



THREAT PROTECT

Threat Protect Australia Limited

ABN 36 060 774 227

ANNUAL REPORT

30 June 2019

Threat Protect Australia Limited
Contents
30 June 2019



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| | |
|----------------------------------|---|
| Directors | Derek La Ferla - Chairman Demetrios Pynes Paolo (Paul) Ferrara Dimitri Bacopanos |
| Company secretary | Simon Whybrow Peter Webse (Joint Company secretary) |
| Notice of annual general meeting | The details of the annual general meeting of Threat Protect Australia Limited are: 10.00am WST on Thursday 28 November 2019 Cliftons, Ground Floor, Parmelia House 191 St Georges Terrace, Perth Perth WA 6000 |
| Registered office | Level 1, 672 Murray Street West Perth WA 6005 Telephone: 1300 THREAT (1300 847 328) Email: info@threatprotect.com.au PO Box 1920 West Perth WA 6872 |
| Share register | Link Market Services Limited Level 12 QV1 Building, 250 St Georges Terrace Perth WA 6000 Telephone: 1300 554 474 |
| Auditor | BDO Audit (WA) Pty Ltd 38 Station Street Subiaco WA 6008 |
| Solicitors | Lavan Legal The Quadrant, 1 William Street Perth WA 6000 |
| Lawyers | Price Sierakowski St Martins Centre 44 St Georges Terrace Perth WA 6000 |
| Stock exchange listing | Threat Protect Australia Limited shares are listed on the Australian Securities Exchange (ASX code: TPS) |
| Website | www.threatprotect.com.au |
| Corporate Governance Statement | The Group's Corporate Governance Statement, approved on the same date as the Annual Report, sets out the corporate governance practices that were in operation during the financial year and identifies and explains any Recommendations that have not been followed. The Corporate Governance Statement can be found at www.threatprotect.com.au |

Threat Protect Australia Limited and the entities it controlled (the 'Group') continue to provide a strong platform for growth with the financial year ended 30 June 2019 ('FY2019') adjusted earnings before interest, taxation, depreciation and amortisation ('EBITDA') increasing.

In FY2019, the Group completed its largest acquisition to date, whilst also continuing to invest in the development of advanced monitoring systems, technical resources and upskilling people within the business to improve efficiency in operations.

Highlights

- Operating revenue was up 34.4% to \$19.7 million (FY2018: \$14.7 million);
- Adjusted EBITDA of \$2.9 million increased 106% after adjusting for one-off and non-cash items, compared to \$1.4 million in FY2018;
- The acquisition and organic growth strategies of the Group have been effective in increasing the Group's recurring monthly revenue ('RMR') to approximately \$1.9 million;
- Completion of Onwatch Pty Ltd ('Onwatch') acquisition on 30 April 2019 - including two new control rooms based in New South Wales and Victoria;
- To facilitate the acquisition, the Group restructured its debt arrangements and now holds a senior secured facility with Soliton Capital Partners Pty Ltd ('Soliton') for \$36.2 million, and a new \$8.2 million unsecured debt facility with First Samuel Limited ('First Samuel');
- In addition, the Group raised \$5.4 million via an underwritten right issue at a price of \$0.25 per share; and
- Cash position of the Group of \$2.1 million at 30 June 2019 (30 June 2018: \$1.1 million).

Financial performance

- Operating revenue for FY2019 is \$19.7 million, an increase of 34% on FY2018;
- The active growth strategy continues to increase the Group's scale of operations, with year-on-year monitoring revenue increasing by 66%;
- Over 80,000 accounts at year end, with 31% of these direct subscribers;
- The Group measures performance by Adjusted EBITDA to normalise for:
 - Accounting treatment of transactions associated with the purchase, integration and rationalisation of business assets, and
 - extraordinary and non-recurring items; and
- Adjusted EBITDA for FY2019 is \$2.9 million up from \$1.4 million in FY2018, an increase of 106%.

| | FY2019 \$'000 | FY2018 \$'000 | Change on prior comparable period ('PCP') % |
|---|---------------------|---------------------|---|
| Loss before income tax benefit | (13,558) | (3,634) | 273% |
| Finance costs | 2,812 | 1,060 | |
| Depreciation and amortisation in cost of sales | 4,922 | 1,803 | |
| Depreciation and amortisation in administration | 36 | 58 | |
| EBITDA | <u>(5,788)</u> | <u>(713)</u> | 712% |
| <i>Adjustments</i> | | | |
| Impairment of receivables | 200 | 186 | |
| Impairment of assets | 5,236 | 642 | |
| Share-based payments | 227 | 550 | |
| Business acquisition and integration costs | 3,878 | 1,647 | |
| Other income | <u>(883)</u> | <u>(918)</u> | |
| Adjusted EBITDA | <u><u>2,870</u></u> | <u><u>1,394</u></u> | 106% |

Onwatch acquisition and new funding partner

On 4 March 2019, the Company announced it had acquired necessary funding and reached an agreement to acquire Onwatch for \$34.7 million.

The acquisition of Onwatch was a key step in the continued execution of the Group's growth strategy and represents the Company's largest acquisition to date. Operating since 2005, Onwatch has two control rooms; one in New South Wales which focuses on direct subscribers, and one in Victoria which services predominantly resellers. There are significant synergies in the merger of Onwatch into the existing Group operation which will be realised in the 2020 financial year.

To facilitate this acquisition, the Group restructured its debt arrangements and entered into a \$36.0 million Note Subscription Agreement arranged by Soliton and has also signed a new \$8.2m unsecured debt facility with First Samuel.

In April 2019, the Group completed a \$5.4 million underwritten rights issue to all shareholders at a price of \$0.25 per share.

The consideration for the acquisition was the issue of 8,000,000 shares in the Company at an issue price of \$0.25 per share to the vendors of Onwatch, the payment of cash of \$32.2 million and \$1.5 million of contingent consideration, payable 12 months from the date of acquisition.

The Company converted the \$9.0 million convertible notes issued to First Samuel to 42,857,143 shares at an issue price of \$0.21 each, approval for which was granted by shareholders at a general meeting held in July 2018. First Samuel held 38.4% of the Company's issued capital as at 30 June 2019.

Outlook

With the Group now at the targeted level of recurring monitoring revenue, the focus is now on the extraction of profit and cashflow through efficiency programs.

Demand for security in Australia is expected to grow as businesses and households continue to invest in security services and crime-prevention measures. The progress the Company made this year to build out its offering and national reach places the Group in an excellent position to take advantage of this trend.

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'The Group' or 'Group') consisting of Threat Protect Australia Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2019.

Directors

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

| | |
|----------------------|------------------------|
| Derek La Ferla | Non-Executive Chairman |
| Demetrios Pynes | Managing Director |
| Paolo (Paul) Ferrara | Executive Director |
| Dimitri Bacopanos | Non-Executive Director |

Principal activities

During the financial year the principal continuing activity of the Group consisted of the provision of security, monitoring and risk management services in Australia.

Dividends

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

Review of operations

The loss for the Group after providing for income tax amounted to \$10,621,000 (30 June 2018: \$3,246,000).

A detailed review of the Group's operations is set out in the section titled 'Review of operations' in this annual report.

There is a material uncertainty that may cast a significant doubt about the Group's ability to continue as a going concern. Refer to note 2 to the financial statements for further details.

Significant changes in the state of affairs

During the year, the following changes/transactions occurred within equity:

- On 17 September 2018, 14,285,703 share options were exercised at 17.5 cents per share (post-consolidation) resulting in 14,285,703 fully paid ordinary shares being issued on 17 September 2018 and raising a total of \$2,499,998 before costs.
- On 15 January 2019, 4,761,905 shares were issued at 21 cents per share (post-consolidation) raising \$1,000,000 before costs.
- On 4 April 2019, 21,779,662 shares were issued at 25 cents per share (post-consolidation) raising \$5,444,915 before costs.
- On 30 April 2019, 42,857,143 shares were issued at 21 cents per share (post-consolidation) on conversion of convertible notes.
- On 30 April 2019, 8,000,000 shares were issued at 25 cents per share (post-consolidation) as part of the acquisition of Onwatch.
- On 4 June 2019, 2,327,731 Employee share scheme shares were issued.

On 30 April 2019, the following changes/transactions occurred in relation the Group's borrowings:

- Entered into a \$36 million senior secured facility arranged by Soliton and subscribed to by Investment Opportunities IV Pte. Ltd., a Singapore-based subsidiary of SSG Capital Management, the Hong Kong-headquartered, Asia-focused special situations investment firm, to facilitate the Acquisition and refinance the Company's existing debt arrangements;
- Secured \$8 million through an unsecured debt facility with First Samuel Limited;
- The conversion of \$9 million Convertible Notes currently on issue to First Samuel into 42.85 million fully paid ordinary shares in the Company;
- Undertook a \$5.4 million underwritten rights issue to all shareholders at a price of \$0.25 per share; and
- Extinguished the Company's existing \$11.5 million debt facility with Macquarie Bank Limited.

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

Matters subsequent to the end of the financial year

As at the date of signing this report, the Company has received firm commitments for \$750,000 in regards to a share placement at 16 cents per share. These shares will be issued in the first week of October 2019.

No other matter or circumstance has arisen since 30 June 2019 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.

Likely developments and expected results of operations

A detailed review of the Group's operations, including likely developments and plans, is set out in the section titled "Operations Review" in this annual report.

