Tesserent Limited and Controlled Entities

Annual Report 2016

ABN: 13 605 672 928

Corporate Directory

Directors

Russell Yardley	Non-Executive Chairman
Keith Glennan	Managing Director
Gregory Baxter	Non-Executive Director
Stefano (Steve) Bertamini	Non-Executive Director
Paul Brandling	Non-Executive Director

Company Secretary
Oliver Carton
E-mail: investor@tesserent.com

Registered Office
Level 2, 683 Burke Road Camberwell VIC 3124 AUSTRALIA

Principal Place of Business
Level 2, 683 Burke Road Camberwell VIC 3124 AUSTRALIA

Share Register
Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street Abbotsford VIC 3067

Auditor
BDO East Coast Partnership
Level 14, 140 William Street Melbourne VIC 3000

Solicitor
Kelly Hazell Quill Lawyers Pty Ltd
Level 15, 440 Collins Street Melbourne VIC 3000

Stock Exchange Listing
Tesserent Limited are listed on the Australian Securities Exchange
(ASX Code: TNT)

TESSERENT

CONTENTS

ABOUT TESSERENT 1
CHAIRMAN'S LETTER TO SHAREHOLDERS 2
MANANGING DIRECTOR'S LETTER TO SHAREHOLDERS 3
TESSERENT EXECUTIVE TEAM 5
CORPORATE GOVERNANCE 6
DIRECTORS' REPORT 14
REMUNERATION REPORT – AUDITED 21
AUDITOR'S INDEPENDENCE DECLARATION 28
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME 29
STATEMENT OF FINANCIAL POSITION 30
STATEMENT OF CHANGES IN EQUITY 32
STATEMENT OF CASH FLOWS 33
NOTES TO THE FINANCIAL STATEMENTS 34
1. Introduction to the Report 34
2. Business Result for the Year 36
2.1 Segment information 36
2.2 Revenue 37
2.3 Profit/(loss) for the year 38
2.4 Earnings per share 39
2.5 Business combinations 40
2.6 Taxation 43
3. Operating Assets and Liabilities 45
3.1 Trade and other receivables 45
3.2 Trade and other payables 47
3.3 Provisions 47
3.5 Plant and equipment 49
3.6 Intangibles 50
3.7 Inventory 52
4. Capital Management 52
4.1 Borrowings 52
4.2 Financial risk management 53
4.3 Cash and cash equivalents 55
4.4 Contributed equity 56
4.5 Commitments 57
4.6 Dividends 57
5. Other 57
5.1 Related party transactions 57
5.2 Reserves 59
5.3 Parent entity information 60
5.4 Remuneration of auditors 60
5.5 Cash flow information 61
5.6 Events occurring after the reporting period 61
DIRECTORS' DECLARATION 62
INDEPENDENT AUDITOR'S REPORT 63
ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES 65

ABOUT TESSERENT

Our Company
Passionate About Security

Tesserent is a Melbourne based company providing managed cyber-security services to organisations throughout Australia and around the world. Our team of experts use the Tesserent proprietary security platform and a range of leading OEM products to tailor a network security solution specifically for our customers – on premise, in the cloud or via a secure connection. Tesserent provides specialised managed security services to direct customers while also offering a Managed Security Service Provider (MSSP) in-a-box solution as a wholesale offering to channel partners globally. Only Tesserent can provide our customers with the Tesserent platform, leading security technology and Tesserent's 24/7/365 service and monitoring commitment.

Our Value
Proven Return on Investment

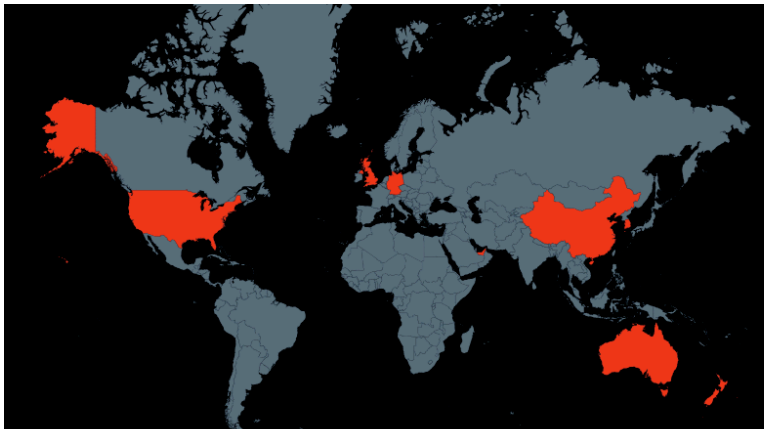
Tesserent is dedicated to offering our customers a cost-effective, world-class managed security solution. While we're focused on optimising and securing our customers' network, they're free to focus on their business. Tesserent has a proven record of improving return on IT investment, driving efficiency and optimising network performance. We also bundle services including connectivity and colocation to optimise our customers' network security and deliver a total solution.

Our Customers
The Market is Global

Tesserent and our Channel Partners service more than 350 organisations across 11 countries and territories globally.

Tesserent has end-users located in:

- USA
- Australia
- New Zealand
- United Kingdom
- Germany
- Gibraltar
- South Korea
- Hong Kong
- China
- UAE
- Singapore



Tesserent Channel Partners located in:

- United Kingdom
- South Korea
- Hong Kong
- UAE
- USA

CHAIRMAN'S LETTER TO SHAREHOLDERS

Dear Shareholder,

On behalf of the Tesserent board of directors, I am pleased to present our first annual report to shareholders as a listed company.

2016 has been a momentous year for Tesserent. As you know, on 15th February the company completed its initial public offering (IPO) and listed on the Australian Securities Exchange (ASX). This is the beginning of Tesserent's new life as a public company. While our company structure has changed from a private to public entity, the cornerstones of our business remain the same - to deliver innovative, best-of-breed security services to our direct and wholesale customers in Australia and overseas. The net proceeds of the IPO combined with the visibility and authentication that comes with being an ASX listed company have enabled Tesserent to leverage the strength of our proprietary platform, broaden our offering through the acquisition of Blue Reef and set the company up for future growth with the appointment of an experienced leadership team and expanding sales team.

Tesserent's board of directors and executive team stand beside you as investors in Tesserent and as such are committed to driving the company to achieve market success. In connection with the IPO, 82.37 million shares and share options were escrowed as part of an arrangement between Tesserent and certain shareholders, including the board of directors. The holdings of the board and senior management remain escrowed until February 2018.

Tesserent is fortunate to have such an experienced and respected board of directors. Each of our directors bring significant and relevant experience to our board. Steve Bertamini, CEO of Al Rajhi Bank has established himself as a leader in global financial services markets. Gregory Baxter, Global Head of Digital at Citibank has extensive experience with global consulting and technology markets. Paul Brandling is a veteran of Australia's IT industry with over 30 years experience in IT including the roles of non-executive director of Vocus Communications Ltd and Vice President and Managing Director of Hewlett Packard South Pacific.

The cyber-security market is experiencing record growth globally and Tesserent is poised to take advantage of market opportunities. I am confident that since the IPO, Tesserent has established a clear strategy and a strong team to lead the company into future growth.

Finally, I would like to welcome our new shareholders. We recognise the trust and confidence you have placed in Tesserent and we look forward to rewarding that trust with the growth of our business both in Australia and globally. Thank you for being part of this exciting journey.

Yours faithfully,

Russell Yardley
Chairman
Tesserent Limited

MANANGING DIRECTOR'S LETTER TO SHAREHOLDERS

Dear Shareholder,

The last year has been a significant one for Tesserent. Following months of planning, we went to the market to invite investors to participate in the future growth of Tesserent through an Initial Public Offering (IPO) and in February the company debuted on the Australian Stock Exchange. We were overwhelmed by the market's response to our IPO, resulting in a high level of interest and an over-subscription of shares. Following our transition to a publicly-listed company, we are cognisant of our responsibility to grow our business and deliver a strong return to investors over time.

Our first major priority after the IPO was the formation of a strong, new executive team to drive the future growth of Tesserent. I am thrilled with the team that we have put in place, and I am confident we have the right people to lead Tesserent's growth, both locally and internationally.

Despite the effort required to complete the IPO, we continued to maintain a strong focus on business growth throughout 2015/16. Our year-on-year revenue growth of 30% was a pleasing result, but I believe that the real business growth is yet to come. The global security market continues to grow, and I believe that Tesserent is well placed to compete in this market, through both our own proprietary technology and through our partnerships with some of the world's largest security technology companies. Tesserent's technology enables us to tailor a unique solution for our direct clients and extend our reach through wholesale partners. We also continue to engage new channel partners to drive growth.

In addition to the organic growth that we achieved this year, we also strengthened our position through the acquisition of Blue Reef in May of this year. This acquisition was a strategic move to rapidly expand our market share in the education sector and acquire intellectual property that is complementary to Tesserent's existing technology. The Blue Reef integration has progressed well, and the addition of around 150 new customers will certainly play a part in the company's revenue growth over the next few years. Additionally, this acquisition has enabled us to pursue new opportunities within the education sector, including new sales through the recently announced partnership with a new US channel partner.

After just over four months as an ASX-listed company, we are only just now getting started on this exciting next phase of our journey. I expect that the next year will be challenging and rewarding, as we continue to drive rapid business growth and explore new opportunities.

As a Tesserent investor and as Managing Director, I am excited about Tesserent's future. I'm grateful for the trust you've placed in us, and I look forward to the continued growth of our business.

Yours faithfully,

Keith Glennan
Managing Director and CEO
Tesserent Limited

TESSERENT BOARD OF DIRECTOR'S

From Left: Steve Bertamini, Greg Baxter, Paul Brandling, Keith Glennan, Russell Yardley.

Tesserent is pleased to have a Board of Directors with diverse experience across a range of sectors in both the Australian and overseas markets. A brief summary of our Board and their current endeavours is provided below, however detailed information on the credentials and experience of our Board is incorporated within the Director's Report on page 14 of this document.

Tesserent Board of Directors

Russell Yardley – Non-Executive Chairman

Current commercial roles: Chairman, National eResearch Collaboration Tools and Research; Non-Executive Director, Wunderman-Bienalto; Member of the Board, Victorian Government Purchasing Board; Member of Advisory Board, Gooroo.

Keith Glennan – Managing Director

Current commercial role: Managing Director of Tesserent Australia Pty Ltd (a subsidiary of Tesserent Limited).

Steve Bertamini – Non-Executive Director

Current commercial role: Chief Executive Officer of Al Rajhi Bank.

Greg Baxter – Non-Executive Director

Current commercial role: Global Head of Digital at Citibank.

Paul Brandling – Non-Executive Director

Current commercial roles: Non-Executive Director Infomedia Limited; Non-Executive Director Integrated Research Limited.

TESSERENT EXECUTIVE TEAM

David Buerckner
Security Operations Centre Manager

David has over 30 years experience in the Information Technology sector, across a wide range of technical and leadership roles. David spent more than 15 years at IBM in key roles including the leadership of the global technical delivery team for BHP. More recently, David has held a variety of operational and delivery leadership roles at Interactive Pty Ltd and has been responsible for large projects such as ISO27001 certification, and the establishment of an internal MPLS network.

Nick Conolly
Chief Technical Officer

Nick is a software architect with almost 20 years-experience developing and implementing ICT business solutions. Nick is the creator and lead architect of Tesserent's flagship education offering, MyNet. Prior to Tesserent's acquisition of Blue Reef (where he spent 4 years as CTO), Nick held senior roles with Telstra, Computer Associates and Fairfax, as well as senior consulting positions at SMS Management & Technology, and Dialog Information Technology. He has lectured in software development at Swinburne University and has also developed several apps for the Apple Store.

