

1. Company details

| | |
|-------------------|--|
| Name of entity: | Cipherpoint Limited |
| ABN: | 61 120 658 497 |
| Reporting period: | For the period ended 30 September 2021 |
| Previous period: | For the period ended 30 September 2020 |

2. Results for announcement to the market

| | | | \$ |
|---|----|--------------------|--------------------|
| Revenues from continuing operations | up | 100.0% to | 1,632,890 |
| Profit from ordinary activities after tax attributable to the owners of Cipherpoint Limited | up | 128.2% to | 314,697 |
| Profit for the period attributable to the owners of Cipherpoint Limited | up | 128.2% to | 314,697 |
| | | 30 Sep 2021 | 30 Sep 2020 |
| | | Cents | Cents |
| Basic earnings per share | | 0.14 | (1.81) |
| Diluted earnings per share | | 0.14 | (1.81) |

Dividends

There were no dividends paid, recommended or declared during the current financial period.

Comments

The profit for the Group after providing for income tax amounted to \$314,697 (30 September 2020: loss of \$1,117,070).

Refer to the 'Review of operations' section of the Directors' report accompanying this Appendix 4D for further commentary.

3. Net tangible assets

| | Reporting period | Previous period |
|---|-------------------------|------------------------|
| | Cents | Cents |
| Net tangible assets per ordinary security | <u>1.22</u> | <u>1.94</u> |

Net tangible assets per ordinary security has been calculated by excluding the net right-of-use assets and leases liabilities of (\$1,551).

4. Control gained over entities

Refer to note 15 for further details.

5. Loss of control over entities

Refer to note 6 for further details.

6. Dividends

Current period

There were no dividends paid, recommended or declared during the current financial period.

Previous period

There were no dividends paid, recommended or declared during the previous financial period.

7. Audit qualification or review

Details of audit/review dispute or qualification (if any):

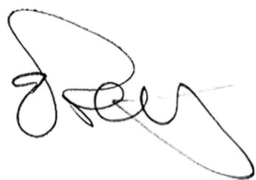
The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report.

8. Attachments

Details of attachments (if any):

The Interim Report of Cipherpoint Limited for the period ended 30 September 2021 is attached.

9. Signed



Signed _____

Date: 2 December 2021

Ted Pretty
Chairman
Sydney

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Cipherpoint Limited

ABN 61 120 658 497

Interim Report - 30 September 2021

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The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Cipherpoint Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the period ended 30 September 2021.

Directors

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

Edward (Ted) Pretty - Managing Director and Chairman
Steven Bliim - Non-Executive Director (appointed on 21 September 2021) (formerly Executive Director and COO)
Graham Mirabito - Non-Executive Director

Principal activities

The principal activity of the Group is the provision of cyber security services development and data security technology to the enterprise and government sectors.

Review of operations

The profit for the Group after providing for income tax amounted to \$314,697 (30 September 2020: loss of \$1,117,070).

Highlights

The Company is beginning to gain momentum in identified target markets. Management continues to see growth opportunities in the market for managed security services and data security products.

The Company achieved the following in the first half:

- The completion of the acquisition of Brace168 Pty Limited;
- A capital raising of \$2.9m to drive growth; and
- The sale of the Company's cp.Protect and cp.Discover technology assets to ArchTIS Limited.

The Company continues to build a solid sales pipeline and is focused on hiring further sales, pre-sales and technical resources to enable growth.

The Company has seen an improvement in its revenue generating capability as a consequence of the Brace168 acquisition. With purchase orders including five new significant customers as well as growth in existing customers for penetration testing, network and application monitoring and code security reviews valued at \$103,000 received subsequent to year end. Additionally, a further two renewals under a master licence agreement with a major customer, valued at \$607,000, were received.

As the pandemic and economic environments improve across the world, the Board is confident of capitalising on the sales groundwork completed in the past year, to maximise the growth trajectory of the combined cyber security services business.

Significant changes in the state of affairs

On 1 April 2021, the Company completed the acquisition of 100% of the shares in Brace168 Pty Limited ('Brace168'). Brace168 is a managed security service provider, who monitor customer networks, applications and data to identify threats and respond to security incidents. They have a high mix of annuity revenue across large enterprise and small business customers, operating in the financial, property, social and consumer sectors in Australia. Since acquisition Brace168 has continued to grow its large sales pipeline and deliver strong service revenues and financial results.

In August 2021, the Company raised \$2.9m (before costs) to be applied to completion of the upgrade to its security operations centre, acceleration of recruitment activities, further investment into business development and the pursuit of potential acquisition opportunities.

In September 2021, the Company entered into an agreement to sell select assets and products from its software division to archTIS Limited for a purchase price of \$1.4m in cash and up to \$1m in shares. The Company retained a right to resell the products.

There were no other significant changes in the state of affairs of the Group during the financial period.

Matters subsequent to the end of the financial period

In October 2021, the Company announced the acquisition of Tasmanian based managed security services provider Virtual Information Technology Pty Limited ('VIT Cyber Security' or 'VITCS') for an initial consideration of \$750,000 in cash and 10.2 million shares with additional share-based consideration as part of an FY22 and FY23 earn out arrangement. The 10.2 million shares were issued on 25 November 2021 at \$0.039 per share, subject to a 6 month escrow period.

In November 2021, the Company announced it had secured new contracts with Vocus, Ingenia, Guide Dogs of NSW and Sandstone Technology.

The consequences of the Coronavirus (COVID-19) pandemic are continuing although most business activities appear to be slowly returning to a 'new' normal mode of operation.

No other matter or circumstance has arisen since 30 September 2021 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



Ted Pretty
Chairman

2 December 2021
Sydney

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To the Board of Directors of Cipherpoint Limited

Auditor's Independence Declaration under section 307C of the *Corporations Act 2001*

As lead auditor for the review of the interim financial report of Cipherpoint Limited for the half-year ended 30 September 2021, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (a) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) any applicable code of professional conduct in relation to the review.