Environmental regulation

The Group is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Information on directors

Name: Derek La Ferla
Title: Non-Executive Chairman
Qualifications: B.Arts, B.Juris, B.Law, Fellow of AICD
Experience and expertise: Derek is an experienced corporate lawyer and company director with more than 30 years' experience. Derek is a Partner with leading independent Western Australian firm Lavan. He is a member of the National Board of the AICD and its WA Council.
Other current directorships: Chairman of Sandfire Resources NL, and Veris Limited.
Former directorships (last 3 years): BNK Banking Corporation Limited.
Interests in shares: 1,177,172 ordinary shares
Interests in options: 2,857,142 options over ordinary shares

Name: Demetrios Pynes
Title: Managing Director
Qualifications: B.Com, F.Fin
Experience and expertise: Demetrios is a highly experienced businessman with specialist knowledge of both the finance and security industries. He holds a Bachelor of Commerce with double majors in finance and banking and has post-graduate qualifications in Commerce. Demetrios spent several years in the banking and finance sector, during which time he was an analyst and adviser to high networth clients. For the past 13 years, he has operated various successful businesses, mainly in the security industry. Demetrios has previously held security officer and security consultant licenses and is a co-founder of Threat Protect.
Other current directorships: None
Former directorships (last 3 years): None
Interests in shares: 4,956,682 ordinary shares
Interests in options: 4,285,712 options over ordinary shares

Name: Paolo (Paul) Ferrara
Title: Executive Director
Qualifications: B.Com
Experience and expertise: Paul is a co-founder of Threat Protect. In his capacity as Chief Operating Officer, Paul brings many years' experience in logistics and business. Prior to Threat Protect, he was assigned several roles in Australia and Singapore for SIRVA, a global provider of transport and relocation services. With qualifications in management and information systems, specialising in telecommunications, Paul is well suited to his specialist role of integrating businesses and new opportunities into the Threat Protect Group. Paul holds the security, crowd control and equity licences on behalf of the Threat Protect Group.
Other current directorships: None
Former directorships (last 3 years): None
Interests in shares: 4,979,580 ordinary shares
Interests in options: 4,285,712 options over ordinary shares

Name: Dimitri Bacopanos
 Title: Non-Executive Director
 Qualifications: B.Com, CA
 Experience and expertise: Dimitri has extensive experience in mergers and acquisitions, most recently as Executive Director in the Transaction Advisory Services team at Ernst & Young. He has more than 20 years' commercial experience in both private and ASX listed companies and has worked across a number of major transactions, including in the technology, industrial, and agriculture sectors. His expertise extends to a wide range of corporate advisory roles covering operational reviews, feasibility analyses, strategic planning and implementation.

Other current directorships: None
 Former directorships (last 3 years): None
 Interests in shares: 333,333 ordinary shares
 Interests in options: 1,428,571 options over ordinary shares

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Company secretaries

Simon Whybrow is the Joint Company Secretary. Simon is an experienced CPA qualified accountant with over 15 years of experience in financial, company secretarial and commercial management. With a strong commercial acumen developed working for a "Big 4" professional services firm he has broad experience across a range of industry sectors and ASX listed companies - including mining, mining services, energy and information technology.

Peter Webse was appointed as Joint Company Secretary on 23 April 2019. Peter has over 27 years' listed company secretarial experience and is the managing director of Platinum Corporate Secretariat Pty Ltd, a company specialising in providing company secretarial, corporate governance and corporate advisory services. Peter's qualification are B.Bus, FGIA, FCIS, FCPA, MAICD.

Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2019, and the number of meetings attended by each director were:

| | Full Board | | Audit Committee | |
|----------------------|------------|------|-----------------|------|
| | Attended | Held | Attended | Held |
| Derek La Ferla | 8 | 8 | 1 | 1 |
| Demetrios Pynes | 8 | 8 | 1 | 1 |
| Paolo (Paul) Ferrara | 7 | 8 | 1 | 1 |
| Dimitri Bacopanos | 8 | 8 | 1 | 1 |

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

At the date of this Directors' report, there are currently no nomination, finance, due diligence or operations committees. The Directors believe that the Company is not currently of a size nor are its affairs of such complexity as to warrant the establishment of these separate committees. Accordingly, all matters capable of delegation to such committees are considered by the Board of Directors in its entirety.

Remuneration report (audited)

The remuneration report details the key management personnel remuneration arrangements for the Group, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional information
- Additional disclosures relating to key management personnel

Principles used to determine the nature and amount of remuneration

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage / alignment of executive compensation; and
- transparency.

The Board is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the Group depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

In consultation with external remuneration consultants (refer to the section 'Use of remuneration consultants' below), the Board has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the Group.

The reward framework is designed to align executive reward to shareholders' interests. The Board has considered that it should seek to enhance shareholders' interests by:

- having economic profit as a core component of plan design;
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value; and
- attracting and retaining high calibre executives.

Additionally, the reward framework should seek to enhance executives' interests by:

- rewarding capability and experience
- reflecting competitive reward for contribution to growth in shareholder wealth; and
- providing a clear structure for earning rewards.

In accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

Non-executive directors' remuneration

Fees and payments to non-executive directors reflect the demands and responsibilities of their role. Non-executive directors' fees and payments are reviewed annually by the Board. The Board may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to the determination of his own remuneration.

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. The most recent determination was at the Annual General Meeting held on 26 November 2015, where the shareholders approved a maximum annual aggregate remuneration of \$300,000.

Executive remuneration

The Group aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits;
- short-term performance incentives;
- share-based payments; and
- other remuneration such as superannuation and long service leave.

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Board based on individual and business unit performance, the overall performance of the Group and comparable market remunerations.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the Group and provides additional value to the executive.

The short-term incentives ('STI') program is designed to align the targets of the business units with the performance hurdles of executives. STI payments are granted to executives based on specific annual targets and key performance indicators ('KPI's') being achieved. KPI's include profit contribution, customer satisfaction, leadership contribution and product management.

The long-term incentives ('LTI') include long service leave and share-based payments. Shares are awarded to executives over a period of three years based on LTI measures. These include increase in shareholders value relative to the entire market and the increase compared to the Group's direct competitors.

The Group performance and link to remuneration

Remuneration for certain individuals is directly linked to the performance of the Group. A portion of cash bonus and incentive payments are dependent on defined earnings per share targets being met. The remaining portion of the cash bonus and incentive payments are at the discretion of the Board. Refer to the section 'Additional information' below for details of the earnings and total shareholders return for the last five years.

The Board is of the opinion that the continued improved results can be attributed in part to the adoption of performance based compensation and is satisfied that this improvement will continue to increase shareholder wealth if maintained over the coming years.

Use of remuneration consultants

During the financial year ended 30 June 2019, the Group, had not engaged any remuneration consultants to review or advise upon its existing remuneration policies, including the implementation of the LTI.

Voting and comments made at the Company's 2018 Annual General Meeting ('AGM')

At the 2018 AGM, 94% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2018. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration

Amounts of remuneration

Details of the remuneration of key management personnel of the Group are set out in the following tables.

The key management personnel of the Group consisted of the directors of Threat Protect Australia Limited and the following persons:

- Karen Haynes - Chief Financial Officer (resigned on 23 July 2019)
- Brad Kobus - Chief Financial Officer (appointed on 1 August 2019)
- Simon Whybrow - Company Secretary and Chief Commercial Officer

| | Short-term benefits | | | Post-employment benefits | Equity-settled Share-based payments | Total |
|--|-----------------------------|------------|---------------|--------------------------|-------------------------------------|------------------|
| | Cash salary, fees and leave | Cash bonus | Other * | Super-annuation | Options | |
| 2019 | \$ | \$ | \$ | \$ | \$ | \$ |
| <i>Non-Executive Directors:</i> | | | | | | |
| Derek La Ferla | 50,000 | - | - | 4,750 | - | 54,750 |
| Dimitri Bacopanos | 36,000 | - | - | - | - | 36,000 |
| <i>Executive Directors:</i> | | | | | | |
| Demetrios Pynes** | 236,018 | - | 16,800 | 27,721 | - | 280,539 |
| Paul Ferrara** | 220,054 | - | 16,800 | 22,496 | - | 259,350 |
| <i>Other Key Management Personnel:</i> | | | | | | |
| Karen Haynes | 173,918 | - | - | 15,374 | - | 189,292 |
| Simon Whybrow | 199,656 | - | 15,000 | 21,707 | 146,250 | 382,613 |
| | <u>915,646</u> | <u>-</u> | <u>48,600</u> | <u>92,048</u> | <u>146,250</u> | <u>1,202,544</u> |

| | Short-term benefits | | | Post-employment benefits | Equity-settled Share-based payments | Total |
|--|-----------------------------|------------|---------------|--------------------------|-------------------------------------|------------------|
| | Cash salary, fees and leave | Cash bonus | Other * | Super-annuation | Options | |
| 2018 | \$ | \$ | \$ | \$ | \$ | \$ |
| <i>Non-Executive Directors:</i> | | | | | | |
| Derek La Ferla | 50,000 | - | - | 4,750 | 100,000 | 154,750 |
| Dimitri Bacopanos | 36,000 | - | - | - | 100,000 | 136,000 |
| <i>Executive Directors:</i> | | | | | | |
| Demetrios Pynes** | 244,639 | - | 16,800 | 22,496 | 150,000 | 433,935 |
| Paul Ferrara** | 248,807 | - | 16,800 | 22,496 | 150,000 | 438,103 |
| <i>Other Key Management Personnel:</i> | | | | | | |
| Karen Haynes | 78,016 | - | - | 7,384 | - | 85,400 |
| Simon Whybrow | 194,297 | - | 15,000 | 19,000 | - | 228,297 |
| | <u>851,759</u> | <u>-</u> | <u>48,600</u> | <u>76,126</u> | <u>500,000</u> | <u>1,476,485</u> |

* The 'Other' category represents motor vehicle allowances.

