614
Other	5,706	32,769
Research and Development Grant	2,782,977	2,583,700
	2,791,698	**2,624,083**

(1) Refer to Note 4 for additional detail on contingent consideration issued as part of acquisition of Linewize in a prior period.

NOTE 4: BUSINESS COMBINATIONS

The the prior year, 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 310 LW School Deploys; or 5,000 FZO NZ Accounts.	$0 - $665,000
E	1,000,000	NZ$1,750,000 of Recurring Revenue; or 360 LW School Deploys; or 10,000 FZO NZ Accounts.	$0 - $665,000
F	2,000,000	NZ$3,750,000 of Recurring Revenue; or 460 LW School Deploys; or 20,000 FZO NZ Accounts.	$0 - $1,330,000
G	2,500,000	NZ$6,250,000 of Recurring Revenue; or 585 LW School Deploys; or 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**
LW School Deploys means the total school deployments of the core technology of Linewize in any country.			

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.

As at 31 December 2018, the contingent consideration has been revalued at $1,383,393 resulting in a revaluation gain recognised in the statement of profit or loss and other comprehensive income of $862,113.

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**

The gain on bargain purchase arose when the Group's share of the fair value of identifiable net assets of Linewize acquired exceeded the cost of the acquisition paid by the Group. The excess is recognised as income within the Statement of Profit or Loss and Other Comprehensive Income.

d) Contribution since acquisition

Since its acquisition, Linewize has contributed a loss after tax of $1,785,966 to the Group results.

NOTE 5: SHARE BASED PAYMENTS

Share based payments made during the period ended 31 December 2018 are summarised below.

(a) Recognised Share Based Payment Expense

	31 December 2018 $	31 December 2017 $
Options granted to employees as incentive	619,437	893,926
Shares issued to consultants in lieu of services provided	771,120	1,045,874
Performance Rights issued to employees as incentive and for services	628,670	208,987
Performance Shares issued to employees as incentive and for services	74,756	143,300
	2,093,983	**2,292,087**

(b) Options granted to employees for services

The Group's current Employee Share Option Plan (**ESOP**) was approved by the board of directors on 7 July 2016. A variation to the terms of the ESOP was approved on 9 April 2018. 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 ESOP for no consideration. Options granted under the ESOP 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.

As options granted to employees are considered to represent the value of the services received over the vesting period of the options, the assessed value of the options are recognised and expensed over the vesting period. Options vesting during the period of issue are fully expensed under the accounting standards. The total Employee Options expense for the period is outlined below.

Tranche	Valuation Date	Expiry Date	Exercise Price	Granted during the Year	Vested during the Period	Total Share-Based Payment Expense for the Period
1	19/09/2016	19/09/2019	$0.33	-	-	$27,772
2	02/12/2016	19/09/2019	$0.33	-	-	$14,727
3	20/02/2017	19/09/2019	$0.33	-	-	$4,054
4	31/08/2017	19/09/2019	$0.33	-	-	$62,421
5	16/12/2016	15/12/2019	$0.30	-	1,500,000	$77,466
6(1)	09/04/2018	*To be determined*		2,364,470	788,157	$432,997
Total				**2,364,470**	**2,288,157**	**$619,437**

(1) The Tranche 6 Employee Options have not yet been issued by the Company but under accounting standards are considered to be granted as there is an implicit agreement that the options would be issued, subject to the achievement of a performance target by the end of CY2018. The valuation date is the date that Shareholder approval was obtained to allow the proposed issue of options under the Company's ESOP. The options to be issued will have a three year term and an exercise price being the lower of

- *$0.64 being 10% above the 10 day vwap from establishment of the option plan; or*
- *20% below the 10 day vwap from the issue of the options.*

The number of options granted has been determined based on a percentage the performance target achieved at 31 December 2018.

