



TESSERENT

For personal use only

PROSPECTUS

TESSERENT LIMITED ACN 605 672 928

FOR AN INITIAL PUBLIC OFFERING OF 25,000,000 SHARES AT AN ISSUE PRICE OF \$0.20 PER SHARE TO RAISE A MINIMUM OF \$5,000,000. OVER-SUBSCRIPTIONS OF UP TO A FURTHER 10,000,000 SHARES AT AN ISSUE PRICE OF \$0.20 PER SHARE TO RAISE A MAXIMUM OF \$7,000,000.

EXCLUSIVE SPONSORING BROKER
AND JOINT LEAD MANAGER

CORPORATE ADVISOR AND
JOINT LEAD MANAGER

Novus
Capital

TERRACAPITAL

IMPORTANT NOTICES

1.1 Offer

The Offer contained in this Prospectus is an invitation to acquire new fully paid ordinary shares in Tesseract Limited.

References to 'Tesseract' are references jointly and severally, as the context requires, to the Company, Tesseract Australia, Tesseract IP, Tesseract Wholesale and Tesseract UK.

References to the 'Company' are references to Tesseract Limited.

1.2 Lodgement and listing

This prospectus is dated 17 November 2015 and was lodged with ASIC on that date. Neither ASIC nor the ASX takes any responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates.

The Company will apply for admission of the Shares to quotation on the ASX within 7 days after the date of this Prospectus.

1.3 Note to applicants

The Offer contained in this Prospectus does not take into account the investment objectives, financial position, or particular needs of individual investors. It is important that you carefully read this Prospectus in its entirety before deciding to invest in the Company. In particular, in considering the prospects for the Company, you should consider the risk factors that could affect the financial performance of the Company. You should carefully consider these factors in light of your personal circumstances and seek professional advice from your accountant, stockbroker, lawyer or other professional adviser before deciding whether to invest.

No person named in this Prospectus, nor any other person, guarantees the performance of Tesseract, the repayment of capital or the payment of a return on the Shares.

No person or entity is authorised to give any information or to make any representation in connection with the Offer that is not contained in this Prospectus. Any information or representation not so contained may not be relied on as having been authorised by Tesseract or the Directors in connection with the Offer.

1.4 No offering where offering would be illegal

This Prospectus does not constitute an offer of Shares in any place in which, or to any person to whom, it would not be lawful to do so. The distribution of this Prospectus in jurisdictions outside Australia, Singapore and Hong Kong may be restricted by law and any person into whose possession this Prospectus comes (including nominees, trustees or custodians) should seek advice on and observe those restrictions.

United States of America

The Shares have not been, and will not be, registered under the *US Securities Act 1993* (as amended) and may not be offered or sold in the United States or to, or for the account of or benefit of, US Persons. Accordingly, neither this Prospectus nor the Application Form may be sent to investors in the United States or otherwise distributed in the United States.

Singapore

This Prospectus may be provided to selected investors in Singapore who may be invited to participate in the Offer. Those investors should be aware that:

- (a) This Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore (MAS), and accordingly, statutory liability under the Securities and Futures Act, Chapter 289 (SFA) in relation to the content of prospectuses does not apply.

- (b) This Offer has not been authorised or recognised by the MAS and the Shares are not allowed to be offered to any person in Singapore other than an Institutional or Accredited Investor as defined in the SFA.

- (c) This Prospectus has been given to you on the basis that you are an Institutional or Accredited Investor as defined in the SFA.

- (d) There are on-sale restrictions in Singapore that may be applicable to investors who acquire Shares. You are to acquaint yourself with the relevant provisions of the SFA and to comply with the same.

Hong Kong

The contents of this Prospectus have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the Offer. If you are in any doubt about any of the contents of this Prospectus, you should obtain independent professional advice.

This Prospectus has not been, and will not be, registered as a prospectus in Hong Kong nor has it been approved by the Securities and Futures Commission of Hong Kong pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (SFO). Accordingly the Shares may not be offered or sold in Hong Kong by means of this Prospectus or any other document, and this Prospectus must not be issued, circulated or distributed in Hong Kong, other than (a) to 'professional investors' as defined in the SFO and any rules made thereunder; or (b) in other circumstances which do not result in the Prospectus being a 'prospectus' as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) (the Companies (WU&MP) Ordinance) or which do not constitute an offer to the public within the meaning of the Companies (WU&MP) Ordinance. In addition, no person may issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Shares, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Shares which are or are intended to be disposed of only (a) to persons outside Hong Kong, (b) to 'professional investors' as defined in the SFO and any rules made thereunder or (c) to other persons in circumstances in which the Offer to which the Prospectus relates falls within paragraph (b)(ii) of the definition of "prospectus" in section 2(1) of the Companies (WU&MP) Ordinance.

1.5 Exposure period

The Corporations Act prohibits the Company from processing Applications in the 7 day period after the date of lodgement of the Prospectus. This period is known as the Exposure Period. This Exposure Period may be extended by ASIC by up to 7 days. The purpose of the Exposure Period is to enable the Prospectus to be examined by market participants prior to the raising of funds. Applications received during the Exposure Period will not be processed until after the expiry of that period. No preference will be conferred on Applications received during the Exposure Period.

1.6 Photographs and diagrams

Photographs used in this Prospectus that do not have descriptions are for illustration only and should not be interpreted to mean that any person shown endorses the Prospectus or its contents or that the assets shown in them are owned by Tesseract. Diagrams used in this Prospectus are illustrative only and may not be drawn to scale.

1.7 Do not rely on forward-looking statements

This Prospectus contains forward-looking statements, which are identified by words such as "believes", "estimates", "expects", "intends", "may", "will", "would", "could", "should", and other similar words that involve risks and uncertainties. These statements are based on an assessment of present economic and operating conditions, and on a number of assumptions regarding future events and actions that, as at the date of this Prospectus, are expected to take place.

Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of the Company. The Company cannot and does not give assurances that the results, performance or achievements expressed or implied in the forward-looking statements contained in this Prospectus will occur and investors are cautioned not to place undue reliance on these forward-looking statements.

Forward looking statements should be read in conjunction with the risks set out in Section 4, the assumptions contained in the financial information set out in Section 7 and other information in this Prospectus. These and other factors could cause actual results to differ materially from those expressed in any forward-looking statements.

1.8 Privacy

The Company collects information (including personal information) in relation to each Applicant as provided on an Application Form (**Information**) for the purposes of processing the Application Form and, should the Application be successful, to administer the Applicant's security holding in the Company, and to facilitate distribution payments and corporate communications to you as a Shareholder (**Purposes**).

By submitting an Application Form, each Applicant agrees that the Company may use the Information for the Purposes and the Company may disclose the Information for the Purposes to the Share Registry, the Company's related bodies corporate, agents, contractors and third party service providers, and to the ASX, ASIC and other regulatory authorities.

If the Offer is successfully completed, the Information may also be used and disclosed to persons inspecting the register of Shareholders, including bidders for your Shares in the context of takeovers, licensed securities dealers, mail houses, and regulatory bodies including the Australian Taxation Office.

Subject to certain exemptions under the law, you can access, correct and update the personal information that the Company holds about you. Please contact the Company or its Share Registry in writing if you wish to do so using the relevant contact details set out in this Prospectus. A fee may be charged for access.

Collection, maintenance and disclosure of certain personal information is governed by legislation, including the *Privacy Act 1988* (Cth), the Corporations Act, and rules such as the ASX Settlement Operating Rules. You should note that if you do not provide the information required on the Application Form, the Company may not be able to accept or process your Application.

1.9 Interpretation

Defined terms and abbreviations used in this Prospectus are explained in the glossary of terms (refer to Section 14).

All amounts are in Australian dollars unless otherwise specified.

All references to time are to Australian Eastern Standard Time (AEST).

CONTENTS

IMPORTANT NOTICES	IFC
CHAIRMAN'S LETTER	3
1. INVESTMENT OVERVIEW	4
2. INDUSTRY OVERVIEW	12
3. OVERVIEW OF TESSERENT	16
4. RISK FACTORS	25
5. DETAILS OF THE OFFER	28
6. EFFECT OF THE OFFER ON THE COMPANY	30
7. FINANCIAL INFORMATION	33
8. INVESTIGATING ACCOUNTANT'S REPORT	48
9. KEY PEOPLE, INTERESTS AND BENEFITS	54
10. MATERIAL CONTRACTS	66
11. ADDITIONAL INFORMATION	70
12. AUSTRALIAN TAXATION REPORT	74
13. DIRECTORS' AUTHORISATION	79
14. GLOSSARY	80
SEE SUPPLEMENTARY PROSPECTUS AND ATTACHED APPLICATION FORM	
CORPORATE DIRECTORY	IBC

For personal use only

KEY OFFER INFORMATION

KEY DATES	
Prospectus lodgement date	17 November 2015
Offer opens	24 November 2015
Offer closes (Closing Date)	5 February 2016
Completion of the Offer	12 February 2016
Expected despatch of holding statements	19 February 2016
Expected commencement of trading on the ASX on a normal settlement basis	19 February 2016

This timetable is indicative only and Applicants are encouraged to submit their Applications as early as possible. The Company, in consultation with the Joint Lead Managers, has the right to close the Offer early or extend the Offer, to accept late Applications, or vary any other date without prior notice.

KEY OFFER STATISTICS	MINIMUM SUBSCRIPTION	MAXIMUM SUBSCRIPTION
Issue Price	\$0.20	\$0.20
Total Number of Shares offered under the Offer	25,000,000 Shares	35,000,000 Shares
Number of Shares held by Existing Holders	67,459,600 Shares	67,459,600 Shares
Total number of Shares on issue on Listing	92,459,600 Shares	102,459,600 Shares
Total cash proceeds from the Offer ¹	\$5,000,000	\$7,000,000
Indicative market capitalisation at the Issue Price	\$18,491,920	\$20,491,920
Pro forma net cash (as at 30 June 2015)	\$3.082 million	\$4.962 million

¹ This includes \$610,855 of Shares issued under the Firm Commitment Letters, which will be offset against loans owed by Tesserent to the Substantial Shareholders.

For personal use only

CHAIRMAN'S LETTER

DEAR INVESTOR

On behalf of my fellow Directors, I am pleased to offer you the opportunity to become a Shareholder of Tesseract Limited.



Tesseract provides Internet security services to help organisations defend against cybercrime. Tesseract has developed a security infrastructure platform, known as the MSSP Platform, which enables delivery of Security-as-a-Service (also known as SECaaS) on a subscription basis to small and large organisations to protect their computer networks.

Tesseract directly provides Security-as-a-Service to customers in Australia and internationally, and has also licensed the technology to Channel Partners in Hong Kong, South Korea, United Kingdom, and the UAE, who in turn provide Security-as-a-Service to their own customer bases.

Tesseract and its Channel Partners provide Security-as-a-Service to over 190 organisations and have customers in 11 countries and territories. Customers in Australia include organisations such as BMW, Toyota, Nintendo, The Good Guys, Reece, and Maxitrans.

The Offer is being conducted to raise funds to fund increased sales and marketing activities, support Tesseract's ongoing research and development programs, expand Tesseract's IT infrastructure, repay existing debt finance, pay the costs of the Offer, and provide additional working capital.

The Offer will raise a minimum of \$5,000,000 by the issue of 25,000,000 Shares at the issue price of \$0.20 per Share. The Directors may accept over-subscriptions of up to a further 10,000,000 Shares at the issue price of \$0.20 per Share to raise a maximum of \$7,000,000 under the Offer.

As part of the Offer the Substantial Shareholders have provided firm commitment letters to subscribe for Shares under the Offer in the aggregate amount of \$610,855. The Shares issued under the firm commitment letters will be offset against loans owed by Tesseract to the Substantial Shareholders.

This Prospectus contains detailed information about Tesseract, the Offer, and the risks associated with an investment in Tesseract. We encourage you to read this Prospectus carefully and obtain independent professional advice before deciding whether to invest in the Company.

My fellow Directors and I are genuinely excited about this investment opportunity. On behalf of the Board of Directors, I commend the Offer to you and look forward to welcoming you as a Shareholder.

Yours faithfully

A handwritten signature in black ink that reads "Russell Yardley". The signature is written in a cursive, flowing style.

Robert McEwan Russell Yardley
(Russell Yardley)
Non-Executive Chairman

1. INVESTMENT OVERVIEW

INVESTMENT OVERVIEW

1.1 Introduction

TOPIC	SUMMARY	WHERE TO FIND MORE INFORMATION
What does Tesseract do?	<p>Tesseract provides Internet Security-as-a-Service to a wide range of Australian and international customers, including education providers, corporate enterprises, and government customers.</p> <p>Tesseract has also appointed a number of international resellers (Channel Partners) that licence the MSSP Platform to deliver Security-as-a-Service to their own customers.</p>	Section 3.
What is Security-as-a Service?	<p>Security-as-a-Service packages security services for a customer's computer infrastructure, including firewall, authentication, anti-virus, anti-malware/spyware, intrusion detection, and security event management, amongst other services.</p> <p>Tesseract provides Security-as-a-Service on the basis of a subscription fee, most commonly as monthly or annual fees. This is unlike the traditional Internet security model in which conventional hardware is sold upfront and software is sold as a perpetual licence with upfront costs (and ongoing support fees). The subscription-based model delivers recurring revenues for Tesseract.</p>	Section 3.
What is the MSSP Platform?	<p>Tesseract has developed the MSSP Platform, allowing the delivery of Security-as-a-Service to customers.</p> <p>The MSSP Platform addresses the primary security functions of an organisation's computer network, namely firewall, content inspection, intrusion detection and bring-your-own-device support. A key feature of the MSSP Platform is its ability to coordinate a wide range of threat intelligence data from many of the world's leading cyber-security data providers and distil this data into actionable information that is immediately disseminated to each customer's network. New threat intelligence created from the analysis of this information is then fed back to all of Tesseract's customers globally thereby ensuring that each customer's network benefits from the new knowledge.</p>	Sections 3.3 and 3.4.

For personal use only

TOPIC	SUMMARY	WHERE TO FIND MORE INFORMATION
-------	---------	--------------------------------

What is the purpose of the Offer?

The proceeds from the issue of Shares under the Offer will be used by Tesseract to fund increased sales and marketing activities, support Tesseract's ongoing research and development programs, expand Tesseract's IT infrastructure, repay existing debt finance, pay the costs of the Offer, and provide additional working capital.

The Directors are of the opinion that Tesseract will have sufficient working capital to carry out its stated objectives.

Sections 3.10 and 3.11.

	MINIMUM SUBSCRIPTION	MAXIMUM SUBSCRIPTION
Source of funds		
Issue of new Shares via the Offer [*]	\$5,000,000	\$7,000,000
Total proceeds	\$5,000,000	\$7,000,000
Use of funds		
Repay existing debt finance ^{**}	\$1,310,855	\$1,310,855
Sales and marketing programs	\$1,110,000	\$1,810,000
Tesseract's ongoing research and development programs	\$500,000	\$800,000
IT infrastructure expansion	\$500,000	\$700,000
Costs of the Offer ^{***}	\$730,000	\$850,000
Working Capital	\$849,145	\$1,529,145
Total use of funds	\$5,000,000	\$7,000,000

* This includes \$610,855 of Shares issued under the Firm Commitment Letters, which will be offset against loans owed by Tesseract to the Substantial Shareholders.

** As at 30 September 2015, Tesseract Australia owed the Australia and New Zealand Banking Corporation \$700,000 and Tesseract owed the Substantial Shareholders the aggregate amount of \$750,034. From 1 October 2015, interest and principal has continued to be repaid in respect of the Internal Debt Finance arrangements in accordance with their terms and the balance of the \$750,034 owed to the Substantial Shareholders has reduced. On 10 November 2015 RTSF Super Pty Ltd (being the current trustee of the Raging Thunder Superannuation Fund) converted \$100,000 of principal owed by Tesseract to RTSF Super Pty Ltd under the Internal Debt Finance, into Shares.

Each Substantial Shareholder has provided a Firm Commitment Letter to subscribe for Shares under the Offer up to their Outstanding Principal and Interest Amount, for an aggregate amount of \$610,855 (being the aggregate of the principal and interest owed to the Substantial Shareholders by Tesseract at 31 December 2015). Under the Firm Commitment Letters, each Substantial Shareholder has agreed with the Company to offset any money that is or may become owing by a Substantial Shareholder to the Company as part of the Substantial Shareholder applying for the Consideration Shares. Following successful Completion of the Offer and prior to the Company being admitted to the Official List, each Substantial Shareholder has agreed to fully discharge, release and extinguish the loans and any accrued interest owed to a Substantial Shareholder by Tesseract in respect of the Outstanding Principal and Interest Amount only. Any balance of the Internal Debt Finance still owing to a Substantial Shareholder by Tesseract after the Substantial Shareholder has received their Consideration Shares, will be paid out of the proceeds of the Offer.

*** In addition, approximately \$700,000 of the costs of the Offer have been funded through debt which is being repaid as part of repaying the financial debts of Tesseract and is described in Sections 3.8 and 10.1.

1. INVESTMENT OVERVIEW CONTINUED

1.2 Key features of Tesseract's business model

TOPIC	SUMMARY	WHERE TO FIND MORE INFORMATION																							
How does Tesseract generate revenue?	<p>Tesseract generates revenue from the sale of its Security-as-a-Service solutions, which are provided on a subscription basis in one of two ways:</p> <ul style="list-style-type: none"> › the provision of Security-as-a-Service directly to small and large scale organisations in Australia and internationally; and › the licensing of the MSSP Platform to Channel Partners who in turn provide Security-as-a-Service to their own customers. 	Sections 3.2, 3.6, 7 and 8.																							
What are Tesseract's key business strategies?	<p>Following successful Completion of the Offer, Tesseract will focus on:</p> <ul style="list-style-type: none"> › expanding the number of Channel Partners in Australia and internationally; › increasing the number of direct sales to organisations, in Australia and internationally, through increased sales and marketing; › assessing acquisition opportunities; and › ongoing research and development. 	Section 3.7.																							
What is Tesseract's pro forma historical financial performance?	<table border="1"> <thead> <tr> <th rowspan="2">\$ 000</th> <th colspan="3">PRO FORMA</th> </tr> <tr> <th>FY2013</th> <th>FY2014</th> <th>FY2015</th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td>2,873</td> <td>3,385</td> <td>3,749</td> </tr> <tr> <td>Gross Profit</td> <td>2,484</td> <td>2,286</td> <td>2,457</td> </tr> <tr> <td>EBITDA</td> <td>378</td> <td>420</td> <td>542</td> </tr> <tr> <td>NPAT</td> <td>283</td> <td>153</td> <td>365</td> </tr> </tbody> </table> <p>The financial information in the table above is intended as a summary only and should be read in conjunction with the more detailed discussions of the financial information disclosed in Section 7, as well as the risk factors set out in Section 4.</p>	\$ 000	PRO FORMA			FY2013	FY2014	FY2015	Revenue	2,873	3,385	3,749	Gross Profit	2,484	2,286	2,457	EBITDA	378	420	542	NPAT	283	153	365	Section 7.
\$ 000	PRO FORMA																								
	FY2013	FY2014	FY2015																						
Revenue	2,873	3,385	3,749																						
Gross Profit	2,484	2,286	2,457																						
EBITDA	378	420	542																						
NPAT	283	153	365																						

1.3 Capital structure

TOPIC	SUMMARY	WHERE TO FIND MORE INFORMATION
What will be the capital structure of the Company on Listing?	<p>On Listing the Company will have between 92,459,600 and 102,459,600 Shares on issue, depending on the amount raised under the Offer. This includes the Shares issued under the Offer.</p> <p>The Company has 7,500,000 Director Options on issue.</p>	Sections 6.1, 9.7, 9.9(b), 10.5, 11.3, and 11.4.
Will Tesseract be adequately funded after Completion of the Offer?	The Directors are of the opinion that Tesseract will have sufficient working capital to carry out its stated objectives.	Sections 3.10, 3.11, 7 and 8.
How does Tesseract expect to fund its operations?	Tesseract expects to fund its operations from revenues generated from its business activities in conjunction with the proceeds of the Offer.	Sections 3.10, 3.11, 7 and 8.
When will dividends be paid on Shares?	The Directors have no current intention to declare and pay any dividends. It is the Directors' current intention to use the Offer proceeds and to reinvest future available cash flows in the further development of Tesseract's business.	Section 3.9.

1.4 Key risks

TOPIC	SUMMARY	WHERE TO FIND MORE INFORMATION
Key personnel	<p>Tesseract's success depends to a significant extent on its key personnel, the Directors, and its management team, identified in Section 9. The Directors and management team have extensive experience in, and knowledge of, Tesseract's business and the Security-as-a-Service industry.</p> <p>There is a risk that Tesseract may not be able to attract and retain key staff or be able to find suitable replacements in a timely manner if key staff leave. The loss of key staff, or any delay in their replacement, could impact Tesseract's ability to operate its business and achieve its growth strategies.</p>	Sections 4.1(a) and 9.
Threat to Intellectual Property Rights and Lack of Patents	<p>The key intellectual property rights of Tesseract, being copyright in software (including source code and object code) and know-how, are not registrable in Australia or in many overseas jurisdictions. Tesseract does not own any registered patents in relation to the MSSP Platform.</p> <p>Accordingly, there is a risk that third parties might develop functionally identical products or otherwise obtain and use Tesseract's intellectual property rights without authorisation.</p>	Sections 4.1(b) and (c).
Technology Risks	<p>There is a risk that, as marketable technologies continue to be developed in the managed security services industry, there may be certain information technology and product developments that supersede, and render obsolete, the existing product and service offerings of Tesseract.</p>	Section 4.1(d).
Disruption to MSSP Platform	<p>There is a risk that the MSSP Platform may be adversely affected by a number of factors including without limitation, computer viruses or hacking. Events of this nature may cause part of the MSSP Platform to become unavailable to customers.</p>	Section 4.1(e).
Hacking	<p>There is a risk that customers, including Channel Partners and their customers' systems could be hacked, which could result in losses being suffered by the Channel Partners, and their customers.</p>	Section 4.1(f).
Industry Competition	<p>The Security-as-a Service industry is highly competitive. The size and market strength of Tesseract's competitors may make it difficult for Tesseract to maintain a competitive position.</p>	Section 4.1(g).

For personal use only

1. INVESTMENT OVERVIEW CONTINUED

1.5 Key strengths

TOPIC	SUMMARY	WHERE TO FIND MORE INFORMATION
Market position	Tesseract and its Channel Partners provide Security-as-a-Service to more than 190 organisations located in 11 countries and territories. Australian organisations currently serviced by Tesseract include BMW, Toyota, Nintendo, The Good Guys, Reece, and Maxitrans.	Sections 3.2, 3.3 and 3.6.
Scalable sales channel model and technology	<p>The MSSP Platform enables Channel Partners to efficiently and cost-effectively deliver their own Security-as-a-Service solutions to their customers.</p> <p>Indirectly this provides Tesseract with the opportunity to generate revenue from a wider range of potential organisations than Tesseract could achieve with its own sales resources.</p> <p>The MSSP Platform can be delivered to organisations as a cloud service, which makes it highly scalable since cloud computing allows a business to easily upscale or downscale its IT requirements as and when required.</p>	Sections 2.2, 3.2, 3.3, 3.4 and 3.6.
Subscription model	Tesseract generates recurring revenues as a result of the sale of Security-as-a-Service under a subscription model.	Section 3.
Existing security data supplier relationships	Tesseract has important global relationships with leading software security data providers including companies like Cisco, Spamhaus, Webroot and SURBL.	Sections 3.1, 3.3 and 3.5.
Highly experienced management team and board	Tesseract has a highly experienced management team and board with global and industry-relevant experience.	Section 9.

1.6 Directors

TOPIC	SUMMARY	WHERE TO FIND MORE INFORMATION
Who are the Directors of Tesseract?	<p>The Directors of Tesseract are:</p> <p>Keith Glennan (Managing Director): Keith has been in the IT industry for over 30 years (starting his career at Hewlett-Packard and then moving to IBM) and has operated in the managed security industry since 2002. Keith formulated Tesseract's business strategy and has been Managing Director since 2012.</p> <p>Russell Yardley (Non-Executive Chairman): Russell has over 35 years of entrepreneurial and corporate experience in the IT sector having started his career with IBM in 1978. Russell is a non-executive board member for a number of organisations including: Readify Limited (chairman) and Folk Pty Ltd (chairman).</p> <p>Gregory Baxter (Non-Executive Director): Gregory is currently Global Head of Digital at Citibank. He specialises in the development and delivery of digital strategy, corporate innovation and business transformation. He has held senior business, consulting and technology roles across Asia, Europe and North America.</p> <p>Stefano Bertamini (Steve Bertamini) (Non-Executive Director): Steve has extensive finance experience. He is currently CEO of Al Rajhi Bank, a bank with total assets in excess of US\$70 billion. He was formerly CEO of GE Australia and New Zealand.</p> <p>Paul Brandling (Non-Executive Director): Paul is a non-executive director of the ASX-listed Vocus Communications Limited and also the ASX-listed Integrated Research Limited. Prior to this he was a non-executive director of Amcom Telecommunications Limited and Vice President and Managing Director of Hewlett-Packard South Pacific and Vice President and Managing Director of Compaq South Pacific.</p>	Section 9.

1.7 Significant interests of key people and related party transactions

TOPIC	SUMMARY	WHERE TO FIND MORE INFORMATION																
Who of the Company's Shareholders will be Substantial Shareholders?	<p>The Company's Existing Holders who will most likely be Substantial Shareholders following the Listing are as follows:</p> <table border="1"> <thead> <tr> <th>SUBSTANTIAL SHAREHOLDER</th> <th>NO. OF SHARES (including the Consideration Shares)</th> <th>% SHARE-HOLDING (MINIMUM SUBSCRIPTION)</th> <th>% SHARE-HOLDING (MAXIMUM SUBSCRIPTION)</th> </tr> </thead> <tbody> <tr> <td>Grand Floridian Pty Ltd²</td> <td>31,451,435</td> <td>34.0%</td> <td>30.7%</td> </tr> <tr> <td>RTSF Super Pty Ltd</td> <td>14,549,704</td> <td>15.7%</td> <td>14.2%</td> </tr> <tr> <td>T.B.C. (Australia) Pty Ltd</td> <td>9,503,622</td> <td>10.3%</td> <td>9.3%</td> </tr> </tbody> </table>	SUBSTANTIAL SHAREHOLDER	NO. OF SHARES (including the Consideration Shares)	% SHARE-HOLDING (MINIMUM SUBSCRIPTION)	% SHARE-HOLDING (MAXIMUM SUBSCRIPTION)	Grand Floridian Pty Ltd ²	31,451,435	34.0%	30.7%	RTSF Super Pty Ltd	14,549,704	15.7%	14.2%	T.B.C. (Australia) Pty Ltd	9,503,622	10.3%	9.3%	Sections 6.2 and 9.9.
SUBSTANTIAL SHAREHOLDER	NO. OF SHARES (including the Consideration Shares)	% SHARE-HOLDING (MINIMUM SUBSCRIPTION)	% SHARE-HOLDING (MAXIMUM SUBSCRIPTION)															
Grand Floridian Pty Ltd ²	31,451,435	34.0%	30.7%															
RTSF Super Pty Ltd	14,549,704	15.7%	14.2%															
T.B.C. (Australia) Pty Ltd	9,503,622	10.3%	9.3%															
What are the material related party transactions into which Tesseract has entered?	<p>Tesseract has entered into the following material related party transactions.</p> <p>(a) Loan facilities provided by various related parties of Tesseract, being Grand Floridian Pty Ltd (ACN 057 464 767), T.B.C. (Australia) Pty Ltd (ACN 080 949 597) and the trustee of the Raging Thunder Superannuation Fund which is currently RTSF Super Pty Ltd (ACN 600 322 245) in the aggregate amount of \$750,034 at 30 September 2015. From 1 October 2015, interest and principal has continued to be repaid in respect of these Internal Debt Finance arrangements in accordance with their terms.</p> <p>(b) On 10 November 2015 RTSF Super Pty Ltd (being the current trustee of the Raging Thunder Superannuation Fund) converted \$100,000 of principal owed by Tesseract to RTSF Super Pty Ltd under the Internal Debt Finance arrangement described above, into Shares.</p> <p>(c) Each Substantial Shareholder has provided a Firm Commitment Letter to subscribe for Shares under the Offer up to their Outstanding Principal and Interest Amount.</p>	Sections 10.2, 10.5 and 11.8.																
What are the Directors' shareholdings on Listing?	<p>Keith Glennan, the Managing Director, is an Existing Holder and on Listing will have an approximate shareholding (through Grand Floridian Pty Ltd) of between 34.0% and 30.7% (depending on the level of subscription of the Offer).</p> <p>Each of Steve Bertamini (Non-Executive Director), Paul Brandling (Non-Executive Director) and Gregory Baxter (Non-Executive Director) are Existing Holders and on Listing each will have an approximate shareholding of between 1.3% and 1.2% (depending on the level of subscription of the Offer).</p> <p>Russell Yardley, the Non-Executive Chairman, is an Existing Holder and on Listing will have an approximate shareholding of between 0.65% and 0.59% (depending on the level of subscription of the Offer).</p>	Section 9.9(b).																
What escrow restrictions apply?	<p>It is anticipated that certain Shareholders may be escrowed. The escrow restrictions that may apply will be determined by the ASX as part of the listing application process and an announcement of the Shares that are subject to escrow will be made at the time of the Listing.</p>	Section 6.3 provides a summary of the likely Shareholders shareholdings that may be escrowed.																
What significant benefits and interests are payable to Directors and other persons connected with Tesseract or the Offer?	<p>All Non-Executive Directors will be remunerated in the form of director's fees and Director Options which have been issued.</p> <p>The Managing Director, Keith Glennan, will receive a salary.</p> <p>Oliver Carton has an interest in a consultancy agreement between the Company and Lennox Group Pty Ltd, under which Oliver's services as Company Secretary are provided.</p> <p>Advisers and other service providers are entitled to fees for their services.</p>	Sections 9.5, 9.6, 9.7, 9.8, 9.9, 10.2, 10.3, 10.4, 10.5 and 11.8.																