** Tactical Conflict Solutions Pty Ltd, a company controlled by Demetrios Pynes and Paul Ferrara, provided security services to Threat Protect Australia Limited during the financial years ending 30 June 2019 and 30 June 2018. These services are not provided directly by Mr Pynes or Mr Ferrara and have therefore not been included as remuneration. Please refer to section 'Other transactions with key management personnel and their related parties' of the remuneration report for further details.

The proportion of remuneration linked to performance and the fixed proportion are as follows:

| Name | Fixed remuneration | | At risk - STI | | At risk - LTI | |
|--|--------------------|------|---------------|------|---------------|------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| <i>Non-Executive Directors:</i> | | | | | | |
| Derek La Ferla | 100% | 35% | - | - | - | 65% |
| Dimitri Bacopanos | 100% | 26% | - | - | - | 74% |
| <i>Executive Directors:</i> | | | | | | |
| Demetrios Pynes | 100% | 65% | - | - | - | 35% |
| Paul Ferrara | 100% | 66% | - | - | - | 34% |
| <i>Other Key Management Personnel:</i> | | | | | | |
| Karen Haynes | 100% | 100% | - | - | - | - |
| Simon Whybrow | 62% | 100% | - | - | 38% | - |

Service agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

| | |
|----------------------|--|
| Name: | Derek La Ferla |
| Title: | Non-Executive Director and Chairman |
| Agreement commenced: | 10 January 2017 |
| Term of agreement: | Derek's appointment has been made pursuant to the Company's Constitution and he will be required to retire by rotation periodically in accordance with the Constitution. Derek may resign from office at any time. |
| Details: | Derek's remuneration is set at \$50,000 per annum plus statutory superannuation, where applicable. |
| Name: | Demetrios Pynes |
| Title: | Managing Director |
| Agreement commenced: | 3 September 2015 |
| Term of agreement: | The agreement may be terminated by either the Company or Demetrios by giving at least three months' notice. Demetrios is also prohibited from competing with the Company during the term of his employment and following the termination of his employment for the period of two years without the Company's prior written consent. |
| Details: | From 1 July 2019, Demetrios' remuneration comprises a salary of \$270,000 per annum (previously \$220,000 per annum), plus a motor vehicle allowance of \$16,800 per annum (previously \$16,800 per annum) and superannuation guarantee contributions as required by law. Demetrios is entitled to annual leave and long service leave as required by law. |
| Name: | Paul Ferrara |
| Title: | Executive Director |
| Agreement commenced: | 3 September 2015 |
| Term of agreement: | The agreement may be terminated by either the Company or Paul by giving at least three months' notice. Paul is also prohibited from competing with the Company during the term of his employment and following the termination of his employment for the period of two years without the Company's prior written consent. |
| Details: | From 1 July 2019, Paul's remuneration comprises a salary of \$270,000 per annum (previously \$220,000 per annum), plus a motor vehicle allowance of \$16,800 per annum (previously \$16,800 per annum) and superannuation guarantee contributions as required by law. Paul is entitled to annual leave and long service leave as required by law. |

Name: Dimitri Bacopanos
 Title: Non-Executive Director
 Agreement commenced: 10 January 2017
 Term of agreement: Dimitri's appointment has been made pursuant to the Company's Constitution and he will be required to retire by rotation periodically in accordance with the Constitution. Dimitri may resign from office at any time.
 Details: Dimitri's remuneration is set at \$36,000 per annum plus statutory superannuation, where applicable.

Name: Karen Haynes
 Title: Chief Financial Officer (resigned on 23 July 2019)
 Agreement commenced: 20 December 2017
 Term of agreement: The agreement may be terminated by either the Company or Karen by giving at least 1 months' notice.
 Details: Karen's remuneration comprises a salary of \$165,000 per annum, plus superannuation guarantee contributions as required by law. Karen is entitled to annual leave and long service leave as required by law.

Name: Simon Whybrow
 Title: Company Secretary and Chief Commercial Officer
 Agreement commenced: 1 July 2017
 Term of agreement: The agreement may be terminated by either the Company or Simon by giving at least four weeks' notice.
 Details: Simon's remuneration comprises a salary of \$185,000 per annum, plus a motor vehicle allowance of \$15,000 per annum and superannuation guarantee contributions as required by law. Mr Whybrow is entitled to annual leave and long service leave as required by law and also has the opportunity to participate in the Company's Loan Funded Employee Share Scheme based on satisfactory performance and achievement of KPI's (to a maximum of 100% of base salary).

Name: Brad Kobus
 Title: Chief Financial Officer
 Agreement commenced: 1 August 2019
 Term of agreement: The agreement may be terminated by either the Company or Brad by giving at least 3 months' notice.
 Details: Brad's remuneration comprises a salary of \$170,000 per annum, plus a motor vehicle allowance of \$26,000 per annum and superannuation guarantee contributions as required by law. Brad is entitled to annual leave and long service leave as required by law and also has the opportunity to participate in the Company's Loan Funded Employee Share Scheme based on satisfactory performance and achievement of KPI's (to a maximum of 100% of base salary).

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

Share-based compensation

Issue of shares

Details of shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2019 are set out below:

| Name | Date | Shares | Issue price | \$ |
|---------------|-------------|-----------|-------------|---------|
| Simon Whybrow | 4 June 2019 | 1,500,000 | \$0.17 | 255,000 |

On 4 June 2019, 1,500,000 fully paid ordinary shares were issued to Simon Whybrow at an issue price of 17 cents per share and a corresponding interest-free (interest rate: 0% pa), limited-recourse loan totaling \$255,000 was entered into in accordance with the Company's ESP. The loan term is 5 years, expiring on 14 June 2022. The shares were issued as part of Mr Whybrow's remuneration with regard to his past and potential contribution to the Company. The shares and limited-recourse loan were not subject to any vesting conditions and as such Mr Whybrow is entitled to the benefits of the arrangement immediately.

Options

There were no options over ordinary shares issued to directors and other key management personnel as part of compensation that were outstanding as at 30 June 2019.

There were no options over ordinary shares granted to or vested by directors and other key management personnel as part of compensation during the year ended 30 June 2019.

Additional information

The earnings of the Group for the four years to 30 June 2019 are summarised below:

| | 2019 \$'000 | 2018 \$'000 | 2017 \$'000 | 2016 \$'000 |
|--------------------------------|----------------|----------------|----------------|----------------|
| Sales revenue | 19,741 | 14,683 | 11,478 | 7,245 |
| Profit/(loss) after income tax | (10,621) | (3,246) | 1,692 | (5,371) |

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

| | 2019 | 2018 | 2017 | 2016 |
|--|--------|--------|------|--------|
| Share price at financial year end (\$) | 0.18 | 0.17 | 0.18 | 0.11 |
| Basic earnings per share (cents per share) | (7.64) | (2.91) | 1.57 | (6.65) |

Additional disclosures relating to key management personnel

Shareholding

The number of shares in the Company held during the financial year by each director and other members of key management personnel of the Group, including their personally related parties, is set out below:

| | Balance at the start of the year | Received as part of remuneration | Additions | Disposals/ other | Balance at the end of the year |
|------------------------|--|--|-----------|---------------------|--------------------------------------|
| <i>Ordinary shares</i> | | | | | |
| Derek La Ferla | 462,887 | - | 714,285 | - | 1,177,172 |
| Demetrios Pynes | 4,385,253 | - | 571,429 | - | 4,956,682 |
| Paul Ferrara | 4,059,580 | - | 920,000 | - | 4,979,580 |
| Dimitri Bacopanos | 285,714 | - | 47,619 | - | 333,333 |
| Simon Whybrow | 285,714 | 1,500,000 | - | - | 1,785,714 |
| | 9,479,148 | 1,500,000 | 2,253,333 | - | 13,232,481 |

Option holding

The number of options over ordinary shares in the Company held during the financial year by each director and other members of key management personnel of the Group, including their personally related parties, is set out below:

| | Balance at the start of the year | Granted | Exercised** | Expired/ forfeited/ other | Balance at the end of the year |
|--------------------------------------|--|---------|-------------|---------------------------------|--------------------------------------|
| <i>Options over ordinary shares*</i> | | | | | |
| Derek La Ferla | 3,571,427 | - | (714,285) | - | 2,857,142 |
| Demetrios Pynes | 4,999,997 | - | (571,429) | (142,856) | 4,285,712 |
| Paul Ferrara | 4,999,997 | - | (400,000) | (314,285) | 4,285,712 |
| Dimitri Bacopanos | 1,428,571 | - | - | - | 1,428,571 |
| | 14,999,992 | - | (1,685,714) | (457,141) | 12,857,137 |

* All options are vested and exercisable at year ended 30 June 2019.

** Shares were fully paid on exercise price of 17 cents per share.

Loans to key management personnel and their related parties

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

Other transactions with key management personnel and their related parties

The following transactions occurred with related parties:

| | Consolidated 2019 \$ | Consolidated 2018 \$ |
|---|----------------------------|----------------------------|
| Goods and services provided to Directors on commercial terms (Group income): | | |
| Demetrios Pynes | - | 360 |
| Paolo Ferrara | 286 | 260 |
| Derek La Ferla | 462 | 400 |
| Dimitri Bacopanos | 462 | 288 |
| Simon Whybrow | 462 | - |
| Karen Haynes | 71 | - |
| | <u>1,743</u> | <u>1,308</u> |

Related entity: Tactical Conflict Solutions Pty Ltd

Tactical Conflict Solutions Pty Ltd ('TCS'), a company jointly controlled by Demetrios Pynes and Paolo Ferrara, provides training services to and rents office space from the Group. The Group also charges TCS for administrative and security staff.

| | | |
|--|-----------|--------|
| Rent paid by TCS (Group income) | - | 8,000 |
| Staff provided to TCS (Group income) | - | 50,760 |
| Training Licence agreement covering 10 years to Threat Protect Security Services Pty Ltd (Group expense) | (200,000) | - |

Related entities: KLE Management Services

KLE Management Services ('KLE') is an entity controlled by Mr Bacopanos that provided a temporary administrative staff member to the Group during the prior year.

| | | |
|---------------------------------------|---|-------|
| Staff provided by KLE (Group expense) | - | (727) |
|---------------------------------------|---|-------|

This concludes the remuneration report, which has been audited.