The Group 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	Tranche 6
Grant date share price	$0.30	$0.195	$0.18	$0.51	$0.20	$0.525
Exercise price	$0.33	$0.33	$0.33	$0.33	$0.30	$0.64
Expected volatility	100%	100%	100%	100%	100%	106%
Expiry date (years)	3.00	3.00	3.00	2.05	3.00	3.0
Expected dividends	Nil	Nil	Nil	Nil	Nil	Nil
Risk free rate	2.28%	2.28%	2.28%	2.28%	2.28%	1.93%
Value per option	$0.182	$0.102	$0.082	$0.325	$0.106	$0.323

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

- 25% of the Options will vest and become exercisable upon the Company having 20,000 paying subscribers registered by 31 December 2017. Vested as at 30 June 2018.
- 25% of the Options vest and become exercisable upon the Company having 30,000 paying subscribers registered by 31 December 2017. Vested as at 30 June 2018.
- 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:

- 25% vest on Family Zone achieving $2.0m Cumulative Revenue in 24 months from engagement or 20,000 Paying Zones. Vested as at 30 June 2018.
- 25% vest on Family Zone achieving $4.0m Cumulative Revenue in 24 months from engagement or 30,000 Paying Zones. Vested as at 30 June 2018.
- 25% vest on Family Zone achieving $8.0m Cumulative Revenue in 24 months from engagement or 40,000 Paying Zones. Vested as ay 30 June 2018.
- 25% vest on Family Zone achieving $10.0m Cumulative Revenue in 24 months from engagement or 50,000 Paying Zones. Vested as at 31 December 2018.

The vesting conditions attaching to the Tranche 6 Employee Options are as follows

- 33.33% vest immediately;
- 33.33% vest one year from issue date; and
- 33.33% vest two years from issue date.

(c) Performance Rights

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 $628,670.

(d) Performance Shares

The Performance Shares issued convert into ordinary shares on a one for one basis subject to the achievement of a series of vesting conditions.

These Performance Shares issued to employees for services provided were considered to represent the value of the services received over the vesting period. These Performance Shares have been valued based on the share price of the Company at the date of approval of the issue of the Performance Shares.

The total share based payment expense for the year in respect to the 31,499,997 Performance Shares that had been issued to employees for services in the prior period was $74,756.

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

NOTE 6: TRADE AND OTHER RECEIVABLES

	31 December 2018 $	30 June 2018 $
Current:		
Trade receivable	1,960,733	264,180
Less allowance for expected credit losses	(22,652)	-
GST receivable	-	53,078
Contract assets	536,876	736,380
Total Current Trade and Other Receivable	**2,474,957**	**1,053,638**
Non-Current:		
Contract assets	87,538	304,000
Bonds and deposits	18,202	17,928
Total Non-Current Trade and Other Receivable	**105,740**	**321,928**
Total Trade and Other Receivable	**2,580,697**	**1,357,566**

NOTE 7: INTANGIBLES

	31 December 2018 $	30 June 2018 $
Intellectual Property at cost (1)	13,759,986	13,707,892
Less: Accumulated amortisation and impairment	(7,032,201)	(4,955,835)
Customer Contracts at cost (2)	339,181	339,181
Less: Accumulated amortisation and impairment	(122,582)	(66,052)
	6,944,383	**9,025,186**

(1) Intellectual Property includes $8,470,986 acquired as part of the Linewize acquisition (refer to Note 4 for further detail). The remaining amortisation period for this IP is 23 months. The remaining amortisation period on the remainder of the IP is 11 months.

(2) The remaining amortisation period for customer contracts is 23 months.

Reconciliation of movements in intangible assets

	$
Balance at 1 July 2018	**9,025,186**
Additions	52,094
Amortisation expense	(2,132,897)
Balance at 31 December 2018	**6,944,383**
Balance at 1 July 2017	**3,325,003**
Additions – Linewize customer contracts and IP[1]	8,810,167
Amortisation expense	(1,049,720)
Balance as at 31 December 2017	**11,085,450**

(1) Refer to Note 4: Business Combinations for additional detail on intangible assets acquired as part of Linewize business combination in a prior period.