Yours sincerely



Nexia Sydney Audit Pty Ltd



Lester Wills

Director

Date: 2 December 2021

Sydney

| | Consolidated | |
|--|---------------------|--------------------|
| Note | 30 Sep 2021 | 30 Sep 2020 |
| | \$ | \$ |
| Revenue from continuing operations | | |
| Revenue - technology related products and services | 4 | 1,632,890 |
| Other income - including COVID-19 stimulus grants | | 100,000 |
| Fair value gain on financial liability | | 40,633 |
| | | <u>49,911</u> |
| | | <u>1,773,523</u> |
| Expenses | | |
| Software and hardware for resale | | (671,231) |
| Employee benefit expense | 5 | (1,748,067) |
| Consultancy fees expense | | (212,089) |
| Depreciation and amortisation expense | 5 | (71,519) |
| Legal and professional fees expense | | (311,113) |
| Marketing and promotion expense | | (120,878) |
| Travel and accommodation expense | | (28,679) |
| Office and administration expense | | (180,187) |
| Other expenses | | (209,775) |
| Total expenses | | <u>(3,553,538)</u> |
| | | <u>(892,958)</u> |
| Results from operating activities | | |
| | | (1,780,015) |
| | | (843,047) |
| Finance income calculated using the effective interest method | | 1,574 |
| Finance costs | 5 | (11,539) |
| | | <u>422</u> |
| | | <u>(2,562)</u> |
| Loss before income tax expense from continuing operations | | |
| | | (1,789,980) |
| | | (845,187) |
| Income tax expense | | - |
| | | <u>-</u> |
| | | <u>-</u> |
| Loss after income tax expense from continuing operations | | (1,789,980) |
| | | (845,187) |
| Profit/(loss) after income tax expense from discontinued operations | 6 | 2,104,677 |
| | | <u>(271,883)</u> |
| Profit/(loss) after income tax expense for the period attributable to the owners of Cipherpoint Limited | | |
| | | 314,697 |
| | | (1,117,070) |
| Other comprehensive income | | |
| <i>Items that may be reclassified subsequently to profit or loss</i> | | |
| Foreign currency translation | | (5,644) |
| | | <u>(10,639)</u> |
| Other comprehensive income for the period, net of tax | | (5,644) |
| | | <u>(10,639)</u> |
| Total comprehensive income for the period attributable to the owners of Cipherpoint Limited | | |
| | | <u>309,053</u> |
| | | <u>(1,127,709)</u> |
| Total comprehensive income for the period is attributable to: | | |
| Continuing operations | | (1,795,624) |
| Discontinued operations | | 2,104,677 |
| | | <u>(271,883)</u> |
| | | <u>309,053</u> |
| | | <u>(1,127,709)</u> |

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

| | | Cents | Cents |
|--|----|--------|--------|
| Earnings per share for loss from continuing operations attributable to the owners of Cipherpoint Limited | | | |
| Basic earnings per share | 16 | (0.78) | (1.37) |
| Diluted earnings per share | 16 | (0.78) | (1.37) |
| Earnings per share for profit/(loss) from discontinued operations attributable to the owners of Cipherpoint Limited | | | |
| Basic earnings per share | 16 | 0.91 | (0.44) |
| Diluted earnings per share | 16 | 0.91 | (0.44) |
| Earnings per share for profit/(loss) attributable to the owners of Cipherpoint Limited | | | |
| Basic earnings per share | 16 | 0.14 | (1.81) |
| Diluted earnings per share | 16 | 0.14 | (1.81) |

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| | | Consolidated | |
|--------------------------------------|------|---------------------|---------------------|
| | Note | 30 Sep 2021 | 31 Mar 2021 |
| | | \$ | \$ |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | | 3,462,723 | 3,971,549 |
| Trade and other receivables | 7 | 2,146,321 | 163,919 |
| Prepayments | | 264,156 | 40,336 |
| Total current assets | | <u>5,873,200</u> | <u>4,175,804</u> |
| Non-current assets | | | |
| Property, plant and equipment | | 191,607 | 14,213 |
| Right-of-use assets | 8 | 257,890 | - |
| Intangibles | 9 | 4,319,357 | - |
| Other non-current assets | | 171,723 | 79,601 |
| Total non-current assets | | <u>4,940,577</u> | <u>93,814</u> |
| Total assets | | <u>10,813,777</u> | <u>4,269,618</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 10 | 803,990 | 231,697 |
| Contract liabilities | | 107,852 | 186,537 |
| Lease liabilities | | 48,281 | - |
| Income tax | | 1,011 | - |
| Employee benefits | | 75,782 | 40,222 |
| Deferred consideration | 15 | 1,078,339 | - |
| Total current liabilities | | <u>2,115,255</u> | <u>458,456</u> |
| Non-current liabilities | | | |
| Contract liabilities | | - | 67,438 |
| Lease liabilities | | 211,160 | - |
| Deferred tax | | 73,541 | - |
| Total non-current liabilities | | <u>284,701</u> | <u>67,438</u> |
| Total liabilities | | <u>2,399,956</u> | <u>525,894</u> |
| Net assets | | <u>8,413,821</u> | <u>3,743,724</u> |
| Equity | | | |
| Issued capital | 11 | 102,459,027 | 98,468,154 |
| Reserves | 12 | 3,908,874 | 3,557,850 |
| Accumulated losses | | <u>(97,954,080)</u> | <u>(98,282,280)</u> |
| Total equity | | <u>8,413,821</u> | <u>3,743,724</u> |