Shares under option

Unissued ordinary shares of Threat Protect Australia Limited under option at the date of this report are as follows:

| Grant date | Expiry date | Exercise price (cents) | Number under option |
|-------------|-------------|------------------------|---------------------|
| 26 Nov 2015 | 31 Oct 2020 | 33.95 | 2,142,856 |
| 26 Nov 2015 | 31 Oct 2020 | 26.60 | 1,428,570 |
| 26 Nov 2015 | 31 Oct 2020 | 32.69 | 1,428,570 |
| 26 Nov 2015 | 31 Oct 2020 | 35.77 | 1,428,570 |
| 23 Nov 2017 | 31 Oct 2020 | 33.95 | 7,142,856 |
| | | | <u>13,571,422</u> |

The weighted average remaining contractual life of options outstanding at 30 June 2019 was 1.34 years (2018: 1.23 years)

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

Shares issued on the exercise of options

The following ordinary shares of Threat Protect Australia Limited were issued during the year ended 30 June 2019 and up to the date of this report on the exercise of options granted:

| Date options granted | Exercise price | Number of shares issued |
|----------------------|----------------|-------------------------|
| 4 September 2015 | \$0.17 | 14,285,703 |

Indemnity and insurance of officers

The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 23 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 23 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Officers of the Company who are former partners of BDO Audit (WA) Pty Ltd

There are no officers of the Company who are former partners of BDO Audit (WA) Pty Ltd.

Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

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.

Auditor

BDO Audit (WA) Pty Ltd continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

A handwritten signature in black ink, appearing to be "DP", written over a horizontal line.

Demetrios Pynes
Managing Director

30 September 2019

DECLARATION OF INDEPENDENCE BY DEAN JUST TO THE DIRECTORS OF THREAT PROTECT AUSTRALIA LIMITED

As lead auditor of Threat Protect Australia Limited for the year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been:

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

This declaration is in respect of Threat Protect Australia Limited and the entities it controlled during the period.



Dean Just
Director

BDO Audit (WA) Pty Ltd
Perth, 30 September 2019

Threat Protect Australia Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2019



| | Note | Consolidated 2019 \$'000 | 2018 \$'000 |
|--|------|--------------------------------|-----------------------|
| Revenue | | | |
| Revenue from contracts with customers | 4 | 19,741 | 14,683 |
| Cost of sales - operations | | (12,553) | (10,678) |
| Cost of sales - depreciation and amortisation | | (4,922) | (1,803) |
| Total cost of sales | | <u>(17,475)</u> | <u>(12,481)</u> |
| Gross profit | | <u>2,266</u> | <u>2,202</u> |
| Share of profits of associates accounted for using the equity method | | 82 | 22 |
| Other income | 6 | 801 | 896 |
| Interest revenue calculated using the effective interest method | | 8 | 9 |
| Expenses | | | |
| Administration expenses | | (2,671) | (2,244) |
| Business acquisition and integration costs | | (3,878) | (925) |
| Compliance and regulatory costs | | (613) | (339) |
| Legal and consulting fees | | (46) | (43) |
| Marketing and business development | | (758) | (494) |
| Occupancy costs | | (266) | (271) |
| Impairment of receivables | 9 | (200) | (186) |
| Impairment of assets | 13 | (5,236) | (642) |
| Share-based payments | | (227) | (550) |
| Finance costs | 7 | <u>(2,820)</u> | <u>(1,069)</u> |
| Loss before income tax benefit | | (13,558) | (3,634) |
| Income tax benefit | 8 | <u>2,937</u> | <u>388</u> |
| Loss after income tax benefit for the year attributable to the owners of Threat Protect Australia Limited | | (10,621) | (3,246) |
| Other comprehensive income for the year, net of tax | | <u>-</u> | <u>-</u> |
| Total comprehensive income for the year attributable to the owners of Threat Protect Australia Limited | | <u>(10,621)</u> | <u>(3,246)</u> |
| | | Cents | Cents |
| Basic earnings per share | 35 | (7.64) | (2.91) |
| Diluted earnings per share | 35 | (7.64) | (2.91) |

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

| | Note | Consolidated 2019 \$'000 | 2018 \$'000 |
|---|------|--------------------------------|-----------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | | 2,146 | 1,139 |
| Trade and other receivables | 9 | 2,482 | 2,975 |
| Contract assets | 10 | 216 | 242 |
| Inventories | | 24 | 35 |
| Other | 11 | 361 | 1,383 |
| Total current assets | | <u>5,229</u> | <u>5,774</u> |
| Non-current assets | | | |
| Investments accounted for using the equity method | | - | 461 |
| Financial assets at fair value through profit or loss | | 155 | 118 |
| Property, plant and equipment | 12 | 893 | 1,018 |
| Intangibles | 13 | 65,709 | 26,486 |
| Other | 11 | 173 | - |
| Total non-current assets | | <u>66,930</u> | <u>28,083</u> |
| Total assets | | <u>72,159</u> | <u>33,857</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 14 | 9,898 | 6,357 |
| Contract liabilities | 15 | 661 | 381 |
| Borrowings | 16 | 1,166 | 3,344 |
| Provisions | 17 | 1,494 | 822 |
| Total current liabilities | | <u>13,219</u> | <u>10,904</u> |
| Non-current liabilities | | | |
| Borrowings | 16 | 41,238 | 16,943 |
| Deferred tax liability | 8 | 6,959 | 4,199 |
| Provisions | 17 | 328 | 130 |
| Total non-current liabilities | | <u>48,525</u> | <u>21,272</u> |
| Total liabilities | | <u>61,744</u> | <u>32,176</u> |
| Net assets | | <u>10,415</u> | <u>1,681</u> |
| Equity | | | |
| Issued capital | 18 | 33,981 | 14,731 |
| Reserves | 19 | 1,874 | 1,647 |
| Accumulated losses | | <u>(25,440)</u> | <u>(14,697)</u> |
| Total equity | | <u>10,415</u> | <u>1,681</u> |

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

Threat Protect Australia Limited
Statement of changes in equity
For the year ended 30 June 2019



| Consolidated | Issued capital \$'000 | Reserves \$'000 | Accumulated losses \$'000 | Total equity \$'000 |
|--|----------------------------------|----------------------------|--------------------------------------|--------------------------------|
| Balance at 1 July 2017 | 14,710 | 1,147 | (11,451) | 4,406 |
| Loss after income tax benefit for the year | - | - | (3,246) | (3,246) |
| Other comprehensive income for the year, net of tax | - | - | - | - |
| Total comprehensive income for the year | - | - | (3,246) | (3,246) |
| <i>Transactions with owners in their capacity as owners:</i> | | | | |
| Transaction costs and other movements (note 18) | (29) | - | - | (29) |
| Share-based payments (note 33) | 50 | 500 | - | 550 |
| Balance at 30 June 2018 | <u>14,731</u> | <u>1,647</u> | <u>(14,697)</u> | <u>1,681</u> |
| Consolidated | Issued capital \$'000 | Reserves \$'000 | Accumulated losses \$'000 | Total equity \$'000 |
| Balance at 1 July 2018 | 14,731 | 1,647 | (14,697) | 1,681 |
| Impact of adopting AASB 9 and AASB 15 (note 2) | - | - | (122) | (122) |
| Balance at 1 July 2018 - restated | 14,731 | 1,647 | (14,819) | 1,559 |
| Loss after income tax benefit for the year | - | - | (10,621) | (10,621) |
| Other comprehensive income for the year, net of tax | - | - | - | - |
| Total comprehensive income for the year | - | - | (10,621) | (10,621) |
| <i>Transactions with owners in their capacity as owners:</i> | | | | |
| Contributions of equity, net of transaction costs (note 18) | 19,250 | - | - | 19,250 |
| Share-based payments (note 34) | - | 227 | - | 227 |
| Balance at 30 June 2019 | <u>33,981</u> | <u>1,874</u> | <u>(25,440)</u> | <u>10,415</u> |

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

Threat Protect Australia Limited
Statement of cash flows
For the year ended 30 June 2019



| | Note | Consolidated | |
|--|------|----------------|----------------|
| | | 2019 \$'000 | 2018 \$'000 |
| Cash flows from operating activities | | | |
| Receipts from customers (inclusive of GST) | | 21,463 | 16,577 |
| Payments to suppliers and employees (inclusive of GST) | | (21,198) | (16,178) |
| | | 265 | 399 |
| Interest received | | 8 | 24 |
| Interest and other finance costs paid | | (1,969) | (1,317) |
| Government grants received | | - | 772 |
| Net cash used in operating activities | 31 | (1,696) | (122) |
| Cash flows from investing activities | | | |
| Payment for purchase of business, net of cash acquired | 28 | (33,359) | (9,671) |
| Payments for financial assets | | (89) | (818) |
| Payments for property, plant and equipment | | (95) | (335) |
| Payments for intangibles | | (4,170) | (2,902) |
| Government grants received | | 926 | 790 |
| Proceeds from disposal of financial assets | | 750 | 14 |
| Proceeds from disposal of property, plant and equipment | | - | 8 |
| Proceeds from disposal of intangibles | | - | 28 |
| Distributions received from associate | | 77 | - |
| Net cash used in investing activities | | (35,960) | (12,886) |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares (net of transaction costs) | 18 | 8,702 | (4) |
| Proceeds from borrowings | | 54,679 | 16,276 |
| Repayment of borrowings | | (24,718) | (3,288) |
| Net cash from financing activities | | 38,663 | 12,984 |
| Net increase/(decrease) in cash and cash equivalents | | 1,007 | (24) |
| Cash and cash equivalents at the beginning of the financial year | | 1,139 | 1,163 |
| Cash and cash equivalents at the end of the financial year | | 2,146 | 1,139 |

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

Note 1. General information

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

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

Level 1, 672 Murray Street
West Perth WA 6005

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 30 September 2019. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

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

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.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

The following Accounting Standards and Interpretations are most relevant to the Group:

AASB 9 Financial Instruments

The Group has adopted AASB 9 from 1 July 2018. The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income ('OCI'). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

Note 2. Significant accounting policies (continued)

AASB 15 Revenue from Contracts with Customers

The Group has adopted AASB 15 from 1 July 2018. The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. This is described further in the accounting policies below. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period.