NOTE 8: TRADE AND OTHER PAYABLES

	31 December 2018 $	30 June 2018 $
Current:		
Trade payables[1]	789,433	500,277
Contract liability	1,488,549	1,645,500
Accruals & other payables	1,675,755	1,226,632
Share monies received in advance[2]	1,950,250	-
Total Current Trade and Other Payables	**5,903,987**	**3,372,409**
Non Current:		
Contract liability	71,066	243,883
Total Non Current Trade and Other Payable	**71,066**	**243,883**
Total Trade and Other Payables	**5,975,053**	**3,616,292**

(1) Current trade payables are non-interest bearing and are normally settled on 30-day terms

(2) Balance relates to funds received during the period for shares which were not issued until after period end.

NOTE 9: ISSUED CAPITAL

	Number of Shares	Value $
Opening balance – 1 July 2018	134,610,852	30,873,178
Shares issued on exercise of Options during the Period	72,297	10,658
Shares issued on exercise of Performance Rights during the Period	266,667	-
Shares issued to sophisticated investors on 29 Aug 2018	9,650,000	4,825,000
Shares issued to Tellus Matrix for advisory services on 29 Aug 2018	101,825	45,981
Shares issued to Netsweeper for services on 19 Oct 2018	2,087,436	1,000,000
Shares issued to Fidelio on 28 Nov 2018	2,788,997	725,139
Shares issued to Tim Levy on 28 Nov 2018 (following shareholder approval)	350,000	175,000
Costs of shares issued		(576,344)
Closing Balance – 31 December 2018	**149,928,074**	**37,078,612**

	Number of Shares	Value $
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.

Capital Management

When managing capital, the Board's objective is to ensure the Group continues as a going concern as well as to maximise the returns to shareholders and benefits for other stakeholders. The Board also aims to maintain a capital structure that ensures the lowest cost of capital available to the Group.

The Board is constantly reviewing the capital structure to take advantage of favourable costs of capital or high returns on assets. As the market is constantly changing, the Board may issue new shares, return capital to shareholders or sell assets to reduce debt.

The Group was not subject to any externally imposed capital requirements during the year.

NOTE 10: RESERVES

Nature and Purpose of Reserve

The share based payment reserve records the value of options, performance rights and performance shares issued to the Group's directors, employees, and third parties. The value of the amount disclosed during the period reflects the value of options, performance rights and performance shares issued by the Group.

	31 December 2018 $	30 June 2018 $
Performance Shares	1,732,211	1,657,455
Performance Rights	2,458,798	1,830,128
Options	4,055,836	3,354,540
Foreign Currency Translation Reserve	5,913	11,663
Total Reserves	**8,252,758**	**6,853,786**

Options outstanding at 31 December 2018

The following options over ordinary shares of the Company were granted at reporting date:

Grant Date	Expiry Date	Exercise Price	Balance at start of Period (number)	Granted During the Period (number)	Exercised during the Period (number)	Forfeited during the Period (number)	Balance at Period end (number)	Vested and exercisable at Period end (number)
20/05/2016	20/05/2019	$0.25	4,000,000	-	-	-	4,000,000	4,000,000
29/08/2016	29/08/2019	$0.25	5,888,438	-	-	-	5,888,438	5,888,438
19/9/16 - 31/8/17	19/09/2019	$0.33	5,304,866	-	(72,297)	-	5,232,569	2,504,267
16/12/2016	15/12/2019	$0.30	5,335,000	-	-	-	5,335,000	5,335,000
05/05/2017	05/05/2020	$0.30	1,750,000	-	-	-	1,750,000	1,750,000
04/12/2017	04/12/2020	$0.50	850,000	-	-	-	850,000	850,000
04/12/2017	04/12/2020	$0.60	850,000	-	-	-	850,000	850,000
09/04/2018	09/04/2021	$0.75	516,765	-	-	-	516,765	516,765
09/04/2018	09/04/2021	$0.90	516,765	-	-	-	516,765	516,765
09/04/2018	To be determined		-	2,364,470[1]	-	-	2,364,470	788,157
29/08/2018	29/08/2020	$0.60	-	500,000	-	-	500,000	500,000
Total			**25,011,834**	**2,864,470**	**(72,297)**	**-**	**27,804,007**	**23,499,392**

(1) These options have not yet been issued by the Company but under accounting standards are considered to be granted as there is an implicit agreement that the options would be issued, subject to the achievement of a performance target by the end of CY2018. The grant date is the date that Shareholder approval was obtained to allow the proposed issue of the options under the Company's ESOP. The options to be issued will have a three year term and an exercise price being the lower of

- *$0.64 being 10% above the 10 day vwap from establishment of the option plan; or*
- *20% below the 10 day vwap from the issue of the options.*

The number of options granted has been determined based on a percentage the performance target achieved at 31 December 2018.