² This is an entity associated with Keith Glennan, the Managing Director.

1. INVESTMENT OVERVIEW CONTINUED

1.8 Key terms and conditions of the Offer

TOPIC	SUMMARY	WHERE TO FIND MORE INFORMATION
Who is the issuer of the Prospectus?	The prospectus is issued by Tesseract Limited (ACN 605 672 928), a company incorporated in Victoria, Australia.	Section 11.1.
What is the Offer?	<p>The Offer is an initial public offering of 25,000,000 new Shares, at an issue price of \$0.20 per Share to raise \$5,000,000.</p> <p>The Directors reserve the right to accept over-subscriptions under the Offer for up to a further 10,000,000 new Shares at an issue price of \$0.20 to raise a maximum of \$7,000,000.</p> <p>The Company will issue new Shares to successful Applicants under the Offer.</p> <p>The Shares issued to the Substantial Shareholders under the Firm Commitment Letters will count towards the minimum and maximum amounts to be raised under the Offer.</p>	Sections 5.1, 5.2 and 5.3.
Will the Shares be listed?	An application will be made to the ASX for the Company to be admitted to the Official List and for quotation of the Shares on the ASX.	Sections 5.6 and 5.7.
Is the Offer underwritten?	The Offer is not underwritten.	Section 5.4.
How can I apply?	<p>Investors may apply for Shares either:</p> <ul style="list-style-type: none"> ➤ online by visiting offer.tesseract.com and making the application payment using BPAY or EFT; or ➤ by completing a valid Application Form attached to or accompanying this Prospectus and mailing it, together with the application payment to 'Tesseract Limited' c/- Computershare Investor Services Pty Limited, GPO Box 52 Melbourne, Victoria 3001. 	Section 5.5.
Where can I find more information about this Prospectus or the Offer?	If you are unclear or uncertain as to whether an investment in the Company is a suitable investment for you, you should seek professional guidance from your solicitor, stockbroker, accountant, or other independent and qualified professional adviser before deciding whether to invest.	None
Can the Offer be withdrawn?	The Company reserves the right not to proceed with the Offer at any time before the settlement of the Offer. If the Offer does not proceed, application monies will be refunded. No interest will be paid to Applicants on any application monies refunded as a result of the withdrawal of the Offer.	Sections 5.2 and 5.6.
What is the allocation policy?	Under the Firm Commitment Letters, if the Offer is oversubscribed, the Consideration Shares will be allocated to the Substantial Shareholders in priority to any Shares subscribed for and allocated to other Applicants under the Offer. Otherwise, the Company and the Joint Lead Managers in consultation will determine the allocation of Shares among Applicants.	Sections 5.1, 5.3, 5.7 10.3, 10.4 and 10.5.

³ Intel Security "Net Losses: Estimating the Global Cost of Cybercrime, Economic impact of cybercrime II", June 2014, page 3.

For personal use only

“In 2014 Intel Security estimated the likely annual cost of cybercrime to the global economy to be US\$400 billion”.³

2. INDUSTRY OVERVIEW

INDUSTRY OVERVIEW

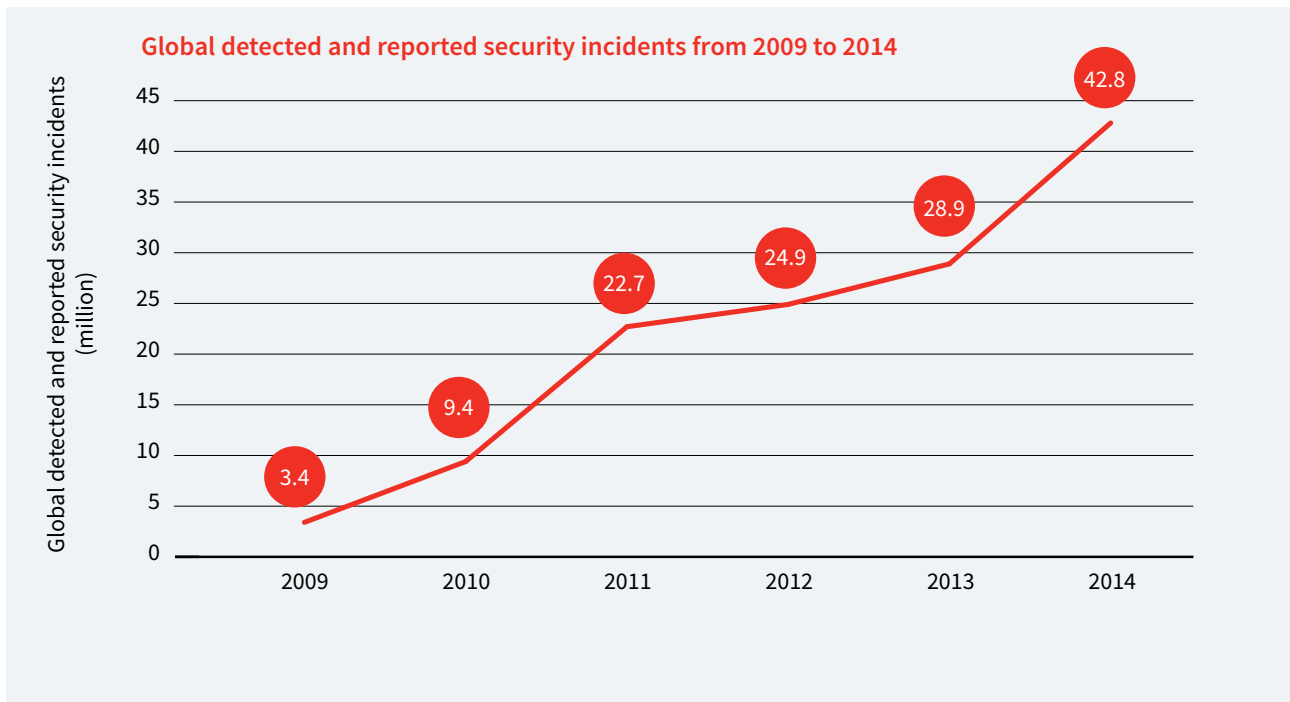
2.1 Internet security industry

Tesseract operates in the Internet security industry, the primary purpose of which is to defend against cybercrime.

Cybercrime is the illegal use of computers and the Internet, which includes the activities of hacking, spamming, data theft, unauthorised access and fraud.

According to Intel Security, cybercrime is a growth industry and in 2014 they estimated the likely annual cost of cybercrime to the global economy to be US\$400 billion.⁴

The number of security incidents is rising,⁵ with PwC's Global State of the Information Security Survey 2015, an annual survey of 9,700 security, IT and business executives across more than 154 countries, showing that the number of detected security incidents has risen since 2009 at a compound annual growth rate of 66%.



Source: PwC "Managing cyber risks in an interconnected world: Key findings from The Global State of the Information Security Survey 2015", page 7.

While the total costs of cybercrime at the global level are staggering, at the individual organisation level the costs of a security breach can also be significant, with victims ranging from small and medium enterprises to sophisticated corporate enterprises and government organisations.

⁴ Intel Security "Net Losses: Estimating the Global Cost of Cybercrime, Economic impact of cybercrime II", June 2014, page 3.

⁵ PwC "Managing cyber risks in an interconnected world: Key findings from The Global State of the Information Security Survey 2015", page 7.

For personal use only

The table below summarises some significant recent acts of cybercrime.

YEAR ANNOUNCED	ORGANISATION(S) COMPROMISED	DESCRIPTION
2015	Up to 100 financial institutions and banks in around 30 countries ⁶	Kaspersky Lab (a computer security firm) reported an estimated US\$1 billion was stolen from up to 100 financial institutions by a cybercriminal gang.
2015	Ashley Madison ⁷	Hacking group claims to have stolen data on the website's 30 million users.
2015	US Government, US Office of Personnel Management ⁸	Breach of US government databases and stolen personal information of at least 21.5 million people.
2014	Sony Pictures ⁹	An attack on Sony Pictures compromising personal records of employees, which the White House blamed on North Korea.
2014	eBay ¹⁰	A database of 145 million customers was accessed and compromised.
2014	Snapchat ¹¹	4.5 million compromised names and phone numbers.
2013	Vodafone ¹²	Personal and financial information of 2 million customers breached.
2013	Adobe ¹³	Adobe announced its systems had been breached; eventually 38 million accounts were identified as affected.

The cyber threat landscape and Internet security as a whole, is in constant change.¹⁴ Cybercriminals are streamlining and upgrading their techniques and are leapfrogging defences in ways that companies lack insight to anticipate.¹⁵

Tesseract considers that recent technological advancements and growth in cloud services means corporations and consumers will have increased connectivity across their devices, appliances and machines. With this increased connectivity comes the potential for an increasing and new range of security risks, including attacks on:

(a) The Internet of Things

The Internet of things is a proposed development of the Internet in which everyday objects have network connectivity, allowing them to send and receive data (**IoT**). IoT devices are many and varied, including smart televisions, CCTV cameras, smart utility meters, remote access controls for alarms, lighting and climate controls.

"Gartner's assessment of the huge potential of the Internet of Things is reflected in its forecast of a cumulative 25 billion things to be shipped by the year 2020, in industries ranging from automotive to food and beverage services."¹⁶ Tesseract believes this provides new and increasing penetration points for attackers.

(b) Cloud hosted data

(c) Bring Your Own Devices

Bring your Own Devices is the practice of allowing the employees of an organisation to connect their own computers, smartphones, or other devices, to an organisation's network which could lead to the introduction of malicious code into that network.

⁶ BBC News Business – "Cyber bank robbers steal \$1bn, says Kaspersky" dated 16 February 2015 and Kaspersky Labs "The Great Bank Robbery: Carbanak cybergang steals \$1bn from 100 financial institutions worldwide" dated 16 February 2015.

⁷ ABC News, "Ashley Madison hack proves we're dating in the dark when it comes to online security", dated 25 July 2015 by Margot O'Neill and Brigid Andersen.

⁸ The Scotsman "China 'leading suspect' in hack of US government" dated 26 June 2015 and BBC News "Hackers 'stole data of millions of US government workers" dated 10 July 2015.

⁹ The Guardian "The Interview revenge hack cost Sony just \$15m" dated 5 February 2015 written by Dominic Rushe.

¹⁰ Verizon Enterprise Solutions "2015 Data Breach Investigation Report" page 57.

¹¹ *Ibid.*

¹² Verizon Enterprise Solutions "2014 Data Breach Investigation Report" page 4.

¹³ *ibid.*

¹⁴ Symantec Corporation, "Internet Security Threat Report" April 2015, volume 20 page 5.

¹⁵ Symantec Corporation, "Internet Security Threat Report" April 2015, volume 20 page 6.

¹⁶ Gartner Inc., "Predicts 2015: Internet of Things", by Alfonso Velosa, James F. Hines, Hung LeHong, Earl Perkins, Satish R.M, published 30 December 2014.

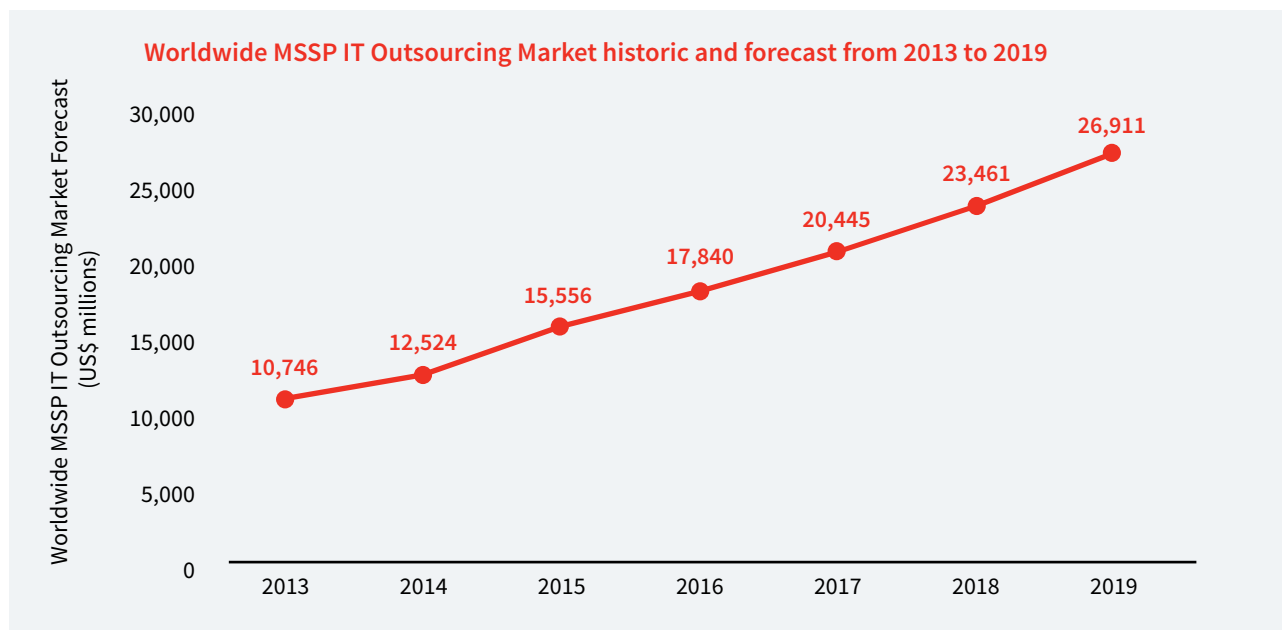
The Gartner Report(s) described herein, (the "Gartner Report(s)") represent(s) data, research opinion or viewpoints published, as part of a syndicated subscription service, by Gartner, Inc. ("Gartner"), and are not representations of fact. Each Gartner Report speaks as of its original publication date (and not as of the date of this Prospectus) and the opinions expressed in the Gartner Report(s) are subject to change without notice.

2. INDUSTRY OVERVIEW CONTINUED

2.2 Managed Security Services Market

Gartner estimates that the security spending for the worldwide overall security market will grow from US\$73.4 billion in 2014 to US\$115.9 billion by 2019.¹⁷

Within the Internet security industry is the Managed Security Services Provider (MSSP) market, which is the key market of interest for Tesseract. Gartner defines “MSSs as the remote management and/or monitoring of IT security functions delivered via remote security operations centres (SOCs), not through personnel on-site.”¹⁸ Gartner forecasts the MSSP IT Outsourcing market worldwide will increase from US\$12.5 billion in 2014 to US\$26.9 billion in 2019, a compound annual growth rate of 16.5%.¹⁹



Source: Chart created by Tesseract Limited based on Gartner research: “Forecast: Information Security, Worldwide, 2013-2019, 3Q15 Update”, 11 November 2015.²⁰

According to Frost and Sullivan:²¹

“The number of cyber and virtual attacks has continued to increase over the last decade. Both private and government organisations have come under attack, driving information security to become a priority. As a result, many organisations are looking at MSSPs to ensure that their IT systems are secured and resilient against attacks and potential breaches. Awareness regarding the damage that can be caused through a breach in IT security, both through loss of sensitive data and manipulation of systems, is on the rise.”

¹⁷ Gartner Inc., “Forecast: Information Security, Worldwide, 2013-2019, 3Q15 Update”, 11 November 2015, G00277272 Analyst(s): Ruggero Contu, Christian Canales, Sid Deshpande and Lawrence Pingree.

The Gartner Report(s) described herein, (the “Gartner Report(s)”) represent(s) data, research opinion or viewpoints published, as part of a syndicated subscription service, by Gartner, Inc. (“Gartner”), and are not representations of fact. Each Gartner Report speaks as of its original publication date (and not as of the date of this Prospectus) and the opinions expressed in the Gartner Report(s) are subject to change without notice.

¹⁸ Ibid.

¹⁹ Ibid.

²⁰ Ibid.

²¹ Frost & Sullivan, “Analysis of the Global Managed Security Services Market – The Shift to Security Outsourcing is Driving the Market”, January 2013.

Tesserent considers that the growth in demand for MSSPs is driven primarily by the following factors:

- › In-house IT teams are not well equipped to deal with the relentless onslaught of new security threats.
- › MSSPs have specialist expertise.
- › MSSPs provide 24/7 security monitoring and incident responses from dedicated security operations centres.
- › MSSPs eliminate the need for an organisation to maintain high-cost security staff.
- › MSSPs are often cheaper than in-house solutions (because customers benefit from economies of scale achieved as a result of the provider servicing a range of customers).
- › MSSPs will usually provide the necessary hardware and software as part of the in service offering, thereby reducing customers' capital expenditure and transferring the budget line item to an operating expense.

Tesserent's MSSP Platform has been designed to be used in the security operations centres of managed security services providers. In Tesserent's opinion, this focus has resulted in the MSSP Platform being scalable and cost effective when used by managed security services providers.

2.3 Competitive Landscape

In Tesserent's opinion, the managed security service market is very competitive, with security services typically delivered by service providers from four main segments, being:

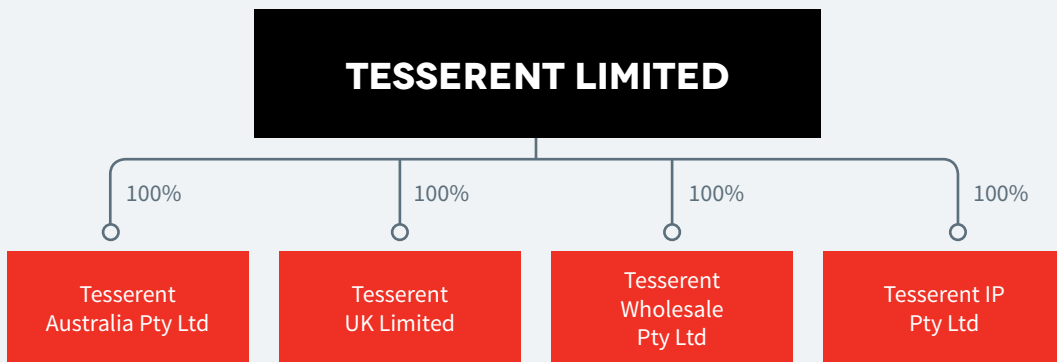
- › Pure-play Managed Security Service Providers (of which Tesserent Australia is one) – often engaged by customers who are looking specifically for quality and timeliness.
- › Network service providers or telecommunications companies, – where security is often a value added service to existing Internet connectivity.
- › Outsourcers – where a provider will take over the delivery and management of a customer's existing in-house IT security systems.
- › System Integrators – where projects are typically below the scale of the outsourcers. System Integrators often partner with pure-play Managed Security Service Providers to enhance their own capabilities.

3. OVERVIEW OF TESSERENT

OVERVIEW OF TESSERENT

3.1 Structure of Tesseract

The Company was incorporated on 6 May 2015 and Tesseract was restructured in anticipation of applying for admission to the ASX. The restructure was undertaken to implement a public company as the holding company for the purposes of listing on the ASX, and to provide a structure that will assist Tesseract's proposed strategies going forward.



The main undertaking of each entity within Tesseract is as follows:

- Tesseract Australia is the main operating business of Tesseract and has been providing Security-as-a-Service for over 5 years.
- Tesseract UK is a non-operational entity and does not hold any assets.
- Tesseract Wholesale Pty Ltd licences the MSSP Platform to Channel Partners and has important global relationships with leading software security data providers including Cisco, Webroot, Spamhaus, and SURBL which are used within the MSSP Platform.
- Tesseract IP Pty Ltd holds the owned and licensed intellectual property of Tesseract (other than licence agreements with software security data providers which are held by Tesseract Wholesale), including the MSSP Platform (which it licences to Tesseract Wholesale).

For personal use only

3.2 Business of Tesseract

Tesseract provides Internet Security-as-a-Service to a wide range of Australian and international customers, including education providers, corporate enterprises, and government customers.

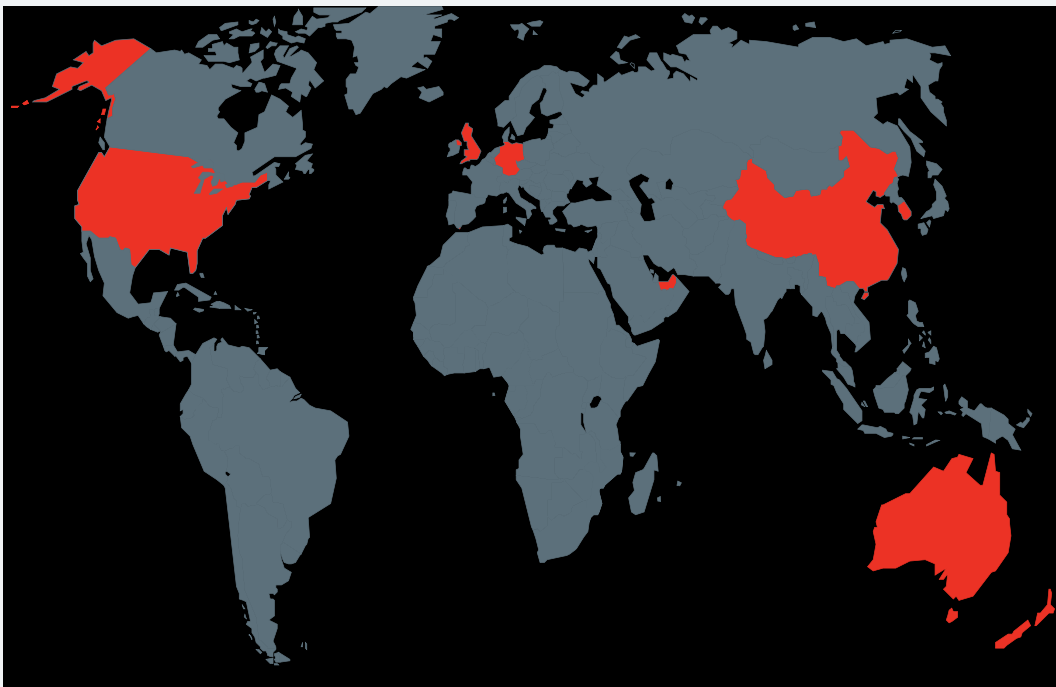
Tesseract has also appointed Channel Partners that use the MSSP Platform to deliver Security-as-a-Service to their own customers.

Tesseract has developed the MSSP Platform, which enables the delivery of Security-as-a-Service to small and large organisations' computer networks. The MSSP Platform is described in further detail in the next section.

In Australia, Tesseract's customers currently include organisations such as BMW, Toyota, Nintendo, The Good Guys, Reece and Maxitans. Industry sectors serviced by Tesseract include education, financial services, transport, healthcare, religious institutions, logistics, retail, government (federal, state and local), and professional services.

Growing international user footprint

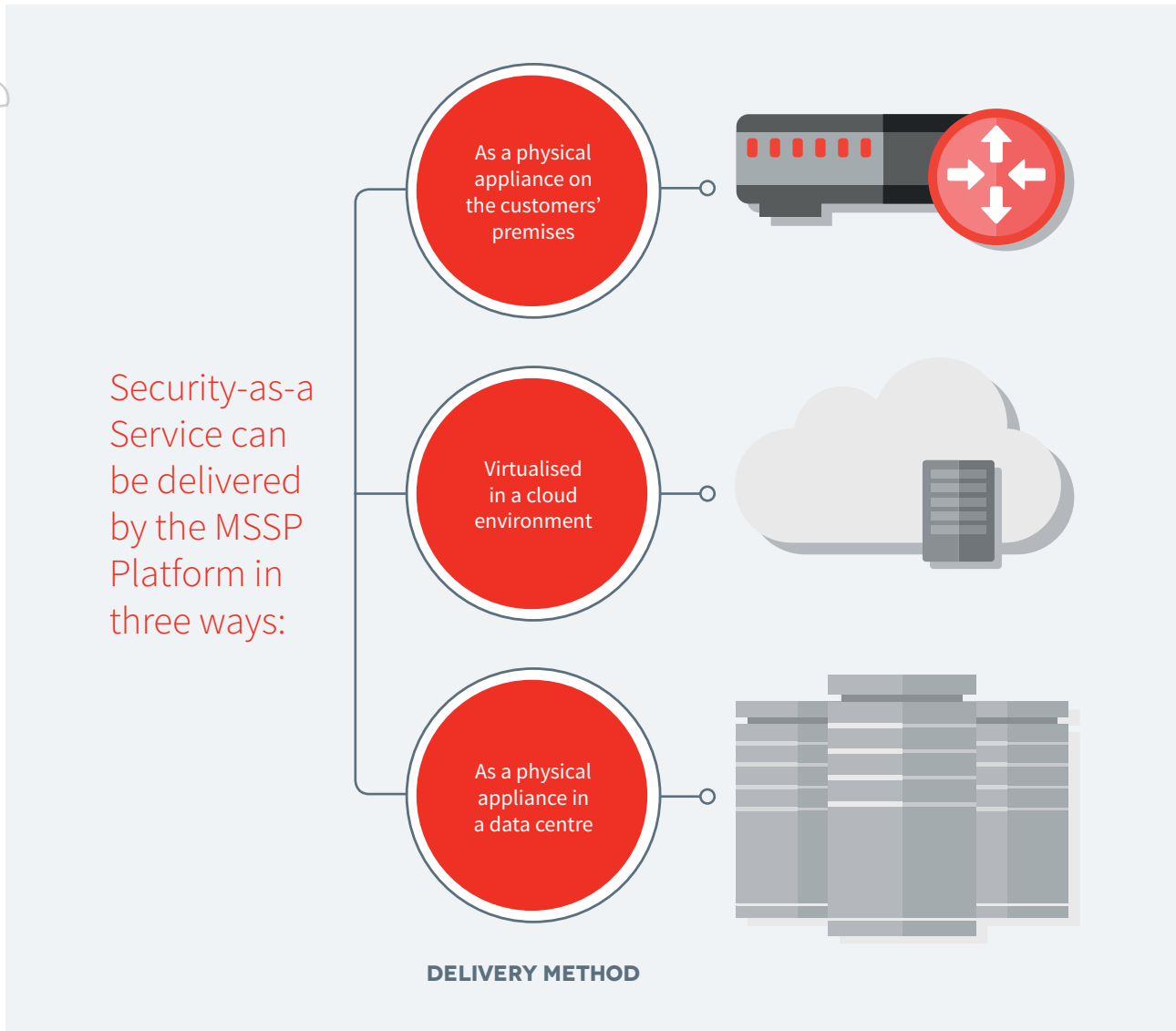
Tesseract and its Channel Partners service over 190 organisations across 11 countries and territories as highlighted below.