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

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| Consolidated | Share capital \$ | Reserves \$ | Accumulated losses \$ | Total equity \$ |
|--|----------------------------|-----------------------|---------------------------------|---------------------------|
| Balance at 1 April 2020 | 93,120,766 | 3,311,334 | (95,930,926) | 501,174 |
| Loss after income tax expense for the period | - | - | (1,117,070) | (1,117,070) |
| Other comprehensive income for the period, net of tax | - | (10,639) | - | (10,639) |
| Total comprehensive income for the period | - | (10,639) | (1,117,070) | (1,127,709) |
| <i>Transactions with owners in their capacity as owners:</i> | | | | |
| Contributions of equity, net of transaction costs | 2,369,587 | - | - | 2,369,587 |
| Share based payments – share options | - | 18,367 | - | 18,367 |
| Share based payments – employee loan shares | - | 84,217 | - | 84,217 |
| Share based payments - performance rights | - | 1,571 | - | 1,571 |
| Cancellation of warrants | - | (357,745) | 357,745 | - |
| Balance at 30 September 2020 | <u>95,490,353</u> | <u>3,047,105</u> | <u>(96,690,251)</u> | <u>1,847,207</u> |
| Consolidated | Share capital \$ | Reserves \$ | Accumulated losses \$ | Total equity \$ |
| Balance at 1 April 2021 | 98,468,154 | 3,557,850 | (98,282,280) | 3,743,724 |
| Profit after income tax expense for the period | - | - | 314,697 | 314,697 |
| Other comprehensive income for the period, net of tax | - | (5,644) | - | (5,644) |
| Total comprehensive income for the period | - | (5,644) | 314,697 | 309,053 |
| <i>Transactions with owners in their capacity as owners:</i> | | | | |
| Contributions of equity, net of transaction costs (note 11) | 3,874,376 | - | - | 3,874,376 |
| Share based payments – share options | - | 90,000 | - | 90,000 |
| Share based payments – employee loan shares | - | 101,513 | - | 101,513 |
| Share based payments - performance rights | - | 324,625 | - | 324,625 |
| Share based payments - performance rights conversion | 116,497 | (130,000) | 13,503 | - |
| Share options lapsed | - | (29,470) | - | (29,470) |
| Balance at 30 September 2021 | <u>102,459,027</u> | <u>3,908,874</u> | <u>(97,954,080)</u> | <u>8,413,821</u> |

| | | Consolidated | |
|--|------|-------------------------|-------------------------|
| | Note | 30 Sep 2021 \$ | 30 Sep 2020 \$ |
| Cash flows from operating activities | | | |
| Profit/(loss) before income tax expense for the period | | 314,697 | (1,117,070) |
| Adjustments for: | | | |
| Depreciation and amortisation | 5 | 71,519 | 5,106 |
| Share-based payments | 5 | 396,668 | 104,155 |
| Foreign exchange differences | | (5,644) | (9,488) |
| Gain on sale of business | 6 | <u>(2,282,057)</u> | <u>-</u> |
| | | (1,504,817) | (1,017,297) |
| Change in operating assets and liabilities: | | | |
| Increase in trade and other receivables | | (887,710) | (84,739) |
| Increase in prepayments | | (218,340) | (25,461) |
| Increase in trade and other payables | | 421,401 | 6,337 |
| (Decrease)/increase in contract liabilities | | (155,887) | 65,626 |
| Increase in provision for income tax | | 1,011 | - |
| Increase/(decrease) in employee benefits payable | | <u>15,352</u> | <u>(1,362)</u> |
| | | (2,328,990) | (1,056,896) |
| Net finance costs | | <u>9,965</u> | <u>2,140</u> |
| Net cash used in operating activities | | <u>(2,319,025)</u> | <u>(1,054,756)</u> |
| Cash flows from investing activities | | | |
| Payment for purchase of business, net of cash acquired | 15 | (1,921,528) | - |
| Payments for property, plant and equipment | | (183,280) | - |
| Payments for security deposits | | (86,922) | - |
| Refund of investments in term deposits | | - | 6,796 |
| Proceeds from disposal of business | 6 | <u>1,200,000</u> | <u>-</u> |
| Net cash (used in)/from investing activities | | <u>(991,730)</u> | <u>6,796</u> |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares | 11 | 3,117,332 | 2,395,807 |
| Share issue transaction costs | | (265,206) | (26,220) |
| Repayment of lease liabilities | | <u>(50,197)</u> | <u>-</u> |
| Net cash from financing activities | | <u>2,801,929</u> | <u>2,369,587</u> |
| Net (decrease)/increase in cash and cash equivalents | | (508,826) | 1,321,627 |
| Cash and cash equivalents at the beginning of the financial period | | <u>3,971,549</u> | <u>920,935</u> |
| Cash and cash equivalents at the end of the financial period | | <u><u>3,462,723</u></u> | <u><u>2,242,562</u></u> |

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

Note 1. General information

The financial statements cover Cipherpoint Limited (the 'Company' or 'parent entity') as a consolidated entity consisting of Cipherpoint Limited and the entities it controlled ('the Group') at the end of, or during, the period. The financial statements are presented in Australian dollars, which is Cipherpoint Limited's functional and presentation currency.

Cipherpoint Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Suite 2.01, 157 Walker Street
North Sydney, NSW 2060

A description of the nature of the Group's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 2 December 2021.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 30 September 2021 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 31 March 2021 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

Accounting policy for right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Accounting policy for lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties.

Note 2. Significant accounting policies (continued)

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Accounting policy for goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Accounting policy for patents and trademarks

Significant costs associated with patents and trademarks are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years.

Accounting policy for business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the Group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the Group remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

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

Note 3. Operating segments

Identification of reportable operating segments

The Group operates in one segment, based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

As a result, the operating segment information is as disclosed in the statements and notes to the financial statements throughout the report.

