1. Company details

Name of entity:	Tesserent Limited
ABN:	13 605 672 928
Reporting period:	For the half-year ended 31 December 2016
Previous period:	For the half-year ended 31 December 2015

2. Results for announcement to the market

				$
Revenues from ordinary activities	up	9.3%	to	2,524,343
Profit from ordinary activities after tax attributable to the owners of Tesserent Limited	down	2,036.8%	to	($1,482,185)
Profit for the half-year attributable to the owners of Tesserent Limited	down	2,036.8%	to	($1,482,185)

Dividends
Not applicable.

Comments
The net loss for the consolidated entity after providing for income tax amounted to $1,482,185 (31 December 2015: $76,529 profit).

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	3.05	1.53

4. Review

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

5. Attachments

Details of attachments (if any):

The Interim Report of Tesserent Limited for the half-year ended 31 December 2016 is attached.

6. Signed

Signed ________________________________ Date: 28 February 2017

Russell Yardley
Director
Melbourne

TESSERENT

TESSERENT LIMITED

ABN 13 605 672 928

INTERIM REPORT
31 DECEMBER 2016

Tesserent Limited

ABN 13 605 672 928

Interim Report - 31 December 2016

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Tesserent Limited (referred to hereafter as 'Tesserent' the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2016.

Directors

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

Russell Yardley
Keith Glennan
Gregory Baxter
Stefano (Steve) Bertamini
Paul Brandling

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.

Operating result

The net loss for the consolidated entity after providing for income tax amounted to $1,482,185 (31 December 2015: profit $76,529).

Review of operations

Tesserent has two main focuses: 1) Servicing direct customers through the provision of Managed Network Security Services (MNSS), and 2) indirect servicing of customers through the resale of our Managed Security Service Provider (MSSP) in-a-box solution, sold to our international channel partners. Both areas of our business utilise Tesserent's proprietary platform and inputs from some of the world's leading OEM security vendors. By offering direct and indirect services we are able to scale and achieve greater returns on our infrastructure investment.

We are pleased to report that both areas of Tesserent's business have experienced solid growth in the past half-year. In the six months to 31 December 2016, Tesserent produced revenues of $2,524,343, an increase of 9.3% from the corresponding prior comparable period. Revenue growth was shared across both our direct and indirect channel business. During the period Tesserent signed 14 new customer contracts with a total contract value (TCV) over $650,000 and 27 renewed contracts with a TCV in excess of $1.4m. Tesserent's MNSS business has generated revenue from a broad customer base and continues to sign deals with blue-chip companies, validating our business model and technology. We also experienced further expansion into the sizeable US education market through our new US based channel partner.

Tesserent's management team remain focused on growing market penetration in both our direct and indirect markets. We are also committed to expanding our offering as new technologies and market opportunities become available. During the six months to 31st December 2016, Tesserent have moved into the area of Secure Connectivity services and Security Information and Event Management (SIEM) services. Both of these additional services are complementary to our core business and directly respond to customer demand. As we move forward and focus on profitable growth opportunities, Tesserent will continue to explore complementary security offerings that will add value to existing customer relationships and also enable us to attract new customers with a broader range of security offerings.

Tesserent operates an annuity revenue model, meaning that customer contracts deliver on-going revenue for the term of the service agreement, typically 3 years. Revenue is therefore recognised on a straight line basis over this 3 year period. This model enables us to build a strong and stable revenue stream with on-going revenues under contract for several years ahead. While we are unable to realise large one-off spikes in revenue with each new customer contract signed, we instead build a secure and stable revenue base for several years ahead. We believe this model provides a strong foundation to support the growth plans of our business.

As noted in the 30 June 2016 annual report the company acquired the business of Blue Reef Pty Ltd and in completing the transaction provisionally accounted for this acquisition as they had not completed the procedures to identify and fair value the underlying intangible assets. This treatment is fully aligned with our reporting requirements where companies are permitted 12 months to finalise these identification and valuation procedures. At 30 June 2016 the company provisionally recorded goodwill on acquisition of $2.89m.

In finalising the identification and valuation procedures the company identified Customer contracts and Software as intangible assets and were valued at $0.21m and $3.43m respectively. In finalising the transaction the company recorded a gain on the Blue Reef business acquisition of $0.53m which, under the reporting standards, had to be recorded with the 30 June 2016 result on a retrospective basis.