- > Australia
- > China
- > Germany
- > Gibraltar
- > Hong Kong
- > New Zealand
- > Singapore
- > South Korea
- > United Arab Emirates
- > United Kingdom
- > USA

3. OVERVIEW OF TESSERENT CONTINUED

3.3 MSSP Platform



The MSSP Platform allows Tesserent and its Channel Partners to effectively deliver the primary security functions for an organisation's computer network including its firewall, content inspection, intrusion detection and bring-your-own-device support. The MSSP Platform comprises three main components:

- a security engine (delivered either on hardware or as software) that is deployed to an organisation either on their network or in the cloud;
- a management suite that is used to communicate with the security engine for the purpose of keeping the security engine up-to-date and applying organisation-specific changes; and
- a monitoring system that processes status and event information to detect issues and identify new threat intelligence.

(a) The Security Engine

The function of the security engine is to analyse traffic flowing through an organisation's network (be it from the Internet or any other source, including from inside the organisation's own network, from a partner's network, or from a portable device connected to a wireless network) to:

- enforce an organisation's policy compliance (which might include blocking certain websites, prohibiting certain kinds of e-mail, or inspecting social media traffic to detect behaviour inconsistent with the organisation's policies);
- block threats (such as malware, phishing attacks and attempts to compromise critical data); and
- relay information regarding suspicious traffic (to enable new threats to be identified).

In Tesseract's opinion, customers benefit from the collective threat intelligence that Tesseract gains from the network of security engines deployed with different organisations, and as a result of this organisations have access to a much wider threat intelligence assessment than they could achieve by managing their security on their own.

Tesseract's security engine uses proprietary algorithms that are augmented by a number of commercial real-time external data-feeds from various industry third party providers, including Spamhaus, Webroot, SURBL, and Cisco. The data feeds from these third party providers, in conjunction with the data that Tesseract collects from its network of security engines, is made available continuously by the management suite in Tesseract's security operations centre to each customer's security engine to ensure that the customer is notified of and protected against new threats as they are discovered.

Tesseract continuously monitors the performance of its data-feed providers and regularly evaluates extra sources of threat intelligence to determine whether they can increase the effectiveness of Tesseract's security engine. This on-going focus on delivering "best of breed" components in its managed security service is, in Tesseract's opinion, one of the things that differentiates Tesseract's managed security solution from others.

(b) Management Suite

Tesseract's management suite is a proprietary set of tools designed to deploy, manage, and update the security engines deployed by Tesseract and its Channel Partners. The management suite is run from Tesseract's security operations centre for Tesseract's customers and Channel Partners who typically install the software (and hardware, if applicable) in their own security operations centre. There is also the option for Tesseract to provide a "cloud-based security operations centre" such that a Channel Partner can manage its customers from a virtual environment, which allows for rapid deployment and higher ease of use for Channel Partners.

Historically, in Tesseract's opinion, managed security providers have chosen a third party product (such as those available from Cisco, Fortinet or Palo Alto) on which to build a managed security services business. However, most such security products have been designed for use by an organisation that is likely to be managing a relatively small number of sites. Consequently, trying to build a managed security business on such a platform usually results in the realisation that the requirements of a managed security provider that intends to manage large numbers of customers may not be well met when trying to build on a product primarily designed to be run by end-users. Such products generally lack the features that are important to a managed security provider: automation of deployment; centralised logging and auditing of all

changes; automatic management of software updates; and rapid (within seconds or minutes) automatic deployment of responses to critical new security threats.

A key feature of Tesseract's management suite is its ability to coordinate a wide-range of threat intelligence data from many of the world's leading cyber-security data providers and distil this data into actionable information that is immediately disseminated to each customer's security engine. On average, Tesseract's management suite typically automatically sources and propagates more than 100 updates per day (to combat threats related to spam, malware, phishing attacks, software vulnerabilities, network vulnerabilities, and others). Additionally, Tesseract's engineers augment this data with additional threat intelligence that is developed in real-time to address issues that may be urgently needed by just one customer or may be applicable to all customers globally.

(c) Monitoring

A key component of the MSSP Platform is its monitoring system, which manages a two-way dialogue between Tesseract's security operations centre and the security engines deployed in customer networks.

The monitoring system tracks the health and security status of the customer's network and identifies situations that need escalation to a security engineer. Each security engine reports information about its performance, detection of malicious traffic, currency of threat information, and many other key metrics that are used to identify issues that may require escalation and action.

3. OVERVIEW OF TESSERENT CONTINUED

3.4 MSSP Centric Model

Tesseract developed the MSSP Platform as an “MSSP Centric Model” whereby an identical system is provided to all customers. As explained below, in Tesseract’s opinion this makes the MSSP Platform highly scalable in comparison to a “Client Bespoke Model” where disparate customised systems are provided to the customer.

The benefits of an MSSP Centric Model are:

(a) Highly Scalable

Enabling MSSP Channel Partners to service thousands of customers and security appliances from a single management portal and security operations centre.

(b) Reduced Development Costs

Tesseract has contractual arrangements with some of the leading cyber-security companies in the world. This means that Channel Partners can enjoy all of the benefits of a cutting-edge platform without large upfront costs and ongoing research and development investment.

(c) Reduced Operational Costs

- › Designed specifically for MSSPs, Tesseract’s MSSP Platform delivers a high level of automation; and
- › By negotiating technology embedding arrangements, Tesseract is able to provide operational savings to its Channel Partners through simplified and reduced licensing fees, pre-integration of security vendor technologies and automation of updates.

(d) White Label Solution

Allowing Channel Partners to build their own brand and products with a full suite of optional white label features.

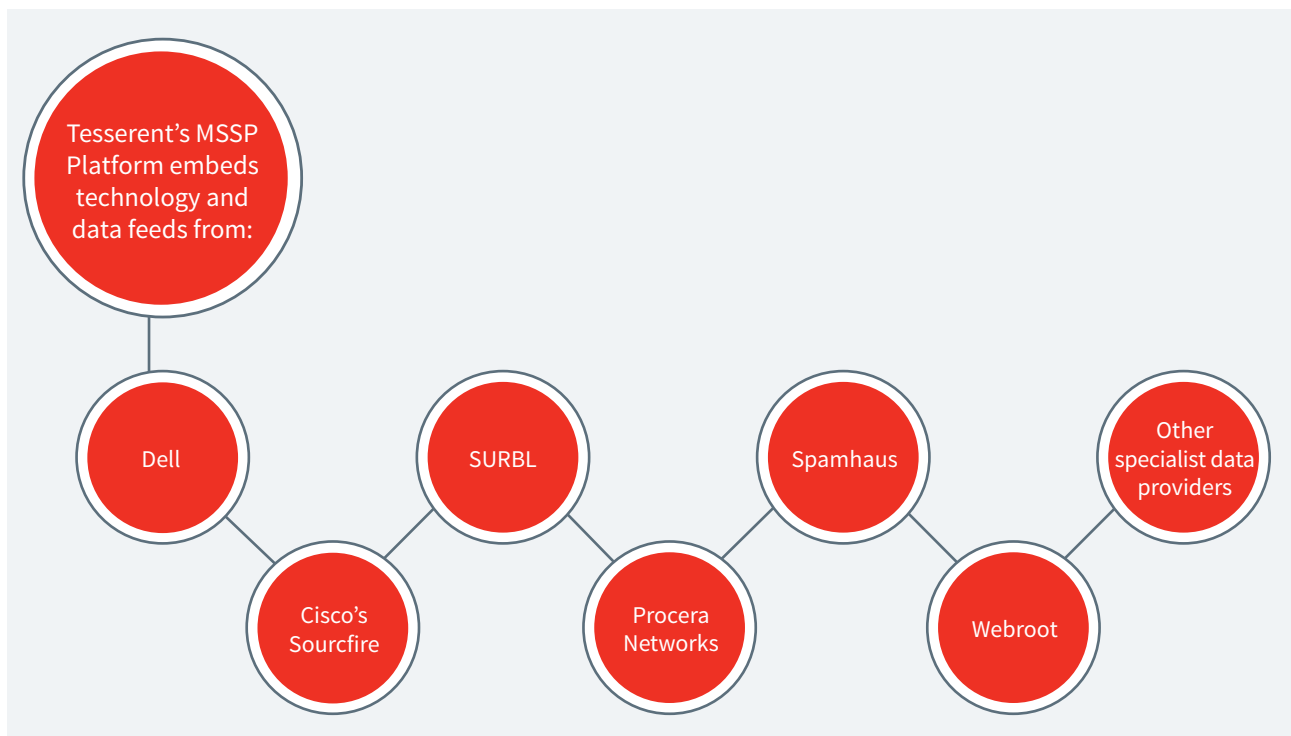
By comparison, Tesseract considers that some of the issues with a “Client Bespoke Model” are as follows:

- › Customers often have different configurations, which increases complexity and operational costs, which inhibits the ability to rapidly scale a managed security business.
- › The systems do not have the same level of automation as they are not designed to service high numbers of customers from a security operations centre, which ultimately requires greater numbers of security engineers to service customers.
- › MSSPs have to deal (both commercially and technically) with a range of product providers.
- › MSSPs have to try to hire employees with broad vendor experience and multiple security platform experience who are capable of maintaining disparate customised systems.

3.5 Tesserent's Intellectual property rights

The MSSP Platform incorporates a combination of:

- (a) Tesserent developed software;
- (b) purchased and licensed software that has been further developed by Tesserent;
- (c) open source software, which is software that can be freely used, changed, and shared by anyone under a free licence; and
- (d) technology provided via a number of different technology vendors, which has been embedded into the MSSP Platform (via relationships with a number of leading international cyber-security organisations including Cisco, Webroot, Spamhaus and SURBL).



The intellectual property rights held by Tesserent comprise copyright in written works (in source code, object code, user interface, manuals and other written material relevant to the software), trade secrets, trade marks (discussed below), compilation/s and know-how (held by employees or those that developed the software).

Tesserent has also registered trade marks to protect its brand in Australia and is in the process of lodging trade marks internationally.

Tesserent is also the registrant for a number of domain names.

Tesserent protects the MSSP Platform and its intellectual property rights and brands through:

- (a) in-built security measures, procedures for the maintenance of confidentiality (including contractual arrangements with customers, suppliers, employees and contractors);
- (b) protection of licensed intellectual property through formal customer and supplier agreements;
- (c) contractual arrangements with employees and contractors; and
- (d) securing the hand-over and continuation of access to know-how, experience, and skills controlled by key employees.

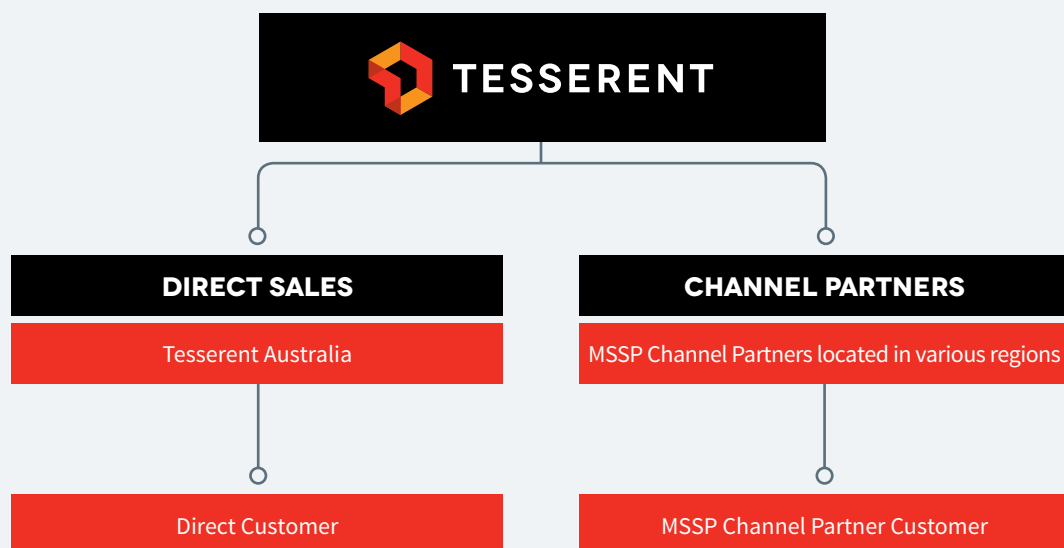
The above protection may enable Tesserent to seek injunctive relief and sue for damages and for breach of copyright and/or breach of contract should that be necessary, in order to protect its intellectual property rights.

Tesserent has not applied for a patent in Australia or in any other jurisdiction in respect of the MSSP Platform. In Australia, it is difficult to register patents in relation to software and a patent only protects the function or technical effect of the software. Tesserent has taken the view that the cost and effort required to obtain and sustain a patent for the MSSP Platform, together with the complex and expensive nature of pursuing an infringement claim outweighs the benefits of obtaining a patent at this time.

3. OVERVIEW OF TESSERENT CONTINUED

3.6 Sales

Tesseract Group's Direct Sales and Channel Partner Sales Model



Tesseract has two sales sources:

(a) Channel Partners

Tesseract currently has contractual arrangements in place with four Channel Partners, located in the United Kingdom, Hong Kong, South Korea, and the United Arab Emirates. The Channel Partners licence the MSSP Platform and utilise it to sell and provide Security-as-a-Service directly to their own customers. The Channel Partners pay a monthly fee to Tesseract based on the number and capacity of an organisation's devices that the Channel Partners service.

(b) Direct customers

Tesseract directly provides Security-as-a-Service to customers, located predominately in Australia.

Customers include leading global organisations across a broad range of industries including financial services, transport, healthcare, religious institutions, logistics, retail, professional services, government (federal, state and local) and education.

No single customer accounts for more than 5% of Tesseract's Pro Forma FY2015 revenue. Since 30 June 2015, Tesseract has signed a contract with an ASX-listed company that, over a three year period, has a contract value of \$1.5 million in aggregate. This contract could amount to more than 5% of Tesseract's total annual revenue going forward.

3.7 Strategy

Tesseract's goal is to extend its reach as a global provider and enabler of Security-as-a-Service. Key elements of Tesseract's growth strategy include:

(a) Expanding the Channel Partner network in Australia and internationally

Expanding the Channel Partner network through increased expenditure on marketing and Channel Partner networking activities (which the Directors consider has the potential to increase the scale of Tesseract's activities).

(b) Expanding its direct customer base in Australia and internationally

Expanding direct sales in Australia and internationally through increased expenditure on marketing and sales activities.

(c) Exploring acquisitions

Explore acquiring other Managed Security Service Providers and migrating their customers to the MSSP Platform, as well as acquiring other complementary cyber-security businesses.

(d) Undertaking further research and development

The constant adaption of cybercriminals requires Tesseract to have an ongoing research and development program to ensure that Tesseract can develop more efficient technologies and processes for monitoring, managing and delivering Security-as-a-Service, as well as staying up to date with the latest security threats.

(e) Expanding its services

Although the majority of Tesseract's revenue is currently generated from acting as a pure Managed Security Service Provider and as a provider of the MSSP Platform, Tesseract will explore offering consulting security services, either directly or through partnerships. Security consulting projects could provide an effective lead-in to offering managed security services.

3.8 Finance

- Tesseract Australia currently has a business loan provided by Australia and New Zealand Banking Corporation drawn down to its upper limit of \$700,000. Tesseract will repay this loan out of proceeds raised pursuant to the Offer.
- Tesseract currently has internal debt facilities provided by various related parties of Tesseract being Grand Floridian Pty Ltd, T.B.C. (Australia) Pty Ltd and the trustee of the Raging Thunder Superannuation Fund which is currently RTSF Super Pty Ltd. As at 30 September 2015, Tesseract owed the Substantial Shareholders the aggregate amount of \$750,034. From 1 October 2015, interest and principal has continued to be repaid in respect of these Internal Debt Finance arrangements in accordance with their terms.
- On 10 November 2015, RTSF Super Pty Ltd (being the current trustee of the Raging Thunder Superannuation Fund) converted \$100,000 of principal owed by Tesseract to RTSF Super Pty Ltd, under the Internal Debt Finance arrangements, into Shares.
- Each Substantial Shareholder has provided a Firm Commitment Letter to subscribe for Shares under the Offer up to their Outstanding Principal and Interest Amount, for an aggregate amount of \$610,855 (being the aggregate of the principal and interest owed to the Substantial Shareholders by Tesseract at 31 December 2015). Under the Firm Commitment Letters, each Substantial Shareholder has agreed with the Company to offset any money that is or may become owing by a Substantial Shareholder to the Company as part of the Substantial Shareholder applying for the Consideration Shares. Following successful Completion of the Offer and prior to the Company being admitted to the Official List, each Substantial Shareholder has agreed to fully discharge, release and extinguish the loans and any accrued interest owed to a Substantial Shareholder by Tesseract in respect of the

Outstanding Principal and Interest Amount only. Any balance of the Internal Debt Finance still owing to a Substantial Shareholder by Tesseract after the Substantial Shareholder has received their Consideration Shares, will be paid out of the proceeds of the Offer.

- A summary of the above debt arrangements is provided in Sections 10.1 and 10.2 and a summary of the Firm Commitment Letters is provided in Section 10.5.

3.9 Capital management policy

The Directors have no current intention to declare and pay any dividends. It is the Directors' current intention to utilise the Offer proceeds received by the Company and to reinvest future available cash flows in the further development of Tesseract's business.

3.10 Purpose of the Offer

The purpose of the Offer (and listing on the ASX) is to enable Tesseract to:

- repay existing debt facilities;
- provide sufficient general working capital to facilitate the growth of Tesseract;
- broaden the share register and provide liquidity in the Shares;
- fund increased sales and marketing activities to increase the number of Channel Partners and customers;
- support Tesseract's ongoing research and development programs to develop more efficient technologies and processes for monitoring and managing cyber-security;
- provide Tesseract with access to equity markets to assist in its growth objectives; and
- fund the costs of the Offer.

3. OVERVIEW OF TESSERENT CONTINUED

3.11 Use of proceeds

The table below details Tesseract's source of funding (including the Offer) and the use of those amounts.

	MINIMUM SUBSCRIPTION	MAXIMUM SUBSCRIPTION
Source of funds		
Total Issue of New Shares via the Offer*	\$5,000,000	\$7,000,000
Total proceeds	\$5,000,000	\$7,000,000
Use of funds		
Repay existing debt finance**	\$1,310,855	\$1,310,855
Sales and marketing programs	\$1,110,000	\$1,810,000
Fund Tesseract's ongoing research and development programs	\$500,000	\$800,000
IT infrastructure expansion	\$500,000	\$700,000
Costs of the Offer***	\$730,000	\$850,000
Working Capital	\$849,145	\$1,529,145
Total use of funds	\$5,000,000	\$7,000,000

* This includes \$610,855 of Shares issued under the Firm Commitment Letters, which will be offset against loans owed by Tesseract to the Substantial Shareholders.

** As at 30 September 2015, Tesseract Australia owed the Australia and New Zealand Banking Corporation \$700,000 and Tesseract owed the Substantial Shareholders the aggregate amount of \$750,034. From 1 October 2015, interest and principal has continued to be repaid in respect of the Internal Debt Finance arrangement in accordance with their terms and the balance of the \$750,034 owed to the Substantial Shareholders has reduced.

On 10 November 2015 RTSF Super Pty Ltd (being the current trustee of the Raging Thunder Superannuation Fund) converted \$100,000 of principal owed by Tesseract to RTSF Super Pty Ltd under the Internal Debt Finance, into Shares.

Each Substantial Shareholder has provided a Firm Commitment Letter to subscribe for Shares under the Offer up to their Outstanding Principal and Interest Amount, for an aggregate amount of \$610,855 (being the aggregate of the principal and interest owed to the Substantial Shareholders by Tesseract at 31 December 2015). Under the Firm Commitment Letters, each Substantial Shareholder has agreed with the Company to offset any money that is or may become owing by a Substantial Shareholder to the Company as part of the Substantial Shareholder applying for the Consideration Shares. Following successful Completion of the Offer and prior to the Company being admitted to the Official List, each Substantial Shareholder has agreed to fully discharge, release and extinguish the loans and any accrued interest owed to a Substantial Shareholder by Tesseract in respect of the Outstanding Principal and Interest Amount only. Any balance of the Internal Debt Finance still owing to a Substantial Shareholder by Tesseract after the Substantial Shareholder has received their Consideration Shares, will be paid out of the proceeds of the Offer.

*** This is an estimate only and does not include an additional amount of approximately \$700,000 of costs related to the Offer that have been funded via the debt facility described in Section 10.1. If this amount increases or decreases, the amount of funds designated for working capital will change accordingly. These expenses comprise advisory, legal, accounting, listing and administration fees, Prospectus design and printing, Share Registry costs, and other expenses.

The Directors consider that the amount to be raised under the Offer will be sufficient to provide enough working capital to achieve Tesseract's objectives as set out in this Prospectus.

For personal use only

4. RISK FACTORS

RISK FACTORS

There are a number of factors that may affect the future operating and financial performance of Tesseract and the value of an investment in Tesseract.

Some of these factors can be mitigated by the use of safeguards and appropriate commercial action. However, many are outside the control of Tesseract and cannot be mitigated.

Investors should note that this Section does not purport to list every risk that may be associated with an investment in the Shares, now or in the future. There can be no guarantee that Tesseract will achieve its stated objectives or that any forward-looking statement or forecasts will eventuate.

The selection of risks in this Section has been based on an assessment of a combination of the probability of an event occurring and impact if it did occur. The assessment is based on the knowledge of the Directors as at the date of this Prospectus, but there is no guarantee or assurance that the importance of risks will not change or that other risks will not emerge.

Before applying for Shares, you should satisfy yourself that you have a sufficient understanding of these matters, including the risks described in this Section of the Prospectus, and consider your own investment objectives, financial circumstances, and taxation position before investing in the Company. If you do not understand any part of this Prospectus, or are in any doubt as to whether to invest in Shares or not, it is recommended that you seek professional guidance from your stockbroker, solicitor, accountant, or other independent and qualified professional adviser before deciding whether to invest.

4.1 Key risks

(a) Key personnel risk

Tesseract's success depends to a significant extent on its key personnel. The management team is discussed in Section 9. The Directors and management team have extensive experience in, and knowledge of, Tesseract's business and the managed security services industry.

There is a risk that Tesseract may not be able to attract and retain key staff or be able to find suitable replacements in a timely manner, the loss of which, or any delay in their replacement could impact Tesseract's ability to operate its business and achieve its growth strategies.

(b) Intellectual property rights

The key intellectual property rights of Tesseract, being copyright in software (including source code and object code) and know-how, are not registrable in Australia or in many overseas jurisdictions. As a consequence, Tesseract must rely on a combination of contractual and licence agreements with its employees, consultants, customers and third parties with whom it has relationships, as well as trademarks, domain names, trade secrets and copyright laws, to protect its intellectual property rights and brands.

Despite precautionary measures, third parties might copy or otherwise obtain and use Tesseract's intellectual property rights without authorisation or may develop similar technology independently.

Any legal action that Tesseract may bring to protect its intellectual property rights could be unsuccessful and expensive and would, in the opinion of the Directors, divert management's attention from its business operations.

(c) Lack of patent protection

Tesseract's intellectual property rights are not protected by any registered patents in any jurisdiction. This may allow competitors to develop products functionally identical to the MSSP Platform.

Even if Tesseract had a patent, a competitor is free to invent something similar provided it does not infringe a registered patent.

(d) Technology risks

There is a risk that, as marketable technologies continue to develop in the managed security services industry, there may be certain information technology and product developments that supersede, and render obsolete, the existing product and service offering of Tesseract. This would negatively affect Tesseract's profitability if Tesseract were not able to respond to these new developments.

(e) Disruption to MSSP Platform

There is a risk that the facilities from which Tesseract operates may be adversely affected by a number of factors including fire and flood (or other such physical emergencies), computer viruses or hacking (as would be the case with competing technologies), such that all or part of the MSSP Platform could become unavailable to customers.

4. RISK FACTORS CONTINUED

Tesseract's recovery plans, although comprehensive, may not adequately address every potential event. This could, in turn, reduce Tesseract's ability to generate revenue, impact customers' service levels, cause reputational damage and potentially have a material adverse effect on its financial position and performance.

Tesseract seeks to mitigate disruptions by having a backup security operations centre in Melbourne Australia that can be brought online in less than two hours.

(f) Hacking

There is a risk that customers, including Channel Partners, could be hacked, which could result in losses being suffered by the Channel Partners and customers.

Hacking of a Channel Partner or a customer and their systems could lead to a claim against Tesseract. It could also hinder Tesseract's ability to retain Channel Partners and customers or attract new ones, which would have a material adverse impact on Tesseract's growth.

To some extent, this risk is mitigated through contractual arrangements that Tesseract has entered into with Channel Partners and customers which, subject to the laws of the relevant jurisdictions in which Tesseract operates, include limitation of liability clauses and maximum liability caps.

(g) Industry competition

The Security-as-a-Service industry is highly competitive. The size and market strength of Tesseract's competitors may make it difficult for Tesseract to maintain a competitive position.

4.2 Risks specific to Tesseract

(a) Third party reliance risk

Tesseract uses third party security data feeds and third party technology (including open source technology and technology sourced via commercial licence agreements) in the delivery of its MSSP Platform. Tesseract faces a risk that the third party technology or data feeds could contain imperfections that may adversely affect the operation of the MSSP Platform.

Tesseract seeks to mitigate this risk by ensuring that its MSSP Platform is not reliant on any single third party technology or data source and, in some cases, introduces redundancy through the use of more than one third party partner to provide the same type of functionality.

(b) New customers and Channel Partners

Tesseract's underlying growth depends on acquiring new customers and Channel Partners through the execution of marketing programs in multiple jurisdictions. Should the acquisition of new customers or Channel Partners slow or cease then this may have a material impact on the financial performance of Tesseract.

(c) Acquisitions

Tesseract may pursue acquisitions or joint ventures that could present integration obstacles or costs. Tesseract may not realise any of the benefits it anticipates and Tesseract may be exposed to additional liabilities of any acquired business, which could materially adversely affect Tesseract's revenue and results of operations.

In addition, future acquisitions or joint ventures may result in the issue of additional Shares and other securities, which would dilute the ownership of the existing shareholders immediately prior to the time of the acquisition.

(d) Counterparty risk

In respect of contracts entered into by Tesseract, there is a risk that counterparties will be unwilling or unable to fulfil their contractual obligations or will exercise a right to terminate the contract.

Tesseract seeks to mitigate this counterparty risk by having a diverse customer and supplier base, so as to reduce the reliance on any one customer or supplier, and any consequential effect to Tesseract's financial performance.

(e) Equipment located on customer sites

A substantial number of customer contracts require Tesseract to provide its equipment to the customer for the purposes of providing Tesseract's services through bailment arrangements.