For information on revenue from products and services and geographical information, refer to note 4.

No seasonality in the business segment has been identified that would have a significant impact on the results of the Group.

Note 4. Revenue

| | Consolidated 30 Sep 2021 | 30 Sep 2020 |
|--|-----------------------------|-------------|
| | \$ | \$ |
| Revenue from contracts with customers from continuing operations: | | |
| Revenue - technology related products and services | 1,632,890 | - |

Disaggregation of revenue

The disaggregation of revenue from contracts with customers is as follows:

| | Consolidated 30 Sep 2021 | 30 Sep 2020 |
|--------------------------------------|-----------------------------|-------------|
| | \$ | \$ |
| Major product lines | | |
| Maintenance and Support | 58,598 | - |
| Services | 1,574,292 | - |
| | <u>1,632,890</u> | <u>-</u> |
| Geographical regions | | |
| Australia | <u>1,632,890</u> | <u>-</u> |
| Timing of revenue recognition | | |
| Goods transferred at a point in time | 134,269 | - |
| Services transferred over time | 1,498,621 | - |
| | <u>1,632,890</u> | <u>-</u> |

Other income

During the half-year the Company received payments from the Australian Government amounting to \$100,000 (2020: \$49,911) under the 'JobKeeper' scheme in response to the Covid-19 pandemic.

Note 5. Expenses

| | Consolidated | |
|---|---------------------|--------------------|
| | 30 Sep 2021 | 30 Sep 2020 |
| | \$ | \$ |
| Loss before income tax from continuing operations includes the following specific expenses: | | |
| <i>Depreciation</i> | | |
| Plant and equipment | 19,771 | 5,106 |
| Office right-of-use assets | 51,748 | - |
| Total depreciation | <u>71,519</u> | <u>5,106</u> |
| <i>Employee benefit expense</i> | | |
| Wages and salaries | 891,195 | 284,630 |
| Non-executive director fees | 110,000 | 80,000 |
| Other employee related expenses | 189,580 | 42,607 |
| Payroll taxes | 11,047 | 8,248 |
| Defined contribution superannuation expense | 98,518 | 23,331 |
| Bonus - cash component | 51,059 | (27,006) |
| Equity settled share-based payments | 396,668 | 104,155 |
| Total employee benefits | <u>1,748,067</u> | <u>515,965</u> |
| <i>Finance costs</i> | | |
| Interest and finance charges paid/payable on borrowings | 7,118 | 2,562 |
| Interest and finance charges paid/payable on lease liabilities | 4,421 | - |
| Finance costs expensed | <u>11,539</u> | <u>2,562</u> |

Note 6. Discontinued operations

In September 2021, the Company entered into an agreement to sell select assets and products from its software division to archTIS Limited for a purchase price of \$1,400,000 in cash (\$1,200,000 at execution and \$200,000 as cash contingent on the novation of five contracts by 31 March 2022) and up to \$1,000,000 in archTIS (AR9) shares contingent on the achievement of revenue targets to 31 March 2022 (the intellectual property assets had a \$nil book value at 30 September 2021). The Company retained a right to resell the products.

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Note 6. Discontinued operations (continued)

Financial performance information

| | Consolidated | |
|---|-------------------------|-------------------------|
| | 30 Sep 2021 | 30 Sep 2020 |
| | \$ | \$ |
| Revenue - technology related products and services | 190,328 | 163,386 |
| Software and hardware for resale | (6,859) | - |
| Employee benefit expense | (257,666) | (251,757) |
| Consultancy fees expense | - | (78,365) |
| Recovery of receivables (note 7) | 34,548 | - |
| Other expenses | (137,731) | (105,147) |
| Total expenses | <u>(367,708)</u> | <u>(435,269)</u> |
| Loss before income tax expense | (177,380) | (271,883) |
| Income tax expense | - | - |
| Loss after income tax expense | <u>(177,380)</u> | <u>(271,883)</u> |
| Gain on disposal before income tax | 2,282,057 | - |
| Income tax expense | - | - |
| Gain on disposal after income tax expense | <u>2,282,057</u> | <u>-</u> |
| Profit/(loss) after income tax expense from discontinued operations | <u><u>2,104,677</u></u> | <u><u>(271,883)</u></u> |

Cash flow information

| | Consolidated | |
|---|-----------------------|-------------------------|
| | 30 Sep 2021 | 30 Sep 2020 |
| | \$ | \$ |
| Net cash used in operating activities | (643,749) | (206,257) |
| Net cash from investing activities | 1,200,000 | - |
| Net increase/(decrease) in cash and cash equivalents from discontinued operations | <u><u>556,251</u></u> | <u><u>(206,257)</u></u> |

Details of the disposal

| | Consolidated | |
|--|-------------------------|--------------------|
| | 30 Sep 2021 | 30 Sep 2020 |
| | \$ | \$ |
| Cash consideration received | 1,200,000 | - |
| Contingent consideration receivable (note 7) | 900,000 | - |
| Liabilities disposed | 182,057 | - |
| Gain on disposal before income tax | <u>2,282,057</u> | <u>-</u> |
| Gain on disposal after income tax | <u><u>2,282,057</u></u> | <u><u>-</u></u> |

Note 7. Current assets - trade and other receivables

| | Consolidated | |
|--|---------------------|--------------------|
| | 30 Sep 2021 | 31 Mar 2021 |
| | \$ | \$ |
| Trade receivables | 747,851 | 148,057 |
| Less: Allowance for expected credit losses (note 6) | - | (34,548) |
| | <u>747,851</u> | <u>113,509</u> |
| Deferred consideration in escrow for Brace168 in Trust (note 15) | 450,022 | - |
| Deferred consideration receivable (note 6) | 900,000 | - |
| | <u>1,350,022</u> | <u>-</u> |
| GST/ VAT receivables | 48,448 | 50,410 |
| | <u>2,146,321</u> | <u>163,919</u> |

Note 8. Non-current assets - right-of-use assets

| | Consolidated | |
|--------------------------------|---------------------|--------------------|
| | 30 Sep 2021 | 31 Mar 2021 |
| | \$ | \$ |
| Office right-of-use | 309,638 | - |
| Less: Accumulated depreciation | (51,748) | - |
| | <u>257,890</u> | <u>-</u> |

The Group leases office space under an agreement of between 2 to 3 years with, options to extend. The lease have various escalation clauses. On renewal, the terms of the leases are renegotiated.