Kurt Hansen
Head of Global Sales

Kurt is an experienced business executive and senior sales leader with 25 years' experience building, managing and leading both Australian IT business's and local subsidiaries of Global IT Vendors. The last few years Kurt specialised in Cyber Security, leading the local subsidiaries of Check Point Software and F5 Networks both as the Aust/NZ Managing Director. Prior to that he held senior roles as CEO AirData, Head of Wholesale Sales - Telstra, Managing Director - Symbol Technologies and Sales Director Telecoms - Cisco Systems. He commenced his IT and Leadership career as an Army Officer in the Royal Australian Signal Corps.

Karen Negus
Head of Marketing

Karen is a senior marketing executive with over 16 years experience in Marketing and Sales within the IT and Telecommunications sectors. Karen spent 7 years with Telstra where she held several positions including Wholesale Marketing Manager and BigPond National Sales Manager. Following Telstra, Karen owned and operated her own retail telecommunications business before turning her focus to the cyber-security industry. Prior to joining Tesserent, Karen was responsible for the launch and market development of Check Point Software Technologies' SMB cyber security offering.

Justin Owen
Chief Financial Officer

Justin is a highly qualified and results driven finance executive with over 25 years experience and an extensive background in financial and business performance management covering keys skills of stakeholder management, corporate structuring, finance function efficiency, client profitability and costing management. With significant experience as CFO and adviser to ASX listed companies Justin is able to draw on his experience and industry expertise as part of the Tesserent Leadership Team.

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 Tesserent'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 Tesserent'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 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 www.tesserent.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 –** 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.

Departures from Recommendations

The Company's compliance with and departures from the Recommendations during the reporting period are set out on the following pages.

RECOMMENDATION		COMPANY'S CURRENT PRACTICE
1.1	A listed entity should disclose: (a) the respective roles and responsibilities of its board and management; and (b) those matters expressly reserved to the board and those delegated to management.	The respective roles and responsibilities of the Board and executives are defined in the Board Charter. 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.
1.2	A listed entity should: (a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and (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.	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.
1.3	A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.	The Company has entered into a written agreement with each Director and senior executive.
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.	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.
1.5	A listed entity should: (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; (b) disclose that policy or a summary of it; and (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: i. the respective proportions of	The Company has adopted a Diversity Policy. The Company's Diversity Policy requires the Board to establish measurable objectives to assist the Company in achieving gender diversity.

RECOMMENDATION		COMPANY'S CURRENT PRACTICE
	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 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.	
1.6	A listed entity should: (a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	The Company has adopted a Board and Senior Executive Evaluation Policy. 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. Given the recent listing of the Company and appointment of the Board no evaluation was carried out during the reporting period.
1.7	A listed entity should: (a) have and disclose a process for periodically evaluating the performance of its senior executives; and (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	The Company has adopted a Board and Senior Executive Evaluation Policy. 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.
2.1	The board of a listed entity should: (a) have a nomination committee which: i. has at least three members, a majority of whom are independent directors; and ii. is chaired by an independent director, and disclose: iii. the charter of the committee; iv. the members of the committee; and	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.

RECOMMENDATION		COMPANY'S CURRENT PRACTICE
	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 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.	
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.	To assist in identifying areas of focus and maintaining an appropriate experience mix, the Board has developed a skills matrix which is reviewed by the Board on a regular basis.
2.3	A listed entity should disclose: (a) the names of the directors considered by the board to be independent directors; (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 (c) the length of service of each director.	The Board considers that all directors, other than the Managing Director, are independent directors. The date of appointment of each director is disclosed in details of each director in the Directors' Report section of the Annual Report.
2.4	A majority of the board of a listed entity should be independent directors.	The majority of the Board are independent Directors for the ASX purposes.
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: (a) have a code of conduct for its directors,	The Company has adopted a Code of Conduct which applies to all Directors, officers, employees,

RECOMMENDATION		COMPANY'S CURRENT PRACTICE
	senior executives and employees; and (b) disclose that code or a summary of it.	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: (a) have an audit committee which: 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: 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 (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.	Given the recent listing of the Company it has not yet established an audit committee and is considering whether or not one is necessary given the size of the Board. 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, should it be established, is available on the Company'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 complies with this Recommendation.
4.3	A listed entity that has an AGM should ensure that its external auditor attends its	The Company complies with this Recommendation.

RECOMMENDATION		COMPANY'S CURRENT PRACTICE
	AGM and is available to answer questions from security holders relevant to the audit.	
5.1	A listed entity should: (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.	The Company is committed to providing timely and balanced disclosure to the market in accordance with its Continuous Disclosure Policy.
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: (a) have a committee or committees to oversee risk, each of which: i. has at least three members, a majority of whom are independent directors; and ii. is chaired by an independent director, 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	Given the recent listing of the Company it has not yet established an audit and risk committee and is considering whether or not one is necessary given the size of the Board. 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, should it be established, is available on Tesserent's website.

RECOMMENDATION		COMPANY'S CURRENT PRACTICE
	committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.	
7.2	The board or a committee of the board should: (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.	The Company intends to comply with this Recommendation.
7.3	A listed entity should disclose: (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.	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.
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.	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.
8.1	The board of a listed entity should: (a) have a remuneration committee which: i. has at least three members, a majority of whom are independent directors; and ii. is chaired by an independent director, 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 remuneration	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.

RECOMMENDATION		COMPANY'S CURRENT PRACTICE
	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.	
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.	The policies and practices regarding remuneration of Directors is set out in the Selection and appointment of new Directors Policy. Full details of Director remuneration will be included in annual reports.
8.3	A listed entity which has an equity-based remuneration scheme should: (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.	While the Company has issued options to Independent Directors it does not have an equity based remuneration scheme. The Company will consider implementation of such a scheme during the current financial year.

DIRECTORS' REPORT

Your directors present their report on the consolidated entity (referred to herein as the Group) consisting of Tesserent Limited and its controlled entities for the financial year ended 30 June 2016.

1. Directors

The following persons were directors of Tesserent Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Russell Yardley	(Chairman, appointed 16 November 2015)
Keith Glennan	(Appointed 6 May 2015)
Gregory Baxter	(Appointed 16 November 2015)
Stefano (Steve) Bertamini	(Appointed 16 November 2015)
Paul Brandling	(Appointed 16 November 2015)
Oliver Carton	(Resigned 16 November 2015)
Robert Langford	(Resigned 16 November 2015)

2. Information on Directors

Russell Yardley	–	Non-Executive Chairman
Qualifications	–	BSc FAICD
Experience	–	Appointed Chair in 2015. 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 or has been a non-executive board member for a number of organisations including: Readify Limited (chairman), Folk Pty Ltd (chairman) (until the recent sale of those organisations to Telstra), Algonquin Investments, Bienalto and the Victorian Govt. 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.
Directorships held in other listed entities during the three years prior to the current year	–	None

Keith Glennan	–	Managing Director
Qualifications	–	B. Tech, MACS, MAICD
Experience	–	Board member since 2015, Managing Director of Tesserent Australia Pty Ltd (a subsidiary of Tesserent Limited) since 2012. 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 Tesserent Australia. In this position he formulated the strategy of developing the MSSP Platform and the current business strategy.

DIRECTORS' REPORT

Special Responsibilities	–	Chief Executive Officer
Directorships held in other listed entities during the three years prior to the current year	–	None

Gregory Baxter	–	Non-Executive Director
Qualifications	–	BSc MBA
Experience	–	Board member since 2015. Greg 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. Greg 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).
Directorships held in other listed entities during the three years prior to the current year	–	None

Stefano (Steve) Bertamini	–	Non-Executive Director
Qualifications	–	BBA MBA
Experience	–	Board member since 2015. 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.

DIRECTORS' REPORT

Directorships held in other listed entities during the three years prior to the current year	–	None

Paul Brandling	–	Non-Executive director
Qualifications	–	BSc (Hons), MAICD
Experience	–	Board member since 2015. 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 was 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.
Directorships held in other listed entities during the three years prior to the current year	–	Previously held directorships in Vocus Communications Limited and Integrated Research Limited.

3. Directors' Shareholdings

The table below sets out each Director's relevant interest in shares or options of the Company at the date of this report:

Director	Number of ordinary shares	Number of options
Russell Yardley	600,000	3,000,000
Keith Glennan	31,451,435	-
Gregory Baxter	1,200,000	1,500,000
Stefano (Steve) Bertamini	1,200,000	1,500,000
Paul Brandling	1,200,000	1,500,000
Total	35,651,435	7,500,000

4. Company Secretary

Oliver Carton BJuris LLB was appointed Company Secretary on 6 May 2015.

Oliver is a qualified lawyer with over 28 years' experience in a variety of corporate roles. He currently runs his own consulting business, and was previously a Director of the Chartered Accounting firm KPMG where he managed its Corporate Secretarial Group. Prior to that, he was a senior legal officer with ASIC.

5. Directors' Meetings

The table below sets out the number of meetings held during the 2016 financial year and the number of meetings attended by each Director. During the year, 18 Board meetings were held.

DIRECTORS' REPORT

Director	Eligible to attend	Attended
Russell Yardley	6	6
Keith Glennan	18	18
Gregory Baxter	6	6
Stefano (Steve) Bertamini	6	5
Paul Brandling	6	6
Oliver Carton	12	12
Robert Langford	11	11

6. Review of Operations

Initial Public Offering

Tesserent Limited listed on the Australian Securities Exchange (ASX) on 15 February 2016 trading under the ASX code TNT.

The Initial Public Offering (IPO) comprised an offer to issue 35 million new shares by the Company, raising $7,000,000.

Principal activities

Tesserent provides Internet Security-as-a-Service to a wide range of Australian and international customers, including education providers, corporate enterprises, and government customers. 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. These services are provided on the basis of a subscription fee, most commonly as monthly or annual fees. This revenue model delivers recurring revenues to Tesserent.

Tesserent 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.

Group financial performance

The Group recorded a loss after tax of $753,866 for the year ended 30 June 2016 (2015: $92,067 profit).

The reported result has been adjusted by adding back non-recurring costs of $597,876 and the non-cash share based payment expense of $135,489, which is required to be recognised in accordance with accounting standards to determine the underlying result. The underlying result is reflective of the on-going benefits delivered from corporate restructuring and preparing for the IPO. Taking these matters into account the net loss before tax for the current financial year is $291,142 (FY15: $122,659 profit). The following table provides these comparisons:

	2016 $	2015 $
Net operating income before operating expenses	4,883,877	3,750,480
Operating expenses	(5,908,384)	(3,627,821)
Net operating income	(1,024,507)	122,659

DIRECTORS' REPORT

Adjustments		
Executive recruitment costs	30,050	-
Finance costs	79,340	-
IPO costs	442,945	-
Restructure costs	45,541	-
Share based payment expense	135,489	-
	733,365	-
Adjusted net operating income	(291,142)	122,659

7. Business Strategies, Prospects and Risks for the Future Financial Years

Tesserent's strategy includes continued focus on the following areas:

- expanding the number of Channel partners in Australia and internationally;
- increasing the number of direct sales to organisations, in Australian and internationally, through increased sales and marketing;
- assessing acquisition opportunities; and
- ongoing research and development.