The Group has applied AASB 15 using the cumulative effect method and therefore the comparative information has not been restated and continues to be reported under AASB 118. The details of accounting policies under AASB 118 are disclosed separately if they are different from those under AASB 15.

In the comparative period 30 June 2018, revenue was recognised at fair value of the consideration received net of the amount of GST payable to taxation authorities. Sales of products were recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards were considered passed to the buyer at the time of delivery of the goods to the customer or at the point where billing threshold has been met. Service revenue was recognised when the fees in respect of services rendered were earned, usually when services had been provided to customers or as per terms and conditions of service contracts.

The Group adopted Accounting Standards AASB 9 'Financial Instruments' and AASB 15 'Revenue from Contracts with Customers' from 1 July 2018. The Accounting Standards have been using the cumulative effect method and therefore the comparative information has not been restated. The impact on the adoption of these accounting standards on opening retained earnings as at 1 July 2018 was as follows:

1 July 2018
\$'000

Impact from AASB 9:

| | |
|---|------------|
| Increase in allowance for expected credit losses (recognised through opening retained earnings) | <u>122</u> |
|---|------------|

Changes to disclosure as required by these standards, and consequential amendments to other standards, includes:

- reclassifying provision for impairment as allowance for expected credit losses
- showing interest income on the face of profit or loss; and
- showing impairment of receivable on the face of profit or loss.

Going concern

For the year ended 30 June 2019 the Group recorded a loss before tax of \$13,558,000 (2018: \$3,634,000) and had net cash outflows from operating activities of \$1,696,000 (2018: \$122,000). As at 30 June 2019, the Group had a deficiency in working capital of \$7,989,000 (2018: \$5,130,000).

The ability of the Group to continue as a going concern and to fund its operational activities is dependent on securing additional funding through various sources as indicated below.

These conditions indicate a material uncertainty that may cast a significant doubt about the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Board and Management believe there are sufficient funds to meet the Group's working capital requirements as at the date of the financial statements and that sufficient funds will be available to finance the operations of the Group.

Note 2. Significant accounting policies (continued)

The financial statements have been prepared on the basis that the Group 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 for the following reasons:

- the Directors have assessed the cash flow requirements for the 12 month period from the date of approval of the financial statements and its impact on the Group and believe there will be sufficient funds to meet the Group's working capital requirements;
- the working capital deficiency contains amounts not currently owing but will be due to be settled within the next 12 months. The Directors are satisfied additional funds will be available when these obligations arise. In addition, repayment plans have been entered into or are in the process of being negotiated with \$3,200,000 of creditors which include amounts owed to the Australian Taxation Office;
- the Group has a number of financing arrangements in place including a \$36,233,000 facility with Soliton drawn at balance date. This facility contains a number of compliance covenants which the Group is required to meet. The Directors expect to comply with these covenants and maintain the ongoing support of its financiers;
- the Directors expect the business to trade profitably and generate positive operating cash flow;
- the Group has historically demonstrated its ability to raise funds to satisfy its immediate cash requirements, including a \$750,000 share placement using the Company's existing placement capacity subsequent to 30 June 2019. Management have considered the future capital requirements of the Group and will consider all funding options as required; and
- the Directors have reason to believe that in addition to the cash flow currently available and expected equity fundraising, additional funds from receipts through vendor warranties of the Onwatch acquisition, refer to note 28, and research and development incentive grants will be available.

Should the Group not be able to continue as a going concern, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the Group not continue as a going concern.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets at fair value through profit or loss.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 27.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Threat Protect Australia Limited as at 30 June 2019 and the results of all subsidiaries for the year ended.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Note 2. Significant accounting policies (continued)

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Revenue recognition

The Group recognises revenue as follows:

Revenue from contracts with customers

Revenue is recognised at an amount that reflects the consideration to which the Group is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the Group: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are recognised as a refund liability.

Nature of goods and services

The following is a description of the nature and timing of the satisfaction of performance obligations and significant payment terms of the principle activities from which the Group generates revenue:

Note 2. Significant accounting policies (continued)

(a) Ongoing services

Revenue for ongoing services, such as those provided by the Group for alarm monitoring or static guarding are contracted under either fixed term or ongoing service agreements. No other products or services are bundled in such contracts. Invoices are usually payable within 30 days and no element of financing is deemed present as the services are charged within standard credit terms which is consistent with industry practice. As such, revenue is recognised over time in line with AASB 15 principle with regard to the customer simultaneously receiving and consuming all of the benefits.

(b) One-off services

Revenue for ad hoc, one-off services, such as those provided by the Group for alarm system service and maintenance are contracted under short-term, low value service agreements which do not contain multiple deliverables or performance obligations. No other products or services are bundled in such contracts. Invoices are usually payable within 30 days and no element of financing is deemed present as the services are charged within standard credit terms which is consistent with industry practice. As such, revenue is recognised at a point in time when the service agreements is complete.

(c) Equipment sales

Revenue for equipment sales, is recognised when the customers obtain control of goods. This usually occurs when the goods are delivered. No other products or services are bundled in such contracts. Invoices are usually payable within 30 days and no element of financing is deemed present as the services are charged within standard credit terms which is consistent with industry practice.

Interest

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

Other revenue

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

Income tax

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

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Note 2. Significant accounting policies (continued)

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Threat Protect Australia Limited (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated Group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated Group continue to account for their own current and deferred tax amounts. The tax consolidated Group has applied the 'separate taxpayer within Group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated Group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated Group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated Group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated Group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

Current and non-current classification

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

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Cash and cash equivalents

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

Trade and other receivables

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

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Contract assets

Contract assets are recognised when the Group has transferred goods or services to the customer but where the Group is yet to establish an unconditional right to consideration. Contract assets are treated as financial assets for impairment purposes.

Inventories

Finished goods are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

Note 2. Significant accounting policies (continued)

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Associates

Associates are entities over which the Group has significant influence but not control or joint control. Investments in associates are accounted for using the equity method. Under the equity method, the share of the profits or losses of the associate is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Investments in associates are carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. Dividends received or receivable from associates reduce the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The Group discontinues the use of the equity method upon the loss of significant influence over the associate and recognises any retained investment at its fair value. Any difference between the associate's carrying amount, fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless, an accounting mismatch is being avoided.

Financial assets at fair value through profit or loss

Financial assets not measured at amortised cost or at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss. Typically, such financial assets will be either: (i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit, or a derivative; or (ii) designated as such upon initial recognition where permitted. Fair value movements are recognised in profit or loss.

Investments

Investments includes non-derivative financial assets with fixed or determinable payments and fixed maturities where the Group has the positive intention and ability to hold the financial asset to maturity. This category excludes financial assets that are held for an undefined period. Investments are carried at amortised cost using the effective interest rate method adjusted for any principal repayments. Gains and losses are recognised in profit or loss when the asset is derecognised or impaired.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the Group's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

Plant and equipment

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

Note 2. Significant accounting policies (continued)

Depreciation is calculated on a straight-line basis to write off the net cost of each item of plant and equipment over their expected useful lives as follows:

| | |
|---------------------------|---------------|
| Plant and equipment | 1 to 15 years |
| Motor vehicles | 3 to 8 years |
| Monitoring infrastructure | 1 to 20 years |

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

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

Leases

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

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

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

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

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

Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

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.

Note 2. Significant accounting policies (continued)

Research and development

Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the Group is able to use or sell the asset; the Group has sufficient resources; and intent to complete the development and its costs can be measured reliably. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit, being their finite life of between 2 and 3 years.

Intellectual property

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

Customer contracts

Customer contracts acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 6 years.

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables

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

Contract liabilities

Contract liabilities represent the Group's obligation to transfer goods or services to a customer and are recognised when a customer pays consideration, or when the Group recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the Group has transferred the goods or services to the customer.

Borrowings

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

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

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs.

On the issue of the convertible notes the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost. The remainder of the proceeds are allocated to the conversion option that is recognised and included in shareholders equity as a convertible note reserve, net of transaction costs. The carrying amount of the conversion option is not remeasured in the subsequent years. The corresponding interest on convertible notes is expensed to profit or loss.

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

Note 2. Significant accounting policies (continued)

Provisions

Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Share-based payments

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

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

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

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

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying the Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

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

Note 2. Significant accounting policies (continued)

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

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

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

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.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Issued capital

Ordinary shares are classified as equity.

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

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.

Note 2. Significant accounting policies (continued)

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.

Earnings per share

Basic earnings per share

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

Diluted earnings per share

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

Goods and Services Tax ('GST') and other similar taxes

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

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

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

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

Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2019. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

Note 2. Significant accounting policies (continued)

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The Group will adopt this standard from 1 July 2019.

At the reporting date the Group has non-cancellable operating lease commitments of \$84,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's results and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under AASB 16.