Whilst Tesseract contractually seeks to ensure that its equipment is secure while outside its possession, there is a risk that Tesseract's equipment may be damaged or stolen while on its customer's premises. If Tesseract were unsuccessful in claiming compensation from its customers or insurers for such damage or theft, Tesseract's financial performance could be affected.

Moreover, the operation of the Personal Property Securities Act 2009 (Cth) (PPSA), in certain circumstances could threaten Tesseract's title in its own equipment. A failure by Tesseract to comply with the PPSA when required, could result in Tesseract losing title to its own equipment as a consequence of a customer's external administration, which could impact Tesseract's financial performance.

(f) Exchange rate movements

Some of Tesseract's costs are in US dollars and some revenue is received in foreign currencies (although the net effect of these at the current levels of foreign currency expenditure and revenue is currently not material).

If Tesseract is able to significantly expand its foreign currency income, adverse movements could result in losses that could impact Tesseract's financial position and performance, and the level of capital required to support the businesses operated by Tesseract.

(g) On-going capital requirements

While the proceeds of the Offer are intended to adequately satisfy Tesseract's current capital requirements, if Tesseract requires access to further funding at any stage in the future, Tesseract may be adversely affected in a material way if, for any reason, access to that capital is not available. There can be no assurance that additional funds will be available. If additional funds are raised by issuing additional Shares, this would dilute the ownership of the existing shareholders immediately prior to the time of the fundraising.

For personal use only

(h) Liability and insurance risk

Tesseract's insurance arrangements may not be adequate to protect Tesseract against liability for losses relating to public liability, property damage, product liability, business interruption and other risks that may arise in the course of its operations.

Should Tesseract be unable to maintain adequate insurance to cover these risks, or experience claims for losses in excess of the level of its insurance coverage, Tesseract's financial performance could be materially affected.

(i) Litigation and dispute risk

From time to time, Tesseract may be involved in litigation in relation to issues such as contractual, personal injury, employee and other claims that may arise in the ordinary course of business.

Any claim made against Tesseract may adversely impact upon the operational and financial performance of Tesseract, and may also negatively impact on the Company's Share price.

If Tesseract is involved in legal proceedings, including any party with whom Tesseract has entered into agreements, this process may incur significant management and financial resources, and a positive outcome for Tesseract cannot be guaranteed.

Further, even if Tesseract were successful in obtaining a monetary judgment against a third party, Tesseract may be unable to recover any monies from that party. For example, the relevant third party may have inadequate financial resources to cover any judgment that is awarded in favour of Tesseract including any award for the payment of Tesseract's legal costs.

4.3 Risks specific to the managed security services industry**(a) Industry reputation**

Tesseract's reputation is important. If Tesseract's reputation is harmed, or the reputation of the managed security services industry as a whole is harmed, Tesseract's business, financial condition and results of operations and cash flows may be materially adversely affected.

(b) Industry growth risk

As a result of slower than expected growth in the managed security services industry, Tesseract may experience a lower than expected level of demand for its services. Specifically, the market segments that Tesseract has identified as being integral to its success and growth, including but not limited to the corporate, government and education sectors, may experience either low or slower than expected growth.

4.4 Risks specific to the Shares**(a) Share investment**

Investors should be aware that there are risks associated with investment in shares of companies listed on a stock exchange. The value of the Shares can be expected to fluctuate depending on various factors including general worldwide economic conditions, changes in government policies, investor perceptions, movements in interest rates and stock markets, prices of Tesseract's services, variations in the operating costs and costs of capital replacement that Tesseract may in the future require. Accordingly, assuming that the Shares are granted official quotation by the ASX, the Shares may trade on the ASX at higher or lower prices than the Issue Price.

(b) Trading liquidity

Prior to the Offer, there has been no public market for the Shares. There can be no guarantee that an active market in the Shares will develop.

Moreover, it is anticipated that between 66.2% (at the minimum subscription of \$5 million) and 59.8% (at the maximum subscription of \$7 million of the Shares) of the Company will be held in escrow for between 12 and 24 months by 20 individual shareholders following Completion of the Offer and trading in Shares may be less liquid during this period.

(c) Tax risk Factors

A general overview of the tax consequences of investing in the Company for certain potential investors who are Australian residents is set out in Section 12. This Section is based on current tax law as at the date of

this Prospectus. It is not intended to provide specific advice addressing the particular circumstances of a potential investor. As such, potential investors should seek independent tax advice that takes into consideration their specific circumstances and tax position.

In recent years, there have been a number of key tax reform measures. In the event that there is further change in Australian tax law, or an administrative pronouncement or ruling, including in respect of the rates of tax payable by Tesseract, such developments could negatively impact the returns derived by a potential investor. In addition, an interpretation of the Australian tax laws by the Commissioner of Taxation that is contrary to Tesseract's view of those laws could similarly increase the amount of tax payable by Tesseract.

4.5 General risks**(a) General economic conditions and outlook**

Tesseract's performance will be dependent on the general conditions and outlook of the local and global economies. These economies may in turn be affected by levels of business spending, inflation, interest rates, exchange rates and access to debt and capital markets. A prolonged or significant downturn in general economic conditions may have a material adverse impact upon Tesseract's financial performance.

(b) War and terrorist attacks

War or terrorist attacks anywhere in the world could result in a decline in economic conditions worldwide or in a particular region. There could also be a resultant material adverse effect on the business, financial condition and financial performance of Tesseract.

(c) Legislative changes, government policy and approvals

Changes in relevant taxes, legal and administration regimes, accounting practices and government policies in Australia and in other places where Tesseract conducts its business may adversely affect the financial performance of Tesseract.

For personal use only

5. DETAILS OF THE OFFER

DETAILS OF THE OFFER

5.1 The Offer

Pursuant to this Prospectus, the Company invites applications for 25,000,000 new Shares, at an issue price of \$0.20 per Share to raise a minimum of \$5,000,000. The Directors reserve the right to accept over-subscriptions under the Offer for up to a further 10,000,000 new Shares at \$0.20 per Share to raise a maximum of \$7,000,000.

Subject to the terms of this Prospectus, the Company will issue Shares to successful Applicants under the Offer.

All Shares will, once issued, rank equally with the existing Shares on issue.

Subject to the terms of this Prospectus, the Company and the Joint Lead Managers in consultation will determine the allocation of Shares among Applicants at their discretion.

Under the Firm Commitment Letters, if the Offer is oversubscribed, the Consideration Shares will be allocated to the Substantial Shareholders in priority to any Shares subscribed for and allocated to other Applicants under the Offer.

The Offer is made on the terms, and is subject to the conditions, set out in this Prospectus. A summary of the rights attaching to the Shares is set out in Section 11.6.

5.2 Minimum subscription

The minimum subscription for the Offer is \$5,000,000.

The Shares issued to the Substantial Shareholders under the Firm Commitment Letters will count towards the minimum and maximum subscriptions under the Offer.

No Shares will be issued under this Prospectus until the minimum subscription has been reached.

If the minimum subscription has not been raised within 4 months after the date of this Prospectus, the Company will either repay the application monies to Applicants or issue a supplementary or replacement prospectus and allow Applicants one month to withdraw their Application and be repaid their application monies.

5.3 Over-subscriptions

Over-subscriptions of up to a further 10,000,000 Shares may be accepted by the Company at its sole and absolute discretion.

Under the Firm Commitment Letters, if the Offer is oversubscribed, the Consideration Shares will be allocated to the Substantial Shareholders in priority to any Shares subscribed for and allocated to other Applicants under the Offer.

The Shares issued to the Substantial Shareholders under the Firm Commitment Letters will count towards the minimum and maximum subscriptions under the Offer.

5.4 Not underwritten

The Offer is not underwritten.

5.5 How to apply

You should carefully read this Prospectus and instructions accompanying it before subscribing. If you wish to participate in the Offer, you can,

- (a) apply online by visiting **offer.tesseract.com** and make payment for Shares using BPay® or by EFT; or
- (b) complete the Application Form attached to or accompanying this Prospectus and mailing it together with your application payment to:

Tesseract Limited
C/- Computershare Investor
Services Pty Limited
GPO Box 52
Melbourne Victoria 3001

Applications under the Offer must be for a minimum of 10,000 Shares (\$2,000) and thereafter in multiples of 1,000 Shares (\$200). Applications to subscribe for Shares under the Offer will only be accepted on the Application Form.

All applications must be completed in accordance with the instructions on how they are to be completed and all paper Application Forms must be accompanied by a cheque in Australian dollars made payable to "Tesseract Limited" and crossed "Not Negotiable".

No brokerage or stamp duty is payable by Applicants.

The amount payable on application will not vary during the period of the Offer and no further amount is payable on or after allotment in respect of the Shares.

If applying by mail, the completed Application Forms and accompanying cheques must be received by the Closing Date.

5.6 ASX Listing

Within 7 days after the date of this Prospectus, the Company will apply to the ASX for admission to the Official List and for the Shares, including those offered by this Prospectus, to be granted Quotation (apart from any Shares that may be designated by the ASX as restricted securities).

If approval for Quotation is not granted within 3 months after the date of this Prospectus, the Company will not allot or issue any Shares, and will repay all application monies without interest as soon as practicable.

The ASX takes no responsibility for the contents of this Prospectus. The fact that the ASX may admit the Company to its Official List is not to be taken in any way as an indication of the merits of the Company or the Shares offered pursuant to this Prospectus.

5.7 Issue of Shares

Subject to the ASX granting conditional approval for the Company to be admitted to the Official List, the allotment of Shares offered by this Prospectus will take place as soon as practicable after the Closing Date. Prior to allotment, all application monies shall be held by the Company on trust. The Company, irrespective of whether the allotment of Shares takes place, will retain any interest earned on the application monies.

Under the Firm Commitment Letters, if the Offer is oversubscribed, the Consideration Shares will be allocated to the Substantial Shareholders in priority to any Shares subscribed for and allocated to other Applicants under the Offer. Otherwise the Directors in consultation with the Joint Lead Managers reserve the right to allot Shares in full for any application or to allot any lesser number or to decline any application.

Where the number of Shares allotted is less than the number applied for, or where no allotment is made, the Shares application monies will be returned by cheque to the applicant within 7 days of the allotment date.

5.8 CHESS

On Listing, the Company will participate in the Clearing House Electronic Subregister System (**CHESS**). CHESS is operated by ASX Settlement Pty Ltd (**ASXS**), a wholly owned subsidiary of the ASX, in accordance with the Listing Rules and the ASX Operating Settlement Rules.

Under CHESS, the Company will not issue certificates to Shareholders. Instead, Shareholders will receive a statement of their holding in the Company. If an investor is broker sponsored, ASXS will send a CHESS statement.

5.9 Joint Lead Managers

The Company has engaged Terrain Capital Limited and Novus Capital Limited to act as Joint Lead Managers in respect of the Offer. A summary of Terrain Capital Limited's and Novus Capital Limited's mandates is set out in Sections 10.3 and 10.4 (respectively).

5.10 Queries

Any queries regarding the Offer should be directed to the Offer Information Line: 1300 395 270 (within Australia) or +61 3 9415 4075 (outside Australia).

Any queries regarding the Application Form should be directed to the Share Registry on 1300 395 270 (within Australia) or +61 3 9415 4075 (outside Australia).

6. EFFECT OF THE OFFER ON THE COMPANY

EFFECT OF THE OFFER ON THE COMPANY

6.1 Capital structure

The proposed capital structure of the Company on Completion of the Offer is set out in the table below.

A. MINIMUM SUBSCRIPTION

	NUMBER OF SHARES	PERCENTAGE OF SHARES
Shares held by Existing Holders	67,459,600	73.0%
New Shares to be issued as part of the Offer	25,000,000	27.0%
Total	92,459,600	100.0%

B. MAXIMUM SUBSCRIPTION

	NUMBER OF SHARES	PERCENTAGE OF SHARES
Shares held by Existing Holders	67,459,600	65.8%
New Shares to be issued as part of the Offer	35,000,000	34.2%
Total	102,459,600	100.0%

The Company has 7,500,000 Director Options on issue. The fees payable to Non-Executive Directors will be cash payments and the grant of these options. The terms of these options and cash payments paid to Non-Executive Directors are set out in Sections 9.5 and 9.7.

6.2 Holders who will be Substantial Shareholders

The table below sets out the interests of the Existing Holders who will most likely immediately following the Offer be Substantial Shareholders, based on the minimum and maximum subscription. The table below includes the Consideration Shares, but does not reflect any Shares that these Existing Holders may additionally subscribe for under the Offer.

SHAREHOLDER	MINIMUM SUBSCRIPTION		MAXIMUM SUBSCRIPTION	
	NUMBER OF SHARES	PERCENTAGE OF SHARES	NUMBER OF SHARES	PERCENTAGE OF SHARES
Grand Floridian Pty Ltd ²²	31,451,435	34.0%	31,451,435	30.7%
RTSF Super Pty Ltd	14,549,704	15.7%	14,549,704	14.2%
T.B.C. (Australia) Pty Ltd	9,503,622	10.3%	9,503,622	9.3%
Total	55,504,761	60.0%	55,504,761	54.2%

²² This is an entity associated with Keith Glennan, the Managing Director.

For personal use only

6.3 Restricted securities

As a condition of Listing, the ASX may classify certain Shares as restricted securities. Prior to Listing, certain Existing Holders and others may be required to enter into mandatory escrow restriction agreements in relation to Shares.

SHAREHOLDER	CURRENT SHAREHOLDING	SHARES SUBJECT TO ESCROW	% OF SHAREHOLDING SUBJECT TO ESCROW	DURATION OF ESCROW PERIOD (MONTHS)
Grand Floridian Pty Ltd ²³	31,100,000	31,100,000	100.0%	24'
RTSF Super Pty Ltd ²⁴	13,758,930	13,115,976	95.3%	24'
T.B.C. (Australia) Pty Ltd ²⁵	7,591,557	5,623,207	74.1%	24'
Philue Investments Pty Ltd	48,375	48,375	100.0%	24'
Sean Langford	48,375	48,375	100.0%	24'
Elliot Langford	48,375	48,375	100.0%	24'
Kristy Langford	48,375	48,375	100.0%	24'
Simon Langford	48,375	48,375	100.0%	24'
Ian May	580,500	580,500	100.0%	24'
Kieran Liston & Barbara Liston	58,050	58,050	100.0%	24'
Quantum Marketing Services Pty Ltd	193,500	193,500	100.0%	24'
Tony Langford	193,500	193,500	100.0%	24'
Steven Lynch	3,771,190	1,934,876	51.3%	12'
Steven Lynch	767,517	767,517	100%	24'
Gregory Baxter	1,200,000	700,000	58.3%	24'
Yardley Family Superannuation Pty Ltd	600,000	350,000	58.3%	24'
SPB Capital LLC	1,200,000	700,000	58.3%	24'
Paul Brandling	1,200,000	700,000	58.3%	24'
Dominic Marinelli	2,131,022	2,116,641	99.3%	24'
Dominic Marinelli & Vicki Marinelli	370,468	367,968	99.3%	24'
Pacrim Investment Consultants Pty Ltd	2,501,490	2,484,609	99.3%	24'

* Escrow period applies from the date of admission to the Official List.

The effect of any mandatory escrow restriction agreement will be that the Shares cannot be dealt with for the duration of the escrow period.

There are limited circumstances in which Shares the subject of escrow may be released, namely:

- to allow the holder to accept a takeover bid for the Company in accordance with Chapter 6 of the Corporations Act provided that holders of not less than 50% of Shares not subject to escrow have accepted the takeover bid; and
- to allow the escrowed Shares to be acquired under an amalgamation or scheme of arrangement or other reorganisation or acquisition of share capital under the Corporations Act.

²³ This does not include the Consideration Shares.

²⁴ *Ibid.*

²⁵ *Ibid.*

For personal use only

“Both private and government organisations have come under attack, driving information security to become a priority. As a result, many organisations are looking at MSSPs to ensure that their IT systems are secured and resilient against attacks and potential breaches”.²⁶

7. FINANCIAL INFORMATION

FINANCIAL INFORMATION

7.1. Introduction

This Section contains a summary of the following financial information of the Company (collectively the “Financial information”), which has been prepared by the Directors:

- pro forma historical Statements of Profit or Loss and Other Comprehensive Income of Tesseract Limited for the years ended 30 June 2013 (FY2013), 30 June 2014 (FY2014) and 30 June 2015 (FY2015); and
- pro forma historical Statements of Cash Flows of Tesseract Limited for FY2013, FY2014 and FY2015, (together, the Pro Forma Historical Financial Information); and
- pro forma consolidated historical Statement of Financial Position of Tesseract Limited and its controlled entities as at 30 June 2015, (the Pro Forma Consolidated Historical Statement of Financial Position).

The Financial Information has been reviewed by BDO Corporate Finance (East Coast) Pty Ltd (BDO Corporate Finance). BDO Corporate Finance’s Investigating Accountant’s Report on the Financial Information is contained in Section 8. Investors should note the scope and limitations of that report (refer to Section 8).

Also summarised in this Section are:

Table 1: Overview of Financial Information

SECTION	HEADING
7.2	Basis of Preparation and Presentation of the Financial Information
7.3	Pro Forma Historical Statements of Profit or Loss and Other Comprehensive Income
7.4	Pro Forma Historical Statements of Cash Flows
7.5	Pro Forma Consolidated Historical Statement of Financial Position as at 30 June 2015
7.6	Management discussion and analysis of the Pro Forma Historical Financial Information
7.7	Debt facilities
7.8	Lease commitments
7.9	Liquidity and capital resources
7.10	Dividend policy
7.11	Significant accounting policies
7.12	Critical accounting judgements, estimates and assumptions

The information in this Section 7 should be read in conjunction with the risk factors set out in Section 4 and the other information contained in this Prospectus.

All amounts disclosed in the tables are presented in Australian dollars, and unless otherwise noted, are rounded to the nearest thousand dollars.

²⁶ Frost & Sullivan, “Analysis of the Global Managed Security Services Market – The Shift to Security Outsourcing is Driving the Market”, January 2013.

7. FINANCIAL INFORMATION CONTINUED

7.2. Basis of preparation and presentation of the Financial Information

7.2.1. Overview

The Directors are responsible for the preparation and presentation of the Financial Information.

The Financial Information included in this Section 7 has been prepared in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards (AAS) adopted by the Australian Accounting Standards Board (AASB), which are consistent with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board, and the accounting policies of the Company. The Financial Information and accompanying commentary presented in this Section has also been disclosed with consideration to regulatory guidance issued by ASIC.

The Financial Information is presented in an abbreviated form insofar as it does not include all of the presentation and disclosures, statements or comparative information as required by AAS and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act.

In preparing the Financial Information, the accounting policies of the Company have been applied consistently throughout the periods presented.

The significant accounting policies of the Company relevant to the Financial Information are set out in Section 7.11.

The Directors have considered ASIC Regulatory Guide 170, and having regard to the requirements of this Regulatory Guide, note that any prospective financial information would contain a broad range of potential outcomes and possibilities such that the Directors have concluded the Company cannot include prospective financial information in this Prospectus.

7.2.2. Preparation of Pro Forma Historical Financial Information

The Pro Forma Historical Financial Information has been prepared solely for the purposes of inclusion in this Prospectus, and has been extracted from the statutory financial statements of Tesseract Australia, with adjustments applied to provide investors with an understanding of the impacts of the Company's capital structure that will be in place following completion of the Offer and to exclude the results relating to discontinued operations.

The statutory financial statements of Tesseract Australia for the years ended 30 June 2013, 30 June 2014, and 30 June 2015 have been audited by BDO East Coast Partnership (BDO), who have issued unqualified audit opinions in respect of these financial years.

The Pro Forma Historical Financial Information presented in this Prospectus has been reviewed by BDO Corporate Finance. Investors should note the scope and limitation of BDO Corporate Finance's Investigating Accountant's Report (refer Section 8).

Refer to Sections 7.3 and 7.4 for reconciliations between the Pro Forma Historical Financial Information and the statutory equivalent financial information.

7.2.3. Preparation of Pro Forma Consolidated Historical Statement of Financial Position

The Pro Forma Consolidated Historical Statement of Financial Position has been prepared solely for the purposes of inclusion in this Prospectus, and has been extracted from the statutory financial statements of Tesseract Australia, with adjustments applied to reflect the impacts of the internal restructure and the Offer, on Tesseract Australia's Statement of Financial Position as at 30 June 2015 as though the internal restructure and the Offer, had occurred as at 30 June 2015.

On 16 July 2015 an internal restructure took place resulting in a newly incorporated company, the Company, becoming the ultimate legal parent of the Tesseract group of commonly controlled entities (including Tesseract Australia, Tesseract Wholesale, Tesseract UK and Tesseract IP) (collectively, the **Tesseract Group**).

The Directors have elected to account for the restructure as a capital re-organisation rather than a business combination. In the Directors' judgement, the continuation of existing accounting values is consistent with the accounting that would have occurred if the assets and liabilities had already been in a structure suitable to IPO and most appropriately reflects the substance of the internal restructure. As such, the consolidated financial statements of the Company will be presented as a continuation of the pre-existing accounting values of assets and liabilities in the Tesseract Group.

In adopting this approach the Directors note there is an alternate view that such a restructure could be accounted for as a business combination, with the Company being the acquirer. If this view is taken, the net assets of the group would have been uplifted to fair value by \$15.3 million, based on assumed market capitalisation immediately prior to IPO of \$13.5 million with consequential impacts on the Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position. The Directors anticipate that the excess of the fair value compared to the book value of net assets would primarily be allocated to intangibles.

An IASB project on accounting for common control transactions is likely to address such restructures in the future. However, the precise nature of any new requirements and the timing of these are uncertain. In any event, history indicates that any potential changes are unlikely to require retrospective amendments to the financial statements.

For personal use only

The Pro Forma Consolidated Historical Statement of Financial Position presented in this Prospectus has been reviewed by BDO Corporate Finance. Investors should note the scope and limitation of BDO Corporate Finance's Investigating Accountant's Report (refer Section 8).

A reconciliation between the Pro Forma Consolidated Historical Statement of Financial Position and the statutory equivalent historical financial information is disclosed in Section 7.5.

7.2.4. Explanation of certain non-IFRS and other financial measures

The Company uses certain measures to manage and report on its business that are not recognised under AAS or IFRS. These measures are collectively referred to as 'non-IFRS financial measures'. Non-IFRS financial measures are intended to supplement the measures calculated in accordance with the AAS and not as a substitute for those measures. As non-IFRS financial measures are not defined by the recognised body of accounting standards, they do not have a prescribed meaning and the way that the Company calculates them may be different to the way that other companies calculate similarly titled measures. Prospective investors should therefore not place undue reliance on non-IFRS financial information.

In the disclosures in this Prospectus, the Company uses the following non-IFRS measures of performance to assist prospective investors with understanding the trends in financial performance and profitability:

- **Gross profit** is calculated as revenue less costs of sales;
- **EBITDA** is earnings before interest (including finance costs), tax, depreciation and amortisation expenses; and
- **EBIT** is earnings before interest (including finance costs) and tax expenses.

7. FINANCIAL INFORMATION CONTINUED

7.3. Pro Forma Historical Statements of Profit or Loss and Other Comprehensive Income

Set out below is a summary of the Company's pro forma historical Statements of Profit or Loss and Other Comprehensive Income for FY2013, FY2014 and FY2015.

Table 2: Pro Forma Historical Statements of Profit or Loss and Other Comprehensive Income

\$000	HISTORICAL		
	FY2013 PRO FORMA	FY2014 PRO FORMA	FY2015 PRO FORMA
Revenue	2,873	3,385	3,749
Costs of Sales	(389)	(1,099)	(1,292)
Gross profit	2,484	2,286	2,457
Salaries and employee benefits expenses	(840)	(948)	(920)
Administration expenses	(977)	(645)	(692)
Marketing expenses	(150)	(167)	(193)
Other expenses	(139)	(106)	(109)
EBITDA	378	420	542
Depreciation	(61)	(193)	(105)
EBIT	317	227	437
Net finance costs	1	(2)	(5)
Net profit before tax	318	225	432
Income tax benefit / (expense)	(35)	(73)	(67)
Net profit after tax	283	153	365
Other comprehensive income	-	-	-
Total comprehensive income for the period	283	153	365

Notes:

- All amounts disclosed in the tables are presented in Australian dollars and, unless otherwise noted, are rounded to the nearest \$1,000. Rounding in the Financial Information may result in some immaterial rounding differences between totals and sums of components and the total percentage calculations outlined within tables, figures and commentary.
- The pro forma historical financial information is extracted from the financial results of Tesserent Australia with adjustments applied to reflect the Company's capital structure that will be in place following completion of the Offer, excluding results from discontinued operations.

Pro forma adjustments to statutory historical NPAT

The adjustments made to the statutory historical Statements of Profit or Loss and Other Comprehensive Income in order to present the pro forma historical Statements of Profit or Loss and Other Comprehensive Income are summarised below.

Table 3: Pro forma adjustments to statutory equivalent historical NPAT

\$000	NOTES	HISTORICAL		
		FY2013	FY2014	FY2015
Statutory NPAT		(122)	(84)	58
Discontinued operations	1	204	-	-
Capital loss on loans impaired	2	168	140	221
Finance costs	3	49	138	122
Tax effects of pro forma adjustments	4	(15)	(42)	(37)
Pro Forma NPAT		283	153	365

Notes:

- Discontinued operations** – this adjustment removes the NPAT contribution to the FY2013 financial results of Tesserent Australia made by a business which was sold during FY2013, and the impact of loan amounts written off in respect of the discontinued operation.
- Capital loss on loans impaired** – Tesserent Australia has incurred capital losses relating to the impairment of related party loans as a result of historical restructures undertaken by the Tesserent group of entities. These loans are now fully impaired such that this adjustment removes the historical impact of the capital losses on a pro forma basis.
- Finance costs** – finance costs have been excluded on a pro forma basis reflecting the fact all existing loan arrangements will be repaid as part of the Offer.
- Tax effects of pro forma adjustments** – the income tax impact of the above pro forma adjustments is estimated based on the existing Australian corporate tax rate of 30% (after adjusting for permanent differences).

7.4. Pro Forma Historical Statements of Cash Flows

Set out below is a summary of the Company's pro forma historical Statements of Cash Flows for FY2013, FY2014 and FY2015.

Table 4: Pro Forma Historical Statements of Cash Flows

\$000	HISTORICAL		
	FY2013 PRO FORMA	FY2014 PRO FORMA	FY2015 PRO FORMA
EBITDA	378	420	542
Change in net working capital	293	380	(74)
Non-cash movements in EBITDA	42	4	-
Net cash flow from operating activities before investing activities, financing activities and tax	713	803	468
Purchase of property, plant and equipment and intangibles	(434)	(140)	(111)
Payment for hire purchases	(6)	(18)	-
Net cash flow before financing activities and tax	273	645	357

Notes:

1. All amounts disclosed in the tables are presented in Australian dollars and, unless otherwise noted, are rounded to the nearest \$1,000. Rounding in the Financial Information may result in some immaterial rounding differences between totals and sums of components and the total percentage calculations outlined within tables, figures and commentary.
2. The pro forma cash flow information has been constructed using the indirect method (i.e. reconciling EBITDA to operating cash flows).
3. The pro forma historical cash flows are extracted from the financial results of Tesseract Australia with adjustments applied to reflect the Company's capital structure that will be in place following completion of the Offer, excluding results from discontinued operations.

Pro forma adjustments to statutory historical Statements of Cash Flows

The adjustments made to the statutory historical Statements of Cash Flows in order to present the pro forma historical Statements of Cash Flows are summarised below.

Table 5: Pro forma adjustments to statutory historical cash flows before financing activities and tax

\$000	NOTES	HISTORICAL		
		FY2013	FY2014	FY2015
Statutory net cash flows before financing activities and tax		126	645	357
Discontinued operations	1	147	-	-
Pro Forma net cash flows before financing activities and tax		273	645	357

Notes:

1. Discontinued operations – this adjustment removes the cash flow contribution to the FY2013 net cash flows before financing activities and tax of Tesseract Australia made by a business that was sold during FY2013.