8. Subsequent Events

There have been no matters or circumstances other than those referred to in the financial statements or notes to the financial statements that have arisen since the end of the financial year, that have significantly affected, or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

9. Changes in State of Affairs

During the financial year Tesserent completed a successful IPO and listed on the ASX and acquired the business of Blue Reef Pty Ltd, which represents a significant opportunity to expand the service capability and client base within the national and international education sector. There were no other significant changes in the state of affairs of the Group other than that referred to in the financial statements or notes thereto.

10. Environmental Factors

Tesserent is not subject to any significant environmental regulation under Australian Commonwealth or State law. Tesserent recognises its obligations to its stakeholders (customers, shareholders, employees and the community) to operate in a way that minimises the impact it has on the environment.

11. Dividends

No dividends were declared or paid during the financial year.

DIRECTORS' REPORT

12. Indemnification of Directors and Officers

The Directors and Officers of Tesserent Limited are indemnified against liabilities pursuant to agreements with Tesserent Limited. Tesserent Limited has entered into insurance contracts with a third party insurance provider, in accordance with normal commercial practices. Under the terms of the insurance contract, the nature of the liabilities insured against and the amount of premiums paid are confidential. The Group are not aware of any liability that arose under these indemnities as at the date of this report.

13. Proceedings on Behalf of Company

No person has applied for leave of court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

14. Non-audit services

The Board of Directors, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence, as the nature of the services provided does not compromise the general principles relating to auditor independence in accordance with APES 110: *Code of Ethics for Professional Accountants* set by the Accounting Professional and Ethical Standards Board

The following fees were paid or payable to BDO for non-audit services provided during the year ended 30 June 2016:

	2016	2015
	$	$
Tax services	36,213	3,500

15. Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2016 has been received and can be found on page 28 of the financial report.

16. Options / Deferred shares

At the date of this report, the unissued ordinary shares of Tesserent Limited under option are as follows:

Grant Date	Date of Expiry	Exercise Price (cents)	Number under Option
17 November 2015	31 August 2018	20	2,500,000
17 November 2015	31 August 2018	24	2,500,000
17 November 2015	31 August 2018	28.8	2,500,000
9 May 2016	8 May 2017	30	500,000
9 May 2016	8 May 2018	40	500,000
9 May 2016	8 May 2019	50	500,000
			9,000,000

DIRECTORS' REPORT

At the date of this report, the unissued ordinary shares of Tesserent Limited under deferred shares are as follows:

Grant date	Vesting date	Share price at grant date	Number of deferred shares
9 May 2016	8 May 2017	$0.16	700,000
9 May 2016	8 May 2018	$0.16	700,000
9 May 2016	8 May 2016	$0.16	700,000
16 June 2016	30 June 2017	$0.17	250,000
16 June 2016	30 June 2018	$0.17	500,000
16 June 2016	30 June 2019	$0.17	1,000,000
			3,850,000

Option and deferred share holders do not have any rights to participate in any issues of shares or other interests of the company or any other entity.

There have been no options granted or deferred shares issued over unissued shares or interests of any controlled entity within the Group during or since the end of the reporting period.

For details of options issued and deferred shares granted to directors and executives as remuneration, refer to the remuneration report.

No person entitled to exercise the option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

REMUNERATION REPORT – AUDITED

Remuneration Policy

The directors present the consolidated entity's 2016 audited remuneration report which details the remuneration information for Tesserent Limited's executive director, non-executive directors and other key management personnel.

For the purposes of this report, Key Management Personnel (KMP) are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the business, directly or indirectly, as an executive.

The names and positions of KMP in the consolidated group for the financial year are:

Name	Position	Appointment Date
Keith Glennan	Managing Director	6 May 2015
Russell Yardley	Non-Executive Chairman	16 November 2015
Steve Bertamini	Non-Executive Director	16 November 2015
Greg Baxter	Non-Executive Director	16 November 2015
Paul Brandling	Non-Executive Director	16 November 2015
Robert Langford[1]	Non-Executive Director	6 May 2015
Oliver Carton[1]	Non-Executive Director	6 May 2015
Karen Negus	Head of Marketing	15 June 2016
Kurt Hansen	Global Head of Sales	15 June 2016
Nick Conolly	Chief Technical Officer	9 May 2016

1 Resigned 16 November 2015.

Principles used to determine nature and amount of remuneration

The broad principles for determining the nature and amount of remuneration of KMP is agreed by the Board as a whole. The Board can obtain professional advice where necessary to ensure that the Group attracts and retains talented and motivated directors and employees who can enhance performance through their contribution and leadership. No external advice regarding remuneration policy was obtained in the current year.

The guiding principles for determining the nature and amount of remuneration for KMP of the consolidated group is as follows:

- remuneration should include an appropriate mix of fixed and performance based components,
- components of remuneration should be understandable, transparent and easy to communicate; and
- Board to review KMP packages annually by reference to the consolidated group's performance, executive performance and comparable information from industry sectors.

The Board sets out to link remuneration polices with the achievement of financial and personal objectives.

Components of remuneration

Non-executive directors are remunerated with fees within the aggregate limit to be approved by shareholders. As outlined in the prospectus the Board approved the following annual remuneration arrangements for the Directors to take effect upon the listing.

REMUNERATION REPORT – AUDITED

Name	Approved Fee
Keith Glennan	$270,000
Russell Yardley	$90,000
Steve Bertamini	$45,000
Greg Baxter	$45,000
Paul Brandling	$45,000

Executive directors and KMP are remunerated based upon market value of the position and the range of skills and experience they bring to the company and is split between fixed and performance linked remuneration.

Fixed remuneration consists of base remuneration and employer contributions to superannuation funds.

Performance linked remuneration includes short-term incentives and is designed to reward the CEO and executives for meeting and exceeding their financial and personal objectives.

In the future, the Board will set the Key Performance Indicators (KPI's) for the CEO and have input to the KPI's for the executives. The KPI's will generally include measures relating to the Group, the relevant business unit and the individual. At the conclusion of the year the Board will assess the performance of the CEO and the CEO will assess the performance of the individual executives against their targets. The CEO's recommendations will be presented to Board for approval.

The Board has implemented a Director Option Plan. The Option Plan is aimed at incentivising the Directors in retaining key strategic skills including the support obtained over the recent IPO. The options have been granted to the Directors vesting over three years with exercising prices of $0.20, $0.24 and $0.288. Refer to the following tables for further details.

In respect of the current financial year, no pre-determined KPI's were established, and as such no incentive payments were paid.

Details of Remuneration

Details of remuneration of the Directors and KMP of the group are set out in the following tables.

2016 Directors Remuneration

	Short Term	Post Employment	Share Based Payments	Total	Total Performance Related	Options as a % of Total
	Salary/Fees	Superannuation	Options			
	$	$	$	$	%	%
R Yardley[1]	52,500	-	80,310	132,810	-	60.5
K Glennan	269,975	23,425	-	293,400	-	-
G Baxter[1]	26,250	-	40,155	66,405	-	60.5
S Bertamini[1]	26,250	-	40,155	66,405	-	60.5
P Brandling[1]	23,973	2,277	40,155	66,405	-	60.5
R Langford[2]	30,000	-	-	30,000	-	-
O Carton[2]	17,500	-	-	17,500	-	-
	446,448	25,702	200,775	672,925	-	-

(1) Appointed 16 November 2015 (2) Resigned 16 November 2015

REMUNERATION REPORT - AUDITED

Executives Remuneration

	Short Term	Post Employment	Share Based Payments	Total	Total Performance Related	Options as a % of Total
	Salary/Fees	Superannuation	Shares			
	$	$	$	$	%	%
N Conolly[1]	25,848	2,447	29,313	57,608	50.9	-
K Hansen[2]	8,942	844	5,686	15,473	36.7	-
K Negus[2]	6,263	590	-	6,853	-	-
	41,053	3,881	34,999	79,934	-	-

(1) Appointed 9 May 2016

(2) Appointed 15 June 2016

2015

Directors Remuneration

	Short Term	Post Employment	Share Based Payments	Total	Total Performance Related	Options as a % of Total
	Salary/Fees	Superannuation	Options			
		$	$	$	%	%
K Glennan[1,2]	75,000	-	-	75,000	-	-
R Langford[1]	-	-	-	-	-	-
O Carton[1]	5,000	-	-	5,000	-	-
	80,000	-	-	80,000	-	-

(1) Appointed 6 May 2015 as a Director of Tesserent Limited

(2) Prior to 6 May 2015 Keith Glennan was employed as a contractor to Tesserent Australia Pty Ltd

Executive Remuneration

Apart from Keith Glennan there were no other KMP for 2015.

Details of Share Based Compensation

Options

The terms and conditions of each grant of options affecting remuneration in the current or a future reporting periods are as follows:

REMUNERATION REPORT - AUDITED

KMP	Grant date	Vesting and exercise date	Expiry date	Exercise price	Value per option at grant date	% Vested
Steve Bertamini	17 Nov 15	31 Aug 16	31 Aug 19	$0.20	$0.0666	n/a
Steve Bertamini	17 Nov 15	31 Aug 17	31 Aug 19	$0.24	$0.0539	n/a
Steve Bertamini	17 Nov 15	31 Aug 18	31 Aug 19	$0.288	$0.0423	n/a
Gregory Baxter	17 Nov 15	31 Aug 16	31 Aug 19	$0.20	$0.0666	n/a
Gregory Baxter	17 Nov 15	31 Aug 17	31 Aug 19	$0.24	$0.0539	n/a
Gregory Baxter	17 Nov 15	31 Aug 18	31 Aug 19	$0.288	$0.0423	n/a
Paul Brandling	17 Nov 15	31 Aug 16	31 Aug 19	$0.20	$0.0666	n/a
Paul Brandling	17 Nov 15	31 Aug 17	31 Aug 19	$0.24	$0.0539	n/a
Paul Brandling	17 Nov 15	31 Aug 18	31 Aug 19	$0.288	$0.0423	n/a
Russell Yardley	17 Nov 15	31 Aug 16	31 Aug 19	$0.20	$0.0666	n/a
Russell Yardley	17 Nov 15	31 Aug 17	31 Aug 19	$0.24	$0.0539	n/a
Russell Yardley	17 Nov 15	31 Aug 18	31 Aug 19	$0.288	$0.0423	n/a

The number of options over ordinary shares in the company provided as remuneration to key management personnel is shown below. The options carry no dividends or voting rights. The options will vest if the option holder remains employed by the company at the relevant vesting date.

The table below shows a reconciliation of options held by each KMP from the beginning to the end of FY 2016. There were no vested options as at 1 July 2015.

Name and grant date	Balance 1 Jul 2015 Unvested	Granted as compensation	Vested	Exercised	Lapsed during the year	Balance at 30 June 2016 Unvested
S Bertamini						
17 Nov 15	-	500,000	-	-	-	500,000
17 Nov 15	-	500,000	-	-	-	500,000
17 Nov 15	-	500,000	-	-	-	500,000
G Baxter						
17 Nov 15	-	500,000	-	-	-	500,000
17 Nov 15	-	500,000	-	-	-	500,000
17 Nov 15	-	500,000	-	-	-	500,000
P Brandling						
17 Nov 15	-	500,000	-	-	-	500,000
17 Nov 15	-	500,000	-	-	-	500,000
17 Nov 15	-	500,000	-	-	-	500,000
R Yardley						
17 Nov 15	-	1,000,000	-	-	-	1,000,000
17 Nov 15	-	1,000,000	-	-	-	1,000,000
17 Nov 15	-	1,000,000	-	-	-	1,000,000

REMUNERATION REPORT - AUDITED

Value of options granted as remuneration that have been granted, exercised or lapsed during the year.