During the period of this report, Tesserent successfully negotiated the sale of Sonar/MyNet IP and the signing of a strategic partnership with Family Zone Cyber Security Limited (ASX: FZO). This transaction represented a mutually beneficial outcome for both companies. This transaction will provide a substantial cash injection of $3.5m allowing Tesserent to optimise market opportunities by making investments in its managed security service platform. Tesserent received $1m cash and 1m FZO shares in the period ending 31st December 2016 and recorded a gain on sale of the software of $0.57m. Tesserent will receive the remaining payments per the following schedule:

- $0.5m in cash on 28th February 2017
- $2.0m in cash on 30th May 2017

Tesserent continues to sell and support Sonar/MyNet services globally and is the exclusive reseller of Sonar/MyNet in Australia and New Zealand. Tesserent retained all its education-sector clients and associated ongoing revenue and remains focused on servicing education providers. With the sale, Tesserent significantly reduced its ongoing software development and staff overheads, allowing the business to scale profitably on a variable-cost, on-demand basis. Tesserent and Family Zone's working relationship provides an exciting opportunity to expand the cyber safety market, with technologies designed for use within schools and the home environment. The sale of the Sonar/MyNet IP was a strategic move by Tesserent to generate a substantial cash injection whilst still maintaining our market position within the education sector.

The reported result has been adjusted by adding back non-recurring revenue / costs of $0.35m to determine the underlying result. The underlying result is reflective of the investment the company has made in developing the infrastructure for further growth through the establishment of the world class security operations centre and underlying capability, the response to the market requirements for specialised security capability as delivered by our strategic partnership with Alien Vault and ongoing growth in our customer base both locally and internationally through our reseller agreements.

Taking these matters into account the NPBT for six months ended 31 December 2016 was a loss of $1.9m.

The following table outlines the adjustments identified:

For the six months ended 31 December	2016 NPBT[1] $	2015 NPBT $
Loss before income tax expense	(2,069,033)	(235,902)
Non-recurring revenue -		
Gain on disposal of software	(571,794)	-
Non-recurring costs -		
Corporate advisory and transaction costs	159,430	-
Share / option expense[2]	306,687	-
Office relocation and transition costs	119,016	-
Legal costs associated with strategic initiatives	113,291	-
Executive Recruitment Costs	-	30,050
Finance Costs	-	68,624
IPO Costs	-	135,249
Restructure Costs	-	45,541
Total	126,630	279,464
Adjusted underlying result (Non IFRS measure)	(1,942,403)	43,562

Notes:

1. NPBT refers to Net Profit Before Tax.
2. Included as an expense associated with the FZO transaction whereby vesting conditions ceased on completion of the transaction.

Significant changes in the state of affairs

There were no other significant changes in the state of affairs of the consolidated entity during the financial half-year.

Post balance date event

There were no post balance date events

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 on the following page.

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

Russell Yardley
Director

28 February 2017
Melbourne

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Melbourne VIC 3008
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Australia

DECLARATION OF INDEPENDENCE BY DAVID GARVEY TO THE DIRECTORS OF TESSERENT LIMITED

As lead auditor for the review of Tesserent Limited for the half-year ended 31 December 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 review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

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

David Garvey
Partner

BDO East Coast Partnership

Melbourne, 28 February 2017

Contents

General information

The financial statements cover Tesserent Limited as a consolidated entity consisting of Tesserent Limited and the entities it controlled at the end of, or during, the financial half-year. The financial statements are presented in Australian dollars, which is Tesserent Limited's functional and presentation currency.

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

Registered office

Level 5
990 Whitehorse Road
Box Hill VIC 3128

Principal place of business

Level 5
990 Whitehorse Road
Box Hill VIC 3128

A description of the nature of the consolidated entity'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 28 February 2017.