7. FINANCIAL INFORMATION CONTINUED

7.5. Pro Forma Consolidated Historical Statement of Financial Position as at 30 June 2015

7.5.1. Overview

Set out in the table below are the adjustments that have been made to the statutory historical Statement of Financial Position of Tesseract Australia as at 30 June 2015 to present the Pro Forma Consolidated Historical Statement of Financial Position of the Company.

The adjustments include the impact of the change in capital structure that will be in place immediately following completion of the Offer, and the inclusion of the other commonly controlled entities within the Tesseract Group (including Tesseract Wholesale, Tesseract UK and Tesseract IP) as a result of the internal restructure as if the internal restructure and the Offer had taken place as at 30 June 2015. These adjustments include assumptions relating to matters that are known as at the date of the Prospectus.

Table 6: Pro Forma Consolidated Historical Statement of Financial Position as at 30 June 2015

AS AT 30 JUNE 2015 (\$000)	STATUTORY TESSERENT AUSTRALIA	ADJUSTMENTS			PRO FORMA CONSOLIDATED TESSERENT LIMITED
		OTHER TESSERENT GROUP ENTITIES ²	PRO FORMA ADJUSTMENTS ³	IMPACT OF OFFER ⁴	
Current Assets					
Cash and cash equivalents	510	43	(1,122)	3,651	3,082
Trade and other receivables	280	83	-	(105)	257
Prepayments	25	-	-	-	25
Total current assets	815	125	(1,122)	3,546	3,364
Non-current assets					
Property, plant and equipment	353	-	-	-	353
Other assets	89	-	-	-	89
Loan receivables	249	(249)	-	-	-
Deferred tax asset	59	-	-	414	473
Intangibles	26	38	-	-	64
Total non-current assets	776	(211)	-	414	979
Total assets	1,591	(86)	(1,122)	3,960	4,343
Current liabilities					
Trade and other payables	(431)	(174)	-	75	(530)
Income tax payable	(30)	-	-	-	(30)
Loan payable	(183)	(88)	271	-	-
Provisions	(88)	-	-	-	(88)
Unearned income	(925)	-	-	-	(925)
Total current liabilities	(1,658)	(262)	271	75	(1,574)
Non-current liabilities					
Loan payable	(1,324)	-	1,324	-	-
Deferred tax liability	(6)	-	-	-	(6)
Provisions	(43)	-	-	-	(43)
Total non-current liabilities	(1,373)	-	1,324	-	(49)
Total liabilities	(3,031)	(262)	1,595	75	(1,623)
Net assets	(1,440)	(348)	473	4,035	2,720
Equity					
Shareholders' equity	1,609	962	473	4,640	7,684
Retained earnings	(3,049)	(1,310)	-	(605)	(4,964)
Total equity	(1,440)	(348)	473	4,035	2,720

For personal use only

Notes:

1. All amounts disclosed in the tables are presented in Australian dollars and, unless otherwise noted, are rounded to the nearest \$1,000. Rounding in the Financial Information may result in some immaterial rounding differences between totals and sums of components and the total percentage calculations outlined within tables, figures and commentary.
2. **Other Tesserent Group entities** – This reflects the inclusion and consolidation of the assets and liabilities of other commonly controlled entities within the Tesserent Group (including Tesserent Wholesale, Tesserent UK and Tesserent IP) as a result of the internal restructure.
3. **Pro forma adjustments** – During November 2015 a loan payable amount of \$100,000 was converted to ordinary share capital. The Company had issued convertible notes with a face value of \$22,972 which converted to ordinary shares during November 2015. In addition, the Company has issued ordinary shares totalling \$350,000 to directors (cash settled) and will repay all existing loan arrangements as part of the Offer. A pro forma adjustment has therefore been processed to present the cash and equity impacts on conversion of the loan payable, conversion of the notes and issue of ordinary shares to directors.
4. **Impact of Offer** – The Offer is expected to raise a minimum of \$5,000,000 before payment of Offer costs, which are expected to total approximately \$1.4 million (pre-tax). Of these costs, \$0.4 million is recorded against share capital (tax effected) and \$0.6 million is recorded against retained earnings (tax effected) based on the nature of the cost and whether it is considered directly attributable to the Offer. It is assumed the Offer costs are deductible to the Company for tax purposes over five years, resulting in a deferred tax asset of \$0.4 million.

In addition, the Company has issued the Chairman and Non-Executive Directors with share options over unissued shares. The share option plans will be accounted for under AASB 2 Share Based Payments such that any associated share based payments will be reflected in the Company's financial statements over the vesting period of such share options.

For personal use only

7. FINANCIAL INFORMATION CONTINUED

7.6. Management discussion and analysis of the Pro Forma Historical Financial Information

The management discussion and analysis (MD&A) below relates to the pro forma historical Statements of Profit or Loss and Other Comprehensive Income and Statements of Cash Flows and should be read in conjunction with the description of the basis upon which the information has been prepared.

The MD&A provides a brief discussion of the general factors that affected the Company's historical operating and financial performance between FY2013 and FY2015. The discussion of these general factors is intended to provide a summary only and does not detail all the factors that affected the Company's historical operating and financial performance.

The information in this Section should also be read in conjunction with the risk factors set out in Section 4 and other information contained in this Prospectus.

7.6.1. Year-on-year management discussion and analysis

7.6.1.1. Pro forma FY2013 compared to pro forma FY2014

Table 7: Selected financial performance and cash flow items

\$'000	HISTORICAL		CHANGE (%)
	FY2013 PRO FORMA	FY2014 PRO FORMA	
Revenue	2,873	3,385	17.8%
Costs of Sales	(389)	(1,099)	(182.2)%
Gross profit	2,484	2,286	(8.0)%
Gross profit %	86.5%	67.5%	
Operating expenses	(2,106)	(1,866)	11.4%
EBITDA	378	420	11.2%
EBITDA %	13.1%	12.4%	
EBIT	317	227	(28.6)%
EBIT %	11.0%	6.7%	
EBITDA	378	420	
Change in net working capital	293	380	
Non-cash items in EBITDA	42	4	
Net cash flow from operating activities before investing activities, financing activities and tax	713	803	
Capital expenditure			
Purchase of property, plant and equipment and intangibles	(434)	(140)	
Payments for hire purchases	(6)	(18)	
Total capital expenditure	(440)	(159)	
Net cash flows before financing activities and tax	273	645	

Notes:

1. The pro forma historical financial information reflects the financial results of Tesseract Australia with adjustments applied to reflect the Company's capital structure that will be in place following completion of the Offer, excluding results from discontinued operations.

Revenue

The increase in revenue to \$3.4 million in FY2014 (annual growth of 17.8%) was largely a result of the roll-out of the MSSP Platform. Revenue from the historical managed security business remained steady during this year while the Company focused on the development of its MSSP Platform and growing its customer base.

Cost of sales

Costs of sales increased during FY2014 as a result of:

- › adoption of supply agreements with new partners to improve the breadth of threat intelligence;
- › investment in back-end data-centre services to improve delivery of the MSSP Platform; and
- › sourcing of services from network partners to enable the delivery of security services integrated with network connectivity.

Gross profit %

Gross profit % decreased from 86.5% to 67.5% in FY2014 as a result of commitments relating to the new threat-intelligence supply agreements, new data-centre services and new carrier partner agreements. During FY2014 the services provided under these new agreements had only just commenced and utilisation was relatively low, with capacity for levels to increase without significant incremental costs. The Directors believe the commitment to adopting these agreements provides a solid platform for future growth.

Operating expenses

Operating expenses decreased in FY2014 by 11.4% primarily due to reductions in licence fees (\$0.2 million) and consulting fees (\$0.2 million) relating to a historical restructure of the business during FY2013, offset by a marginal increase in salaries and employee benefits (\$0.1 million) reflecting investment in personnel during the year.

EBITDA

EBITDA increased marginally from \$378,000 in FY2013 to \$420,000 in FY2014. This trend reflects a combination of the factors outlined above.

Net cash flow from operating activities before investing activities, financing activities and tax

The Company generated positive net cash flow from operating activities before investing activities, financing activities and tax on a pro forma basis in both FY2013 and FY2014 of \$713,000 and \$803,000 respectively. This was largely due to a combination of the operating activities discussed above and the positive cash flow impact of working capital movements, particularly trade receivables and pre-paid customer licence fees (which are recorded as unearned income on the Statement of Financial Position).

Capital expenditure

Capital expenditure reduced significantly in FY2014 to \$140,000 (\$434,000 in FY2013) following the undertaking of a major hardware upgrade program in FY2013. The Company owns the majority of the hardware on which it delivers its services and rents it to customers as part of the monthly fees charged. As new software is developed by the Company, customers are periodically upgraded to new hardware providing increased functionality.

7. FINANCIAL INFORMATION CONTINUED

7.6.1.2. Pro forma FY2014 compared to pro forma FY2015

Table 8: Selected financial performance and cash flow items

\$'000	HISTORICAL		CHANGE (%)
	FY2014 PRO FORMA	FY2015 PRO FORMA	
Revenue	3,385	3,749	10.7%
Costs of Sales	(1,099)	(1,292)	(17.6)%
Gross profit	2,286	2,457	7.5%
Gross profit %	67.5%	65.5%	
Operating expenses	(1,866)	(1,915)	(2.6)%
EBITDA	420	542	29.0%
EBITDA %	12.4%	14.5%	
EBIT	227	437	93.0%
EBIT %	6.7%	11.7%	
EBITDA	420	542	
Change in net working capital	380	(74)	
Non-cash items in EBITDA	4	-	
Net cash flow from operating activities before investing activities, financing activities and tax	803	468	
Capital expenditure			
Purchase of property, plant and equipment and intangibles	(140)	(111)	
Payment for hire purchases	(18)	-	
Total capital expenditure	(159)	(111)	
Net cash flows before financing activities and tax	645	357	

Notes:

1. The pro forma historical financial information reflects the financial results of Tesserent Australia with adjustments applied to reflect the Company's capital structure that will be in place following completion of the Offer, excluding results from discontinued operations.

Revenue

The increase in revenue to \$3.7 million in FY2015 (annual growth of 10.7%) primarily reflects the continued growth of the MSSP Platform, with revenue from existing customers representing approximately \$3.5 million with the remainder generated by incremental revenue relating to new customer wins (net of customer losses).

Costs of sales

The increase in costs of sales of \$0.2 million during FY2015 is primarily a result of:

- new supply agreement partnerships to improve the breadth of threat intelligence;
- increased investment in back-end data-centre services (including expansion to a new data-centre connected via redundant private dark-fibre links) to improve delivery of the MSSP Platform and network-related services; and
- additional network partner services to enable the delivery of security services integrated with network connectivity.

Gross profit %

Gross profit % decreased marginally from 67.5% in FY2014 to 65.5% in FY2015 largely due to the continuing investment in data-feed sources, back-end infrastructure, and network services in advance of bringing in new business. During FY2015, the utilisation of the services provided under these new agreements was still relatively low with capacity for utilisation levels to increase without significant incremental costs.

Operating expenses

Operating expenses remained relatively stable in FY2015 increasing by 2.6% to \$1.9 million. This is reflective of the historical investment made in the Company's infrastructure and overhead base to support future growth.

EBITDA

The increase in EBITDA from \$420,000 in FY2014 to \$542,000 in FY2015 is driven by the Company's ability to increase gross profit whilst maintaining operating costs in line with FY2014.

Net cash flow from operating activities before investing activities, financing activities and tax

The decrease in net cash flow from operating activities before investing activities, financing activities and tax between FY2014 and FY2015 is associated with an increase in trade receivables of approximately \$81,000 during FY2015, which compares to a decrease in trade receivables of approximately \$106,000 in FY2014. This is largely reflective of the customer invoicing cycle such that the Directors are confident the increased receivable balances are recoverable in the ordinary course of business.

In addition, the increase in unearned income of \$203,000 during FY2014 had a positive impact on net cash flow from operating activities before investing activities, financing activities and tax, whereas unearned income decreased marginally by \$14,000 during FY2015.

Capital expenditure

Capital expenditure of \$111,000 in FY2015 primarily relates to purchases of network hardware and other plant and equipment.

7.7. Debt facilities

Immediately following completion of the Offer, the Company will have no bank debt arrangements or other financing arrangements with third parties.

7.8. Lease commitments

The Company has the following contractual obligations and commitments in relation to off balance sheet operating leases, finance lease commitments, and capital expenditure commitments.

Table 9: Summary of lease commitments as at 30 June 2015

\$000	NOTES	TOTAL	PAYMENTS DUE BY PERIOD		
			<1 YEAR	1-5 YEAR(S)	>5 YEARS
Operating lease commitments	1	165	114	51	-
Total		165	114	51	-

Note:

- Operating lease commitments** – These relate to the lease of office premises on Level 2, 683 Burke Road, Camberwell (lease expires on 30 November 2016) and the rental of car parking spaces in Camberwell and Hawthorn East.

7. FINANCIAL INFORMATION CONTINUED

7.9. Liquidity and capital resources

Following completion of the Offer, the Company's principal sources of funds will be cash flow from operations and proceeds from the Offer.

7.10. Dividend policy

The Company has no current intention to declare and pay a dividend. It is the Directors' current intention to utilise the Offer proceeds received by the Company and to reinvest future available cash flows in the further development of the business.

Future dividend policy shall be set by the Company's Board of Directors consistent with the business objectives, opportunities for investment and market conditions at that time. The ability of the Company to pay any dividend in the future is dependent upon many factors including future profitability. The Directors are therefore unable to give any assurance regarding the payment of dividends in the future, if at all.

7.11. Significant accounting policies

The significant accounting policies adopted in the preparation of the financial information are set out below. These policies have been consistently applied to all the financial periods presented, unless otherwise stated.

7.11.1. Basis of preparation

The directors have determined that the accounting policies adopted are appropriate to meet the needs of the members of the Company. The financial information has been prepared on a going concern basis.

The financial information has been prepared in accordance with the recognition and measurement requirements specified by the Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the disclosure requirements of AASB 101 'Presentation of Financial Statements', AASB 107 'Statement of Cash Flows', AASB 108 'Accounting

Policies, Changes in Accounting Estimates and Errors', AASB 1031 'Materiality', AASB 1048 'Interpretation of Standards' and AASB 1054 'Australian Additional Disclosures', as appropriate for for-profit oriented entities.

Historical cost convention

The financial information has been prepared under the historical cost convention.

Critical accounting estimates

The preparation of the financial information requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial information, are disclosed in Section 7.12.

7.11.2. Revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Sale of goods

Sale of goods revenue is recognised at the point of sale, which is where the customer has taken delivery of the goods, the risks and rewards are transferred to the customer and there is a valid sales contract. Amounts disclosed as revenue are net of sales returns and trade discounts.

Rendering of services

Revenue derived through licensing arrangements for customers who subscribe to the MSSP Platform (for the provision of security-as-a-service) is recognised as the services are provided over the licensing period. The Company has determined that these services are provided evenly over the term of the contract.

Revenue derived from the rental of hardware by customers is recognised consistently over the licensing period, in line with service delivery.

Revenue derived from connectivity and related support services (including installation and setup of hardware) is recognised at the time the service is provided. On the basis that monthly unused support services do not accumulate, The Company recognises revenue evenly over the term of the contract, in line with service delivery.

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

R&D tax incentive

Income from the R&D tax incentive scheme is recognised on an accruals basis.

7.11.3. Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

7.11.4. Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is current when: it is expected to be realised or intended to be sold or consumed in normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within twelve months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability

for at least twelve months after the reporting period. All other assets are classified as non-current.

A liability is current when: it is expected to be settled in normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within twelve months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period. All other liabilities are classified as non-current.

7.11.5. Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

7.11.6. Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

7.11.7. Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset.

The method and useful lives of finite-life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

7.11.8. Intellectual properties

Significant costs associated with patents and trademarks are deferred and amortised on a straight-line basis over the period of their expected benefit. The Directors have indicated that these assets are indefinite infinite life assets and assess them annually for indications of impairment.

7.11.9. Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

The methods used to depreciate assets by class are prime cost (“P”) and diminishing value (“D”). The depreciation method and rate used for each class of depreciable asset is detailed as follows:

Furniture & Fixtures	D	10% to 100%
Hardware employed	D	66.67%
Leasehold improvement	P	2.5%
Equipment for lease	P	40%
Plant & Equipment	D	7.5% to 66.67%
Motor vehicle	D	25%

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Company. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

7.11.10. Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset’s useful life or over the shorter of the asset’s useful life and the lease term if there is no reasonable certainty that the Company will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

7.11.11. Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

For personal use only

7. FINANCIAL INFORMATION CONTINUED

7.11.12. Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

7.11.13. Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date is recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Share-based payments

Equity-settled share-based compensation benefits, such as, performance rights, may be introduced (subject to applicable shareholder approval) to employees and directors.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions is measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, and the risk-free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Company receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions is recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest, and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If an equity-settled award is modified, then as a minimum an expense is recognised as if the modification had not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Company or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Company or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If an equity-settled awards is cancelled, then it is treated as if it had vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new awards are treated as if they were a modification.

7.11.14. Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

7.11.15. Goods and Services Tax (GST) and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

For personal use only

7.12. Critical accounting judgements, estimates and assumptions

The preparation of the financial information requires management to make judgements, estimates, and assumptions that affect the reported amounts in the financial information. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

7.12.1. Estimation of useful lives of assets

The Company determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment, and finite-life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

7.12.2. Income tax

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

7.12.3. Employee benefits provision

As discussed in Section 7.11.13, the liability for employee benefits expected to be settled more than 12 months from the reporting date is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

7.12.4. Impairment of non-financial assets other than goodwill and other indefinite life intangibles

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

8. INVESTIGATING ACCOUNTANT'S REPORT



Tel: +61 3 9603 1700
 Fax: +61 3 9602 3870
 www.bdo.com.au

Level 14, 140 William St
 Melbourne VIC 3000
 GPO Box 5099 Melbourne VIC 3001
 Australia

The Directors
 Tesseract Limited
 Level 2, 683 Burke Road
 Camberwell
 VIC 3124

17 November 2015

Dear Directors

Investigating Accountant's Report

Introduction

BDO Corporate Finance (East Coast) Pty Ltd (BDO Corporate Finance) has been engaged by Tesseract Limited (the Company) to prepare this Investigating Accountant's Report (Report) in relation to certain financial information of Tesseract Limited, for the initial public offering (IPO) of shares in Tesseract Limited for inclusion in a prospectus proposed to be issued on or about 17 November 2015 (Prospectus).

Unless stated otherwise in this Report, expressions defined in the Prospectus have the same meaning in this Report.

This Report has been prepared for inclusion in the Prospectus. We disclaim any assumption of responsibility for any reliance on this Report or on the financial information to which it relates for any purpose other than that for which it was prepared.

Scope

You have requested BDO Corporate Finance to perform a limited assurance engagement in relation to the financial information described below and disclosed in the Prospectus.

The financial information is presented in the Prospectus in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act 2001.

Our limited assurance engagement has not been carried out in accordance with auditing or other standards and practices generally accepted in Singapore and Hong Kong and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Financial Information

You have requested BDO Corporate Finance to perform limited assurance procedures in relation to the following financial information (collectively the "Financial Information") of the Company included in the Prospectus:

- the pro forma historical Statements of Profit or Loss and Other Comprehensive Income of Tesseract Limited for the years ended 30 June 2013, 30 June 2014 and 30 June 2015; and

For personal use only



- the pro forma historical Statements of Cash Flows of Tesseract Limited for the years ended 30 June 2013, 30 June 2014 and 30 June 2015;
- (together the “Pro Forma Historical Financial Information”); and
- the pro forma consolidated historical Statement of Financial Position of Tesseract Limited and its controlled entities as at 30 June 2015 (the “Pro Forma Consolidated Historical Statement of Financial Position”).

The Pro Forma Historical Financial Information has been derived from the historical financial information of Tesseract Australia Pty Ltd, after adjusting for the effects of pro forma adjustments described in sections 7.3 and 7.4 of the Prospectus. The Pro Forma Consolidated Historical Statement of Financial Position has been derived from the historical financial information of Tesseract Australia Pty Ltd and the other entities within the Tesseract group (as described in section 7.2.3 of the Prospectus), after adjusting for the effects of pro forma adjustments described in section 7.5 of the Prospectus. The stated basis of preparation is the recognition and measurement principles contained in Australian Accounting Standards applied to the historical financial information and the event(s) or transaction(s) to which the pro forma adjustments relate, as described in section 7.2 of the Prospectus, as if those event(s) or transaction(s) had occurred as at the date of the historical financial information. Due to its nature, the Financial Information does not represent the Company’s actual or prospective financial position, financial performance, and/or cash flows.

The Financial Information has been compiled by Tesseract Limited to illustrate the impact of the event(s) or transaction(s) described in section 7 of the Prospectus on Tesseract Limited’s financial performance and cash flows for the years ended 30 June 2013, 30 June 2014 and 30 June 2015 and financial position as at 30 June 2015. As part of this process, information about Tesseract Limited’s financial position, financial performance and cash flows has been extracted by Tesseract Limited from the audited financial statements of Tesseract Australia Pty Ltd for the years ended 30 June 2013, 30 June 2014 and 30 June 2015, and with respect to the Pro Forma Consolidated Historical Statement of Financial Position only, also extracted from the unaudited financial information of the other entities within the Tesseract group for the year ended 30 June 2015.

The financial statements of Tesseract Australia Pty Ltd for the years ended 30 June 2013, 30 June 2014 and 30 June 2015 were audited by BDO East Coast Partnership in accordance with Australian Accounting Standards. BDO East Coast Partnership issued unqualified audit opinions on the financial reports relating to those financial statements.

Directors’ Responsibility

The directors of Tesseract Limited are responsible for the preparation and presentation of the Financial Information, including the selection and determination of pro forma adjustments made to the historical financial information and included in the Financial Information. This includes responsibility for such internal controls as the directors determine are necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

Our Responsibility

Our responsibility is to express limited assurance conclusions on the Financial Information based on our limited assurance engagement. We have conducted our engagement in accordance with the Standard on Assurance Engagement ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

8. INVESTIGATING ACCOUNTANT'S REPORT CONTINUED



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

Our engagement did not involve updating or re-issuing any previously issued audit or limited assurance reports on any financial information used as a source of the financial information.

Conclusions*Financial Information*

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that the Financial Information as described in section 7 of the Prospectus, and comprising:

- the pro forma historical Statements of Profit or Loss and Other Comprehensive Income of Tesseract Limited for the years ended 30 June 2013, 30 June 2014 and 30 June 2015;
- the pro forma historical Statements of Cash Flows of Tesseract Limited for the years ended 30 June 2013, 30 June 2014 and 30 June 2015; and
- the pro forma consolidated historical Statement of Financial Position of Tesseract Limited and its controlled entities as at 30 June 2015

are not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in section 7.2 of the Prospectus.

SUBSEQUENT EVENTS

Apart from the matters dealt with in this Report, and having regard to the scope of this Report and the information provided by the Directors, to the best of our knowledge and belief no material transaction or event outside of the ordinary business of Tesseract Limited not described in the Prospectus, has come to our attention that would require comment on, or adjustment to, the information referred to in our Report or that would cause such information to be misleading or deceptive.

INDEPENDENCE

BDO Corporate Finance is a member of BDO International Ltd. BDO Corporate Finance does not have any interest in the outcome of the proposed IPO other than in connection with the preparation of this Report and participation in due diligence procedures, for which professional fees will be received.

GENERAL ADVICE WARNING

This Report has been prepared, and included in the Prospectus, to provide investors with general information only and does not take into account the objectives, financial situation or needs of any specific investor. It is not intended to be a substitute for professional advice and potential investors should not make specific investment decisions in reliance on the information contained in this Report. Before acting or relying on any information, potential investors should consider whether it is appropriate for their objectives, financial situation or needs.



Without modifying our conclusions, we draw attention to the Prospectus, which describes the purpose of the financial information, being for inclusion in the Prospectus. As a result, the financial information may not be suitable for use for another purpose.

BDO Corporate Finance has consented to the inclusion of this Report in the Prospectus in the form and context in which it is included. At the date of this Report this consent has not been withdrawn. However, BDO Corporate Finance has not authorised the issue of the Prospectus. Accordingly, BDO Corporate Finance makes no representation regarding, and takes no responsibility for, any other statements or material in or omissions from the Prospectus.

FINANCIAL SERVICES GUIDE

Our Financial Services Guide follows this Report. This guide is designed to assist retail clients in their use of any general financial product advice in our Report.

Yours faithfully

A handwritten signature in black ink, appearing to read "G. Ellis", is written over a faint, light-colored signature line.

Greg Ellis
Director and Representative

8. INVESTIGATING ACCOUNTANT'S REPORT CONTINUED



Tel: +61 3 9603 1700
 Fax: +61 3 9602 3870
 www.bdo.com.au

Level 14, 140 William St
 Melbourne VIC 3000
 GPO Box 5099 Melbourne VIC 3001
 Australia

Financial Services Guide

This Financial Services Guide is issued in relation to an investigating accountant's report ("Report") prepared by BDO Corporate Finance (East Coast) Pty Limited (ABN 70 050 038 170) ("BDO Corporate Finance") at the request of the directors ("Directors") of Tesseract Limited ("Tesseract") to provide general financial product advice in the form of a Report in relation to the initial public offering of shares in Tesseract ("Proposal"). The Report is intended to accompany a Prospectus ("Document") that is to be provided by the Directors to help potential investors make an information decision in relation to the financial product.

Engagement

BDO Corporate Finance has been engaged by the Directors to prepare the Report expressing our opinion in respect of the financial information to be included in the Document to be issued in connection with the Proposal.

Financial Services Guide

BDO Corporate Finance holds an Australian Financial Services Licence (Licence No: 247420) ("Licence"). As a result of our Report being provided to you BDO Corporate Finance is required to issue to you, as a retail client, a Financial Services Guide ("FSG"). The FSG includes information on the use of general financial product advice and is issued so as to comply with our obligations as holder of a Licence.

Financial services BDO Corporate Finance is Licensed to provide

The Licence authorises BDO Corporate Finance to provide reports for the purposes of acting for and on behalf of clients in relation to proposed or actual mergers, acquisitions, takeovers, corporate restructures or share issues, to carry on a financial services business to provide general financial product advice for securities and certain derivatives to retail and wholesale clients.

BDO Corporate Finance provides financial product advice by virtue of an engagement to issue the Report in connection with the issue of securities of another person.

Our Report includes a description of the circumstances of our engagement and identifies the party who has engaged us. You have not engaged us directly but will be provided with a copy of our Report (as a retail client) because of your connection with the matters on which our Report has been issued.

Our Report is provided on our own behalf as an Australian Financial Services Licensee authorised to provide the financial product advice contained in the Report.

General financial product advice

Our Report provides general financial product advice only, and does not provide personal financial product advice, because it has been prepared without taking into account your particular personal circumstances or objectives (either financial or otherwise), your financial position or your needs.

Some individuals may place a different emphasis on various aspects of potential investments.

An individual's decision in relation to the Proposal described in the Document may be influenced by their particular circumstances and, therefore, individuals should seek independent advice.

Benefits that BDO Corporate Finance may receive

BDO Corporate Finance has charged fees for providing our Report. The basis on which our fees will be determined has

been agreed with, and our fees will be paid by, the person who engaged us to provide the Report. Our fees have been agreed on either a fixed fee or time cost basis.

BDO Corporate Finance will receive a fee of approximately \$0.2 million (plus GST and disbursements) in relation to the preparation of the Report. The fee is not contingent upon the outcome of the Proposal, and accordingly, does not have any pecuniary or other interests that could reasonably be regarded as being capable of affecting its ability to give an unbiased opinion in relation to the Proposal.