Note 3. 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.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Revenue from contracts with customers involving sale of goods

When recognising revenue in relation to the sale of goods to customers, the key performance obligation of the Group is considered to be the point of delivery of the goods to the customer, as this is deemed to be the time that the customer obtains control of the promised goods and therefore the benefits of unimpeded access.

Determination of variable consideration

Judgement is exercised in estimating variable consideration which is determined having regard to past experience with respect to the goods returned to the Group where the customer maintains a right of return pursuant to the customer contract or where goods or services have a variable component. Revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised under the contract will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Note 3. Critical accounting judgements, estimates and assumptions (continued)

Allowance for expected credit losses

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience and historical collection rates.

Estimation of useful lives of assets

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

During the year, the Group adjusted the useful life of a portion of its customer related intangible assets from 10 years to 6 years after new information came to light regarding the average life of these assets.

Goodwill and other indefinite life intangible assets

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

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

Income tax

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

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Business combinations

As discussed in note 2, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the Group taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

Two key estimates were relevant for the business combinations.

1. Key estimate relating to customer related contracts

The fair value of customer related intangible assets was determined by calculating the present value of expected future cash flows relating to the customer base as at acquisition date by applying a discount rate of 9%. The total fair value of customer related intangible assets acquired was \$20,979,000.

Note 3. Critical accounting judgements, estimates and assumptions (continued)

2. Key estimate relating to contingent consideration

The Group has estimated these amounts based on management's best judgement as to the actual expected outcome for this component over the period of twelve months from acquisition date, 30 April 2019. The amount of \$962,000 is management's estimate of the final consideration payable and relates to actual customer numbers expected within 12 months of acquisition date. The amount of \$962,000 is management's estimate of the total consideration payable at that date (30 June 2018: nil). It is considered to be highly unlikely that actual contingent consideration will be higher than these amounts due to the nature of the contractual terms which they are based on.

Capitalised development costs

Development costs have been capitalised as development assets in accordance with the accounting policy detailed in note 2. As at the reporting date management has assessed that all of the net capitalised development expenditure carried forward, comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads.

Note 4. Operating segments

Identification of reportable operating segments

The Group operates predominantly in the security services industry, providing security alarm monitoring and installations as well as security guarding services across Australia.

The Group has identified its operating segments based on the internal reports that are provided to the Board on a monthly basis that are used in determining the allocation of resources across the Group. Management has identified the operating segments of the Group based on the three distinctive types of services provided by the Group – security alarm and CCTV monitoring ("Monitoring"), security guarding and personnel services ("Protective services") and Alarm and CCTV installation and maintenance services ("Service").

Unless stated otherwise, all amounts reported to the Board, being the chief decision makers with respect to operating segments, are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group

Intersegment transactions

An internally determined transfer price is set for all inter-segment sales. This price is based on what would be realised in the event that the sale or services 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 recognised in "All other segments" which contains the treasury and oversight functions of the Group.

Intersegment receivables, payables and loans

Where an asset is used across multiple segments, the asset is allocated to the segment that receives majority economic value from that asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Liabilities are allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment. Segment liabilities include trade and other payables and certain direct borrowings.

Unallocated items

Any items noted below as "unallocated" are not allocated to operating segments as they are not considered part of the core operations of any segment in particular.

Note 4. Operating segments (continued)

Operating segment information

| Consolidated - 2019 | Monitoring \$'000 | Protective services \$'000 | Services \$'000 | Total \$'000 |
|--|----------------------|----------------------------------|--------------------|-----------------|
| Revenue | | | | |
| Sales to external customers | 14,201 | 4,605 | 935 | 19,741 |
| Total revenue | <u>14,201</u> | <u>4,605</u> | <u>935</u> | <u>19,741</u> |
| Segment result | | | | |
| Other income including interest received | 2,766 | 199 | (699) | 2,266 |
| Administration expenses | | | | 891 |
| Business acquisition and integration costs | | | | (2,671) |
| Compliance and regulatory costs | | | | (3,878) |
| Legal and consulting fees | | | | (613) |
| Marketing and business development | | | | (46) |
| Occupancy costs | | | | (758) |
| Impairment of receivables | | | | (266) |
| Impairment of assets | | | | (200) |
| Share-based payments | | | | (5,236) |
| Finance costs | | | | (227) |
| Loss before income tax benefit | | | | <u>(2,820)</u> |
| Income tax benefit | | | | (13,558) |
| Loss after income tax benefit | | | | <u>2,937</u> |
| | | | | <u>(10,621)</u> |
| Assets | | | | |
| Segment assets | 67,876 | 492 | 24 | 68,392 |
| <i>Unallocated assets:</i> | | | | |
| Various | | | | 3,767 |
| Total assets | | | | <u>72,159</u> |
| Liabilities | | | | |
| Segment liabilities | 4,614 | 60 | - | 4,674 |
| <i>Unallocated liabilities:</i> | | | | |
| Various | | | | 57,070 |
| Total liabilities | | | | <u>61,744</u> |

Note 4. Operating segments (continued)

| Consolidated - 2018 | Monitoring \$'000 | Protective services \$'000 | Services \$'000 | Total \$'000 |
|--|----------------------|----------------------------------|--------------------|-----------------|
| Revenue | | | | |
| Sales to external customers | 8,567 | 4,962 | 1,154 | 14,683 |
| Total revenue | <u>8,567</u> | <u>4,962</u> | <u>1,154</u> | <u>14,683</u> |
| Segment result | <u>2,257</u> | <u>(493)</u> | <u>438</u> | 2,202 |
| Other income including interest received | | | | 927 |
| Administration expenses | | | | (2,244) |
| Business acquisition and integration costs | | | | (925) |
| Compliance and regulatory costs | | | | (339) |
| Legal and consulting fees | | | | (43) |
| Marketing and business development | | | | (494) |
| Occupancy costs | | | | (271) |
| Impairment of receivables | | | | (186) |
| Impairment of assets | | | | (642) |
| Share-based payments | | | | (550) |
| Finance costs | | | | (1,069) |
| Loss before income tax benefit | | | | <u>(3,634)</u> |
| Income tax benefit | | | | 388 |
| Loss after income tax benefit | | | | <u>(3,246)</u> |
| Assets | | | | |
| Segment assets | <u>29,726</u> | <u>588</u> | <u>35</u> | 30,349 |
| <i>Unallocated assets:</i> | | | | |
| Various | | | | 3,508 |
| Total assets | | | | <u>33,857</u> |
| Liabilities | | | | |
| Segment liabilities | <u>5,469</u> | <u>419</u> | <u>-</u> | 5,888 |
| <i>Unallocated liabilities:</i> | | | | |
| Various | | | | 26,288 |
| Total liabilities | | | | <u>32,176</u> |

Note 5. Revenue

Disaggregation of revenue

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

| | Consolidated 2019 \$'000 |
|---|---|
| <i>Major product lines</i> | |
| Ongoing services | 17,420 |
| One-off services | 1,694 |
| Equipment sales | 627 |
| | <u>19,741</u> |
| <i>Geographical regions</i> | |
| Australia | <u>19,741</u> |
| <i>Timing of revenue recognition</i> | |
| Services transferred at a point in time | 2,321 |
| Services transferred over time | 17,420 |
| | <u>19,741</u> |

Note 6. Other income

| | Consolidated 2019 \$'000 | 2018 \$'000 |
|---|---|------------------------|
| Net fair value gain on financial instruments | 24 | - |
| Net gain on disposal of intangible assets | - | 28 |
| Net gain on disposal of property, plant and equipment | - | 7 |
| Net gain on disposal of investments | 284 | - |
| Net gain on settlement of contingent consideration | 428 | 834 |
| Dividends received | - | 7 |
| Recovery of bad debts | 48 | - |
| Other income | 17 | 20 |
| | <u>801</u> | <u>896</u> |
| Other income | <u>801</u> | <u>896</u> |

Note 7. Expenses

| | Consolidated | |
|--|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Loss before income tax includes the following specific expenses: | | |
| <i>Depreciation</i> | | |
| Plant and equipment | 62 | 46 |
| Motor vehicles | 23 | 25 |
| Monitoring infrastructure | 187 | 179 |
| | <hr/> | <hr/> |
| Total depreciation | 272 | 250 |
| <i>Amortisation</i> | | |
| Development assets | 358 | 28 |
| Intellectual property | 2 | 2 |
| Customer contracts | 4,335 | 1,582 |
| | <hr/> | <hr/> |
| Total amortisation | 4,695 | 1,612 |
| Total depreciation and amortisation | <hr/> | <hr/> |
| | 4,967 | 1,862 |
| <i>Impairment</i> | | |
| Goodwill | 5,236 | 642 |
| Receivables | 200 | 186 |
| | <hr/> | <hr/> |
| Total impairment | 5,436 | 828 |
| <i>Finance costs</i> | | |
| Interest and finance charges paid/payable | 2,820 | 1,069 |
| | <hr/> | <hr/> |
| <i>Rental expense relating to operating leases</i> | | |
| Minimum lease payments | 591 | 457 |
| | <hr/> | <hr/> |
| <i>Superannuation expense</i> | | |
| Defined benefit superannuation expense | 240 | 172 |
| | <hr/> | <hr/> |
| <i>Share-based payments expense</i> | | |
| Share-based payments expense | 227 | 550 |
| | <hr/> | <hr/> |
| <i>Employee benefits expense excluding superannuation</i> | | |
| Employee benefits expense excluding superannuation | 8,553 | 5,767 |
| | <hr/> | <hr/> |