	Note	Consolidated 31 December 2016 $	31 December 2015 $
Revenue	4	2,524,343	2,309,186
Other income – gain on sale of software	9	571,794	-
Expenses			
Costs of goods sold		(1,014,125)	(915,035)
Administration expenses		(1,245,495)	(501,134)
Employee benefits expense		(1,413,021)	(741,987)
Employee benefits expense – share based payment		(529,055)	(39,089)
Initial public offering expense		-	(135,249)
Depreciation and amortisation expense		(470,270)	(60,734)
Travel expenses		(101,529)	(5,587)
Other expenses		(386,943)	(71,760)
Finance costs		(4,732)	(74,513)
Loss before income tax expense		(2,069,033)	(235,902)
Income tax benefit		586,848	312,431
(Loss)/profit after income tax expense for the half-year		(1,482,185)	76,529
Other comprehensive income for the half-year net of tax		-	-
Total comprehensive income for the half-year		(1,482,185)	76,529

Earnings per share	**Cents**	**Cents**
Basic earnings per share	(2.35)	0.15
Diluted earnings per share	(2.35)	0.15

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

	Note	Consolidated 31 December 2016 $	Restated 30 June 2016 $
Assets			
Current Assets			
Cash and cash equivalents		1,912,739	3,380,740
Trade and other receivables		768,670	613,520
Prepayments		137,037	89,067
Inventories		24,161	147,576
Other current assets	9	2,750,834	71,511
Total Current Assets		5,593,441	4,302,414
Non-Current Assets			
Trade and other receivables		-	1,064
Available-for-sale financial assets	5	192,446	-
Plant and equipment		399,855	561,100
Intangibles	6	1,055,406	4,485,762
Deferred tax assets		1,375,116	667,288
Other non-current assets		406,707	76,655
Total Non-Current Assets		3,429,530	5,791,869
Total Assets		9,022,971	10,094,283
Liabilities			
Current Liabilities			
Trade and other payables		1,142,986	1,250,371
Deferred revenue		1,026,044	815,905
Provisions		817,106	1,078,567
Total Current Liabilities		2,986,136	3,144,843
Non-Current Liabilities			
Provisions		70,215	29,691
Total non-current liabilities		70,215	29,691
Total Liabilities		3,056,351	3,174,534
Net Assets		5,966,620	6,919,749
Equity			
Issued capital		9,917,792	9,917,792
Reserves		764,933	235,877
Accumulated losses		(4,716,105)	(3,233,920)
Total Equity		5,966,620	6,919,749

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

Consolidated	Issued capital $	Reserves $	Accumulated losses $	Total equity $
Balance at 1 July 2015	1,609,260	-	(3,015,266)	(1,406,006)
Profit after income tax expense for the half-year	-	-	76,529	76,529
Total comprehensive income for the half-year	-	-	76,529	76,529
Transactions with owners in their capacity as owners:				
Options issued during the period	-	39,089	-	39,089
Paid up share capital	12	-	-	12
Shares issued during the period	472,960	-	-	472,960
Balance at 31 December 2015	2,082,232	39,089	(2,938,737)	(817,416)

Consolidated	Issued capital $	Reserves $	Accumulated losses restated $	Total equity $
Balance at 1 July 2016	9,917,792	235,877	(3,233,920)	6,919,749
Loss after income tax expense for the half-year	-	-	(1,482,185)	(1,482,185)
Total comprehensive income for the half-year	-	-	(1,482,185)	(1,482,185)
Transactions with owners in their capacity as owners:				
Options issued during the period	-	113,853	-	113,853
Paid up share capital	-	-		-
Performance rights issued	-	415,203	-	415,203
Balance at 31 December 2016	9,917,792	764,933	(4,716,105)	5,966,620

The above statement of changes in equity should be read in conjunction with the accompanying notes

	Note	Consolidated	
Cash flows from operating activities		**31 December 2016 $**	**31 December 2015 $**
Receipts from customers (inclusive of GST)		2,782,647	2,284,063
Payments to suppliers (inclusive of GST)		(4,384,988)	(2,828,487)
		(1,602,341)	(544,424)
Interest received		25,634	1,707
Interest and other finance costs paid		(4,732)	(74,513)
Income taxes paid		(17,455)	-
Net cash used in operating activities		(1,598,894)	(617,230)
Cash flows from investing activities			
Payment for, plant and equipment		(119,548)	(60,199)
Payment for intangibles		(249,560)	(9,133)
Net cash outflow from business acquisition, net of cash acquired	8	(500,000)	49,889
Proceeds from sale of software	9	1,000,000	-
Net cash generated / (used in) from investing activities		130,892	(19,443)
Cash flows from financing activities			
Proceeds from share issue		-	472,960
Repayment of borrowings		-	(57,466)
Net cash generated from financing activities		-	415,494
Net decrease in cash and cash equivalents		(1,468,001)	(221,179)
Cash and cash equivalents at the beginning of the financial half-year		3,380,740	516,595
Cash and cash equivalents at the end of the financial half-year		1,912,739	295,416