Remuneration or other benefits received by our employees

All our employees receive a salary. Employees may be eligible for bonuses based on overall productivity and contribution to the operation of BDO Corporate Finance or related entities but any bonuses are not directly connected with any assignment and in particular are not directly related to the engagement for which our Report was provided.

Referrals

BDO Corporate Finance does not pay commissions or provide any other benefits to any parties or person for referring customers to us in connection with the reports that BDO Corporate Finance is Licensed to provide.

Associations and relationships

BDO Corporate Finance is a member of a national association of independent entities which are all members of BDO (Australia) Ltd, an Australian company limited by guarantee. BDO Corporate Finance and BDO (Australia) Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms.

BDO Corporate Finance's contact details are as set out on our letterhead.

Complaints resolution

As the holder of a Licence, we are required to have a process for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing, addressed to The Complaints Officer, BDO Corporate Finance (East Coast) Pty Limited, Level 10, 1 Margaret Street, Sydney NSW 2000.

On receipt of a written complaint we will record the complaint, acknowledge receipt of the complaint and seek to resolve the complaint as soon as practical. If we cannot reach a satisfactory resolution, you can raise your concerns with the Financial Ombudsman Service Limited ("FOS"). FOS is an independent body established to provide advice and assistance in helping resolve complaints relating to the financial services industry. BDO Corporate Finance is a member of FOS. FOS may be contacted directly via the details set out below.

Financial Ombudsman Service Limited
 GPO Box 3
 Melbourne VIC 3001

Toll free: 1300 78 08 08
 Email: info@fos.org.au

For personal use only

For personal use only

“Tesseract owns the MSSP Platform, allowing the Company and its Channel Partners to deliver Internet Security-as-a-Service”

9. KEY PEOPLE, INTERESTS AND BENEFITS



KEY PEOPLE, INTERESTS AND BENEFITS

9.1 Board of Directors

The current Board of Directors as at the date of this Prospectus comprises five Directors. The Board has a broad range of experience including industry and business knowledge, financial management and corporate governance experience. The following table provides information regarding the Directors, including their age, position and independence.

NAME	AGE	POSITION	INDEPENDENCE
Keith Glennan	52	Executive Director and Managing Director	Not independent ²⁷
Russell Yardley	61	Non-Executive Chairman	Independent ²⁸
Steve Bertamini	51	Non-Executive Director	Independent ²⁸
Gregory Baxter	48	Non-Executive Director	Independent ²⁸
Paul Brandling	57	Non-Executive Director	Independent ²⁸

9.2 Directors' profiles

NAME	EXPERTISE, EXPERIENCE AND QUALIFICATIONS
 <p>Keith Glennan Executive Director and Managing Director <i>B. Tech, MACS, MAICD</i></p>	<p>Keith has been working in the IT industry for three decades, and has worked in Australia and the United States for companies such as Hewlett Packard and IBM. He has been involved in the managed security industry since 2002. In late 2012 Keith acquired control of and took the Managing Director role at Tesseract Australia. In this position he formulated the strategy of developing the MSSP Platform and the current business strategy of Tesseract. Keith holds a Bachelor of Technology from RMIT.</p>
 <p>Russell Yardley Non-Executive Chairman <i>BSc FAICD</i></p>	<p>Russell has over 35 years of entrepreneurial and corporate experience in the IT sector having started his career with IBM in 1978. He founded his first company in 1985 which was one of Australia's first multimedia businesses and began Internet application development in 1994. As well as being the Chairman of the Company's Board, Russell is a non-executive board member for a number of organisations including: Readify Limited (chairman), Folk Pty Ltd (chairman), Algonquin Investments, Bientalto and the Victorian Government Purchasing Board. In 2010 he was elected an Honorary Member of the Australian Computer Society, from 2011-2014 he was a National Board member and Treasurer of the Australian Information Industry Association and was made a Fellow of the Australian Institute of Company Directors in 2011 and has been a company director since 1985.</p>

²⁷ Keith Glennan is not considered independent for the ASX's purposes because of his executive role with Tesseract.

²⁸ The Company considers that a Director is an independent Director where that Director is free from any business or other relationship that could materially interfere, or be perceived to interfere with, the independent exercise of the Director's judgement. The Company has also assessed the independence of its Directors having regard to the requirements for independence which are set out in Principle 2 of the Recommendations.

NAME

EXPERTISE, EXPERIENCE AND QUALIFICATIONS



Steve Bertamini
Non-Executive Director
BBA MBA

Steve is currently Chief Executive Officer of Al Rajhi Bank, a bank with total assets in excess of US\$70 billion. Steve previously held the position of Group Executive Director and CEO for Global Consumer Banking at Standard Chartered Bank.

Prior to this Steve's roles included:

- › Group Executive Director and CEO Consumer Banking at Standard Chartered Bank;
- › Chairman & Chief Executive Officer of GE North East Asia;
- › Chief Executive Officer and President of GE (China) Co. Ltd;
- › Chief Executive Officer of GE Australia and New Zealand;
- › President of GE Capital Asia; and
- › Managing Director of GE's Consumer Finance business in Asia.

Steve has a BBA, Finance and Management from The University of Texas at Austin and an MBA, Finance and International Banking from University of North Texas.



Gregory Baxter
Non-Executive Director
BSc MBA

Gregory is currently Global Head of Digital at Citibank, leading Citi's digital transformation across businesses and geographies. He specialises in the development and delivery of digital strategy, corporate innovation and business transformation. He has held senior business, consulting and technology roles across Asia, Europe and North America, with a track record of high-impact business results. Previously Gregory was a Partner and U.K. Board member at Booz & Company (formerly Booz Allen Hamilton), where he held leadership roles across the financial services, public sector and digital practices. Prior to this he was a senior project and product manager with IBM, delivering large scale systems integration projects in financial services and managing the product lifecycle of leading market solutions. He is a regular speaker on digital strategy and technology, and the impact of disruptive innovation on business. Gregory is a council (board) member of Chatham House (Royal Institute of International Affairs), a leading international affairs think tank. He holds a BSc from Monash University and a MBA from the University of Melbourne, and has been a guest lecturer on strategy at the University of Oxford, New York University, and American University (Washington).



Paul Brandling
Non-Executive Director
*BSc (Hons), Mechanical
Engineering MAICD*

Paul has 29 years' experience in the Information Technology industry. He was Vice President and Managing Director of Hewlett Packard South Pacific from 2002 – 2012 and prior to that was Vice President and Managing Director of Compaq Computer South Pacific. Paul was an elected National Board Director of the Australian Information Industry Association (AIIA) from 2002 – 2011 and a member of the International CEO Forum from 2001 – 2012. He is currently a Non-Executive Director of the ASX-listed companies Vocus Communications Limited and Integrated Research Limited. Previously he was a Non-Executive Director of Amcom Communications Limited and is a current Member of the Australian Institute of Company Directors. Paul holds a BSc (Hons), Mechanical Engineering from Aston University.

The Board has considered the Company's immediate requirements as it transitions to an ASX-listed company and is satisfied that the composition of the Board represents an appropriate range of experience, qualifications and skills.

Each Director has confirmed to the Company that they anticipate being available to perform their duties as an Executive Director or Non-Executive Director of the Company.

For personal use only

9. KEY PEOPLE, INTERESTS AND BENEFITS CONTINUED

9.3 Management

Tesseract has a highly experienced management team as set out below:

NAME	EXPERTISE, EXPERIENCE AND QUALIFICATIONS
Keith Glennan Executive Director and Managing Director <i>B. Tech, MACS, MAICD</i>	See table above for Keith's qualifications and experience.
Stephen Hoy Sales and Marketing Manager <i>B Bus (MktgMgt)</i>	Stephen is a solution sales specialist with more than 15-years' experience in business-to-business sales of technology-based professional services. Stephen has been with Tesseract since 2011 and prior to that he spent 8 years as a Sales Director at Accumulate Loyalty Services Limited (a business owned by QANTAS Airways Limited) where he worked with Australian enterprises to deliver technology-based solutions. Stephen has a long history of developing and executing sales strategies. Stephen holds a Bachelor of Business in Marketing and Management from Swinburne University.
Steven Lynch Principal Systems Architect <i>BEng, PG Computer Science</i>	Steven has been working in the IT industry since 1982 and in Internet security related fields since 2000. Prior to moving into managed security services in 2002 he worked in the areas of general contract consulting, IT security consulting and penetration testing. Steven graduated with a Bachelor of Engineering from Footscray Institute of Technology and has also completed a post-graduate qualification in Computer Science from the University of Melbourne.

9.4 Director disclosures

No Director of the Company has been the subject of any disciplinary action, criminal conviction, personal bankruptcy or disqualification in Australia or elsewhere in the last 10 years that is relevant or material to the performance of their duties as a Director of the Company or that is relevant to an investor's decision as to whether to subscribe for Shares.

No Director has been an officer of a company that has entered into any form of external administration as a result of insolvency during the time that they were an officer or within a 12 month period after they ceased to be an officer which would be relevant to an officers' ability to manage other companies.

9.5 Directors' remuneration

The Board has approved the following annual remuneration arrangements for the Directors to take effect upon the Listing:

NAME	DIRECTOR'S FEES
Keith Glennan	\$270,000 as a salary as set out in below in Section 9.6 (inclusive of superannuation)
Russell Yardley	\$90,000
Steve Bertamini	\$45,000
Gregory Baxter	\$45,000
Paul Brandling	\$45,000

For personal use only

9.6 Executive employment agreements

(a) Executive Director and Managing Director

The Company has entered into an executive services agreement with Keith Glennan in respect of his employment as an executive Director and Managing Director. Keith receives an annual base salary of \$270,000 (inclusive of superannuation, packaged benefits, annual leave loading and director's fees) plus an allowance for communications and motor vehicle expenses. Annually, Keith will have the opportunity to receive a bonus of up to 100% of his base salary subject to the absolute discretion of the Chairman or the remuneration committee (when the Company has one). In deciding whether to pay a bonus and how much to pay, the Chairman or the remuneration committee may evaluate Keith's performance in relation to key performance indicators set annually by the Chairman or the remuneration committee in consultation with Keith. Keith may be invited by the Board to participate in an employee incentive scheme implemented by the Company from time to time.

Either Keith or the Company may terminate Keith's service agreement by giving 2 months' notice in writing or, alternatively in the Company's case, payment in lieu of notice. The Company may terminate Keith's employment without notice in certain circumstances, including breach of contract, criminal activity, or serious misconduct.

Keith's service agreement also includes a restraint of trade period of 12 months post termination of his employment. Enforceability of such restraint is subject to all of the usual legal requirements.

(b) Other key management personnel

Other key management personnel are employed under individual employment agreements with Tesseract Australia. Key components of these employment agreements include:

- (i) a total fixed remuneration, which includes base salary, superannuation and other fixed payment and benefits that Tesseract Australia is legally obliged to offer;
- (ii) a discretionary right at the option of Tesseract Australia to participate through invitation or eligibility in incentive and bonus plans;
- (iii) termination by notice by either party, alternatively in Tesseract Australia's case, payment in lieu of notice;
- (iv) Tesseract Australia being able to terminate each employment contract without notice in certain circumstances, including breach of contract, criminal activity, or serious misconduct;
- (v) a non-compete and non-solicitation undertaking from the employees with a restraint area cascading from Australia downwards and for a maximum enforceable period of up to 6 months;
- (vi) confidentiality provisions; and
- (vii) leave entitlements of 20 working days paid annual leave, 10 days paid personal and carer's leave per year on commencement of employment, and long service leave in accordance with applicable legislation.

9.7 Non-Executive Director appointment letters

The Company has entered into agreements with each of Paul Brandling, Russell Yardley, Steve Bertamini and Gregory Baxter, which set out the terms of their appointment as Non-Executive Directors of the Company.

Pursuant to the terms of the agreements, each Non-Executive Director has, in addition to the cash payments to be made to them as set out in Section 9.5, been issued options over unissued shares on the basis set out below. They will also be reimbursed for all reasonable expenses incurred in performing their duties as a Director.

Prior to the date of this Prospectus, the Chairman and each Non-Executive Director have been issued with a total of 7,500,000 options over unissued shares (**Director Options**) as set out in the table below. The Director Options will be exercisable in three equal tranches over a three-year period as follows:

For personal use only

9. KEY PEOPLE, INTERESTS AND BENEFITS CONTINUED

DIRECTOR	NUMBER OF DIRECTOR OPTIONS THAT ARE EXERCISABLE FROM 31 AUGUST 2016 AT AN EXERCISE PRICE OF \$0.20 EACH, AND THAT EXPIRE ON 31 AUGUST 2019 IF NOT EXERCISED	NUMBER OF DIRECTOR OPTIONS THAT ARE EXERCISABLE FROM 31 AUGUST 2017 AT AN EXERCISE PRICE OF \$0.24 EACH, AND THAT EXPIRE ON 31 AUGUST 2019 IF NOT EXERCISED	NUMBER OF DIRECTOR OPTIONS THAT ARE EXERCISABLE FROM 31 AUGUST 2018 AT AN EXERCISE PRICE OF \$0.288 EACH, AND THAT EXPIRE ON 31 AUGUST 2019 IF NOT EXERCISED
Steve Bertamini	500,000	500,000	500,000
Gregory Baxter	500,000	500,000	500,000
Paul Brandling	500,000	500,000	500,000
Russell Yardley	1,000,000	1,000,000	1,000,000

In accordance with the terms of the agreements, each Director is required to comply with the Company's constitution and other corporate governance policies in their respective forms from time to time.

Consistent with the Company's constitution and the ASX Listing Rules, each Non-Executive Director will be required to retire at the third annual general meeting after they were elected (or last re-elected) or three years, whichever is longer.

The appointment of a Non-Executive Director shall cease if the relevant Non-Executive Director:

- is not re-elected as a Director by the shareholders of the Company;
- resigns by written notice to the Company; or
- becomes disqualified by law from being a company director or from being involved in the management of a company.

9.8 Company Secretary appointment

The Company Secretary, Oliver Carton, has been engaged by the Company through his service entity Lennox Group Pty Ltd to provide company secretarial services under which following Completion of the Offer he will receive \$4,000 plus GST per month.

9.9 Interests and benefits

This Section 9.9 sets out the nature and extent of the interests and fees of certain persons involved in the Offer. Other than as set out below or elsewhere in this Prospectus, no:

- Director or proposed Director;
- person named in this Prospectus and who has performed a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus; or
- promoter of the Company,

holds at the time of lodgement of this Prospectus with ASIC, or has held in the two years before lodgement of this Prospectus with ASIC, an interest in:

- the formation or promotion of the Company;
- property acquired or proposed to be acquired by the Company in connection with its formation or promotion, or in connection with the Offer; or
- the Offer,

and no amount (whether in cash, Shares, or otherwise) has been paid or agreed to be paid, nor has any benefit been given or agreed to be given to any such persons for services in connection with the formation or promotion of the Company or the Offer or to any Director or proposed Director to induce them to become, or qualify as, a Director.

For personal use only

(a) Interests of advisers

Tesseract has engaged the following professional advisers:

- (i) Terrain Capital Limited has acted as corporate advisor and Joint Lead Manager for the Offer. Tesseract has paid, or agreed to pay, Terrain Capital corporate advisory fees of \$10,000 (plus GST) per month (expected to total approximately \$95,000), a fee of \$75,000 in the event the IPO is successfully completed and a fundraising fee of 6% of the funds raised (but excluding funds raised by Novus Capital Limited), for these services.
- (ii) Kelly Hazell Quill Lawyers Pty Ltd has acted as Australian legal advisor to Tesseract in connection with the Offer (excluding in relation to taxation), has advised Tesseract in relation to its admission to the official list of the ASX and has performed work in relation to Australian legal due diligence enquiries. To the date of this Prospectus, the Company has paid, or agreed to pay, approximately \$380,000 (plus GST) for services in relation to the Offer and other legal matters in the 12 month period prior to the date of this Prospectus. Further amounts may be paid to Kelly Hazell Quill in accordance with its agreed fee arrangements.
- (iii) BDO Corporate Finance (East Coast) Pty Ltd has prepared the Investigating Accountant's Report. The Investigating Accountant has also performed financial due diligence enquiries in relation to its Investigating Accountant's Report in Section 8 on the Financial Information. Tesseract has paid, or agreed to pay, approximately \$230,000 (plus GST) for these services to the date of this Prospectus. Further amounts may be paid to the Investigating Accountant in accordance with its agreed fee arrangements.
- (iv) BDO East Coast Partnership has prepared the Australian Taxation Report and has provided other taxation advisory services to Tesseract. Tesseract has paid, or agreed to pay, approximately \$40,000 (plus GST) for these services to the date of this Prospectus.
- (v) BDO East Coast Partnership has been appointed as the auditor of Tesseract.
- (vi) Novus Capital Limited has been appointed as Exclusive Sponsoring Broker and Joint Lead Manager for the Offer, Tesseract has agreed to pay Novus Capital Limited: an initial engagement fee of \$5,000, a monthly fee of \$5,000 which is subject to review after 3 month if the Company is not listed, a management fee of 1.50% of all capital raised under the Offer (but 0.75% for funds introduced by Terrain Capital), a placement fee of 4.50% of capital raised under the Offer (but not where funds have been introduced by Terrain Capital Limited), a sponsoring broker success fee of \$75,000 and following the Company being admitted to the Official List, a corporate advisory fee of \$3,500 per month for a period of 12 months.

(b) Directors' interests

The following table sets out the interests of the Directors as at the date of this Prospectus and after admission to the ASX:

DIRECTOR	NUMBER OF SHARES AS AT THE DATE OF THIS PROSPECTUS	PERCENTAGE OF SHAREHOLDING AS AT THE DATE OF THIS PROSPECTUS	NUMBER OF SECURITIES AS AT ADMISSION TO THE ASX	PERCENTAGE SHAREHOLDING AS AT ADMISSION TO THE ASX
Keith Glennan	31,100,000	46.1%	31,451,435	Between 34.0% and 30.7%
Steve Bertamini	1,200,000	1.8%	1,200,000 Shares 1,500,000 Director Options	Between 1.3% and 1.2%
Gregory Baxter	1,200,000	1.8%	1,200,000 Shares 1,500,000 Director Options	Between 1.3% and 1.2%
Paul Brandling	1,200,000	1.8%	1,200,000 Shares 1,500,000 Director Options	Between 1.3% and 1.2%
Russell Yardley	600,000	0.9%	600,000 Shares 3,000,000 Director Options	Between 0.65% and 0.59%

(c) Officers' indemnities

Each Director and the Company Secretary has entered into (or will enter into) a 'Deed of Access, Indemnity and Insurance' with the Company. This entitles each officer to access board papers, be indemnified from liability, and to have the Company take out directors and officers insurance to the extent the Company is able to obtain it. The Company may also make a payment in relation to legal costs incurred by these persons in defending an action for a liability, or resisting or responding to actions taken by a government agency or a liquidator. Each such deed applies to the extent permitted by law and is on a conventional basis.

9. KEY PEOPLE, INTERESTS AND BENEFITS CONTINUED

9.10 Corporate Governance

The Company has adopted systems of control and accountability as the basis for the administration of corporate governance. The Board is committed to administering the policies and procedures with openness and integrity, pursuing to the spirit of corporate governance commensurate with the Company's needs.

To the extent applicable, the Company has adopted The Corporate Governance Principles and Recommendations (3rd Edition) as published by the ASX Corporate Governance Council.

In light of Tesseract's size and nature, the Board considers that the current board provides a cost effective and practical method of directing and managing the Company. As Tesseract's activities develop in size, nature, and scope, the size of the Board and the implementation of additional corporate governance policies and structures will be reviewed.

The Company's corporate governance policies and practices as at the date of this Prospectus are outlined below and the Company's full Corporate Governance Plan is available in a dedicated corporate governance information section of the Company's website tesseract.com

- (a) **Code of Conduct** – This policy sets out a statement of the shared values of the Company and how the Company conducts itself and its business.
- (b) **Board Charter** – This policy sets out the principles for the operation of the Board and describes the functions of the Board and those functions delegated to management of the Company.
- (c) **Selection and Appointment of New Directors Policy** – This policy ensures that the procedure when selecting and appointing new Directors is formal and transparent.
- (d) **Board and Senior Executive Evaluation Policy** – This policy sets out the process relating to performance and evaluation of the Board, senior executives and individual Directors.
- (e) **Appointment of External Auditor Policy** – This policy summarises the conditions on which the Company will select an external auditor.
- (f) **Continuous Disclosure Policy** – Once listed on the ASX, the Company will need to comply with the continuous disclosure requirements of the ASX Listing Rules and the Corporations Act to ensure the Company discloses to the ASX any information concerning the Company which is not generally available and which a reasonable person would expect to have a material effect on the price or value of the Shares. As such, this policy sets out certain procedures and measures which are designed to ensure that the Company complies with its continuous disclosure obligations.
- (g) **Trading Policy** – This policy is designed to maintain investor confidence in the integrity of the Company's internal controls and procedures and to provide guidance on avoiding any breach of the insider trading laws.
- (h) **Shareholder Communications Policy** – This policy sets out practices which the Company will implement to ensure effective communication with its Shareholders.
- (i) **Diversity Policy** – This policy sets out the Company's objectives for achieving diversity amongst its Board, management and employees.
- (j) **Audit and Risk Management Committee Charter** – This policy sets out the objectives and procedures for the audit and risk management committee.

For personal use only

9.11 Departures from Recommendations

Following admission to the Official List, the Company will be required to report any departures from the Recommendations in its annual financial report.

The Company's compliance with and departures from the Recommendations as at the date of this Prospectus are set out on the following pages.

RECOMMENDATION	COMPANY'S CURRENT PRACTICE
<p>1.1 A listed entity should disclose:</p> <p>(a) the respective roles and responsibilities of its board and management; and</p> <p>(b) those matters expressly reserved to the board and those delegated to management.</p>	<p>The respective roles and responsibilities of the Board and executives are defined in the Board Charter.</p> <p>There is a clear delineation between the Board's responsibility for the Company's strategy and activities, and the day-to-day management of operations conferred upon the Company's officers.</p>
<p>1.2 A listed entity should:</p> <p>(a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and</p> <p>(b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.</p>	<p>The procedure for the selection of new Directors is set out in the Selection and Appointment of New Directors Policy. Under this policy, Shareholders are required to be provided with all material information relevant to making an informed decision on whether or not to elect or re-elect a Director.</p>
<p>1.3 A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.</p>	<p>The Company has entered into a written agreement with each Director and senior executive, summaries of which are set out in Sections 9.6 and 9.7.</p>
<p>1.4 The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.</p>	<p>The Company Secretary, Oliver Carton, reports directly to the Chairman of the Board. The role of the Company Secretary is outlined in the Board Charter.</p>
<p>1.5 A listed entity should:</p> <p>(a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;</p> <p>(b) disclose that policy or a summary of it; and</p> <p>(c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them and either:</p> <p>i the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or</p> <p>ii if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.</p>	<p>The Company has adopted a Diversity Policy.</p> <p>The Company's Diversity Policy requires the Board to establish measurable objectives to assist the Company in achieving gender diversity.</p>

9. KEY PEOPLE, INTERESTS AND BENEFITS CONTINUED

RECOMMENDATION	COMPANY'S CURRENT PRACTICE
<p>1.6 A listed entity should:</p> <p>(a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and</p> <p>(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</p>	<p>The Company has adopted a Board and Senior Executive Evaluation Policy.</p> <p>A Non-Executive Director will be responsible for the performance evaluation of the Chairman. The process for evaluating the performance of the Board as a whole is the responsibility of the Board under the direction of the Chairman. The Chairman is in charge of conducting individual Director evaluations.</p>
<p>1.7 A listed entity should:</p> <p>(a) have and disclose a process for periodically evaluating the performance of its senior executives; and</p> <p>(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</p>	<p>The Company has adopted a Board and Senior Executive Evaluation Policy.</p> <p>The Managing Director is subject to annual performance evaluation by the Board. All senior executives of the Company are subject to annual performance evaluations by the Managing Director.</p>
<p>2.1 The board of a listed entity should:</p> <p>(a) have a nomination committee which:</p> <ul style="list-style-type: none"> i has at least three members, a majority of whom are independent directors; and ii is chaired by an independent director, <p>and disclose:</p> <ul style="list-style-type: none"> iii the charter of the committee; iv the members of the committee; and v as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or <p>(b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.</p>	<p>The Company will not have a separate nomination committee until such time as the Board is of a sufficient size and structure, and the Company's operations are of a sufficient size, for a separate committee to be of benefit to the Company. In the meantime, the full Board will carry out the duties that would ordinarily be assigned to that committee under a written policy.</p>
<p>2.2 A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.</p>	<p>To assist in identifying areas of focus and maintaining an appropriate experience mix, the Board has developed a skills matrix (set out in Annexure A to the Selection and Appointment of New Directors Policy) which is reviewed by the Board on a regular basis.</p>
<p>2.3 A listed entity should disclose:</p> <p>(a) the names of the directors considered by the board to be independent directors;</p> <p>(b) if a director has an interest, position, association or relationship of the type described above but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and</p> <p>(c) the length of service of each director.</p>	<p>See Sections 9.1 and 9.9.</p>
<p>2.4 A majority of the board of a listed entity should be independent directors.</p>	<p>The majority of the Board are independent Directors for the ASX purposes.</p>

RECOMMENDATION	COMPANY'S CURRENT PRACTICE
2.5 The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.	The roles of the Chairman and Managing Director are exercised by two separate individuals. The Chairman is considered to be an independent Director for the ASX purposes.
2.6 A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.	The Company does not have a formal program for inducting new Directors and providing appropriate professional development opportunities. Given the size and structure of the Board, this program will be adopted on an individual basis for each Director.
3.1 A listed entity should: <ul style="list-style-type: none"> (a) have a code of conduct for its directors, senior executives and employees; and (b) disclose that code or a summary of it. 	The Company has adopted a Code of Conduct which applies to all Directors, officers, employees, contractors or consultants of the Company as well as a Trading Policy. Each of these has been prepared having regard to the Recommendations.
4.1 The board of a listed entity should: <ul style="list-style-type: none"> (a) have an audit committee which: <ul style="list-style-type: none"> i has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and ii is chaired by an independent director, who is not the chair of the board, and disclose: <ul style="list-style-type: none"> iii the charter of the committee; iv the relevant qualifications and experience of the members of the committee; and v in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or <ul style="list-style-type: none"> (b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner. 	On admission to the official list, the Company will establish an audit and risk management committee. The size and structure of the current Board means that the composition of the committee is unlikely to meet this Recommendation. The charter of the committee is available on Tesseract's website.
4.2 The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.	The Company intends to comply with this Recommendation.

9. KEY PEOPLE, INTERESTS AND BENEFITS CONTINUED

RECOMMENDATION	COMPANY'S CURRENT PRACTICE
4.3 A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.	The Company intends to comply with this Recommendation.
5.1 A listed entity should:	The Company is committed to providing timely and balanced disclosure to the market in accordance with its Continuous Disclosure Policy.
(a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and	
(b) disclose that policy or a summary of it.	
6.1 A listed entity should provide information about itself and its governance to investors via its website.	The Company has a dedicated corporate governance information section on its website.
6.2 A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	The Company has adopted a Shareholder Communications Policy for Shareholders wishing to communicate with the Board.
6.3 A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	All Shareholders are invited to attend the Company's annual meeting, either in person or by representative. The Board regards the annual meeting as an excellent forum in which to discuss issues relevant to the Company and accordingly encourages full participation by Shareholders. Shareholders have an opportunity to submit questions to the Board and to the Company's auditor.
6.4 A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	The Company seeks to recognise numerous modes of communication, including electronic communication, to ensure that its communication with Shareholders is frequent, clear and accessible.
7.1 The board of a listed entity should:	On admission to the Official List, the Company will establish an audit and risk management committee.
(a) have a committee or committees to oversee risk, each of which:	The size and structure of the current Board means that the composition of the committee is unlikely to meet this Recommendation.
i has at least three members, a majority of whom are independent directors; and	
ii is chaired by an independent director,	The charter of the committee is available on Tesseract's website.
and disclose:	
iii the charter of the committee;	
iv the members of the committee; and	
v as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or	
(b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.	