The Group leases office equipment under agreements of less than 1 year. These leases are either short-term or low-value, so have been expensed as incurred and not capitalised as right-of-use assets.

For other right-of-use related disclosures, refer to the following:

- note 5 for details of depreciation on right-of-use assets and interest on lease liabilities; and
- consolidated statement of cash flows for repayment of lease liabilities.

Note 9. Non-current assets - intangibles

| | Consolidated | |
|----------------------------------|---------------------|--------------------|
| | 30 Sep 2021 | 31 Mar 2021 |
| | \$ | \$ |
| Goodwill - at cost | 4,317,215 | - |
| Intellectual property - at cost | - | 3,300,713 |
| Less: Accumulated amortisation | - | (1,581,000) |
| Less: Impairment | - | (1,719,713) |
| | <u>-</u> | <u>-</u> |
| Patents and trademarks - at cost | 2,142 | - |
| | <u>4,319,357</u> | <u>-</u> |

Note 9. Non-current assets - intangibles (continued)

Reconciliations

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

| Consolidated | Goodwill \$ | Patents and trademarks \$ | Total \$ |
|---|------------------|---------------------------------|------------------|
| Balance at 1 April 2021 | - | - | - |
| Additions through business combinations (note 15) | 4,317,215 | 2,142 | 4,319,357 |
| Balance at 30 September 2021 | <u>4,317,215</u> | <u>2,142</u> | <u>4,319,357</u> |

Note 10. Current liabilities - trade and other payables

| | Consolidated | |
|-------------------------------------|--------------------------|--------------------------|
| | 30 Sep 2021 \$ | 31 Mar 2021 \$ |
| Trade payables | 157,845 | 132,059 |
| Other payables and accrued expenses | 646,145 | 99,638 |
| | <u>803,990</u> | <u>231,697</u> |

Note 11. Equity - issued capital

| | Consolidated | | | |
|------------------------------|------------------------------|------------------------------|--------------------------|--------------------------|
| | 30 Sep 2021 Shares | 31 Mar 2021 Shares | 30 Sep 2021 \$ | 31 Mar 2021 \$ |
| Ordinary shares - fully paid | <u>334,383,642</u> | <u>193,268,606</u> | <u>102,459,027</u> | <u>98,468,154</u> |

Movements in ordinary share capital

| Details | Date | Shares | Issue price | \$ |
|--|-------------------|--------------------|--------------------|--------------------|
| Balance | 1 April 2021 | 193,268,606 | | 98,468,154 |
| Issue of shares on acquisition of Brace168 Pty Ltd (a) | 1 April 2021 | 21,750,000 | \$0.047 | 1,022,250 |
| Issue of shares (b) | 6 August 2021 | 26,300,001 | \$0.027 | 710,100 |
| Issue of shares (c) | 10 August 2021 | 26,296,296 | \$0.027 | 710,000 |
| Conversion of convertible notes with Peak (d) | 30 September 2021 | 27,962,965 | \$0.027 | 750,000 |
| Conversion of convertible notes with Variathus (e) | 30 September 2021 | 27,962,964 | \$0.027 | 750,000 |
| Brace168 Acquisition contingent consideration-transfer from performance rights (f) | 30 September 2021 | 4,480,500 | \$0.000 | 116,497 |
| Brace168 Acquisition contingent consideration-earn out (g) | 30 September 2021 | 6,362,310 | \$0.000 | 197,232 |
| Less: share issue costs | | - | \$0.000 | (265,206) |
| Balance | 30 September 2021 | <u>334,383,642</u> | | <u>102,459,027</u> |

Note 11. Equity - issued capital (continued)

During the period ended 30 September 2021, the Group completed the following transactions in respect of the issue of ordinary shares:

- (a) The Group issued 21,750,000 ordinary shares in the Company totalling \$1,022,250 to the vendors of Brace168 in connection with its acquisition by the Company.
- (b) The Group issued 26,300,001 ordinary shares in the Company totalling \$710,100 to participants in a placement.
- (c) The Group issued 26,296,296 ordinary shares in the Company totalling \$710,000 to participants in a placement.
- (d) The Group issued 27,962,965 ordinary shares in the Company totalling \$750,000 to the clients of Peak Asset Management Pty Ltd upon conversion of convertible notes.
- (e) The Group issued 27,962,964 ordinary shares in the Company totalling \$750,000 to the clients of Variathus Capital Pty Ltd upon conversion of convertible notes.
- (f) Performance rights were exercised during the year and a transfer adjustment was recognised between reserves and share capital following the issue of 4,480,500 shares to employees of the Company.
- (g) The consideration for the acquisition of Brace168 Pty Ltd includes the contingent consideration arrangements to issue a variable number of shares dependent on the achievement of revenue targets (90% of achievement will trigger the conversion). The first tranche of the earnout arrangement was met and 6,362,310 shares were issued to the vendors of Brace168 in connection with its acquisition by the Company.