Reconciliation of movement in option reserve:

	Number of Options	Value $
Opening Balance - 1 July 2018	25,011,834	3,354,540
Options issued for capital raising services	500,000	81,859
Share based payment expense in respect to employee options on issue as at 1 July 2018 and granted during the period	2,364,470	619,437
Exercised during the period	(72,297)	-
Closing Balance – 31 December 2018	**27,804,007**	**4,055,836**

During the period 500,000 options were issued for capital raising services to a nominee of Tellus Matrix (refer Note 13: Related Party Transactions). These options had a 2 year terms and exercise price of $0.60 per option vesting immediately. These options were valued using the B&S valuation model applying the following inputs.

Underlying share price	$0.36
Exercise price	$0.60
Expected volatility	113%
Expiry date (years)	3.00
Expected dividends	Nil
Risk free rate	2.00%
Value per option	$0.140

Performances shares outstanding at 31 December 2018

The following performance shares of the Company existed at reporting date. On achievement of the performance milestones attaching to the class of performance shares, the performance shares convert into fully paid ordinary shares for nil consideration.

Class	Grant Date	Expiry Date	Balance at start of Period (number)	Granted During the Period (number)	Converted during the Period (number)	Forfeited during the Period (number)	Balance at Period end (number)
B	16/6/16 - 16/12/16	29/08/2019	10,499,999	-	-	-	10,499,999
C	16/6/16 - 16/12/16	29/08/2020	10,499,998	-	-	-	10,499,998
D	29/11/2017	29/11/2022	1,000,000	-	-	-	1,000,000
E	29/11/2017	29/11/2022	1,000,000	-	-	-	1,000,000
F	29/11/2017	29/11/2022	2,000,000	-	-	-	2,000,000
G	29/11/2017	29/11/2022	2,500,000		-	-	2,500,000
H	29/11/2017	29/11/2022	3,000,000	-	-	-	3,000,000
			30,499,997	**-**	**-**	**-**	**30,499,997**

(1) Class D-H Performance Shares were issued in part consideration for the Linewize acquisition. The Performance Shares convert into Shares subject to the achievement of various performance targets and have been reported as contingent consideration for the acquisition. Refer to Note 4: Business Combinations for further details.

Reconciliation of movement in performance share reserve:

	Number of Performance Shares	Value $
Opening Balance - 1 July 2018	30,499,997	1,657,455
Share based payment expense for the period in respect to Class B and C Performance Shares on issue as at 1 July 2018[1]	-	74,756
Closing Balance – 31 December 2018	**30,499,997**	**1,732,711**

(1) *Class B and C Performance Shares have been valued at grant date and each Class are being expensed over the vesting period.*
(2) *Class D-H Performance Shares were issued in part consideration for the Linewize acquisition. These Performance Shares convert into Shares subject to the achievement of various performance targets and there value has been reported as contingent consideration for the acquisition. Refer to Note 4: Business Combinations for further details.*

Performance Rights at 31 December 2018

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

Grant Date	Expiry Date	Exercise Price	Balance at start of Period (number)	Granted During the Period (number)	Exercised during the Period (number)	Forfeited during the Period (number)	Balance at Period end (number)	Vested and exercisable at Period end (number)
04/12/17	04/12/20	Nil	4,316,667(1)	-	(266,667)(2)	-	4,050,000	83,333(2)

(1) Comprising 83,333 Class A Performance Rights 1,483,331 Class B Performance Rights, 1,483,336 Class C Performance Rights, 333,340 Class D Performance Rights, 333,330 Class E Performance Rights and 333,330 Class F Performance Rights.

(2) 266,667 Class A Performance Rights were exercised during the period and 83,333 Class A Performance Rights were vested and exercisable.