RECOMMENDATION	COMPANY'S CURRENT PRACTICE
<p>7.2 The board or a committee of the board should:</p> <ul style="list-style-type: none"> (a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and (b) disclose, in relation to each reporting period, whether such a review has taken place. 	<p>The Company intends to comply with this Recommendation.</p>
<p>7.3 A listed entity should disclose:</p> <ul style="list-style-type: none"> (a) if it has an internal audit function, how the function is structured and what role it performs; or (b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes. 	<p>Management is required to design and implement risk management and internal control systems to manage the Company's material business risks and to report to the Board on whether those risks are being managed effectively.</p>
<p>7.4 A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.</p>	<p>The Board is responsible for reviewing whether the Company has any material exposure to any economic, environmental and social sustainability risks, and if so, to develop strategies to manage such risks.</p>
<p>8.1 The board of a listed entity should:</p> <ul style="list-style-type: none"> (a) have a remuneration committee which: <ul style="list-style-type: none"> i has at least three members, a majority of whom are independent directors; and ii is chaired by an independent director, <p>and disclose:</p> <ul style="list-style-type: none"> iii the charter of the committee; iv the members of the committee; and v as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or <ul style="list-style-type: none"> (b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive. 	<p>The Company will not have a separate remuneration committee until such time as the Board is of a sufficient size and structure, and the Company's operations are of a sufficient size, for a separate committee to be of benefit to the Company. In the meantime, the full Board will carry out the duties that would ordinarily be assigned to that committee in accordance with the Board and Senior Executive Evaluation Policy.</p>
<p>8.2 A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.</p>	<p>The policies and practices regarding remuneration of Directors are set out in the Selection and appointment of new Directors Policy. Full details of Director remuneration will be included in annual reports.</p>
<p>8.3 A listed entity which has an equity-based remuneration scheme should:</p> <ul style="list-style-type: none"> (a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and (b) disclose that policy or a summary of it. 	<p>Not applicable.</p>

10. MATERIAL CONTRACTS

MATERIAL CONTRACTS

Set out below is a brief summary of certain contracts which have been entered into by Tesseract and which have been identified as material and relevant to potential investors. To fully understand all rights and obligations of a material contract it would be necessary to review each contract in full and these summaries should be read in that light.

10.1 Existing bank facility details

Tesseract Australia currently has a business loan provided by Australia and New Zealand Banking Corporation in the amount of up to \$700,000 which has been drawn down in full. Interest only is payable monthly in arrears for 5 years from the draw down date at the standard ANZ Business Mortgage Index Rates minus a margin of 1.75% p.a. Thereafter principal and interest is payable. The loan is secured by a personal indemnity from Keith Glennan and two others as well as a first ranking mortgage over real property.

Tesseract will repay the balance of this facility in full out of the proceeds raised pursuant to the Offer.

10.2 Existing internal funding details

Tesseract currently has internal debt facilities provided by various related parties of Tesseract being, Grand Floridian Pty Ltd, T.B.C. (Australia) Pty Ltd and the trustee of the Raging Thunder Superannuation Fund which is currently RTSF Super Pty Ltd. As at 30 September 2015, Tesseract owed the Substantial Shareholders the aggregate amount of \$750,034. From 1 October 2015, interest and principal has continued to be repaid in respect of these Internal Debt Finance arrangements in accordance with their terms.

These loans are broken downs as follows:

- 3 unsecured loans from T.B.C. (Australia) Pty Ltd with an aggregate value of \$384,913 at 30 September 2015 and 12% interest is payable monthly in arrears.
- 5 unsecured loans from the trustee of the Raging Thunder Superannuation Fund with an aggregate value of \$289,675 at 30 September 2015 and 12% interest is payable monthly in arrears.
- 2 unsecured loans from Grand Floridian Pty Ltd with a value of \$75,445 at 30 September 2015 and 12% interest is payable monthly in arrears.

On 10 November 2015, RTSF Super Pty Ltd (being the current trustee of the Raging Thunder Superannuation Fund) converted \$100,000 of principal owed by Tesseract to RTSF Super Pty Ltd, under the Internal Debt Finance arrangements described above, into Shares.

Each Substantial Shareholder has provided a Firm Commitment Letter to subscribe for Shares under the Offer as follows:

SUBSTANTIAL SHAREHOLDER	AMOUNT LOANED TO TESSERENT (INCLUDING INTEREST AS CALCULATED AT 31 DECEMBER 2015) (COLLECTIVELY AND SEVERALLY AS THE CONTEXT REQUIRES THE 'OUTSTANDING PRINCIPAL AND INTEREST AMOUNT')	NUMBER OF SHARES TO BE SUBSCRIBED FOR UNDER THE FIRM COMMITMENT LETTER (‘CONSIDERATION SHARES’)
Grand Floridian Pty Ltd	\$70,287	351,435
T.B.C. (Australia) Pty Ltd	\$382,413	1,912,065
RTSF Super Pty Ltd (being the current trustee of the Raging Thunder Superannuation Fund)	\$158,155	790,774
Total	\$610,855	3,054,274

Under the Firm Commitment Letters, each Substantial Shareholder has agreed with the Company to offset any money that is or may become owing by a Substantial Shareholder to the Company as part of the Substantial Shareholder applying for the Consideration Shares. Following successful Completion of the Offer and prior to the Company being admitted to the Official List, each Substantial Shareholder has agreed to fully discharge, release and extinguish the loans and any accrued interest owed to a Substantial Shareholder by Tesseract in respect of the Outstanding Principal and Interest Amount only. Any balance of the Internal Debt Finance still owing to a Substantial Shareholder by Tesseract after the Substantial Shareholder has received their Consideration Shares, will be paid out of the proceeds of the Offer.

10.3 Terrain Mandate

Terrain Capital Limited (**Terrain**) will assist the Company pursuant to the terms and conditions of a mandate dated 16 June 2015 (**Mandate**).

Terrain will act as Joint Lead Manager and provide corporate advice in the context of the Offer.

Terrain's Mandate will continue until the earlier of (1) completion of the IPO; (2) 23 December 2015 provided that if by 23 December 2015 an IPO is substantially progressed and is likely to be concluded by 1 March 2016, then either party may by written notice to the other, extend the 23 December 2015 date to 1 March 2016 or Terrain gives the Company written notice of termination (**Mandate Period**).

Terrain will be entitled to the following fees under the Mandate:

- (a) Management and placement fees – If the Company raises equity during the Mandate Period, Terrain will receive a management fee at a rate of 1.5% (less 0.75% if this amount is paid to Novus Capital Limited as a management fee in respect of funds of investors introduced by Terrain) of the amount raised and a placement fee of 4.5% of the amount raised (which includes any fees that may be payable to a third party participating in an equity placement.) Terrain will not receive a placement fee from contacts introduced by the Company and Terrain will not receive a management fee or placement fee from contacts introduced by Novus Capital Limited. Under no circumstances should the Company be liable to pay Novus Capital Limited and Terrain, management and placement fees totalling more than 6%. If there is a disagreement between the Company, Novus Capital Limited and Terrain on the allocation of fundraising fees, Terrain undertakes to negotiate in good faith with Novus Capital Limited and the Company to resolve the issue within the 6% cap.

- (b) A fee of \$10,000 per month or part thereof (invoiced monthly), starting from 1 May 2015 and continuing until 9 November 2015. A fee of \$5,000 per month or part thereof (invoiced monthly), starting from 10 November 2015 and continuing until the earlier of the IPO or termination of the Mandate; and
- (c) A cash fee of \$75,000 for Terrain's commitment to the Mandate payable on and only in the event of a successful IPO of the Company.

In addition to the above, Terrain will be entitled to reimbursement by the Company of all of its reasonable, actual and direct out of pocket expenses incurred by it in discharging the Mandate. Expenses in excess of \$1,000 will be referred to the Company in advance for prior approval.

If Terrain introduces an investor or broker to the Company and Terrain's services are then terminated, any subsequent investment in the Company by the investor, or IPO mandate with the introduced broker will result in the fees still being payable as if the Mandate had not been terminated.

10.4 Novus Capital Limited – Joint Lead Manager Mandate

Pursuant to an engagement letter dated 9 November 2015, the Company appointed Novus Capital Limited (**NCL**) to act as Exclusive Sponsoring Broker and Joint Lead Manager in respect of the Offer.

NCL's primary tasks include without limitation:

- (a) advising on the Offer including capital structure, pricing, terms and conditions and other commercial corporate matters;
- (b) assisting the Company in reviewing formal documentation including this Prospectus and other regulatory documents required for the Offer;
- (c) introduction of professional advisors and potential investors;

- (d) promoting and marketing the Offer;
- (e) advising and assisting in developing and implementing a marketing and distribution strategy; and
- (f) assisting the Company with its ASX listing application and final negotiations to ensure admission to the Official List

NCL is not an underwriter to the Offer.

The Company will pay NCL:

- (a) an engagement fee of \$5,000;
- (b) a monthly fee of \$5,000 which is subject to review after 3 months if the Company is not listed;
- (c) a management fee of 1.50% of all capital raised under the Offer (but 1.50% for funds introduced by Terrain Capital);
- (d) a placement fee of 4.50% of capital raised under the Offer (but excluding funds introduced by Terrain Capital Limited but including any fees that may be payable to third party brokers, but if third party fees approved by the Company are above 5%, the Company will rebate NCL any excess greater than 5%);
- (e) a sponsoring broker success fee of \$75,000; and
- (f) following the Offer a corporate advisory fee of \$3,500 per month for a period of 12 months post the Offer.

The Company must also reimburse NCL for reasonable out of pocket expenses incurred by NCL in connection with the Offer and the provision of services under the mandate.

The term of the mandate is from the date of execution and payment of the engagement fee until 12 months after the Company is admitted to the Official List.

The Company has a right to terminate the mandate at any time after 3 months by:

- (a) issuing in a writing a minimum 30 days' notice of termination;
- (b) paying all expenses that have accrued to the date of termination; and
- (c) paying a break fee of \$25,000.

10. MATERIAL CONTRACTS CONTINUED

NCL reserves the right to terminate its mandate if the events in (a) – (l) below occur. NCL will be entitled to be paid fees and expenses that accrued to the date of termination and the indemnity provided by the Company will remain in full force.

No break fee is payable if NCL terminates its mandate or the termination is a result of termination due to reasons beyond the control of the Company as described in (a), (d) and (e).

NCL may terminate its mandate at any time upon giving the Company 14 business days' notice of its intention to do so, or, if one or more of the following events occur in its sole and absolute discretion:

- (a) The Australian equity capital market conditions are such that they are not, in the bona fide reasonable judgement of NCL, conducive to the successful completion of its mandate or other events beyond the control of NCL are so material and adverse as to make it impracticable or inadvisable to proceed with the new equity issue on the terms and in the manner contemplated.
- (b) There is a material adverse effect including any adverse change in the assets, liabilities, financial position or prospects of the Company as disclosed to NCL, other than for the costs incurred by the Company in relation to the Offer.
- (c) There is a materially false or misleading statement or misrepresentation in the material or information supplied to NCL or included in the presentation materials or a material omission in the material supplied to NCL or included in the presentation materials.

- (d) Any material change or disruption occurs in the existing financial markets, political or economic conditions of Australia, China, Japan, the United Kingdom, the United States of America, Russia, North Korea or the international financial markets or any material adverse change occurs in national or international political, financial or economic conditions, in each case the effect of which is that, it is impracticable to market the issue or enforce any contract to issue and allot the shares or that the success of the new issue is likely to be adversely affected.
- (e) There is introduced, or there is a public announcement of a proposal to introduce into the parliament of Australia or any state of Australia, a new law, or the Reserve Bank of Australia, any federal or state authority of Australia adopts or announces a proposal to adopt a new policy (other than a law or policy which has been announced before the date of the NCL mandate), any of which does or is likely to prohibit or regulate financial institutions or credit providers, capital issues or stock markets.
- (f) Default by the Company of any term of the NCL mandate.
- (g) Any of the warranties or representations by the Company in the NCL mandate are or become materially untrue.
- (h) A director or proposed director of the Company is charged with an indictable offence or any Director or proposed Director of the Company is disqualified from managing a corporation under the Corporations Act or the Chairman or Chief Executive Officer of the Company vacate office.

- (i) ASIC issues, or threatens to issue a proceeding, hearing or investigation in relation to the Offer.
- (j) Any government agency (including ASIC) commences any public action, hearing or investigation against the Company or any of its directors in their capacity as a director of the Company or announces that it intends to take such action.
- (k) All of the conditions of the NCL mandate have not been, or will not in NCL's sole and absolute opinion be, satisfied, or waived by NCL, prior to the proposed listing date or such later date agreed by NCL in writing.
- (l) Any breach of clause 8 of the NCL mandate.

The Company has provided a separate indemnity in favour of NCL, its associates and related entities and others which survives termination of NCL's appointment. The indemnity does not apply to matters arising from the negligence for NCL and its associates nor does it apply to a claim which arises from any bad faith or unlawful misconduct of NCL and its associates or any manner which may not lawfully be excluded, provided or required.

10.5 Firm Commitment Letters

Grand Floridian Pty Ltd, T.B.C (Australia) Pty Ltd and RTSF Super Pty Ltd, all of which are Substantial Shareholders entered into Firm Commitment Letters on or around 12 November 2015. Under the Firm Commitment Letters each Substantial Shareholder has agreed to subscribe for Shares under the Offer up to their Outstanding Principal and Interest Amount, for an aggregate amount of \$610,855 (being the aggregate of the principal and interest owed to the Substantial Shareholders by Tesseract at 31 December 2015). Under the Firm Commitment Letters, each Substantial Shareholder has agreed with the Company to offset any money that is or may become owing by a Substantial Shareholder to the Company as part of the Substantial Shareholder applying for the Consideration Shares. Following successful Completion of the Offer and prior to the Company being admitted to the Official List, each Substantial Shareholder has agreed to discharge, release and extinguish the loans and any accrued interest owed to a Substantial Shareholder by Tesseract in respect of the Outstanding Principal and Interest Amount only. Any balance of the Internal Debt Finance still owing to a Substantial Shareholder by Tesseract after the Substantial Shareholder has received their Consideration Shares, will be paid out of the proceeds of the Offer.

The Firm Commitment Letters will terminate if approval for Quotation is not granted within 3 months after the date of this Prospectus unless otherwise agreed by the parties. The terms of the firm commitment letter are on arm's length terms.

Grand Floridian Pty Ltd, T.B.C (Australia) Pty Ltd and RTSF Super Pty Ltd will subscribe for Shares in respect of the Offer up to the aggregate amount of \$610,855 which will count towards the minimum and maximum subscription amounts to be raised under the Offer.

If the Offer is oversubscribed, the Consideration Shares will be allocated to the Substantial Shareholders in priority to any Shares subscribed for and allocated to other Applicants under the Offer.

11. ADDITIONAL INFORMATION

ADDITIONAL INFORMATION

11.1 Incorporation

The Company was incorporated on 6 May 2015.

11.2 Financial year

The accounts for the Company will be prepared up to 30 June annually.

11.3 Current capital structure

The issued capital of the Company as at the date of this Prospectus is set out in the table below.

CLASS OF SECURITY	NUMBER
Shares	67,459,600
Director Options	7,500,000

11.4 Capital structure following the Offers

Upon Completion of the Offer, the issued share capital of the Company will comprise the following:

CLASS OF SECURITY	NUMBER (MINIMUM SUBSCRIPTION)	NUMBER (MAXIMUM SUBSCRIPTION)
Shares	92,459,600	102,459,600
Director Options	7,500,000	7,500,000

11.5 Structure of Tesseract

SUBSIDIARY	COUNTRY OF INCORPORATION	PRINCIPAL BUSINESS	PERCENTAGE HELD BY THE COMPANY PRE-IPO	PERCENTAGE HELD BY THE COMPANY POST-IPO
Tesseract Australia Pty Ltd (ACN 101 692 513)	Australia	MSSP Platform Channel partner in Australia	100%	100%
Tesseract Wholesale Pty Ltd (ACN 606 862 113)	Australia	MSSP Platform Developer and licensor of the MSSP Platform from Tesseract IP Pty Ltd	100%	100%
Tesseract IP Pty Ltd (ACN 145 546 863)	Australia	Non-operational intellectual property company	100%	100%
Tesseract UK Limited (Company Number 9599979)	United Kingdom	Non-operational entity	100%	100%

11.6 Rights attaching to Shares

The shares to be issued under this Prospectus will rank equally with the existing fully paid ordinary shares in the Company.

The rights attaching to shares are set out in the Company's constitution, and, in certain circumstances, are regulated by the Corporations Act, the ASX Listing Rules and general law. The constitution of the Company may be inspected during normal business hours at the registered office of the Company at Level 2, 683 Burke Rd, Camberwell, VIC, 3124.

The following is a summary of the principal rights of the holders of ordinary shares of the Company. This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of the Company's members.

This summary assumes that the Company is admitted to the Official List of the ASX.

(a) General meeting and notices

Each member is entitled to receive notice of, and to attend and vote at, general meetings of the Company and to receive all notices, accounts and other documents required to be sent to members under the Company's constitution, the Corporations Act or the Listing Rules.

(b) Voting rights

Subject to any rights or restrictions for the time being attached to any class or classes of shares, at a general meeting of the Company every holder of fully paid ordinary shares present in person or by an attorney, representative or proxy has one vote on a show of hands (unless a member has appointed 2 proxies) and one vote per share on a poll.

A person who holds a share which is not fully paid is entitled, on a poll, to a fraction of a vote equal to the proportion which the amount paid bears to the total issue price of the share.

Where there are 2 or more joint holders of a share, only the member whose name appears first in the register of members is entitled to vote at a general meeting.

(c) Issues of further shares

The Directors may:

- (i) issue or dispose of shares to any person at any time and on any terms and conditions and having attached to them any preferred, deferred or other special rights or restrictions, whether with regard to dividend, voting, return of capital or otherwise, as the Directors think; and
- (ii) grant to any person an option over shares or pre-emptive rights at any time and for any consideration as they think fit.

The Directors must ensure that the issue of securities following the exercise, conversion or paying up of any security of the Company quoted by the ASX is not in any way prevented, delayed or interfered with by the Company except as permitted by the Listing Rules.

(d) Variation of rights

At present, the Company has on issue one class of shares only, namely ordinary shares.

The Company may vary or cancel the rights attaching to any class of shares only if the variation or cancellation is permitted by the Corporations Act and is approved by special resolution of each of the Members holding shares of the relevant class.

The Directors must give written notice of the variation or cancellation to the Members holding the shares of the relevant class within seven days of the variation or cancellation.

(e) Transfer of shares

Subject to the Company's constitution, the Corporations Act and the ASX Listing Rules, ordinary shares are freely transferable.

Subject to the Corporations Act, the ASX Listing Rules or the Operating Rules, Shares are transferable by an instrument of transfer in writing in any usual or common form or in any other form that the Directors approve.

The Board may refuse to register a transfer of shares only if that refusal would not contravene the ASX Listing Rules or the Operating Rules. If the Board refuses to register a transfer, the Company must give the lodging party written notice of the refusal and the reasons for it within 5 Business Days after the transfer is delivered to the Company. The Board must not register a transfer of shares if the Corporations Act, the ASX Listing Rules or the Operating Rules forbid registration.

(f) Dividends

Subject to the Company's constitution and the Corporations Act, the Board may resolve to pay any dividend it thinks appropriate and fix the time for payment. Subject to the terms of issue of shares, the Company may pay a dividend on one class of shares to the exclusion of another class.

Each share of a class on which the Board resolves to pay a dividend carries the right to participate in the dividend in the same proportion that the amount for the time being paid on the share (excluding any amount paid in advance of calls) bears to the total issue price of the share.

(g) Winding up

Subject to the Company's constitution, the Corporations Act and to the terms of issue of the shares, if the Company is wound up and the property of the Company available is more than sufficient to pay: (i) all the debts and liabilities of the Company; and (ii) the costs, charges and expenses of the winding up, the members will be entitled to participate in any surplus assets of the Company in proportion to the percentage of the capital paid up on their shares.

11. ADDITIONAL INFORMATION CONTINUED

(h) Dividend reinvestment and share plans

The Board may adopt and implement dividend reinvestment plans (under which any member may elect that dividends payable by the Company be reinvested by way of subscription for fully paid shares in the Company) and any other share plans (under which any member may elect to forego any dividends that may be payable on all or some of the shares held by that member and to receive instead some other entitlement, including the issue of fully paid shares).

(i) Directors

The Company's constitution states that the minimum number of Directors is 3.

(j) Powers of the Board

Except as otherwise required by the Corporations Act, any other law, the ASX Listing Rules or the Company's constitution, the Board has power to manage the business of the Company and may exercise every right, power or capacity of the Company to the exclusion of the members (except to sell or dispose of the main undertaking of the Company).

11.7 Consents and disclaimers of responsibility

Written consents to the issue of this Prospectus have been given and, at the time of lodgement of this Prospectus with ASIC, had not been withdrawn by the following parties:

- (a) Terrain Capital Limited has given its written consent to be named in this Prospectus as Joint Lead Manager and corporate advisor to the Company in the form and context in which it is named.
- (b) Kelly Hazell Quill Lawyers Pty Ltd has given its written consent to be named in this Prospectus as Australian legal advisor to Tesseract in relation to the Offer in the form and context in which it is named.

- (c) BDO Corporate Finance (East Coast) Pty Ltd has given its written consent to be named in this Prospectus as Investigating Accountant to the Company in the form and context in which it is named and has given and not withdrawn its consent to the inclusion in the Prospectus of its Investigating Accountant's Report in the form and context in which it is included.

- (d) BDO East Coast Partnership has given and not withdrawn its consent to the inclusion in the Prospectus of its Australian Taxation Report in the form and context in which it is included.

- (e) BDO East Coast Partnership has given its written consent to be named in this Prospectus as auditor of the Company.

- (f) Computershare Investor Services Pty Limited has given its written consent to be named in this Prospectus as the Share Registry in the form and context in which it is named.

- (g) Gartner Inc. has given written consent to be named in this prospectus for the purposes of Section 2 in the form and context in which it is named.

- (h) Frost & Sullivan has given written consent to be named in this prospectus for the purposes of Section 2 in the form and context in which it is named.

- (i) Novus Capital Limited has given its written consent to be named in this Prospectus as Exclusive Sponsoring Broker and Joint Lead Manager to the Company in the form and context in which it is named.

Each entity and person referred to above has not authorised or caused the issue of this Prospectus, does not make, or purport to make, any statement in this Prospectus other than as specified in this Section, has not made any statement on which a statement in this Prospectus is based, other than as specified in this Section and to the maximum extent permitted by law, expressly disclaims all liability in respect of, makes no representation regarding,

and takes no responsibility for, any part of this Prospectus other than the reference to its name and the statement (if any) included in this Prospectus with the consent of that party as specified in this Section.

11.8 Related party interests

Other than as set out below or elsewhere in this Prospectus, there are no existing agreements or arrangements and there are no currently proposed transactions in which Tesseract was, or is to be, a participant, and in which any related party had or will have a direct or indirect material interest in:

- › the internal debt funding arrangements with Grand Floridian Pty Ltd, T.B.C. (Australia) Pty Ltd and the trustee of the Raging Thunder Superannuation Fund which is currently RTSF Super Pty Ltd, which are described in Section 10.2;
- › the Firm Commitment Letters with the Substantial Shareholders described in Section 10.5;
- › the compensation arrangements with Directors and executive officers, which are described in Sections 9.5, 9.6, and 9.7; and
- › the indemnification arrangements with the Directors which are described in this Section 9.9(c).

11.9 Legal proceedings

The Directors are not aware of any litigation of a material nature pending or threatened which may significantly affect the businesses of Tesseract.

11.10 ASX Waivers/ASIC Relief

No waivers of the ASX Listing Rules or relief from the Corporations Act have been obtained by the Company in connection with the Offer.

For personal use only

11.11 Taxation

The acquisition and disposal of Shares in the Company will have tax consequences, which will differ depending on the individual circumstances of each investor. All potential investors in the Company are urged to obtain independent professional financial advice about the consequences of acquiring Shares from a taxation viewpoint and generally. It is the sole responsibility of potential Applicants to inform themselves of their taxation position resulting from participation in the Offer.

An Australian Taxation Report has been prepared by BDO East Coast Partnership and is set out in Section 12.

To the maximum extent permitted by law, the Company, its officers and each of their respective advisers accept no liability or responsibility with respect to any taxation consequences to investors of subscribing for Shares under this Prospectus.

11.12 Electronic Prospectus

Potential investors can obtain a copy of this Prospectus from **offer.tesseract.com**. If you access an electronic copy of this Prospectus, you should read the entire Prospectus.

If you have received this Prospectus as an Electronic Prospectus please ensure that you have received the entire Prospectus accompanied by the Application Form. If you have not, please email the Company and the Company will send to you, for free, either a hard copy or a further electronic copy of this Prospectus or both.

The Company reserves the right not to accept an Application Form from a person if it has reason to believe that when that person was given access to the electronic Application Form, it was not provided together with the Electronic Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered. In such a case, the application monies received will be dealt with in accordance with section 722 of the Corporations Act.

11.13 Documents available for inspection

The following documents are available for inspection during normal business hours at the registered office of the Company:

- (a) this Prospectus;
- (b) the Company's constitution; and
- (c) The consents referred to in Section 11.7.

11.14 Governing law

This Prospectus and the contracts that arise from the acceptance of Applications under the Offer are governed by the law applicable in Victoria, Australia and each Applicant submits to the non-exclusive jurisdiction of the courts of Victoria, Australia.

11.15 Statement of Directors

Other than as set out in this Prospectus, the Directors report that after due enquiries by them there have not been any circumstances that have arisen or that have materially affected or will materially affect the assets and liabilities, financial position, profits or losses or prospects of the Company, other than as disclosed in this Prospectus.

12. AUSTRALIAN TAXATION REPORT



Tel: +61 3 9603 1700
Fax: +61 3 9602 3870
www.bdo.com.au

Level 14, 140 William St
Melbourne VIC 3000
GPO Box 5099 Melbourne VIC 3001
Australia

The Directors
Tesseract Limited
Level 2
683 Burke Rd
CAMBERWELL VIC 3124

17 November 2015

Dear Sirs

AUSTRALIAN TAXATION REPORT

We have been requested by the Directors of Tesseract Limited (“Tesseract”) to prepare an Australian taxation report to be included in a Prospectus dated 17 November 2015 (the “Prospectus”).

Under this Prospectus, Tesseract is seeking to raise up to \$7,000,000 (less costs) through an offer to subscribe for 35,000,000 ordinary shares at an offer price of \$0.20 per share.

This report provides a general summary of Australian tax issues for Australian tax resident investors who acquire shares in Tesseract pursuant to this Prospectus. The categories of investors considered in this report are limited to individuals, companies (other than life insurance companies), trusts, partnerships and complying superannuation entities that hold shares on capital account.

This report does not consider the consequences for non-Australian tax resident investors, banks, insurance companies, investors exempt from Australian tax, or investors who hold their shares on revenue account. It also does not consider the consequences for investors who are subject to Division 230 of the *Income Tax Assessment Act 1997* (the Taxation of Financial Arrangements regime) and have made fair value or financial reports elections.

This report has been drafted on the basis of Australian income tax legislation and interpretations of that legislation at the date of this report. It does not take into account the tax law of countries other than Australia.

This report is general in nature and is not intended to be an authoritative or complete statement of the applicable law.