Ordinary shares

Ordinary shares entitle the holder to participate in any dividends and any proceeds attributable to shareholders should the Company be wound up, in proportions that consider both the number of shares held and the extent to which those shares are paid up. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Note 12. Equity - reserves

| | Consolidated | |
|------------------------------|---------------------|--------------------|
| | 30 Sep 2021 | 31 Mar 2021 |
| | \$ | \$ |
| Foreign currency reserve | (481,037) | (475,393) |
| Share-based payments reserve | 4,389,911 | 4,033,243 |
| | <u>3,908,874</u> | <u>3,557,850</u> |

Foreign currency reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars.

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Note 12. Equity - reserves (continued)

Movements in reserves

Movements in each class of reserve during the current financial period are set out below:

| Consolidated | Foreign currency \$ | Share-based payments \$ | Total \$ |
|--|---------------------------|-------------------------------|------------------|
| Balance at 1 April 2021 | (475,393) | 4,033,243 | 3,557,850 |
| Foreign currency translation | (5,644) | - | (5,644) |
| Share-based payments - share options | - | 90,000 | 90,000 |
| Share-based payments - employee loan shares | - | 101,513 | 101,513 |
| Share-based payments - performance rights | - | 324,625 | 324,625 |
| Share-based payments - performance rights - conversion | - | (130,000) | (130,000) |
| Share options lapsed | - | (29,470) | (29,470) |
| | <hr/> | <hr/> | <hr/> |
| Balance at 30 September 2021 | <u>(481,037)</u> | <u>4,389,911</u> | <u>3,908,874</u> |

Note 13. Contingent liabilities

The Group had no contingent liabilities as at 30 September 2021 and 31 March 2021.

Note 14. Related party transactions

Parent entity

Cipherpoint Limited is the parent entity.

Transactions with related parties

The following transactions occurred with related parties:

| | Consolidated | Consolidated |
|--|---------------------|---------------------|
| | 30 Sep 2021 | 30 Sep 2020 |
| | \$ | \$ |
| Sale of goods and services: | | |
| Sale of goods to other related party | 10,175 | - |
| Payment for goods and services: | | |
| Purchase of goods from other related party | 44,440 | - |

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

Note 15. Business combinations

Acquisition of Brace168 Pty Ltd

On 1 April 2021, the Company completed the acquisition of 100% of the shares in Brace168. Brace168 is a managed security service provider, who monitor customer networks, applications and data to identify threats and respond to security incidents. They have a high mix of annuity revenue across large enterprise and small business customers, operating in the financial, property, social and consumer sectors in Australia. Total consideration includes up-front and deferred cash and share based consideration. The total consideration of \$4,406,564 is comprised of the following:

Note 15. Business combinations (continued)

- Deferred consideration of \$1,000,000 due 1 April 2022, of which \$450,022 (note 7) is on deposit in escrow; and
- Contingent consideration of two parcels of 7.1m shares, which are contingent on the achievement of revenue performance targets as adjusted at the AGM on 24 September 2021.

Cipherpoint and the managed services business of Brace168 will operate as separate divisions, with common central support functions. Through the reporting period, management of the Company and Brace168 have been working well together on business planning, marketing strategy and integrated support functions. Since acquisition, Brace168 has continued to grow its sales pipeline and deliver strong service revenues and financial results.

The acquired business contributed revenues of \$1,632,890 and adjusted loss (exclusive of share based payment expense) of \$208,085 to the Group for the six months to 30 September 2021.

Details of the acquisition are as follows:

| | Fair value \$ |
|--|--------------------------------|
| Cash and cash equivalents | 146,582 |
| Trade receivables | 194,692 |
| Prepayments | 10,680 |
| Plant and equipment | 13,885 |
| Patents and trademarks | 2,142 |
| Trade payables | (47,140) |
| Other payables | (127,979) |
| Contract liabilities | (9,764) |
| Deferred tax liability | (73,541) |
| Employee benefits | (20,208) |
| | <hr/> |
| Net assets acquired | 89,349 |
| Goodwill | 4,317,215 |
| | <hr/> |
| Acquisition-date fair value of the total consideration transferred | <u>4,406,564</u> |
| Representing: | |
| Cash paid or payable to vendor | 3,002,689 |
| Share-based consideration issued to vendor | 1,022,250 |
| Contingent consideration | 381,625 |
| | <hr/> |
| | <u>4,406,564</u> |
| Cash used to acquire business, net of cash acquired: | |
| Acquisition-date fair value of the total consideration transferred | 4,406,564 |
| Less: cash and cash equivalents | (146,582) |
| Less: shares issued by Company as part of consideration | (1,022,250) |
| Less: deferred consideration payable | (1,078,339) |
| Less: contingent consideration | (237,865) |
| | <hr/> |
| Net cash used | <u>1,921,528</u> |

Goodwill recognised is attributable to the existing customer base acquired and revenue attributed to it; to the expertise of the two founders, and their team; and to the quality of the Brace168 brand and its reputation in this specific market. Total acquisition costs (including legal and broker fees) paid and expensed to profit and loss was \$168,507. The acquisition accounting was provisional as at 30 September 2021.

Details of shares issued

The issue price of shares was \$0.047 per share.

Note 15. Business combinations (continued)

Details of contingent consideration

The Group agreed to issue key Brace168 management two parcels of 7.1m shares to the value of up to A\$381,625 based on achievement of two deferred milestone events. The revenue targets for these events were updated at the recent AGM on 24 September 2021. As a result of the AGM and revenue achieved, the first parcel of 7.1m shares was reduced to 6,362,310 shares, originally valued at \$228,975, was issued on 30 September 2021. The second parcel of up to 7.1m shares, with an estimated value of \$143,760, is expected to be issued on 31 March 2022.