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

Note 1. Summary of significant accounting policies

Basis of preparation
These general purpose financial statements for the interim half-year reporting period ended 31 December 2016 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'.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Tesserent Limited and its controlled entities (referred to as the “consolidated group” or “group”). As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements for the Group for the year ended 30 June 2016, together with any public announcements made during the following half-year.

As noted in the 30 June 2016 financial statements the company provisionally accounted for the Blue Reef business acquisition. In line with the Accounting Standards the reporting for this transaction has now been finalised. Refer note 8 for further details.

These financial statements were authorised for issue on 28 February 2017.

Accounting policies
The same accounting policies and methods of computation have been followed in the interim financial report as were applied in the most recent annual financial statements.

The Group has considered the implications of new or amended Accounting Standards, but has determined that their application to the financial statements is either not relevant or not material.

Going concern

For the half-year period ended 31 December 2016 the Company has recorded a loss before income tax of $2,069,033 (2015: loss $235,902) and has a net asset position of $5,966,620 (June 2016: $6,919,749).The financial statements have been prepared on the basis that the Company is a going concern, which contemplates the continuity of normal business activity, realisation of assets and settlement of liabilities in the normal course of business.

Available for sale investments
Available-for-sale investments are non-derivative financial assets that are either not capable of being classified into other categories of financial assets due to their nature or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments

They are subsequently measured at fair value with any remeasurements other than impairment losses and foreign exchange gains and losses recognised in other comprehensive income. When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

Available-for-sale financial assets are classified as non-current assets when they are not expected to be sold within 12 months after the end of the reporting period. All other available-for-sale financial assets are classified as current assets.

Impairment indicators for available for sale financial assets
A security is considered to be impaired if there has been a significant or prolonged decline in the fair value below its cost.

Note 1. Summary of significant accounting policies (continued)

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

Software
Costs associated with maintaining software programs are recognised as an expense when incurred. Development costs that are directly attributed to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets when the following criteria are met:

i) it is technically feasible to complete the software so that it will be available for use;
ii) management intends to complete the software and sell it;
iii) there is an ability to sell the software;
iv) it can be demonstrated how the software will generate probable future economic benefits;
v) adequate technical, financial and other resources to complete the development and to sell the software are available; and
vi) the expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs that are capitalised as part of software include employee costs.

Software acquired in a business combination is recognised at fair value at the acquisition date and amortised from the point at which the asset is ready to use.

Customer contracts
Customer contracts acquired in a business combination are recognised at fair value at the acquisition date. They have a finite life and are subsequently amortised on a straight line based on the timing of projected cash flows of the contracts over their estimated useful lives. They are subsequently carried at cost less accumulated amortisation and impairment losses.

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.

Note 1. Summary of significant accounting policies (continued)

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).

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

Note 2. Critical accounting judgements, estimates and assumptions

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

Note 3. Operating segment information

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.

Identification of reportable operating segments

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.

Note 3. Operating segment information (continued)

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.

Note 3. Operating segment information (continued)

Consolidated - 31 Dec 2016	**IT Security Managed Services $**	**Software Licensing $**	**Inter Segment Eliminations $**	**Total $**
Revenues				
Sales to external customers	2,152,483	330,210	-	2,482,693
Inter segment sales	178,255	7,530	(185,785)	-
Total sales revenue	2,330,738	337,740	(185,785)	2,482,693
Other income – gain on sale of software	571,794	-	-	571,794
Other revenue	41,649	-	-	41,649
Total revenue	2,944,181	337,740	(185,785)	3,096,136
Profit/ (loss) before income tax expense	(2,236,677)	167,644	-	(2,069,033)
Total segment assets	7,861,180	1,161,791	-	9,022,971
Total segment liabilities	2,906,436	149,915	-	3,056,351