	Balance 1 July 2015 $	Value Granted $	Value Exercised $	Value Lapsed $	Balance 30 Jun 2016 $
Steve Bertamini	-	81,424	-	-	81,424
Gregory Baxter	-	81,424	-	-	81,424
Paul Brandling	-	81,424	-	-	81,424
Russell Yardley	-	162,848	-	-	162,848

The fair value of options granted as remuneration and as shown in the above table has been determined in accordance with Australian Accounting Standards, using the Black-Scholes method of calculation and will be recognised as an expense over the relevant vesting period to the extent that conditions necessary for vesting are satisfied.

Deferred Shares

Rights to deferred shares are outlined in the respective employment agreements for each Executive KMP. The shares vest once the performance conditions are met. On vesting each right automatically converts into one ordinary share. The executives do not receive any dividend and are not entitled to vote in relation to the rights during the vesting period. If an executive ceases employment before the rights vest, the rights will be forfeited.

The fair value of the rights is determined based on the market price of the company's shares at the grant date.

KMP	Deferred Shares	Performance conditions	AASB 2 Expense	Grant Date	Share price at Grant Date	Vesting Date	Exercise Price
N Conolly	700,000	Continued employment	16,000	9 May 2016	$0.16	8 May 2017	Nil
N Conolly	700,000	Continued employment	7,989	9 May 2016	$0.16	8 May 2018	Nil
N Conolly	700,000	Continued employment	5,324	9 May 2016	$0.16	8 May 2019	Nil
K Hansen	250,000	Achievement of sales targets	1,678	16 June 2016	$0.17	30 June 2017	Nil
K Hansen	500,000	Achievement of sales targets	1,711	16 June 2016	$0.17	30 June 2018	Nil
K Hansen	1,000,000	Achievement of sales targets	2,297	16 June 2016	$0.17	30 June 2019	Nil

REMUNERATION REPORT - AUDITED

Rights to deferred shares

The table below shows a reconciliation of deferred shares held by each executive KMP from the beginning to the end of FY 2016. There were no vested deferred shares as at 1 July 2015.

		Rights to deferred shares							
		Balance 1 Jul 15	Granted during year	Vested		Forfeited		Balance 30 Jun 16 Unvested	Maximum value yet to vest*
	Year granted	No.	No.	No.	%	No.	%	No.	$
N Conolly	2016	-	2,100,000	-	-	-	-	2,100,000	306,687
K Hansen	2016	-	1,750,000	-	-	-	-	1,750,000	291,814

* The maximum value of the deferred shares yet to vest has been determined as the amount of the grant date fair value of the rights that is yet to be expensed. The minimum value of the deferred shares yet to vest is nil as the shares will be forfeited if the vesting conditions are not met.

Service Agreements

The contracts for service between the Group and specified executives are formalised in service agreements. The major provisions in the agreements relating to remuneration are set out below:

Keith Glennan, Chief Executive Officer

- Permanent employment contract commencing 1 July 2015
- Fixed remuneration of $270,000 including superannuation and director fees
- Opportunity to receive a bonus up to 100% of base salary based on achievement of KPI's as set by Chairman or remuneration committee when formed. No payment or accrual for a bonus has been taken up for FY 2016
- Termination by provision of two months' notice by either the Executive or the Company

Kurt Hansen, Global Head of Sales

- Permanent employment contract commencing 15 June 2016
- Fixed remuneration of $200,000 including superannuation
- Subject to shareholder approval, the issue of 1,750,000 unvested shares as at 15 June 2016. Vesting is subject to achievement of revenue targets for the 2017, 2018 and 2019 financial years and a service condition.
- Termination by provision of two months' notice by either the Executive or the Company

Nick Conolly, Chief Technical Officer

- Permanent employment contract commencing 9 May 2016
- Fixed remuneration of $198,000 including superannuation
- Subject to shareholder approval, the issue of 2,100,000 unvested shares at 9 May 2016, with 700,000 shares vesting at 12 monthly intervals from 9 May 2017. Vesting is subject to a service condition.
- Termination by provision of two months' notice by either the Executive or the Company

REMUNERATION REPORT - AUDITED

Karen Negus, Head of Marketing

- Permanent employment contract commencing 15 June 2016
- Fixed remuneration of $153,000 inclusive of superannuation
- Termination by provision of one months' notice by either the Executive or the Company

KMP Shareholding

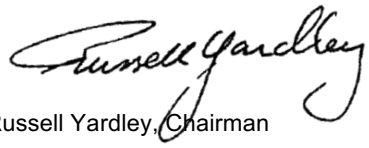
	Balance at Beginning of year	Granted as remuneration during year	Issued on exercise of options during year	Other changes during year	Balance at end of year
R Yardley	-	-	-	600,000	600,000
K Glennan	-	-	-	31,451,435	31,451,435
G Baxter	-	-	-	1,200,000	1,200,000
S Bertamini	-	-	-	1,200,000	1,200,000
P Brandling	-	-	-	1,200,000	1,200,000
K Hansen	-	-	-	30,000	30,000

Transactions with KMP and/or their related party

There were no transactions conducted between the Group and KMP or their related parties, apart from those disclosed above relating to equity compensation, that were conducted other than in accordance with normal employee, customer or supplier relationships on terms no more favourable than those reasonably expected under arm's length dealings with unrelated persons.

End Remuneration Report

This directors' report, incorporating the remuneration report, is signed in accordance with a resolution of the Board of Directors:



Russell Yardley, Chairman

29 September 2016

BDO

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

DECLARATION OF INDEPENDENCE BY SIMON SCALZO TO THE DIRECTORS OF TESSERENT LIMITED

As lead auditor of Tesserent Limited for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been:

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

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

Simon Scalzo
Partner

BDO East Coast Partnership

Melbourne, 29 September 2016

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2016

	Note	Consolidated Group 2016 $	2015 $
Revenue from continuing operations	2.2	4,883,877	3,750,480
Software licence and connectivity fees		(1,947,665)	(1,292,168)
Employee benefits expense		(1,706,419)	(920,087)
Depreciation and amortisation expense		(198,546)	(104,786)
Finance costs		(91,993)	(129,291)
Impairment of loan receivables		-	(221,186)
IPO costs		(442,945)	-
Occupancy costs		(198,845)	(183,416)
Communication costs		(256,551)	(119,407)
Consulting and legal costs		(552,981)	(390,470)
Bad and doubtful debts		(33,833)	-
Other expenses		(478,606)	(267,010)
(Loss)/profit before income tax	2.3	(1,024,507)	122,659
Tax expense	2.6	270,641	(30,592)
Net (loss)/profit for the year		(753,866)	92,067
Other comprehensive income		-	-
Total comprehensive income for the year		(753,866)	92,067
Earnings per share			
Basic earnings per share (cents)	2.4	(1.01)	N/A
Diluted earnings per share (cents)	2.4	(1.01)	N/A

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

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

	Note	Consolidated Group	
		2016	2015
		$	$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4.3	3,380,740	516,595
Trade and other receivables	3.1	613,520	69,085
Prepayments		89,067	24,711
Inventories		147,576	-
Other assets		71,511	296,927
TOTAL CURRENT ASSETS		4,302,414	907,318
NON-CURRENT ASSETS			
Trade and other receivables	3.1	1,064	249,169
Plant and equipment	3.5	561,100	353,171
Intangible assets	3.6	3,753,870	25,503
Deferred tax asset	2.6	863,968	52,967
Other non-current assets		76,655	89,158
TOTAL NON-CURRENT ASSETS		5,256,657	769,968
TOTAL ASSETS		9,559,071	1,677,286
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	3.2	1,250,371	579,448
Borrowings	4.1	-	211,948
Unearned income		815,905	807,465
Current tax liabilities		-	30,414
Provisions	3.3	1,078,567	88,217
TOTAL CURRENT LIABILITIES		3,144,843	1,717,492
NON-CURRENT LIABILITIES			
Borrowings	4.1	-	1,322,988
Provisions	3.3	29,691	42,812
TOTAL NON-CURRENT LIABILITIES		29,691	1,365,800
TOTAL LIABILITIES		3,174,534	3,083,292
NET ASSETS		6,384,537	(1,406,006)

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

	Note	Consolidated Group	
		2016	2015
		$	$
EQUITY			
Issued capital	4.4	9,917,792	1,609,260
Reserves	5.2	235,877	-
Accumulated losses		(3,769,132)	(3,015,266)
TOTAL EQUITY		6,384,537	(1,406,006)

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2016

Consolidated Group

	Issued Capital	Reserves	Accumulated losses	Total equity
	$	$	$	$
Balance at 1 July 2014	1,609,260	-	(3,107,333)	(1,498,073)
Comprehensive income				
Profit for the year	-	-	92,067	92,067
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	92,067	92,067
Balance at 30 June 2015	1,609,260	-	(3,015,266)	(1,406,006)
Balance at 1 July 2015	1,609,260	-	(3,015,266)	(1,406,006)
Comprehensive income				
Loss for the year	-	-	(753,866)	(753,866)
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	(753,866)	(753,866)
Transactions with owners, in their capacity as owners, and other transfers				
Shares issued during the year	9,301,224	-	-	9,301,224
Capital raising costs	(992,692)	-	-	(992,692)
Shares and options granted during the year	-	235,877	-	235,877
Total transactions with owners and other transfers	8,308,532	235,877	-	8,544,409
Balance at 30 June 2016	9,917,792	235,877	(3,769,132)	6,384,537

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2016

	Note	Consolidated Group 2016 $	2015 $
Cash flows from operations			
Receipts from customers		4,796,725	3,641,976
Payments to suppliers and employees		(5,071,953)	(3,744,000)
		(275,228)	(102,024)
Income tax paid		(25,673)	(4,598)
Interest received		38,357	1,619
Interest paid		(91,993)	-
Net cash outflow from operating activities	5.5	(354,537)	(105,003)
Cash flows from investing activities			
Purchase of plant, equipment and intangibles		(199,353)	(111,005)
Payment for acquisition of business	2.5	(450,111)	-
Net cash outflow from investing activities		(649,464)	(111,005)
Cash flows from financing activities			
(Repayment of)/proceeds from borrowings		(700,000)	700,000
Proceeds from issuing of shares		6,739,145	-
Payments for IPO		(1,760,687)	-
Repayment of loans from related parties		(410,312)	-
Net cash inflow from financing activities		3,868,146	700,000
Net increase in cash and cash equivalents		2,864,145	483,992
Cash and cash equivalents at the beginning of the financial year		516,595	32,603
Cash and cash equivalents at the end of the financial year	4.3	3,380,740	516,595

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

1. Introduction to the Report

Statement of Compliance

These general purpose financial statements of Tesserent Limited and its controlled entities have been prepared in accordance with the Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001. The consolidated financial statements comply with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The financial statements were authorised for issue by the Board of Directors on 29 September 2016.

Basis of Preparation

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Critical accounting estimates and assumptions

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

Accounting estimates and judgments	Note	Page
Impairment of goodwill	3.6	50
Taxation	2.6	45

Significant accounting policies

The significant accounting policies adopted in the preparation of the financial statements are set out below. Other significant policies are contained in the notes to the financial statements to which they relate. The financial statements are for the Group consisting of Tesserent Limited (company) and its controlled entities.

i. Principles of Consolidation

The consolidated financial statements incorporate all of the assets, liabilities of all controlled entities of Tesserent Limited as at 30 June 2016 and the results of all controlled entities for the year ended 30 June 2016. Tesserent Limited and its controlled entities together are referred to in this financial report as the Group or the consolidated entity.