Investors should seek independent professional advice on the implications of ownership or disposal of the shares, taking into account their specific circumstances.

For personal use only



1. Taxation treatment of dividends

The shares to be issued by Tesseract to investors should be treated as “equity interests” for Australian tax purposes. Any profits returned by Tesseract to the investors in respect of the shares should be treated as dividends for Australian taxation purposes.

Dividends received by Australian investors will constitute assessable income.

Individuals and complying superannuation entities

Australian tax resident investors who are individuals or complying superannuation entities should include the dividend in assessable income in the year in which the dividend is paid, together with any franking credit attached to that dividend. The franking credit is generally available as an offset against the investor’s tax liability (subject to the investor being a “qualified person” - refer further comments below). Where the tax offset exceeds the tax payable on the investor’s taxable income, investors should be entitled to a refund.

Where a dividend is unfranked, investors will generally be liable for tax at their applicable marginal tax rate. No tax offset is available.

Corporate investors

Australian tax resident corporate investors should also include the dividend received (and attached franking credit) in their assessable income. A tax offset is available (up to the amount of the franking credit). Excess franking credits received do not give rise to a refund of tax but may be able to be converted into tax losses.

Such investors should also be entitled to a credit in their own franking account (to the extent of the franking credit received) that can in turn be passed back to their own shareholders on the payment of dividends.

The receipt of unfranked dividends will be subject to tax at the general company tax rate (30%).

Trusts and partnerships

Investors who are trustees (other than trustees of complying superannuation entities) or partnerships should include the franking credit in determining the net income of the trust or partnership. The relevant beneficiary or partner may be entitled to a tax offset equal to the beneficiary’s or partner’s share of the franking credit received by the trust or partnership.

12. AUSTRALIAN TAXATION REPORT CONTINUED

***“At risk” holding of shares***

The abovestated benefit of franking credits can be denied where an investor is not a “qualified person” in which case the investor will not be able to include an amount for the franking credit in their assessable income and will not be entitled to a tax offset.

Broadly, to be a qualified person, an investor must satisfy the holding period rule, and, if necessary, the related payments rule.

The holding period rule requires an investor to hold the shares “at risk” for more than 45 days continuously (from the day after the investor acquires the shares to the 45th day after the shares become ex-dividend). Any day on which an investor has a materially diminished risk or loss of opportunity for gain (through transactions such as granting options or warrants over the shares, or entering into a disposal contract) will not be counted as a day on which the investor held the shares “at risk”. The holding period rule is subject to certain exceptions. Specific rules apply to trusts and beneficiaries.

Under the related payments rule, a different testing period applies where an investor has made, or is under an obligation to make, a “related payment” in relation to a dividend (broadly involving the benefit of the dividend being passed on to another party). The related payment rule requires the investor to have held the shares at risk for a period commencing on the 45th day before, and ending on the 45th day after, the day the shares become ex-dividend.

Investors should obtain their own tax advice to determine if these requirements have been satisfied.

2. Taxation treatment of disposal of shares

The disposal of shares by investors will be a capital gains tax (“CGT”) event.

A capital gain will arise if the capital proceeds on the disposal of the shares are greater than the cost base of the shares (broadly, the amount paid to acquire the shares plus any transaction costs).

A CGT discount may be applied in relation to the net capital gain where the investor is an individual, complying superannuation entity or trustee; the shares have been held for at least 12 months; and certain other conditions are satisfied. Where the CGT discount applies, any capital gain arising to individuals and entities acting as trustees (other than a complying superannuation entity) may be reduced by 50% (after offsetting current year and prior year capital losses). For a complying superannuation entity, any capital gain may be reduced by 33% (after offsetting current year and prior year capital losses).

Corporate investors are not entitled to any CGT discount and are generally taxed at 30% on capital gains they derive.

For personal use only



Where the capital proceeds on the disposal are less than the reduced cost base of the shares, a capital loss will arise. Capital losses can generally only be applied against capital gains realised by the investor in the same income year (or future income years subject to certain loss recoupment tests being satisfied). Capital losses cannot be offset against other assessable income.

3. Tax file number ("TFN") and Australian Business Number ("ABN")

Investors who do not quote their TFN or ABN will automatically be subject to a withholding tax (at the highest marginal tax rate) on any unfranked dividend paid to them by Tesseract. The highest marginal tax rate (including the Medicare levy and the Temporary Budget Repair levy) is currently 49%.

Tesseract is required to withhold and remit such tax until the time that the TFN or ABN is supplied by the investor. The amount withheld in these circumstances should be available as a credit against the investor's tax liability.

4. Indirect taxes

Investors should not be liable for stamp duty in respect of their investment in shares. Further, under current legislation, no stamp duty should be payable in the event of a subsequent transfer of shares.

Investors should not be liable for GST in respect of their investment in shares. Investors may not be entitled to claim full input tax credits in respect of GST paid on costs incurred in connection with the acquisition of shares.

Investors should seek independent professional advice on the indirect tax implications of holding and disposing of the shares, taking into account their specific circumstances.

12. AUSTRALIAN TAXATION REPORT CONTINUED



Disclaimer

This taxation report does not constitute “financial product advice” under the *Corporations Act 2001* as BDO East Coast Partnership is not licensed to provide financial product advice under the *Corporations Act 2001*.

This report has been prepared for general circulation and does not take into account the financial situation, objectives or needs of any investor. Therefore, any investor should, before acting on this Prospectus, consider seeking advice from a person who is licensed to provide financial product advice under the *Corporations Act 2001*.

Yours faithfully
BDO East Coast Partnership

A handwritten signature in black ink, appearing to read 'Jason de Boer', is written over a light grey signature line.

Jason de Boer
Tax Partner

For personal use only

13. DIRECTORS' AUTHORISATION

Each of the Directors of the Company has consented to the lodgement of this Prospectus in accordance with section 720 of the Corporations Act and has not withdrawn that consent.

This Prospectus is signed for and on behalf of the Company pursuant to a resolution of the Board.



Dated 17 November 2015

Keith Glennan – Managing Director of Tesseract

For personal use only

14. GLOSSARY

GLOSSARY

TERM	MEANING
\$ or A\$	Australian dollars.
ASIC	Australian Securities and Investments Commission.
ASX	ASX Limited (ACN 008 624 691) or the Australian Securities Exchange, as the context requires.
ASX Listing Rules or Listing Rules	The official listing rules of the ASX.
ASXS	ASX Settlement Pty Ltd (a wholly owned subsidiary of the ASX).
ASX Settlement Operating Rules	The operating rules of ASXS.
Applicant	A person who submits an Application Form.
Application	A completed Application Form submitted to and received by the Company accompanied by application monies.
Application Form	An Application Form either attached to or accompanying this Prospectus (including any online Application Form).
Board or Board of Directors	The board of directors of the Company.
Business Day	A week day when trading banks are ordinarily open for business in Melbourne, Victoria.
Channel Partners	Authorised resellers of Security-as-a-Service utilising the MSSP Platform.
CHESS	Clearing House Electronic Sub register System.
Chairman	The chairman of the Board.
Closing Date	The closing date of the Offer as set out in the key offer information.
Company	Tesseract Limited (ACN 605 672 928).
Company Secretary	The company secretary of the Company.
Completion of the Offer	Completion in respect of the allotment of Shares under the Offer.
Consideration Shares	means the number of Shares that each Substantial Shareholder must subscribe for under the Firm Commitment Letter at the Issue Price and described in Section 10.2.
Corporations Act	<i>Corporations Act 2001 (Cth)</i> .
Director Options	has the meaning set out in Section 9.7.
Directors	The directors of the Company.
Electronic Prospectus	The electronic copy of this Prospectus located at the Company's website at offer.tesseract.com .
Existing Holders	The existing shareholders of the Company prior to Listing.
Exposure Period	The period commencing on the date of lodgement of this Prospectus with ASIC and ending seven days after lodgement, subject to any extension of the period by ASIC.
Firm Commitment Letters	means the firm commitment letters entered into between the Substantial Shareholders and the Company and summarised in Section 10.5.
Internal Debt Finance	means the internal debt finance provided by the Substantial Shareholders and described in Section 10.2.
Investigating Accountant	BDO Corporate Finance (East Coast) Pty Ltd (ABN 70 050 038 170).
Investigating Accountant's Report	The report of the Investigating Accountant set out in Section 8.
Issue Price	\$0.20 per Share.
Joint Lead Managers	Terrain Capital Limited and Novus Capital Limited.

TERM	MEANING
Managed Security Service Provider or MSSP	has the meaning set out in Section 2.2.
Managing Director	The managing director of the Company.
Material Contracts	The contracts summarised in Section 10.
MSSP Platform	means the security infrastructure platform developed by Tesseract and used by Managed Security Service Providers to deliver managed Security-as-a-Service, described in Section 3.3.
Offer	The invitation by the Company to subscribe for Shares under this Prospectus.
Official List	The official list of the ASX.
Operating Rules	The business rules of the securities clearing house issued by ASX Settlement and Transfer Corporation Pty Ltd.
Outstanding Principal and Interest Amount	has the meaning set out in Section 10.2.
Prospectus	This prospectus.
Quotation or Listing	Quotation of the Shares on the Official List.
Recommendations	The ASX Corporate Governance Principles and Recommendations 3rd Edition) as published by the ASX Corporate Governance Council.
Section	A section of this Prospectus.
Shareholder	A holder of Shares.
Share Registry	Computershare Limited (ACN 005 485 825).
Share	An ordinary share in the capital of the Company.
Substantial Shareholders	Collectively and individually as the context requires, Grand Floridian Pty Ltd, T.B.C. (Australia) Pty Ltd and the trustee of the Raging Thunder Superannuation Fund which is currently RTSF Super Pty Ltd, being the Existing Holders with a shareholding greater than 5%.
Tesseract	Means, jointly and severally, as the context requires, the group of companies owned by the Company being Tesseract Australia, Tesseract IP, Tesseract Wholesale, Tesseract UK and the Company.
Tesseract Australia	Tesseract Australia Pty Ltd (ACN 101 692 513).
Tesseract IP	Tesseract IP Pty Ltd (ACN 145 546 863).
Tesseract UK	Tesseract UK Limited, registered in the United Kingdom with company number 9599979.
Tesseract Wholesale	Tesseract Wholesale Pty Ltd (ACN 606 862 113).
US Persons	The meaning given to that term by regulations made under the US Securities Act 1993 (as amended).

For personal use only



IMPORTANT INFORMATION

This is a supplementary prospectus (**Supplementary Prospectus**) intended to be read with the prospectus dated 17 November 2015 (**Prospectus**) issued by Tesseract Limited (ACN 605 672 928).

This Supplementary Prospectus is dated 1 December 2015 and was lodged with ASIC on that date. Neither ASIC nor the ASX takes any responsibility for the contents of this Supplementary Prospectus or the merits of the investment to which this Supplementary Prospectus relates.

This Supplementary Prospectus should be read together with the Prospectus. Other than as set out below, all details in relation to the Prospectus remain unchanged. Terms and abbreviations defined in the Prospectus have the same meaning in this Supplementary Prospectus. If there is a conflict between the Prospectus and this Supplementary Prospectus, this Supplementary Prospectus will prevail.

This Supplementary Prospectus is an important document and investors should read the document in its entirety and if you do not understand it you should consult your professional advisers without delay.

1. AMENDMENTS AND UPDATES TO THE PROSPECTUS

1.1 Section 1.5 Key Strengths - Topic - Existing security data supplier relationships

This Section is amended to include the following additional wording immediately after the existing wording in this Section of the Prospectus:

'A summary of some of the contracts with existing software security data providers is set out in Section 10.6.'

The corresponding references in 'Where to Find More Information' are updated to add a reference to section "10.6" and to read as follows - 'Sections 3.1, 3.3, 3.5 and 10.6'.

1.2 Section 3.3 MSSP Platform - Subsection (a) - The Security Engine

This Section is amended to include the following additional paragraph immediately after the final paragraph in this Section of the Prospectus:

'Tesseract is not reliant on any one existing security data supplier licence. Accordingly if anyone or more of the existing security data supplier licences were to terminate, Tesseract would still be able to operate its business. Furthermore, in Tesseract's opinion alternative licence arrangements can be obtained from other third parties if any of the existing security data supplier licences terminate.'

1.3 Section 3.6 Sales - Subsection (a) - Channel Partners

This Section is amended to include the following additional paragraph immediately after the existing paragraph in subsection (a) of this Section of the Prospectus:

'In the first quarter of FY16, the contractual arrangements with Channel Partners generated revenue of approximately US\$70,000.'

'There is no contractual minimum spend in any of Tesseract's contractual arrangements with any Channel Partner, these are month-to-month contracts and the revenue they generate is based on the number and capacity of an organisation's devices that the Channel Partner services.'

'Tesseract is of the opinion that the contractual arrangements with the Channel Partners are not expected to be a major source of revenue for FY16. However, one of the purposes of the Offer is to fund increased sales and marketing activities to increase the number of Channel Partners and accordingly the revenue generated from arrangements with Channel Partners may increase in future financial years.'

1.4 Section 10 - Material Contracts

This Section is amended to include the following additional new Section 10.6 immediately after Section 10.5 - Firm Commitment Letters:

10.6 Licence agreements with software security data providers

Tesseract has the following current licence agreements with leading software security data providers.

Each of the following licence agreements contains standard clauses expected in software licence arrangements including obligations of confidentiality, warranties, limitations of liability and various indemnities.

(a) Dell

Tesseract has an Original Equipment Manufacturer Agreement with Dell Global B.V (**Dell Agreement**). The Dell Agreement contains an automatic right of renewal for consecutive additional one year terms unless either party notifies the other party of its intent to terminate the Dell Agreement at least 30 days before the end of the then current term. The Dell Agreement is currently subject to the automatic renewal terms.

Either party may in their sole discretion terminate the Dell Agreement with or without cause upon at least 30 days' written notice to the other party.

Either party may at its option and upon written notice to the other party, immediately terminate the Dell Agreement if: (i) a material violation or breach of the Dell Agreement is not remedied within 30 days after the breaching party receives written notice of the violation or breach; or (ii) for dissolution, bankruptcy or insolvency, amongst other rights.

(b) Cisco Sourcefire

Tesseract has a VRT Certified Rules MSSP Licence Agreement with Sourcefire International GmbH (**Sourcefire Agreement**). The Sourcefire Agreement automatically renews for consecutive additional one year terms unless either party notifies the other party of its intent to terminate the Sourcefire Agreement at least 30 days before the end of the then current term. The Sourcefire Agreement is currently subject to the automatic renewal terms.

The Sourcefire Agreement contains various mutual termination rights including: (i) an immediate right for either party to terminate if the other party breaches any material term or condition of the Sourcefire Agreement and fails to cure such breach within 30 days following receipt of written notice from the non-breaching party; (ii) termination for convenience upon 30 days prior written notice to the other party; or (iii) an immediate right to terminate without notice in the event that a party is subject to a dissolution, bankrupt and/or insolvent.

(c) SURBL

Tesseract has a subscription and services agreement in relation to the access of the SURBL Sponsored Datafeed Service with SecurityZones. This agreement has been renewed by the parties mutually agreeing to do so. This contract is silent on termination and as such can be terminated by either party on reasonable notice.

(d) Procera Networks

Tesseract has a software integration licence agreement with Procera Networks Ltd (**Procera Agreement**). The Procera Agreement has a three year term and will expire on or around 1 October 2016 unless terminated earlier. The Procera Agreement will automatically renew for additional one year terms unless terminated by either party providing the other party, 90 days prior written notice before the expiration of the then current term.

The Procera Agreement contains various mutual termination rights including: (i) a right to terminate by giving the other party written notice no less than 90 days prior to the expiration of the initial term or any renewal term; or (ii) an immediate right to terminate if the other party breaches any term or provision of the Procera Agreement and fails to cure such breach within 30 days after written notice of such breach from the non-breaching party.

(e) Spamhaus

Tesseract has a subscription and services agreement in relation to the Spamhaus Datafeed Service with SecurityZones (**Spamhaus Agreement**). The Spamhaus Agreement automatically renews for consecutive additional one year terms unless either party provides written notice of termination. The Spamhaus Agreement is currently subject to the automatic renewal term.

Either party has the right and discretion to terminate by providing written notice to the other party due to any willful breach of duty or habitual neglect of duty by the other party, any material breach by the other party of its obligations under the Spamhaus Agreement, or any events which inhibit or prevent the other party from fully performing its responsibilities under the Spamhaus Agreement, despite the other parties good faith efforts to fully perform such responsibilities. The Spamhaus Agreement can also be terminated upon the dissolution, bankruptcy or insolvency of either party.

(f) Webroot

Tesseract has a data services agreement with Webroot International Limited (**Webroot Agreement**). The Webroot Agreement has a three year term which will expire on or around 1 February 2018, unless terminated earlier.

The Webroot Agreement contains various mutual termination rights including (a) in the event that there is a material breach of the Webroot Agreement which is not cured within 30 calendar days after receipt of written notice of such breach - a failure to pay fees when due will constitute a material breach; (b) cessation of operations without a successor; or (c) dissolution, bankruptcy or insolvency.

Webroot has a right to terminate in the event that Tesseract develops any products or services which are competitive with Webroot products the subject to the licence without the consent of Webroot.

1.5 Section 14 – Glossary

The definition of Application Form in Section 14 of the Prospectus is deleted and replaced with the following new definition:

'Application Form means the Application Form which is attached to the Supplementary Prospectus and which is accompanied by, a complete copy of the Prospectus and the Supplementary Prospectus (including any online Application Form).'

The following new definition in Section 14 of the Prospectus which will appear immediately after the definition of 'Substantial Shareholders':

'Supplementary Prospectus means the supplementary prospectus lodged by the Company on or around 1 December 2015.'

2. INDICATIVE TIMETABLE

KEY DATES	
Prospectus lodgement date	17 November 2015
Supplementary Prospectus lodged with ASIC	1 December 2015
Offer opens	2 December 2015
Offer closes (Closing Date)	5 February 2016
Completion of the Offer	12 February 2016
Expected despatch of holding statements	19 February 2016
Expected commencement of trading on the ASX	19 February 2016

This timetable is indicative only and Applicants are encouraged to submit their Applications as early as possible. The Company, in consultation with the Joint Lead Managers, has the right to close the Offer early or extend the Offer, to accept late Applications, or vary any other date without prior notice.

3. DIRECTORS AUTHORISATION

This Supplementary Prospectus is issued by the Company and its issue has been authorised by a resolution of the Directors.

In accordance with section 720 of the Corporations Act, each Director has consented to the lodgement of this Supplementary Prospectus with ASIC and has not withdrawn that consent.

Dated: 1 December 2015

A handwritten signature in blue ink, appearing to read 'Keith Glennan', with a long horizontal flourish extending to the right.

Keith Glennan

Managing Director

For and on behalf of Tesseract Limited

For personal use only



TESSERENT

Tesseract Limited
ACN 605 672 928

PUBLIC OFFER APPLICATION FORM

This Application Form is important. If you are in doubt as to how to deal with it, please contact your stockbroker or professional adviser without delay. You should read the entire Prospectus dated 17 November 2015 (Prospectus), together with the Supplementary Prospectus dated 1 December 2015 (Supplementary Prospectus) carefully before completing this Application Form. To meet the requirements of the Corporations Act, this Application Form must not be distributed unless included in, or accompanied by, the Prospectus.

A I/we apply for

Number of Shares at \$0.20 per Share.
Applications must be for a minimum of 10,000 Shares (\$2,000) and thereafter in multiples of 1,000 Shares (\$200).

B I/we lodge full Application Monies

A\$

C Individual/Joint applications - refer to naming standards overleaf for correct forms of registrable title(s)

Title or Company Name Given Name(s) Surname

Joint Applicant 2 or Account Designation

Joint Applicant 3 or Account Designation

D Enter the postal address - include State and Postcode

Unit Street Number Street Name or PO Box/Other information

City/Suburb/Town State Postcode

Country

E Enter your contact details

Contact Name Telephone Number - Business Hours

F CHESSE Participant

Holder Identification Number (HIN) Broker Code Adviser Code

Please note that if you supply a CHESSE HIN but the name and address details on your form do not correspond exactly with the registration details held at CHESSE, your application will be deemed to be made without the CHESSE HIN, and any Shares issued as a result of the Offer will be held on the Issuer Sponsored subregister.

G Payment details - Please note that funds are unable to be directly debited from your bank account

Drawer Cheque Number BSB Number Account Number Amount of cheque

Make your cheque, money order or bank draft payable to "Tesseract Limited"

By submitting this Application Form:

- I/we declare that this application is complete and lodged according to the Prospectus and the Supplementary Prospectus and the declarations/statements on the reverse of this Application Form,
- I/we declare that all details and statements made by me/us (including the declaration on the reverse of this Application Form) are complete and accurate, and
- I/we agree to be bound by the Constitution of Tesseract Limited

See overleaf for completion guidelines →

For personal use only

How to complete this form

A Shares Applied For

Enter the number of Shares you wish to apply for. Applications for Shares must be for a minimum of 10,000 Shares and thereafter in multiples of 1,000 Shares and payment must be made in full at the issue price of \$0.20 per Share.

B Application Monies

Enter the amount of Application Monies. To calculate the amount, multiply the number of Shares by the issue price of \$0.20 per Share. The minimum amount of Application Monies is \$2,000 and thereafter in multiples of \$200. Applications for less than the minimum amount may be rejected.

C Applicant Name(s)

Enter the full name you wish to appear on the register of Shares and statement of shareholding. This must be either your own name or the name of a company. Up to 3 joint Applicants may register. You should refer to the table below for the correct forms of registrable title. Applications using the wrong form of names may be rejected. Clearing House Electronic Subregister System (CHES) participants should complete their name identically to that presently registered in the CHES system.

D Postal Address

Enter your postal address for all correspondence. All communications to you from the Registry will be mailed to the person(s) and address as shown. For joint Applicants, only one address can be entered.

E Contact Details

Enter your contact details. These are not compulsory but will assist us if we need to contact you regarding this application.

F CHES

The Company participates in CHES. If you are a CHES participant (or are sponsored by a CHES participant) and you wish to hold Shares allotted to you under this Application on the CHES Subregister, enter your CHES HIN. Otherwise, leave this section blank and on allotment, you will be sponsored by the Company and allocated a Securityholder Reference Number (SRN).

G Payment

Make your cheque, money order or bank draft payable to "Tesseract Limited" in Australian currency and cross it 'Not Negotiable'.

Complete the cheque details in the boxes provided. The total amount must agree with the amount shown in box B. **Please note that funds are unable to be directly debited from your bank account.**

Cheques will be processed on the day of receipt and as such, sufficient cleared funds must be held in your account as cheques returned unpaid may not be re-presented and may result in your Application being rejected.

Paperclip (do not staple) your cheque(s) to the Application Form. Cash will not be accepted. No receipt for payment will be forwarded to Applicants.

Before completing the Application Form the Applicant(s) should read this Prospectus and the Supplementary Prospectus to which this Application relates. By lodging the Application Form, the Applicant agrees that this Application for Shares in Tesseract Limited is upon and subject to the terms of the Prospectus and the Supplementary Prospectus and the Constitution of Tesseract Limited, agrees to take any number of Shares that may be allotted to the Applicant(s) pursuant to the Prospectus and the Supplementary Prospectus and declares that all details and statements made are complete and accurate. It is not necessary to sign the Application Form.

Lodgement of Application

Application Forms must be received by Tesseract Limited by no later than 5:00pm AEDT on Friday 5 February 2016. You should allow sufficient time for this to occur. Return the Application Form with cheque(s) attached to:

Tesseract Limited

C/- Computershare Investor Services Pty Limited

GPO Box 52 Melbourne Victoria 3001

Neither Computershare Investor Services Pty Limited (CIS) nor Tesseract Limited accepts any responsibility if you lodge the Application Form at any other address or by any other means. If you have any enquiries concerning your application, please contact Tesseract Limited on 1300 395 270 (within Australia) or +61 3 9415 4075 (outside Australia).

Privacy Statement

Personal information is collected on this form by CIS for the purpose of maintaining registers of securityholders, facilitating distribution payments and other corporate actions and communications. In addition, Tesseract Limited may authorise us on their behalf to send you marketing material or include such material in a corporate communication. You may elect not to receive marketing material by contacting CIS using the details provided on the front of this form or emailing privacy@computershare.com.au. We may be required to collect your personal information under the Corporations Act 2001 (Cth) and ASX Settlement Operating Rules. We may disclose your personal information to our related bodies corporate and to other individuals or companies who assist us in supplying our services or who perform functions on our behalf or to third parties upon direction by Tesseract Limited where related to their administration of your securityholding, or where you have otherwise agreed we may disclose it. Some of these recipients may be located outside Australia, including in the following countries: Canada, India, New Zealand, the Philippines, the United Kingdom and the United States of America. For further details, including how to access and correct your personal information, and information on our privacy complaints handling procedure, please contact our Privacy Officer at privacy@computershare.com.au or see our Privacy Policy at <http://www.computershare.com/au>.

Correct forms of registrable title(s)

Note that ONLY legal entities are allowed to hold securities. Application Forms must be in the name(s) of a natural person(s), companies or other legal entities acceptable to the Company. At least one full given name and the surname is required for each natural person. Application Forms cannot be completed by persons less than 18 years of age. Examples of the correct form of registrable title are set out below.

Type of Investor	Correct Form of Registration	Incorrect Form of Registration
Individual: Use given names in full, not initials	Mr John Alfred Smith	JA Smith
Company: use the company's full title, not abbreviations	ABC Pty Ltd	ABC P/L or ABC Co
Joint Holdings: use full and complete names	Mr Peter Robert Williams & Ms Louise Susan Williams	Peter Robert & Louise S Williams
Trusts: use the trustee(s) personal name(s)	Mrs Susan Jane Smith <Sue Smith Family A/C>	Sue Smith Family Trust
Deceased Estates: use the executor(s) personal name(s)	Ms Jane Mary Smith & Mr Frank William Smith <Est John Smith A/C>	Estate of late John Smith or John Smith Deceased
Minor (a person under the age of 18): use the name of a responsible adult with an appropriate designation	Mr John Alfred Smith <Peter Smith A/C>	Master Peter Smith
Partnerships: use the partners personal names	Mr John Robert Smith & Mr Michael John Smith <John Smith and Son A/C>	John Smith and Son
Long Names	Mr John William Alexander Robertson-Smith	Mr John W A Robertson-Smith
Clubs/Unincorporated Bodies/Business Names: use office bearer(s) personal name(s)	Mr Michael Peter Smith <ABC Tennis Association A/C>	ABC Tennis Association
Superannuation Funds: use the name of the trustee of the fund	Jane Smith Pty Ltd <Super Fund A/C>	Jane Smith Pty Ltd Superannuation Fund

CORPORATE DIRECTORY

For personal use only

Tesseract Limited

Level 2, 683 Burke Road
Camberwell VIC 3124

Tesseract Limited Offer Website

offer.tesseract.com

Tesseract Limited Share Offer Information Line

1300 395 270 (within Australia) or
+61 3 9415 4075

Joint Lead Manager and Corporate Advisor

Terrain Capital Limited

8 Chapel Street
Richmond VIC 3121

Exclusive Sponsoring Broker and Joint Lead Manager

Novus Capital Limited

Level 8, 330 Collins Street
Melbourne VIC 3000

Australian Legal Advisor

Kelly Hazell Quill Lawyers Pty Ltd

Level 15, 440 Collins Street
Melbourne VIC 3000

Investigating Accountant

BDO Corporate Finance (East Coast) Pty Ltd

Level 14, 140 William Street
Melbourne VIC 3000

Auditor

BDO East Coast Partnership

Level 14, 140 William Street
Melbourne VIC 3000

Share Registry

Computershare Investor Services Pty Limited

Yarra Falls
452 Johnston Street
Abbotsford VIC 3067

For personal use only