Consolidated - 31 Dec 2015	**IT Security Managed Services $**	**Software Licensing $**	**Inter Segment Eliminations $**	**Total $**
Revenue				
Sales to external customers	2,111,205	188,806	-	2,300,011
Inter segment sales	16,510	198,120	(214,630)	-
Total sales revenue	2,127,715	386,926	(214,630)	2,300,011
Other revenue	9,175	-	-	9,175
Total revenue	2,136,890	386,926	(214,630)	2,309,186
Profit / (loss) before income tax expense	(275,928)	40,026	-	(235,902)
Consolidated – 30 June 2016				
Total segment assets	8,964,610	1,129,673	-	10,094,283
Total segment liabilities	2,438,689	735,845	-	3,174,534

Note 4. Revenue

	Consolidated	
	31 Dec 2016	31 Dec 2015
	$	$
Sales revenue	2,482,694	2,300,011
Other revenue	41,649	9,175
Total revenue	2,524,343	2,309,186

Note 5. Available-for-sale Financial Assets

	Consolidated	
	31 Dec 2016	30 Jun 2016
	$	$
Non-current assets		
Listed equity securities	192,446	-
	192,446	-

The fair value of available-for-sale assets is valued using quoted market prices from an active market, see fair value note 12.

Note 6. Intangible Assets

	Consolidated	
	31 Dec 2016	30 Jun 2016
	$	$
Intellectual property – at wdv	90,086	82,601
Goodwill – at cost	777,375	777,375
IT development and software – at wdv	-	3,420,197
Customer contracts – at wdv	187,945	205,589
	1,055,406	4,485,762

Amortisation methods and useful lives

The group amortises intangible assets with a limited useful life using the straight line method over the following period:

- IT development and software 5 years
- Customer contracts 5 years

	Goodwill	Intellectual Property	Software	Customer Contracts	Total
	$	$	$	$	$
December 2016					
Balance 30 June 2016 (provisional accounting)	3,671,269	82,601	-	-	3,753,870
Provisional accounting adjustments					
• Recognition of intangibles at fair value	(2,893,894)	-	3,434,406	210,000	750,512
Post provisional accounting adjustment					
• Additions	-	-	72,357	-	72,357
• Accumulated amortisation	-	-	(86,566)	(4,411)	(90,977)
Balance 30 June 2016	777,375	82,601	3,420,197	205,589	4,485,762
Additions[1]	-	7,485	249,560	-	257,045
Accumulated amortisation	-	-	(350,227)	(17,644)	(367,871)
Disposal[2]	-	-	(3,319,530)	-	(3,319,530)
Balance 31 December 2016	777,375	90,086	-	187,945	1,055,406

(1) Software development cost directly associated with the Sonar/MyNet application
(2) On16 December 2016 Tesserent Australia Pty Ltd sold the Sonar/MyNet IP to Family Zone Cyber Safety Limited (ASX:FZO) for $3.8m.

Note 7. Contingent liabilities

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

Note 8. Business combination – finalisation of provisional accounting

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.

For 30 June 2016, this business combination had initially been accounted for on a provisional basis in accordance with AASB 3 Business Combinations. Therefore the fair value of assets acquired, liabilities and contingent liabilities assumed were initially estimated by the consolidated entity taking into consideration all available information at the reporting date. At 30 June 2016 the company recorded goodwill as the only intangible asset. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and therefore may have an impact on the assets and liabilities, depreciation and amortisation reported.

The consolidated entity has finalised the accounting for this business combination and in doing so has recognised Software and Customer Contracts as intangible assets. As noted above the finalisation accounting is retrospective and therefore the adjustment impacts the 30 June 2016 financial year.

Determination of fair value of intangible assets on acquisition

Software
As announced on 16 December 2016, the Group completed the sale of the original Blue Reef Pty Ltd IP acquired as part of the business combination to Family Zone Cyber Safety Limited (ASX:FZO). This transaction was for the sale of the Blue Reef IP on a separate and stand-alone basis and therefore enabled a fair value to be determined for the Blue Reef IP acquired in the original transaction.

Therefore using the FZO IP sale transaction and after allowing for minor timing and software development cost adjustments, the Group was in a position to determine the fair value of the IP as at the original transaction date as being $3.43m.