These consolidated financial statements have been prepared under the pooling of interests method of accounting and reflect the combined financial position and operating results of Tesserent Limited and its wholly owned subsidiaries.

The 'pooling of interests method' (or merger accounting), treats the consolidated group as if they had been combined throughout the current and comparative accounting periods. Under this method, acquisitions have been recognised in the consolidated financial report at their book value. Investments in subsidiaries have been eliminated based upon the initial investment in the subsidiary, which matched the value of shares issued by Tesserent Limited to common shareholders.

Profit or loss and other comprehensive income of controlled entities acquired or disposed during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable. All intercompany transactions, balances and unrealised gains or losses on transactions between group entities are fully eliminated on consolidation.

ii. Foreign currency translation

Functional and presentation currency

The consolidated financial statements are presented in Australian dollars (AUD), which is also the functional currency of the Company.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from re-measurement of monetary items at year end exchange rates are recognised in profit or loss.

Foreign operations

In the Group's financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than the AUD are translated into AUD upon consolidation. The functional currency of the entities in the Group has remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into AUD at the closing rate at the reporting date. Income and expenses have been translated into AUD at the average rate over the reporting period. Exchange differences are changed or credited to other comprehensive income and recognised in the currency translation reserve in equity.

iii. New Accounting Standards and Interpretations not yet adopted by the Group

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the company for the reporting period ended 30 June 2016. The company has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

Accounting Standards issued by the AASB that are not yet mandatorily applicable to the Group, together with an assessment of the potential impact of such pronouncements on the Group when adopted in future periods, are discussed below:

AASB 9*: Financial Instruments* and associated Amending Standards (applicable to annual reporting periods beginning on or after 1 January 2018).

The Standard will be applicable retrospectively (subject to the provisions on hedge accounting outlined below) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and de-recognition requirements for financial instruments and simplified requirements for hedge accounting. The directors do not anticipate that the adoption of AASB 9 will have a material impact on the Group's financial instruments .

AASB 15: *Revenue from Contracts with Customers* (applicable to annual reporting periods beginning on or after 1 January 2018, as deferred by AASB 2015-8: *Amendments to Australian Accounting Standards – Effective Date of AASB 15*).

When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Except for a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers.

The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract(s);
- determine the transaction price;

iii. New Accounting Standards and Interpretations not yet adopted by the Group (continued)

- allocate the transaction price to the performance obligations in the contract(s); and
- recognise revenue when (or as) the performance obligations are satisfied.

Although the directors anticipate that the adoption of AASB 15 will impact the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.

AASB 16: *Leases* (applicable to annual reporting periods beginning on or after 1 January 2019).

When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117: *Leases* and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases.

The main changes introduced by the new Standard include:

- recognition of a right-to-use asset and liability for all leases (excluding short-term leases with less than 12 months of tenure and leases relating to low-value assets);
- depreciation of right-to-use assets in line with AASB 116: *Property, Plant and Equipment* in profit or loss and unwinding of the liability in principal and interest components;
- variable lease payments that depend on an index or a rate are included in the initial measurement of the lease liability using the index or rate at the commencement date; and
- additional disclosure requirements.

The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with AASB 108 or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application.

Although the directors anticipate that the adoption of AASB 16 will impact the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.

2. Business Result for the Year

This section provides the information that is most relevant to understanding the financial performance of the Group during the financial year and, where relevant, the accounting policies applied and the critical judgements and estimates made.

2.1 Segment information

Identification of reportable segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenue and incur expenses, whose operating results are regularly reviewed by the Group's Chief Operating Decision Maker (CODM) in order to effectively allocate Group resources and assess performance.

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer CEO in the capacity of CODM. Two operating segments have been identified: IT Security Managed Services and Software Licensing.

The CEO reviews Profit before tax. The accounting policies adopted for internal reporting to the CEO are consistent with those adopted in the financial statements.

Prior to 30 June 2015, the Group operated within one segment being IT Security Managed Services.

2016	IT Security Managed Services $	Software Licensing $	Inter Segment Eliminations $	Totals $
Revenues				
Sales to external customers	4,360,642	352,916	-	4,713,558
Inter segment sales	28,304	386,010	(414,314)	-
Total sales revenue	4,388,946	738,926	(414,314)	4,713,558
Other revenue	170,319	-	-	170,319
Total revenue	**4,559,265**	**738,926**	**(414,314)**	**4,883,877**
Profit before income tax expense	**(1,060,627)**	**36,120**	**-**	**(1,024,507)**
Total segment assets	**8,429,398**	**1,129,673**	**-**	**9,559,071**
Total segment liabilities	**2,438,689**	**735,845**	**-**	**3,174,534**

Intersegment transactions

An internally determined transfer price is set for all intersegment sales. This price is reset quarterly and is based on what would be realised in the event the sale was made to an external party at arm's length. All such transactions are eliminated on consolidation of the Group's financial statements.

Corporate charges are allocated to reporting segments based on the segments' overall proportion of revenue generation within the Group. The Board of Directors believes this is representative of likely consumption of head office expenditure that should be used in assessing segment performance and cost recoveries.

Intersegment loans payable and receivable are initially recognised at the consideration received/to be received net of transaction costs. If intersegment loans receivable and payable are not on commercial terms, these are not adjusted to fair value based on market interest rates. This policy represents a departure from that applied to the statutory financial statements.

	Consolidated Group	
	2016 $	2015 $
Revenue from external customers attributable to:		
Australia	4,301,700	3,681,125
International	411,858	17,954
Total	4,713,558	3,699,079

2.2 Revenue

Recognition and measurement

The Group recognises revenue when it is probable that the economic benefit will flow to the entity 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 Tesserent's security infrastructure 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 the 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.

Other revenue

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

	Consolidated Group	
	2016	**2015**
	$	**$**
Revenue from continuing operations		
Sales revenue	4,713,558	3,699,079
Other revenue	170,319	51,401
	4,883,877	3,750,480

2.3 Profit/(loss) for the year

Profit/(loss) before income tax from continuing operations includes the following specific expenses

	Consolidated Group	
	2016	**2015**
Employee benefits expense		
- Defined contribution superannuation expense	140,899	83,197
- Research and development costs	622,481	299,330
Bad and doubtful debts expense		
- Trade receivables	33,833	-
Occupancy costs		
- Minimum lease payments	161,006	149,650
Consulting and legal costs		
- Business combination acquisition related costs	42,503	-

2.4 Earnings per share

Basic earnings per share
Basic earnings per share is calculated by dividing the profit attributable to the owners of Tesserent Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

	Consolidated Group	
	2016 Cents	**2015 Cents**
From continuing operations attributable to the ordinary equity holders of the company	(1.01)	N/A
Total basic earnings per share attributable to the ordinary equity holders of the company	**(1.01)**	**N/A**

Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

	Consolidated Group	
	2016 Cents	**2015 Cents**
From continuing operations attributable to the ordinary equity holders of the company[1]	(1.01)	N/A
Total diluted earnings per share attributable to the ordinary equity holders of the company[1]	**(1.01)**	**N/A**

[1]There are 9,000,000 options and 3,850,000 unvested deferred shares that have not been taken into account in determining diluted EPS because their effect is anti-dilutive.

Reconciliation of earnings used in calculating earnings per share

	Consolidated Group	
	2016 $	**2015 $**
Basic earnings per share		
Loss attributable to the ordinary equity holders of the company used in calculating basic earnings per share:		
From continuing operations	(753,866)	N/A
Diluted earnings per share		
Loss attributable to the ordinary equity holders of the company used in calculating basic earnings per share:		
From continuing operations	(753,866)	N/A

Weighted average number of shares used as the denominator

	Consolidated Group	
	2016 Number	**2015 Number**
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	74,310,516	N/A
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	74,310,516	N/A

2.5 Business combinations

Business combinations are accounted for using the pooling of interest method in respect of acquisitions where equity instruments are acquired within a commonly controlled group. For business combinations where assets or equity interests are acquired from a non-commonly controlled group, the acquisition method of accounting is used.

Pooling of interest method

The consolidated group has used the pooling of interest methodology where there is common control within the combining entity prior to the combination. At the time of the acquisition transaction, the combining entities are ultimately controlled by the same party or parties.

Under the pooling method the assets and liabilities of the acquired entities are recoded at book value not fair value and no goodwill is recorded. Any costs of the combination are expensed as incurred.

Comparative periods are also re-stated to the later of the beginning of the earliest comparative period and the date on which the combining entities first came under common control.

Acquisition method

Under the acquisition method identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred over the fair value of the net identifiable assets acquired is recorded as goodwill. If that amount is less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised directly in the profit and loss as a bargain purchase.

Goodwill

Goodwill recognised as part of a business combination transaction is recognised in accordance with the accounting policy note in section 3.6.

Tesserent Limited

On 15 July 2015 as a result of a restructure Tesserent Limited acquired 100% of the share capital of:

- Tesserent Australia Pty Ltd
- Tesserent IP Pty Ltd (formally 443 IP Pty Ltd)
- Tesserent Wholesale Pty Ltd

The company has consolidated the results of all subsidiaries using the pooling of interests method. This methodology was adopted on the basis that Tesserent Limited and its Australian based subsidiaries were all commonly controlled as at 15 July 2015 and for the comparative period. In addition to common ownership control, management control was also in place for the current and comparative periods.

In adopting the pooling of interest approach the comparative numbers have been restated as if the combination had taken place at the beginning of the earliest comparative period, being 1 July 2014. Further to this there is no goodwill recognised on acquisition as all assets and liabilities are recognised at book value – with no further adjustments required to achieve consistent accounting policies for the group.

443 Networks Pty Ltd

(a) Summary of acquisition

On 14 July 2015, prior to Tesserent Wholesale Pty Ltd becoming a subsidiary of Tesserent Limited, it acquired the business of 443 Networks Pty Ltd, including all tangible and intangible assets and liabilities. The acquisition represented a significant opportunity for the group in order to continue expanding the group's market share while complementing the underlying business.

Details of the purchase consideration, the fair value of net assets acquired and goodwill are as follows:

Purchase consideration:	$
Cash paid	1
Total purchase consideration	1

	Fair value $
The assets and liabilities recognised as a result of the acquisition are as follows:	
Cash	49,890
Trade and other receivables	84,747
Intangible assets – IP	38,490
Trade and other payables	(188,165)
Borrowings	(308,135)
Provision for onerous contracts	(648,858)
Deferred tax asset	194,657
Net identifiable liabilities acquired	(777,374)
Add: goodwill	777,375
Purchase consideration	1

The goodwill is attributable to the underlying business capability and operational performance. It will not be deductible for tax purposes.

(b) Revenue and profit contribution

The acquired business contributed revenues of $324,612 and net profit before tax of $135,708 to the Group for the period from 15 July 2015 to 30 June 2016. Given the nature of the business and timing of the acquisition, these results are applicable for the full period.

(c) Purchase consideration – cash outflow

Outflow of cash to acquire business, net of cash acquired	$
Cash consideration	1
Less: Cash balances acquired	49,890
Net inflow of cash – investing activities	49,889

Blue Reef Pty Ltd

(a) Summary of acquisition

On 9 May 2016 Tesserent Australia Pty Ltd acquired the business of Blue Reef Pty Ltd including all tangible and intangible assets and liabilities. The acquisition represented a significant opportunity to expand the service capability and client base within the national and international education sector.