Note 8. Income tax

| | Consolidated | |
|---|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| <i>Income tax benefit</i> | | |
| Current tax | 44 | - |
| Deferred tax - origination and reversal of temporary differences | (2,981) | (388) |
| Aggregate income tax benefit | <u>(2,937)</u> | <u>(388)</u> |
| Deferred tax included in income tax benefit comprises: | | |
| Decrease in deferred tax liabilities | (2,981) | (388) |
| <i>Numerical reconciliation of income tax benefit and tax at the statutory rate</i> | | |
| Loss before income tax benefit | (13,558) | (3,634) |
| Tax at the statutory tax rate of 27.5% | (3,728) | (999) |
| Tax effect amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Deductible equity raising costs | (39) | (26) |
| Non-deductible expenses | 525 | 533 |
| Non-assessable income | (116) | (299) |
| Impairment of assets | 1,440 | 177 |
| Tax offset for franked dividends | (29) | (10) |
| Other assessable income | 8 | 8 |
| Deferred tax impact of capitalised R&D expenditure | (221) | 333 |
| | (2,160) | (283) |
| Prior year tax losses not recognised now recouped | (26) | - |
| Prior year temporary differences not recognised now recognised | (505) | (75) |
| Over provision for prior year | (246) | (30) |
| Income tax benefit | <u>(2,937)</u> | <u>(388)</u> |
| | Consolidated | |
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| <i>Amounts charged/(credited) directly to equity</i> | | |
| Deferred tax liabilities | (28) | 25 |
| <i>Tax losses not recognised</i> | | |
| Unused revenue and capital losses for which no deferred tax asset has been recognised | 3,362 | 5,293 |
| Potential tax benefit @ 27.5% | 925 | 1,456 |

The above potential tax benefit for tax losses has not been recognised in the statement of financial position. These tax losses can only be utilised in the future if the continuity of ownership test is passed, or failing that, the same business test is passed.

Note 8. Income tax (continued)

| | Consolidated | |
|---|---------------------|----------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| <i>Deferred tax asset</i> | | |
| Deferred tax asset comprises temporary differences attributable to: | | |
| Amounts recognised in profit or loss: | | |
| Tax losses | 1,991 | 576 |
| Employee benefits | 436 | 220 |
| Accrued expenses | 338 | 271 |
| Capital raising costs | 125 | 96 |
| Other deferred tax assets | 16 | 20 |
| Set-off deferred tax liabilities | <u>(2,906)</u> | <u>(1,183)</u> |
| Deferred tax asset | <u>-</u> | <u>-</u> |
| | | |
| | Consolidated | |
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| <i>Deferred tax liability</i> | | |
| Deferred tax liability comprises temporary differences attributable to: | | |
| Amounts recognised in profit or loss: | | |
| Prepayments | - | 10 |
| Intangible assets | 9,852 | 5,372 |
| Investments | 13 | - |
| Set-off of deferred tax assets | <u>(2,906)</u> | <u>(1,183)</u> |
| Deferred tax liability | <u>6,959</u> | <u>4,199</u> |
| | | |
| Movements: | | |
| Opening balance | 4,199 | 1,638 |
| Credited to profit or loss | (2,981) | (388) |
| Charged/(credited) to equity | (28) | 25 |
| Additions through business combinations (note 28) | <u>5,769</u> | <u>2,924</u> |
| Closing balance | <u>6,959</u> | <u>4,199</u> |

Note 9. Trade and other receivables

| | Consolidated | |
|--|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| <i>Current assets</i> | | |
| Trade receivables | 2,952 | 2,111 |
| Less: Allowance for expected credit losses | <u>(579)</u> | <u>(127)</u> |
| | <u>2,373</u> | <u>1,984</u> |
| | | |
| Other receivables | 109 | 74 |
| Government grants receivable | - | 911 |
| GST receivable | <u>-</u> | <u>6</u> |
| | <u>2,482</u> | <u>2,975</u> |

Note 9. Trade and other receivables (continued)

Allowance for expected credit losses

The Group has recognised a loss of \$200,000 (2018: \$186,000) in profit or loss in respect of the expected credit losses for the year ended 30 June 2019.

The ageing of the receivables and allowance for expected credit losses provided for above are as follows:

| Consolidated | Expected credit loss rate | | Carrying amount | | Allowance for expected credit losses | |
|-------------------------|---------------------------|-----------|-----------------|----------------|--------------------------------------|----------------|
| | 2019 % | 2018 % | 2019 \$'000 | 2018 \$'000 | 2019 \$'000 | 2018 \$'000 |
| Not overdue | 0.4% | 0.4% | 827 | 1,037 | 3 | 4 |
| 0 to 90 days overdue | 1.0% | 1.0% | 1,239 | 626 | 12 | 6 |
| 90 to 180 days overdue | 5.8% | 10.9% | 141 | 164 | 8 | 18 |
| 180 to 365 days overdue | 49.8% | 52.9% | 377 | 136 | 188 | 72 |
| 365 days overdue | 100.0% | 100.0% | 368 | 148 | 368 | 148 |
| | | | <u>2,952</u> | <u>2,111</u> | <u>579</u> | <u>248</u> |

Existing loss allowance at 30 June 2018 under AASB 139 \$126,000.

Additional allowance recognised through opening retained earnings due to adoption of AASB 9 \$122,000.

Movements in the allowance for expected credit losses are as follows:

| | Consolidated | |
|--|----------------|----------------|
| | 2019 \$'000 | 2018 \$'000 |
| Opening balance | 127 | 539 |
| Additional provisions recognised | 91 | (245) |
| Additions through business combinations | 239 | - |
| Receivables written off during the year as uncollectable | - | (191) |
| Other adjustments | 122 | 24 |
| Closing balance | <u>579</u> | <u>127</u> |

Note 10. Contract assets

| | Consolidated | |
|-----------------------|----------------|----------------|
| | 2019 \$'000 | 2018 \$'000 |
| <i>Current assets</i> | | |
| Contract assets | <u>216</u> | <u>242</u> |

Reconciliation

Reconciliation of the written down values at the beginning and end of the current and previous financial year are set out below:

| | | |
|-------------------------------|--------------|--------------|
| Opening balance | 242 | 133 |
| Additions | 216 | 242 |
| Transfer to trade receivables | <u>(242)</u> | <u>(133)</u> |
| Closing balance | <u>216</u> | <u>242</u> |

Note 11. Other

| | Consolidated | |
|--|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| <i>Current assets</i> | | |
| Prepayments | 132 | 430 |
| Security deposits | 229 | 153 |
| Funds in escrow in relation to SAMS deferred consideration payment | - | 800 |
| | 361 | 1,383 |
| <i>Non-current assets</i> | | |
| Prepayments | 173 | - |
| | 173 | - |

Note 12. Property, plant and equipment

| | Consolidated | |
|-------------------------------------|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| <i>Non-current assets</i> | | |
| Plant and equipment - at cost | 776 | 695 |
| Less: Accumulated depreciation | (420) | (358) |
| | 356 | 337 |
| Motor vehicles - at cost | 123 | 123 |
| Less: Accumulated depreciation | (100) | (77) |
| | 23 | 46 |
| Monitoring infrastructure - at cost | 1,234 | 1,168 |
| Less: Accumulated depreciation | (720) | (533) |
| | 514 | 635 |
| | 893 | 1,018 |

Reconciliations

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

| Consolidated | Plant and equipment \$'000 | Motor vehicles \$'000 | Monitoring infrastructure \$'000 | Total \$'000 |
|-------------------------|---|--------------------------------------|---|-------------------------|
| Balance at 1 July 2017 | 39 | 86 | 593 | 718 |
| Additions | 344 | 31 | 221 | 596 |
| Disposals | - | (46) | - | (46) |
| Depreciation expense | (46) | (25) | (179) | (250) |
| | 337 | 46 | 635 | 1,018 |
| Balance at 30 June 2018 | 337 | 46 | 635 | 1,018 |
| Additions | 81 | - | 66 | 147 |
| Depreciation expense | (62) | (23) | (187) | (272) |
| | 356 | 23 | 514 | 893 |
| Balance at 30 June 2019 | 356 | 23 | 514 | 893 |

Property, plant and equipment secured under finance leases

Refer to note 25 for further information on property, plant and equipment secured under finance leases.

Note 13. Intangibles

| | Consolidated | |
|---------------------------------|----------------------|----------------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| <i>Non-current assets</i> | | |
| Goodwill - at cost | 30,706 | 6,689 |
| Less: Accumulated impairment | (5,878) | (642) |
| | <u>24,828</u> | <u>6,047</u> |
| Development assets - at cost | 5,307 | 2,334 |
| Less: Accumulated amortisation | (419) | (61) |
| | <u>4,888</u> | <u>2,273</u> |
| Intellectual property - at cost | 23 | 17 |
| Less: Accumulated amortisation | (5) | (3) |
| | <u>18</u> | <u>14</u> |
| Customer contracts - at cost | 43,608 | 21,450 |
| Less: Accumulated amortisation | (6,805) | (2,470) |
| Less: Accumulated impairment | (828) | (828) |
| | <u>35,975</u> | <u>18,152</u> |
| | <u><u>65,709</u></u> | <u><u>26,486</u></u> |

Reconciliations

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

| Consolidated | Goodwill \$'000 | Development assets \$'000 | Intellectual property \$'000 | Customer contracts \$'000 | Total \$'000 |
|--|----------------------|---------------------------------|------------------------------------|---------------------------------|----------------------|
| Balance at 1 July 2017 | 4,201 | 1,042 | 16 | 8,342 | 13,601 |
| Additions | 2,488 | 2,144 | - | 11,391 | 16,023 |
| Government grant income not recognisable (net of amount realised during the period) | - | (885) | - | - | (885) |
| Impairment of assets | (642) | - | - | - | (642) |
| Amortisation expense | - | (28) | (2) | (1,581) | (1,611) |
| | <u>6,047</u> | <u>2,273</u> | <u>14</u> | <u>18,152</u> | <u>26,486</u> |
| Balance at 30 June 2018 | 6,047 | 2,273 | 14 | 18,152 | 26,486 |
| Additions | - | 2,973 | 6 | 1,179 | 4,158 |
| Additions through business combinations (note 28) | 24,017 | - | - | 20,979 | 44,996 |
| Impairment of assets | (5,236) | - | - | - | (5,236) |
| Amortisation expense | - | (358) | (2) | (4,335) | (4,695) |
| | <u>24,828</u> | <u>4,888</u> | <u>18</u> | <u>35,975</u> | <u>65,709</u> |
| Balance at 30 June 2019 | <u><u>24,828</u></u> | <u><u>4,888</u></u> | <u><u>18</u></u> | <u><u>35,975</u></u> | <u><u>65,709</u></u> |