Reconciliation of movement in performance right reserve:

	Number of Performance Rights	Value $
Opening Balance - 1 July 2018	4,316,667	1,830,128
Share based payment expense for the year in respect to Performance Rights on issue as at 1 July 2018	-	628,670
Performance Rights exercised during the period	(266,667)	-
Closing Balance – 31 December 2018	**4,050,000**	**2,458,798**

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

Performance Rights	Valuation Date	Vesting Date	Fair Value at Grant Date[1]	Number	Total Expense for the period
Class B	04/12/2017	29/08/2019	$0.675	1,483,331	$289,460
Class C	04/12/2017	29/08/2020	$0.675	1,483,336	$183,412
Class D	04/12/2017	29/08/2018	$0.675	333,340	$49,535
Class E	04/12/2017	29/08/2019	$0.675	333,330	$65,047
Class F	04/12/2017	29/08/2020	$0.675	333,330	$41,216
Total					**$628,670**

(1) The above Performance Rights have been valued using the Black Scholes Model applying the following inputs: share price at grant date of $0.675 per share; expected volatility of 100%; expected dividends of nil; and a risk free rate of 2.28%. The Class A Performance Rights were fully expensed on vesting in the prior period.

NOTE 11: EVENTS OCCURRING AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the Group:

- announced on 10 January 2019 it was implementing a program to simplify its operations, reduce its cost base and improve margins and bring forward the Group's cashflow breakeven. The cost saving were to be primarily from reductions in non-sales focussed headcount and the consolidation of operating systems and services. In addition the Board and a number of senior executives and consultants to the Group had agreed to support cash flow by converting cash-based to security based remuneration for the 2019 calendar year. The measures being implemented were estimated to result in at least a $4 million cash cost saving in FY2019;
- completed its placement of shares to sophisticated investors on 18 January 2019 with the issue of 11,228,889 shares at $0.225 per share, raising $2.5 million before issue costs;
- announced on 18 February 2019 that it had extended its partnership with Woolworths with the signing of a reseller agreement whereby Woolworths will make Family Zone subscription services available to its customers; and
- announced on 26 February 2019 the issue of 216,00 Shares (escrowed for one year) and 615,085 Performance Rights to executives and consultants as security based remuneration in lieu of cash based remuneration for CY2019.

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 12: 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 2018.

NOTE 13: RELATED PARTY TRANSACTIONS

Other than as presented below, there were no material changes to the Group's related party transactions to those disclosed in the 30 June 2018 Annual Report.

Other Transactions with Key Management Personnel

<u>Tellus Matrix</u>

Sir Peter Westmacott, a Director of the Company, is also Vice Chairman and Partner of Tellus Matrix.

$387,503 was paid to Tellus Matrix for the half-year ended 31 December 2018 in relation to capital raising and corporate advisory fees. There were no amounts outstanding and payable to Tellus Matrix as at 31 December 2018.

In addition, 500,000 options for a 2 year term with an exercise price $0.60 per option were issued to a nominee of Tellus Matrix for capital raising services. 101,825 fully paid ordinary shares were also issued to a nominee of Tellus Matrix for corporate advisory services. Refer to Note 9: Issue Capital and Note 10: Reserves for further details on the respective issues.

<u>Grange Consulting</u>

Mr Phil Warren, a Director of the Company is also the Managing Director of Grange Consulting Group Pty Ltd (Grange).

$47,250 (exc. GST) was due to Grange for financial management and company secretarial services in the period ended 31 December 2018. $31,500 (exc. GST) was outstanding and payable to Grange as at 31 December 2018.

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 2018

iii. 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
28 February 2019

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 2018, 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 2018 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.

Independence

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

PITCHER PARTNERS

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

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 and its controlled entities 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 2018 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 1 in the financial report, which indicates that the Family Zone Cyber Safety Limited incurred a net loss of $7,558,963 during the half-year ended 31 December 2018 and, as of that date, a net cash outflow from operating and investing activities of $6,267,630. These conditions, along with other matters as set forth in Note 1e, 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

PAUL MULLIGAN
Executive Director
Perth, 28 February 2019