Details of the purchase consideration, the fair value of net assets acquired and goodwill are as follows:

Purchase consideration:	$
Cash paid	500,000
Shares issued[1]	1,828,250
Deferred consideration – cash	500,000
Total purchase consideration	2,828,250

[1] 12,875,000 shares are provided as part consideration for the transaction. Of these shares, 9,656,250 were placed in voluntary escrow for a period of 24 months effective from the transaction date. The value applicable to the equity consideration was based on the share price at transaction date with a marketability discount of 15% applied to the value of the escrowed shares.

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value $
Plant and equipment	225,730
Employee provisions	(154,260)
Trade creditors	(27,270)
Provision for onerous contracts	(223,032)
Deferred tax asset	113,188
Net identifiable liabilities acquired	(65,644)
Add: goodwill	2,893,894
Purchase consideration	2,828,250

This business combination has initially been accounted for on a provisional basis in accordance with AASB 3 Business Combinations. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the consolidated entity taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

The goodwill is attributable to the underlying business capability and operational performance. It will not be deductible for tax purposes.

(b) Revenue and profit contribution

The Group acquired the business of Blue Reef Pty Ltd, not the company with legacy contracted revenue remaining with the vendor where cash had been received in advance of the contract date. The sales, development, and operational divisions were co-located within two weeks of the transaction date and fully integrated both operationally and financially. Furthermore, the combined divisions now operate across both of the legacy operating structures with limited if no separation. The acquired business has contributed revenue of $26,885 to the group for the period 9 May 2016 to 30 June 2016, however due to the now fully integrated structure net profit before tax for this group cannot be practically determined.

Likewise providing a revenue and net profit before tax as if the business acquisition had occurred on 1 July is equally impracticable.

(c) Purchase consideration – cash outflow

	30 June 2016
	$
Cash consideration	500,000
Less: Cash balances acquired	-
Net outflow of cash – investing activities	500,000

There were no acquisitions in the year ended 30 June 2015.

2.6 Taxation

The income tax expense (income) for the year comprises current tax expense (income) and deferred tax expense (income).

Current tax

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred tax

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability. With respect to non-depreciable items of property, plant and equipment measured at fair value and items of investment property measured at fair value, the related deferred tax liability or deferred tax asset is measured on the basis that the carrying amount of the asset will be recovered entirely through sale.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Offsetting balances

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (i) a legally enforceable right of set-off exists; and (ii) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Tesserent Limited and its Australian subsidiaries have applied the tax consolidation legislation, which means that these entities are taxed as a single entity. As a consequence, the deferred tax assets and deferred tax liabilities of these entities have been offset in the consolidated financial statements.

i. Reconciliation of income tax expense to prima facie tax payable

	Consolidated Group	
	2016	2015
	$	$
Profit/(loss) from continuing operations before income tax expense	(1,024,507)	122,659
Prima facie tax rate of 30%	307,352	(36,798)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Share based payments not deductible	(70,763)	-
Other non-deductible	(3,118)	(18,834)
Prior year adjustments	7,503	(1,900)
Tax offset for R&D claim	29,667	26,940
Income tax credit/(expense)	270,641	(30,592)

Income tax comprises of:		
Current tax	188,183	(81,403)
Deferred tax	77,717	50,811
Adjustments to current tax for unrecognised temporary differences in prior periods	4,741	-
Income tax credit/(expense)	270,641	(30,592)

ii. Amounts recognised directly in equity

Deferred tax: transaction costs on IPO	425,439	-

iii. Deferred tax balances

Deferred tax comprises of temporary differences attributable to:		
Tax losses	122,644	-
Share issue costs	340,351	-
Provisions	336,439	39,308
Other	75,146	19,959
Set-off of deferred tax liabilities pursuant to set-off provisions	(10,612)	(6,300)
	863,968	52,967

Movement in balances

	Tax losses	Share issue costs	Provisions	Other	Total
As at 1 July 2014	**-**	**-**	**23,443**	**(21,287)**	**2,156**
Charged					
- to profit or loss	-	-	15,865	34,946	50,811
As at 30 June 2015	**-**	**-**	**39,308**	**13,659**	**52,967**
Charged to					
- to profit or loss	122,644	(85,088)	(10,714)	50,875	77,717
- directly to equity	-	425,439	-	-	425,439
Business acquisition	-	-	307,845	-	307,845
As at 30 June 2016	**122,644**	**340,351**	**336,439**	**64,534**	**863,968**

iv. Franking credits

	Consolidated	
	2016	**2015**
	$	**$**
Franked dividends	-	-
Franking credits available for subsequent financial years based on a tax rate of 30%	25,673	-
	25,673	-

Key estimate and judgment: Taxation

The Group is subject to income taxes in Australia. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

3. Operating Assets and Liabilities

3.1 Trade and other receivables

Recognition and measurement

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. The amount of the impairment loss is recognised in profit or loss within impairment losses on loans and receivables. When a trade receivable for which an impairment allowance had been recognised becomes uncollectable in as subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the impairment losses on loans and receivables in profit or loss.

	Consolidated Group	
	2016 $	2015 $
CURRENT		
Trade receivables	341,670	69,085
Provision for impairment	(13,020)	-
	328,650	69,085
R&D tax offset	282,274	-
Other receivables	2,596	-
Provision for impairment	-	-
	284,870	-
Total current trade and other receivables	613,520	69,085
NON-CURRENT		
Amounts receivable from related parties	1,064	3,120,004
Provision for impairment	-	(2,870,835)
	1,064	249,169
Total non-current trade and other receivables	614,584	318,254

	Consolidated Group	
	2016 $	2015 $
Unimpaired past due loans and receivables		
Past due under 30 days	51,982	13,668
Past due 30 days to under 60 days	83,641	-
Past due 60 days to under 90 days	52,095	-
Past due 90 days and over	80,415	14,305
Total unimpaired past due loans and receivables	268,133	27,973
Total unimpaired loans and receivables	614,584	318,254
Unimpaired past due as a percentage of total unimpaired loans and receivables	44%	9%
Unimpaired past due 30 days and over as a percentage of total unimpaired loans and receivables	35%	4%

	Consolidated Group	
	2016 $	2015 $
Reconciliation of provision for impairment		
Opening provision	-	-
Additional provision	46,853	-
Receivables written off as uncollectible	(33,833)	-
Closing provision	13,020	-

3.2 Trade and other payables

Recognition and measurement

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The carrying amounts of trade and other payables are assumed to be the same as their fair values due to their short term nature.

	Consolidated Group	
	2016 $	2015 $
CURRENT		
Trade payables	549,825	541,406
Sundry payables and accrued expenses	200,546	38,042
Deferred consideration	500,000	-
	1,250,371	579,448

3.3 Provisions

Recognition and measurements

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

Employee Benefits

The current portion of this liability includes all of the accrued annual leave and the unconditional entitlements to long service leave where employees have completed the required period of service.

Long service leave

The liability for long service leave is measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period 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 to their net present value at the end of the reporting period using corporate bond rates.

Retirement benefit obligations

The Group makes payments to employees' superannuation funds in line with the relevant superannuation legislation. Contributions made are recognised as expenses when they arise.

Bonus schemes

The Group recognises a liability and an expense for bonuses on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Onerous contracts

The Group has recognised a provision for contractual services to be provided to the Group which were taken up as part of business combination transactions during the year. The Group is contractually obliged to make payment for these services within 12 months of the end of the current financial year.

	Consolidated Group	
	2016 $	**2015 $**
CURRENT		
Employee benefits	279,375	88,217
Onerous contracts	799,192	-
	1,078,567	88,217
NON-CURRENT		
Employee benefits	29,691	42,812

Movement in provisions

	Employee Benefits	**Onerous contracts**
Opening Balance	88,217	-
Increase to provision	66,589	-
Provision acquired through business combination	154,260	871,890
Recognised in profit & loss during the period	-	(72,698)
Closing Balance	309,066	799,192

3.4 Contingent liabilities

As at the reporting date, there were no material claims or disputes of a contingent nature against the Company and its subsidiaries.

3.5 Plant and equipment

Recognition and measurement

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised as expenses in profit or loss during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets is depreciated on a straight-line basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Furniture & Fixtures	10% to 100%
Leasehold improvements	2.5%
Hardware employed	66.67%
Plant & equipment	7.5% to 66.67%
Equipment leased to external parties	40%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Consolidated	Furniture & Fixtures	Hardware employed	Leasehold improvement	Equipment for lease	Plant & Equipment	Total
2016						
Opening net book value	19,221	89,650	127,889	-	116,411	353,171
Acquired as part of business combinations	-	202,355	-	-	23,375	225,730
Additions	25,140	82,131	-	-	73,474	180,745
Depreciation charge	(3,864)	(118,007)	(3,379)	-	(73,296)	(198,546)
Net book amount	40,497	256,129	124,510	-	139,964	561,100

Consolidated	Furniture & Fixtures	Hardware employed	Leasehold improvement	Equipment for lease	Plant & Equipment	Total
2016						
Cost	57,584	561,354	135,157	16,177	353,918	1,124,190
Accumulated depreciation	(17,087)	(305,225)	(10,647)	(16,177)	(213,954)	(563,090)
Net book amount	40,497	256,129	124,510	-	139,964	561,100

Consolidated	Furniture & Fixtures	Hardware employed	Leasehold improvement	Equipment for lease	Plant & Equipment	Total
2015						
Opening net book value	24,183	74,627	131,269	-	116,922	347,001
Additions	-	69,652	-	-	36,864	106,516
Depreciation charge	(4,962)	(54,629)	(3,380)	-	(37,375)	(100,346)
Net book amount	19,221	89,650	127,889	-	116,411	353,171
2015						
Cost	32,444	276,868	135,157	16,177	257,069	717,715
Accumulated depreciation	(13,223)	(187,218)	(7,268)	(16,177)	(140,658)	(364,544)
Net book amount	19,221	89,650	127,889	-	116,411	353,171

3.6 Intangibles

Recognition and measurement

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 de-recognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill

Goodwill on acquisition of subsidiaries or businesses is included in intangible assets.

Goodwill is carried at cost less any accumulated impairment losses. Goodwill is calculated as the excess of the sum of:

i) the consideration transferred;

ii) any non-controlling interest (determined under either the full goodwill or proportionate interest method); and

iii) the acquisition date fair value of any previously held equity interest;

over the acquisition date fair value of net identifiable assets acquired.

Goodwill and intangible assets with an indefinite useful life are tested for impairment annually and are allocated to the Group's cash-generating units or groups of cash-generating units, representing the lowest level at which goodwill is monitored and not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity disposed of.

Impairment of assets

An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows of other assets or groups of assets (CGUs).

There is no impairment recognised in 2016 (2015: nil).

	Consolidated Group	
	2016	2015
	$	$
Intellectual property – at cost	82,601	25,503
Goodwill – at cost	3,671,269	-
	3,753,870	25,503

Reconciliation

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

	Goodwill	Intellectual Property	Total
	$	$	$
Balance at 1 July 2014	-	-	-
Movement	-	25,503	25,503
Balance 30 June 2015	-	25,503	25,503
Additions through Business combinations (Note 2.5)	3,671,269	38,490	3,728,367
Other additions	-	18,608	-
Balance 30 June 2016	3,671,269	82,601	3,753,870

Impairment testing

For the purpose of impairment testing, intangible assets with indefinite lives are allocated to the consolidated entity's cash generating units (CGU's) as follows:

	Consolidated Group	
	2016	2015
	$	$
IT Security Managed Services	2,893,894	-
Software Licensing	777,374	-
Total	3,671,269	-

The Group tests whether there has been any impairment on an annual basis. Impairment testing was performed at 30 June 2016 to support the carrying value of goodwill and intellectual property within both segments.