Customer contracts
The fair value of the customer contracts was determined in consultation with an industry expert by reference to the net present value of the incremental financial benefit estimated to be received by the company as a result of receiving the benefit of these contracts.

Based upon contracted sales and average net profit margins over remaining contract period, forecast profit ranges were determined. Using a weighted average cost of capital of 15.08% the forecast cash flows were discounted to their net present value. The company adopted $210,000 for the fair value of customer contracts acquired.

Set out below is the impact to finalisation of the provisional accounting based on the 30 June 2016 financial statements.

Adjustment to 30 June 2016 statement of profit or loss and comprehensive income:

	(Loss) before income tax	Tax expense / (credit)	Net (loss) for the year
	$	$	$
Provisional accounting basis	**(1,024,507)**	**(270,641)**	**(753,866)**
Adjustments to finalise provisional accounting			
• Bargain purchase gain	530,946	-	530,946
• Capitalised development costs	72,357	-	72,357
• Amortisation – software	(86,566)	(21,565)	(65,001)
• Amortisation – customer contracts	(4,411)	(1,323)	(3,088)
Post provisional accounting adjustments	**(512,181)**	**(293,529)**	**(218,652)**

Details of the original purchase consideration terms, fair value of the net assets acquired as recorded on the provisional basis and the final position as impacting the fair value of net assets acquired, and intangible assets are as follows:

Purchase consideration:	**2016**
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 within the statement of financial position as at 30 June 2016 as a result of the acquisition are as follows

	Final Fair Value	**Provisional Basis Fair Value**	**Variance**
	$	**$**	**$**
Plant and equipment	225,730	225,730	-
Software	3,434,406	-	3,434,406
Customer contracts	210,000	-	210,000
Employee provisions	(154,260)	(154,260)	-
Trade creditors	(27,270)	(27,270)	-
Provision for onerous contracts	(223,032)	(223,032)	-
Deferred tax asset	113,188	113,188	-
Deferred tax liability	(219,566)	-	(219,566)
Net identifiable liabilities acquired	3,359,195	(65,644)	3,424,839
(Less)/Add: (bargain purchase) / goodwill	(530,945)	2,893,894	3,424,839
Purchase consideration	2,828,250	2,828,250	-

The bargain purchase gain is attributable to the underlying business capability and operational performance. It is not be assessable for tax purposes.

Note 9. Sale of intellectual property

On the 16 December 2016 Tesserent completed the sale of the Sonar/MyNet IP ('IP') to Family Zone Cyber Safety Limited (ASX:FZO) ('FZO') for $3.5m cash and 1.0m shares in FZO. The IP had originally been acquired as part of the Blue Reef business acquisition. Tesserent continues to sell and support the IP services globally and is the exclusive reseller of the IP in Australia and New Zealand. Tesserent has retained all the education-sector clients and associated revenue and remains focused on servicing education providers.

Transactional summary is as follows:

	Note	**2016**
Cash consideration		
Received as at 31 December 2016		1,000,000
Deferred consideration (net of GST)		
- 28 February 2017		500,000
- 30 May 2017		2,000,000
FZO Shares at fair value		192,446
Total Consideration		**3,692,446**
Employee liabilities transferred		104,925
Plant & equipment sold at wdv		(9,570)
Reversal of DTA/DTL		103,523
Value of IP (wdv)	**6**	(3,319,530)
Gain on sale of IP		**571,794**

Note 10. Related parties

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.

Note 11. Events after the reporting period

There are no events to report following the reporting period.

Apart from the above no other matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 12. Fair value hierarchy

The following tables detail the consolidated entity's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Ordinary shares available-for-sale(note 5)	192,446	-	-	192,446
Total assets	192,446	-	-	192,446

The carrying amounts of cash and cash equivalents, trade and other receivables, and trade and other payables approximate their fair values.

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 consolidated entity's financial position as at 31 December 2016 and of its performance for the financial half-year 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 the directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors

Russell Yardley
Director

28 February 2017
Melbourne

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Tesserent Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Tesserent Limited, which comprises the statement of financial position as at 31 December 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 half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year 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 is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Tesserent Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

(i) Giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and

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

BDO East Coast Partnership

BDO

David Garvey

David Garvey
Partner

Melbourne, 28 February 2017

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EMPOWER.
CONTROL.

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