Note 16. Earnings per share

| | Consolidated | Consolidated |
|---|---------------------|---------------------|
| | 30 Sep 2021 | 30 Sep 2020 |
| | \$ | \$ |
| <i>Earnings per share for loss from continuing operations</i> | | |
| Loss after income tax attributable to the owners of Cipherpoint Limited | <u>(1,789,980)</u> | <u>(845,187)</u> |
| | Number | Number |
| Weighted average number of ordinary shares used in calculating basic earnings per share | <u>230,903,722</u> | <u>61,686,661</u> |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | <u>230,903,722</u> | <u>61,686,661</u> |
| | Cents | Cents |
| Basic earnings per share | (0.78) | (1.37) |
| Diluted earnings per share | (0.78) | (1.37) |
| <i>Earnings per share for profit/(loss) from discontinued operations</i> | | |
| Profit/(loss) after income tax attributable to the owners of Cipherpoint Limited | <u>2,104,677</u> | <u>(271,883)</u> |
| | Number | Number |
| Weighted average number of ordinary shares used in calculating basic earnings per share | <u>230,903,722</u> | <u>61,686,661</u> |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | <u>230,903,722</u> | <u>61,686,661</u> |
| | Cents | Cents |
| Basic earnings per share | 0.91 | (0.44) |
| Diluted earnings per share | 0.91 | (0.44) |
| <i>Earnings per share for profit/(loss)</i> | | |
| Profit/(loss) after income tax attributable to the owners of Cipherpoint Limited | <u>314,697</u> | <u>(1,117,070)</u> |

Note 16. Earnings per share (continued)

| | Number | Number |
|---|--------------------|-------------------|
| Weighted average number of ordinary shares used in calculating basic earnings per share | 230,903,722 | 61,686,661 |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | <u>230,903,722</u> | <u>61,686,661</u> |
| | Cents | Cents |
| Basic earnings per share | 0.14 | (1.81) |
| Diluted earnings per share | 0.14 | (1.81) |

The 48,192,692 (2020: 18,939,963) options, employees loan shares and performance rights could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they are antidilutive for the periods presented.

Note 17. Share-based payments

Share option programme

The Group has a share option programme that entitles non-Australian based directors, employees and contractors to purchase shares in the Company. In accordance with this programme, holders of vested options are entitled to purchase shares in the Company at a price per share as detailed below.

Set out below are summaries of options granted under the plan:

Employee Share Option Plan

30 Sep 2021

| Grant date | Expiry date | Exercise price | Balance at the start of the period | Granted | Exercised | Lapsed | Balance at the end of the period |
|---------------------------------|-------------|----------------|------------------------------------|---------|-----------|------------------|----------------------------------|
| 21/07/2016 | 20/07/2021 | \$3.900 | 7,500 | - | - | (7,500) | - |
| 04/05/2017 | 03/05/2022 | \$4.000 | 40,000 | - | - | - | 40,000 |
| 22/06/2017 | 21/06/2022 | \$1.000 | 14,000 | - | - | - | 14,000 |
| 17/08/2017 | 16/08/2022 | \$0.900 | 50,000 | - | - | - | 50,000 |
| 24/11/2017 | 23/11/2022 | \$0.900 | 278,480 | - | - | - | 278,480 |
| 07/09/2018 | 06/09/2023 | \$0.560 | 580,600 | - | - | - | 580,600 |
| 28/10/2020 | 28/10/2025 | \$0.048 | 4,500,000 | - | - | (500,000) | 4,000,000 |
| | | | <u>5,470,580</u> | - | - | <u>(507,500)</u> | <u>4,963,080</u> |
| Weighted average exercise price | | | \$0.619 | \$0.000 | \$0.000 | \$0.050 | \$0.047 |

The weighted average remaining contractual life of options outstanding at the end of the financial period was 4 years.

Note 17. Share-based payments (continued)

Employee Loan Share Plan

30 Sep 2021

| Grant date | Expiry date | Exercise price | Balance at the start of the period | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the period |
|---------------------------------|-------------|----------------|------------------------------------|-----------|-----------|---------------------------|----------------------------------|
| 02/12/2013 | 01/12/2023 | \$2.940 | 376,345 | - | - | - | 376,345 |
| 20/08/2014 | 19/08/2024 | \$4.000 | 22,193 | - | - | - | 22,193 |
| 11/03/2015 | 10/03/2025 | \$5.700 | 46,667 | - | - | - | 46,667 |
| 12/03/2015 | 11/03/2025 | \$5.700 | 6,847 | - | - | - | 6,847 |
| 08/12/2015 | 07/12/2025 | \$6.600 | 6,609 | - | - | - | 6,609 |
| 27/01/2017 | 26/01/2027 | \$2.400 | 8,750 | - | - | - | 8,750 |
| 04/05/2017 | 03/05/2027 | \$0.580 | 200,000 | - | - | - | 200,000 |
| 04/05/2017 | 03/05/2027 | \$0.540 | 300,000 | - | - | - | 300,000 |
| 23/06/2017 | 22/06/2027 | \$4.000 | 225,941 | - | - | - | 225,941 |
| 24/11/2017 | 23/11/2027 | \$1.100 | 1,384,905 | - | - | - | 1,384,905 |
| 06/03/2017 | 05/03/2027 | \$1.000 | 111,953 | - | - | - | 111,953 |
| 07/09/2018 | 06/09/2028 | \$0.560 | 1,403,177 | - | - | - | 1,403,177 |
| 19/10/2018 | 18/10/2028 | \$0.560 | 383,925 | - | - | - | 383,925 |
| 01/11/2019 | 31/10/2019 | \$0.300 | 133,300 | - | - | - | 133,300 |
| 28/10/2020 | 28/10/2025 | \$0.048 | 2,250,000 | - | - | - | 2,250,000 |
| 22/07/2021 | 21/07/2026 | \$0.031 | - | 9,869,000 | - | - | 9,869,000 |
| | | | 6,860,612 | 9,869,000 | - | - | 16,729,612 |
| Weighted average exercise price | | | \$0.806 | \$0.031 | \$0.000 | \$0.000 | \$0.349 |

The weighted average remaining contractual life of Employee Loan Shares outstanding at the end of the financial period was 5 years.