The estimated recoverable amount exceeded the carrying value for each CGU as follows:

	Consolidated Group	
	2016	2015
	$	$
IT Security Managed Services	1,003,952	-
Software Licensing	1,219,760	-
Total	2,223,712	-

Management believes that there are no reasonably possible changes to the key assumptions on which the recoverable amount of goodwill is based that would cause the CGU's carrying value to exceed its recoverable amount.

Key estimate and judgment

The recoverable amount of the CGU's is determined based on value-in-use calculations, determined by discounting future cash flows to be generated from the continuing use of the business. Management's determination of cash flow projections and gross margins are based on past performance and future expectations which require the use of assumptions.

The calculations use cash flow projections based on financial budgets for each CGU approved by management covering year 1. The present value of future cash flows for each CGU for years two to five have been calculated using a terminal growth rate of 2% and a pre-tax discount rate of 18.98% has been used to determine a value in use.

3.7 Inventory

Inventory is stated at the lower of cost and net realisable value. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

As at 30 June 2016 there had been no write downs and all inventories are stated at cost.

4. Capital Management

The group's objective when managing capital is to:

- Safeguard their ability to continue as a going concern, so that they can provide returns to shareholders; and
- Maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

For the purpose of analysis the group defines capital as fully paid ordinary shares.

4.1 Borrowings

Recognition and measurement

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption

amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

	Consolidated Group	
	2016 $	2015 $
CURRENT		
Loan payable – related party	-	211,948
Total current borrowings	-	211,948
NON-CURRENT		
Bank loans	-	700,000
Loan payable – related party	-	622,988
Total non-current borrowings	-	1,322,988
Total borrowings	-	1,534,936

Loans payable – related party are director related party loans which have terms between one and five years with varying terms and rates of interest.

Bank loans is a loan from ANZ Bank which was a 30 year loan that included the first 5 years of interest only payments. The interest rate on the loan is ANZ's business mortgage index rate, which is a variable rate, plus a margin of 0.75% p.a. and interest is paid monthly in arrears. The loan is guaranteed by all directors and secured by the CEO's own real property. Since the first 5 years of payments are interest only, the entire principal amount is classified as non-current.

4.2 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit risk.

Market risk

Foreign currency risk

The Group undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measure using sensitivity analysis and cash flow forecasting. The risk is not significant as the Group has an immaterial amount of transactions denominated in foreign currency.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates.

The table below outlines the variance interest rate on cash at bank and bank loans.

	2016		2015	
	Weighted average interest rate	Balance	Weighted average interest rate	Balance
	%	$	%	$
Cash at bank	2.03	3,380,740	2.31	516,595
Bank loan	5.00	-	5.00	(700,000)
Net exposure to cash flow interest rate risk		3,380,740		(183,405)

Sensitivity analysis

A change of 100 basis points in interest rates at the reporting date would have increased/decreased equity and profit/loss for the period by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for the comparative period.

Impact on profit/loss for the period

	2016	***2015***
Increase in interest rates	14,167	(1,834)
Decrease in interest rates	(14,167)	1,834

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date of recognised financial assets is the carrying amount of those assets, net of any provisions for impairment of those assets, as disclosed in consolidated statement of financial position and notes to the consolidated financial statements.

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to customers including receivables and committed transactions.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisations, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Refer to Note 3.1 for schedule of unimpaired past due receivables.

The Group does not have any significant credit risk to any single counterparty given the large number of customers.

Liquidity risk

Prudent liquidity risk management requires the Group to maintain sufficient liquid assets and available borrowing facilities to be able to pay debts as and when they become due and payable.

The Group manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Amounts presented below represent the future undiscounted principal and interest cash flows.

Maturity analysis

Consolidated Group – 2016	**1 year or less**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Remaining contractual maturities**
	$	**$**	**$**	**$**	**$**
Non-interest bearing					
Trade payables	549,825	-	-	-	549,525
Other payables	765	-	-	-	765
Accrued expenses	199,781	-	-	-	199,781
Deferred consideration	500,000	-	-	-	500,000
	1,250,371	-	-	-	1,250,371

Consolidated Group – 2015	**1 year or less**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Remaining contractual maturities**
	$	**$**	**$**	**$**	**$**
Non-interest bearing					
Trade payables	541,406	-	-	-	541,406
Other payables	-	-	-	-	-
Accrued expenses	38,042	-	-	-	38,042
Interest bearing					
Bank loan	-	-	-	700,000	700,000
	579,448	-	-	700,000	1,279,448

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

Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

4.3 Cash and cash equivalents

Recognition and measurement

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturity dates 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, and bank overdrafts.

	Consolidated Group	
	2016 $	2015 $
Cash at bank	1,380,740	516,595
Term deposits	2,000,000	-
	3,380,740	516,595

4.4 Contributed equity

Recognition and measurement

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

All issued ordinary shares are fully paid. Holders of these shares are entitled to dividends as declared from time to time and are entitled to one vote per share at General meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

	Consolidated Group			
	2016 Shares	2015 Shares	2016 $	2015 $
Ordinary shares – fully paid	115,334,600	4,947,090	9,917,792	1,609,260

Movements in ordinary share capital

Details	Date	Shares	Issue Price $	$
2015				
Balance	1 Jul 2014	4,947,090	-	1,609,260
2016				
Balance	1 Jul 2015	4,947,090		1,609,260
Conversion of Tesserent Australia Pty Ltd shares to	15 Jul 2015	(4,947,090)	-	-
Tesserent Limited shares	15 Jul 2015	44,988,750	-	-
Shares issued to directors	24 Jul 2015	1,200,000	0.08	100,000
Shares issued to directors	4 Aug 2015	1,200,000	0.08	100,000
Shares issued to directors	18 Aug 2015	1,200,000	0.08	100,000
Shares issued to directors	27 Aug 2015	600,000	0.08	50,000
Shares issued on conversion of loan	11 Nov 2015	18,270,850	0.01	122,974
Shares issued pursuant to the capital raising	19 Feb 2016	35,000,000	0.20	7,000,000
Costs associated with the capital raising[1]		-	-	(992,692)
Shares issued on acquisition of business	14 May 2016	12,875,000	0.14	1,828,250
		115,334,600		9,917,792

[1]Net of deferred tax assets

4.5 Commitments

Information Technology and Communication (ITC) service commitments

The Group enters into contracts for the provision of ITC services with suppliers for which there are minimum spend requirements. Service commitments contracted at the end of the reporting period but which are not recognised as liabilities, are as follows:

	Consolidated Group	
	2016 $	2015 $
Within one year	67,911	-
Later than one year but not later than five years	-	-
	67,911	-

Lease commitments

The Group leases its offices under a non-cancellable operating lease which expires within the next year. Commitments in relation to this lease contracted for at the end of each reporting period but not recognised as liabilities, are as follows:

	Consolidated Group	
	2016 $	2015 $
Within one year	40,500	162,000
Later than one year but not later than five years	-	40,500
	40,500	202,500

4.6 Dividends

No dividends were paid or declared for the current or prior period.

5. Other

5.1 Related party transactions

The consolidated financial statements include the financial statements of Tesserent Limited and its controlled entities.

The controlled entities are as follows:

Tesserent Australia Pty Ltd – acquired 15 July 2015
Tesserent Wholesale Pty Ltd – acquired 15 July 2015
Tesserent IP Pty Ltd (Previously 443 IP Pty Ltd) – acquired 15 July 2015
Tesserent UK Ltd – incorporated 20 May 2015 (dormant)

Apart from Tesserent UK Ltd all companies operate in Australia.

On 17 November 2015 the company issued the Chairman and each Non-Executive Director with a total of 7,500,000 options over unissued shares the details of which have been set out below:

Director	Options exercisable from 31 August 2016	Options exercisable from 31 August 2017	Options exercisable from 31 August 2018
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
Exercise price	$0.200	$0.240	$0.288

The options have been valued and accounted for in accordance with the requirements of AASB 2 *Share-based Payments.*

During the current period, the following directors or parties related to directors, subscribed for shares in the company:

Date	Name	Number of Shares	Amount Paid
15/07/15	Grand Floridian Pty Ltd*	31,100,000	Non-cash
15/07/15	RTSF Super Pty Ltd**	565,037	Non-cash
15/07/15	T.B.C (Australia) Pty Ltd**	7,591,557	Non-cash
03/09/15	Steve Bertamini	1,200,000	$100,000
03/09/15	Gregory Baxter	1,200,000	$100,000
03/09/15	Paul Brandling	1,200,000	$100,000
03/09/15	Russell Yardley	600,000	$50,000
08/11/15	RTSF Super Pty Ltd**	1,874,046	Non-cash
10/11/15	RTSF Super Pty Ltd**	1,250,000	Non-cash
11/11/16	RTSF Super Pty Ltd**	10,069,847	Non-cash
09/02/16	RTSF Super Pty Ltd**	790,774	Non-cash
09/02/16	T.B.C (Australia) Pty Ltd**	1,912,065	Non-cash
09/02/16	Grand Floridian Pty Ltd*	351,435	Non-cash

**Related party to Keith Glennan*
***Related party to Robert Langford*

Payables – Loans from related parties

	Consolidated Group	
	2016	2015
	$	$
RTSF Super Pty Ltd	-	464,361
T.B.C (Australia) Pty Ltd	-	291,565
Grand Floridian Pty Ltd	-	50,000
	-	805,926

Key management personnel remuneration

	Consolidated Group	
	2016	2015
	$	$
Short-term employee benefits	487,501	80,000
Post-employment benefits	29,583	-
Share based payments	235,774	-
	752,858	80,000

Share based payments

Equity-settled share-based compensation benefits are provided to employees and directors.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees and directors in exchange for the rendering of services.

The cost of equity-settled transactions are 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 consolidated entity 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 are 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.

To determine the value of shares and options issued in the current year an independent valuation was prepared using the Black-Scholes model. In valuing the options a risk-free rate of 2%, a volatility rate of 40%, dividend yield of 0%, share price of $0.20 and time to expiry of four years were used. The 40% volatility rate was determined by reference to a broad set of ASX-listed comparable companies.

5.2 Reserves

Recognition and measurement

The share-based payment reserve is used to recognise:

- the fair value of options issued to Directors and employees which have not been exercised;
- the fair value of shares issued to Directors and employees; and
- other share-based payment transactions.

The cost of shares and options over shares issued to Directors and employees are measured as set out in the related parties note in section 5.1.

	Consolidated Group	
	2016	**2015**
	$	**$**
Share based payment reserve		
Opening balance	-	-
Share based compensation recognised during the year	235,877	-
Closing balance	235,877	-

5.3 Parent entity information

The individual financial statements for the parent entity show the following aggregate amounts:

	Consolidated Group	
	2016	2015
	$	$
Statement of financial position		
Current assets	3,511,987	210,585
Non-current assets	4,432,868	-
Total assets	**7,944,855**	**210,585**
Current liabilities	192,279	215,645
Non-current liabilities	-	-
Total liabilities	**192,279**	**215,644**
Issued share capital	8,308,534	1
Reserves	235,877	-
Accumulated loss	(791,835)	(5,060)
Total equity/(deficit)	**7,752,576**	**(5,059)**
Loss for the year	**(786,775)**	**(5,060)**

Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2016 or 2015.

Guarantees entered into by the parent entity

The parent entity did not have any guarantees as at 30 June 2016 or 2015.

5.4 Remuneration of auditors

	Consolidated Group	
	2016	2015
	$	$
Audit and assurance services	90,500	86,000
Tax services	36,213	3,500
Total remuneration	126,713	89,500

5.5 Cash flow information

a) Reconciliation of cash flow from operating activities

	Consolidated Group	
	2016	**2015**
	$	**$**
(Loss)/profit after tax for the year	(753,866)	92,067
Depreciation and amortisation	198,546	104,786
Impairment of related party loans	-	221,186
Share based payments	235,877	-
IPO costs	342,557	-
Bad debts	33,833	-
Increase in trade and other receivables	(211,583)	(262,118)
Prepayments	(64,356)	(5,514)
Increase in inventory	(147,576)	-
Decrease/(increase) in other assets	237,919	(448,458)
Decrease/(increase) in deferred tax assets/liabilities	(503,156)	(52,967)
Increase in trade and other liabilities	348,165	275,257
Increase/(decrease) in current tax liabilities	(30,414)	78,960
Increase in unearned income	8,439	(132,446)
(Decrease)/increase in current provisions	(48,922)	24,244
Net cash outflow from operating activities	(354,537)	(105,003)

b) Non-cash investing and financing activities

	Consolidated Group	
	2016	**2015**
	$	**$**
Shares issued on conversion of loans	733,827	-
Shares issued on acquisition of business (note 2.5)	1,828,250	-

5.6 Events occurring after the reporting period

The directors are not aware of any significant events since the end of the reporting period.

DIRECTORS' DECLARATION

In the opinion of the Directors' of Tesserent Limited

a) the financial statements and notes, as set out on pages 29 to 61, are in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

   (ii) complying with Accounting Standards and the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

   (iii) as stated in note 1, the consolidated financial statements also comply with International Financial Reporting Standards

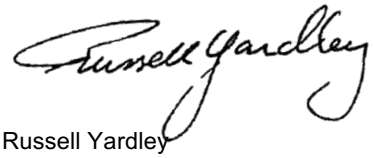
b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

c) the Directors' have been given the declarations required by s 295A of the *Corporations Act 2001* for the financial year ended 30 June 2016.

d) the remuneration disclosures included at pages 21 to 27 of the Directors Report (Audited Remuneration Report) for the year ended 30 June 2016 comply with section 300A of the *Corporations Act 2001*

Signed in accordance with a resolution of the Directors' made pursuant to section 295(5) of the *Corporations Act 2001*.

On behalf of the Directors,



Russell Yardley
Chairman

Melbourne, 29 September 2016

BDO

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

INDEPENDENT AUDITOR'S REPORT

To the members of Tesserent Limited

Report on the Financial Report

We have audited the accompanying financial report of Tesserent Limited, which comprises the statement of financial position as at 30 June 2016, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Stat*ements, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

BDO

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Tesserent Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of Tesserent Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to 16 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Tesserent Limited for the year ended 30 June 2016 complies with section 300A of the Corporations Act 2001.

BDO East Coast Partnership

BDO

Simon Scalzo
Partner

Melbourne, 29 September 2016

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

The following additional information is required by the Australian Stock Exchange Ltd in respect of listed public companies only.

1. Shareholding

a. Distribution of Shareholders

Range	Total holders	Units	% of Issued Capital
1 - 100	10	309	0.00
101 - 1,000	3	1,930	0.00
1,001 - 10,000	240	1,857,852	1.61
10,001 - 100,000	367	12,956,092	11.23
100,001 - 500,000	58	14,994,023	13.00
500,001 - 1,000,000	6	3,811,152	3.30
1,000,001 - 10,000,000	12	37,354,312	32.39
10,000,001 - 9,999,999,999	2	44,358,930	38.46
Total	**698**	**115,334,600**	**100.00**

b. The number of shareholdings held in less than marketable parcels is 56.

c. Substantial Shareholders

Shareholder	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
GRAND FLORIDIAN PTY LTD <KM & AS GLENNAN FAMILY A/C>	31,100,000	26.97
RTSF SUPER PTY LTD <RAGING THUNDER SUPERFUND A/C>	13,258,930	11.50
PBCF INVESTMENTS PTY LTD	12,665,000	11.00
T.B.C (AUSTRALIA) PTY LTD <LANGFORD FAMILY NO 3 A/C>	7,591,557	6.58

d. Voting Rights

The voting rights attached to each class of equity security are as follows:

Ordinary shares
Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

Options
All options issued by the Company have no voting rights.

e. 20 Largest Shareholders – Ordinary Shares

		Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1.	GRAND FLORIDIAN PTY LTD <KM & AS GLENNAN FAMILY A/C>	31,100,000	26.97
2.	RTSF SUPER PTY LTD <RAGING THUNDER SUPERFUND A/C>	13,258,930	11.50
3.	PBCF INVESTMENTS PTY LTD	9,656,250	8.37
4.	T B C (AUSTRALIA) PTY LTD <LANGFORD FAMILY NO 3 A/C>	7,591,557	6.58
5.	STEVEN LYNCH	4,538,707	3.94
6.	PBCF INVESTMENTS PTY LTD	3,008,750	2.61
7.	PACRIM INVESTMENT CONSULTANTS PTY LTD <PACRIM CONSULTING FUND A/C>	2,501,490	2.17
8.	MR DOMINIC MARINELLI <MONTE ACQUAVIVA A/C>	2,131,022	1.85
9.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	2,031,536	1.76
10.	GANT SUPER PTY LTD <QUAY SUPER FUND A/C>	1,275,000	1.11
11.	GREG BAXTER <GDB AUSTRALIA A/C>	1,200,000	1.04
12.	PAUL BRANDLING <BRANDLING FAMILY A/C>	1,200,000	1.04
13.	SPB CAPITAL LIMITED	1,200,000	1.04
14.	FAYAZ MEGHANI	1,020,000	0.88
15.	COFFS HARBOUR INVESTMENTS PTY LTD <THE COFFS HARBOUR INV A/C>	825,000	0.72
16.	MRS LI-YU CHAN	750,099	0.65
17.	YARDLEY FAMILY SUPERANNUATION PTY LTD <YARDLEY FAMILY S/F A/C>	600,000	0.52
18.	IAN MAY	580,500	0.50
19.	CHAG PTY LTD	537,553	0.47
20.	PETER JAMES KUSKIE	518,000	0.45
		85,524,394	**74.15**

2. Number and class of restricted securities and securities subject to voluntary escrow

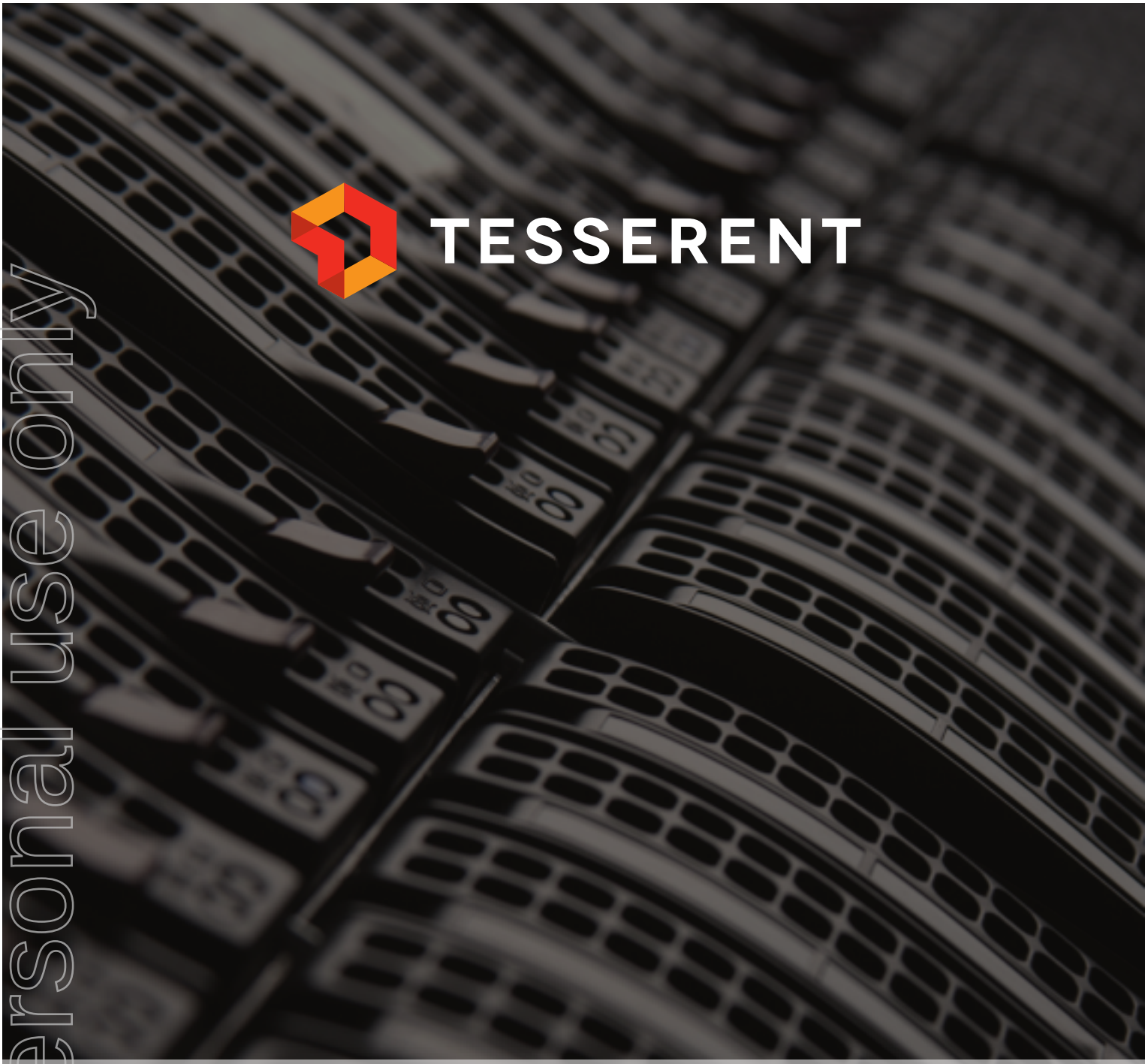
Description	Number on issue
Escrowed $0.20 Options vesting 31/08/16 expiring 31/08/19	2,500,000
Escrowed $0.24 Options vesting 31/08/17 expiring 31/08/19	2,500,000
Escrowed $0.288 Options vesting 31/08/18 expiring 31/08/19	2,500,000
Fully paid ordinary shares escrowed to 12/02/18	65,209,599
Fully paid ordinary shares escrowed to 12/05/17	9,656,250

3. Unquoted Securities

There are 7,500,000 unquoted securities being the escrowed options set out in section 2 above. The holders of these securities are directors, and the number of the securities each person holds is set out in the Directors' Report.

4 Use of cash

Since the date of listing on the ASX to the end of the reporting period Tesserent used its cash and assets readily convertible into cash in a way consistent with its business objectives.



TESSERENT

Tesserent Limited
ABN 13 605 672 928
Level 2, 683 Burke Road
Camberwell VIC 3124
AUSTRALIA

P: +61 3 9880 5555
F: +61 3 9880 5556
E: info@tesserent.com
W: www.tesserent.com