For the ELSP granted during the current financial period, the valuation model inputs used to determine the fair value at the grant date, are as follows:

| Grant date | Expiry date | Share price at grant date | Exercise price | Expected volatility | Dividend yield | Risk-free interest rate | Fair value at grant date |
|------------|-------------|---------------------------|----------------|---------------------|----------------|-------------------------|--------------------------|
| 22/07/2021 | 06/09/2028 | \$0.036 | \$0.031 | 120.40% | - | 0.58% | \$0.033 |

Consultant options

The Company issued options to brokers for their assistance in the placements.

| Grant date | Expiry date | Exercise price | Balance at the start of the period | Granted | Exercised | Lapsed | Balance at the end of the period |
|------------|-------------|----------------|------------------------------------|------------|-----------|--------|----------------------------------|
| 15/02/2021 | 15/02/2022 | \$0.08 | 4,000,000 | - | - | - | 4,000,000 |
| 30/09/2021 | 15/02/2023 | \$0.08 | - | 30,000,000 | - | - | 30,000,000 |
| | | | 4,000,000 | 30,000,000 | - | - | 34,000,000 |

Note 17. Share-based payments (continued)

Performance rights

| 30 Sep 2021 | | | Exercise price | Balance at the start of the period | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the period |
|---------------------------------|------------|-------------|----------------|------------------------------------|-------------------|-----------|---------------------------|----------------------------------|
| Tranche | Grant date | Expiry date | | | | | | |
| Class A | 11/09/2020 | 07/09/2025 | \$0.060 | 3,125,000 | - | - | - | 3,125,000 |
| Class B | 11/09/2020 | 07/09/2025 | \$0.080 | 1,562,500 | - | - | - | 1,562,500 |
| Class C | 11/09/2020 | 07/09/2025 | \$0.100 | 1,562,500 | - | - | - | 1,562,500 |
| Class D (Type A) | 21/05/2021 | 20/05/2026 | \$0.000 | - | 5,750,000 | - | - | 5,750,000 |
| Class E (Type B, tranche 1) | 21/05/2021 | 20/05/2026 | \$0.000 | - | 5,000,000 | - | - | 5,000,000 |
| Class F (Type B tranche 2) | 21/05/2021 | 20/05/2026 | \$0.000 | - | 5,000,000 | - | - | 5,000,000 |
| | | | | <u>6,250,000</u> | <u>15,750,000</u> | - | - | <u>22,000,000</u> |
| Weighted average exercise price | | | | \$0.067 | \$0.000 | \$0.000 | \$0.000 | \$0.085 |

The weighted average remaining contractual life of Performance Rights outstanding at the end of the financial period was 5 years.

For the performance rights granted during the current financial period, the valuation model inputs used to determine the fair value at the grant date, are as follows:

| Grant date | Expiry date | Share price at grant date | Exercise price | Expected volatility | Dividend yield | Risk-free interest rate | Fair value at grant date |
|------------|-------------|---------------------------|----------------|---------------------|----------------|-------------------------|--------------------------|
| 21/05/2021 | 21/05/2026 | \$0.026 | \$0.000 | 75.00% | - | 0.68% | \$0.017 |
| 21/05/2021 | 21/05/2026 | \$0.026 | \$0.000 | 75.00% | - | 0.68% | \$0.017 |
| 21/05/2021 | 21/05/2026 | \$0.026 | \$0.000 | 75.00% | - | 0.68% | \$0.026 |

Share-based payment expense recognised in profit or loss

| | Consolidated 30 Sep 2021 | 30 Sep 2020 |
|---|-----------------------------|----------------|
| Options (lapsed)/vested | (29,470) | 18,367 |
| Employee loan share plan shares granted | 101,513 | 84,217 |
| Performance rights granted | 324,625 | 1,571 |
| Total recognised as employee benefits expense | <u>396,668</u> | <u>104,155</u> |

Note 18. Events after the reporting period

In October 2021, the Company announced the acquisition of Tasmanian based managed security services provider Virtual Information Technology Pty Limited ('VIT Cyber Security' or 'VITCS') for an initial consideration of \$750,000 in cash and 10.2 million shares with additional share-based consideration as part of an FY22 and FY23 earn out arrangement. The 10.2 million shares were issued on 25 November 2021 at \$0.039 per share, subject to a 6 month escrow period.

In November 2021, the Company announced it had secured new contracts with Vocus, Ingenia, Guide Dogs of NSW and Sandstone Technology.

The consequences of the Coronavirus (COVID-19) pandemic are continuing although most business activities appear to be slowly returning to a 'new' normal mode of operation.

No other matter or circumstance has arisen since 30 September 2021 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

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In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 September 2021 and of its performance for the financial period ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

On behalf of the directors



Ted Pretty
Chairman

2 December 2021
Sydney

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INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF CIPHERPOINT LIMITED

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Cipherpoint Limited (the Company) and its subsidiaries (the Group), which comprises the Statement of Financial Position as at 30 September 2021, the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' Declaration.

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

- i) giving a true and fair view of the Group's financial position as at 30 September 2021 and of its performance for the half-year ended on that date; and
- iii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for Conclusion

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

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

Responsibility of the Directors for the Financial Report

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

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Auditor's Responsibility for the Review of the Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Company's financial position as at 30 September 2021 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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



Nexia Sydney Audit Pty Ltd



Lester Wills
Director

Dated: 2 December 2021
Sydney

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