Note 13. Intangibles (continued)

Impairment testing

The carrying amount of goodwill, net of impairment, has been allocated to the following cash-generating units ('CGUs'):

| | Consolidated | |
|--------------------|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Monitoring: | | |
| Threat Protect | 4,464 | 4,464 |
| South Australia | 1,583 | 1,583 |
| Onwatch | 18,781 | - |
| | <u>24,828</u> | <u>6,047</u> |

During the year, the Group undertook a review of its determination of the CGUs. Previously all assets relating to the monitoring segment of the business were allocated to one CGU being the Threat Protect monitoring CGU. With the acquisition of Onwatch Pty Ltd and associated restructure, CGU's and aggregate carrying amounts were reallocated to fall in line with the Group operations, management and reporting changes. This resulted in the one Threat Protect monitoring CGU being split into three monitoring CGUs as detailed above. Comparatives have been reclassified accordingly to align with the new CGUs.

The recoverable amount of the Group's goodwill has been determined by a value-in-use calculation using a discounted cash flow model, based on a three year projection period approved by management and extrapolated for a further two years using a steady rate, together with a terminal value.

Key assumptions are those to which the recoverable amount of an asset or CGU is most sensitive.

The following key assumptions were used in the discounted cash flow models for each CGU:

| | Projected revenue growth rate 2019 % | Projected revenue growth rate 2018 % | Net margin 2019 % | Net margin 2018 % | Pre-tax discount rate 2019 % | Pre-tax discount rate 2018 % | Terminal growth rate 2019 % | Terminal growth rate 2018 % |
|--------------------|--|--|-------------------------|-------------------------|--|--|--------------------------------------|--------------------------------------|
| Monitoring: | | | | | | | | |
| Threat Protect | 3.0% | 3.0% | 29.0% | 25.0% | 12.9% | 12.5% | 1.6% | 2.2% |
| South Australia | 3.0% | 3.0% | 22.0% | 25.0% | 12.9% | 12.5% | 1.6% | 2.3% |
| Onwatch | 3.0% | - | 42.0% | - | 12.9% | - | 1.6% | - |

Note 13. Intangibles (continued)

Management have determined the values assigned to each of these assumptions as follows:

| Assumption | Approach used to determine values |
|-------------------------------|---|
| Projected revenue growth rate | Management believes the projected revenue growth rate is prudent and justified, based on the expected industry and organic growth. |
| Net margin | <p>Net margin for Threat Protect monitoring CGU is above the prior year average net margin for monitoring as a result of allocation of overheads to the CGU.</p> <p>The net margin for South Australia monitoring CGU is below the prior year average net margin for monitoring as a result of allocation of overheads to the CGU.</p> <p>The net margin for Onwatch monitoring CGU is based on pre-acquisition levels and is higher than other CGUs due to a different customer mix.</p> |
| Pre-tax discount rate | Pre-tax discount rate reflects management's estimate of the time value of money and the Group's weighted average cost of capital adjusted for the specific CGU, the risk free rate and the volatility of the share price relative to market movements. |
| Terminal growth rate | The terminal growth rate is considered prudent and is justified as in line with the expected long-term industry growth. |

Based on the above, the recoverable amount of the Threat Protect monitoring CGU and South Australia monitoring CGU exceeded their carrying amounts by \$2,250,000 and \$1,292,000 respectively. However, an impairment charge of \$5,236,000 has been applied as the carrying amount of goodwill exceeded its recoverable amount for the Onwatch monitoring CGU.

Sensitivity

As disclosed in note 3, the directors have made judgements and estimates in respect of impairment testing of goodwill. Should these judgements and estimates not occur the resulting goodwill carrying amount may decrease. The sensitivities are as follows:

- revenue would need to decrease by more than 1.6% for the Threat Protect or South Australia monitoring CGUs before goodwill would need to be impaired, with all other assumptions remaining constant;
- the pre-tax discount rate would be required to increase by 1.5% for the Threat Protect or South Australia monitoring CGUs before goodwill would need to be impaired, with all other assumptions remaining constant;
- net margin would need to decrease by more than 3.3% for the Threat Protect monitoring CGU or 2.4% for the South Australia monitoring CGU before goodwill would need to be impaired, with all other assumptions remaining constant; and
- terminal growth rate would need to decrease by more than 2.3% for the Threat Protect monitoring CGU or 2% for the South Australia monitoring CGU before goodwill would need to be impaired, with all other assumptions remaining constant.

If there are any negative changes in the key assumptions on which the recoverable amount of Onwatch monitoring CGU's goodwill is based, this would result in a further impairment charge.

Note 14. Trade and other payables

| | Consolidated | |
|----------------------------|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| <i>Current liabilities</i> | | |
| Trade payables | 2,638 | 1,200 |
| Contingent consideration | 1,700 | 2,448 |
| Accrued expenses | 1,932 | 1,618 |
| Interest payable | 161 | 423 |
| GST payable | 2,609 | 446 |
| Other payables | 858 | 222 |
| | 9,898 | 6,357 |
| | 9,898 | 6,357 |

Refer to note 20 for further information on financial instruments.

Note 15. Contract liabilities

| | Consolidated | |
|----------------------------|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| <i>Current liabilities</i> | | |
| Contract liabilities | 661 | 381 |
| | 661 | 381 |

Reconciliation

Reconciliation of the written down values at the beginning and end of the current and previous financial year are set out below:

| | | |
|---|-------|------|
| Opening balance | 381 | 36 |
| Additions through business combinations (note 28) | 898 | 355 |
| Transfer to revenue - included in the opening balance | (381) | (36) |
| Transfer to revenue - other balances | (237) | 26 |
| | 661 | 381 |
| Closing balance | 661 | 381 |

Unsatisfied performance obligations

The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied at the end of the reporting period was \$661,000 as at 30 June 2019 (\$381,000 as at 30 June 2018) and is expected to be recognised as revenue in future periods as follows:

| | Consolidated | |
|-----------------|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Within 6 months | 525 | 332 |
| 6 to 12 months | 136 | 49 |
| | 661 | 381 |
| | 661 | 381 |

Note 16. Borrowings

| | Consolidated | |
|--|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| <i>Current liabilities</i> | | |
| Bank borrowings - Macquarie Bank | - | 3,113 |
| Other short-term borrowings | 96 | 93 |
| Borrowings - Soliton | 1,000 | - |
| Hire purchase | 70 | 138 |
| | 1,166 | 3,344 |
| <i>Non-current liabilities</i> | | |
| Unsecured note - First Samuel | 8,173 | - |
| Borrowings - Soliton | 35,233 | - |
| Capitalised borrowing costs | (2,168) | - |
| Debenture - First Samuel Limited | - | 8,000 |
| Convertible notes - First Samuel Limited | - | 8,943 |
| | 41,238 | 16,943 |

Refer to note 20 for further information on financial instruments.

To facilitate the acquisition of Onwatch Pty Ltd in April 2019, the Group restructured its debt arrangements by entering into a \$36,000,000 Note Subscription Agreement arranged by Soliton Capital Partners Pty Ltd and has also signed a new \$8,000,000 unsecured debt facility with First Samuel Limited.

Assets pledged as security

Bank borrowings are secured over the general property of the Group.

Note 16. Borrowings (continued)

Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit:

| | Consolidated | |
|--|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Total facilities | | |
| Bank borrowings - Macquarie Bank | - | 14,000 |
| Other short-term borrowings | 96 | 93 |
| Borrowings - Soliton | 36,233 | - |
| Hire purchase | 70 | 138 |
| Unsecured note - First Samuel | 8,173 | - |
| Debenture - First Samuel Limited | - | 8,000 |
| Convertible notes - First Samuel Limited | - | 9,000 |
| Bank guarantee | - | 200 |
| | 44,572 | 31,431 |
| Used at the reporting date | | |
| Bank borrowings - Macquarie Bank | - | 3,113 |
| Other short-term borrowings | 96 | 93 |
| Borrowings - Soliton | 36,233 | - |
| Hire purchase | 70 | 138 |
| Unsecured note - First Samuel | 8,173 | - |
| Debenture - First Samuel Limited | - | 8,000 |
| Convertible notes - First Samuel Limited | - | 8,943 |
| Bank guarantee | - | - |
| | 44,572 | 20,287 |
| Unused at the reporting date | | |
| Bank borrowings - Macquarie Bank | - | 10,887 |
| Other short-term borrowings | - | - |
| Borrowings - Soliton | - | - |
| Hire purchase | - | - |
| Unsecured note - First Samuel | - | - |
| Debenture - First Samuel Limited | - | - |
| Convertible notes - First Samuel Limited | - | 57 |
| Bank guarantee | - | 200 |
| | - | 11,144 |

Note 17. Provisions

| | Consolidated | |
|--------------------------------|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| <i>Current liabilities</i> | | |
| Employee benefits provision | 1,305 | 822 |
| Restructuring provision | 189 | - |
| | 1,494 | 822 |
| <i>Non-current liabilities</i> | | |
| Employee benefits provision | 328 | 130 |

Note 17. Provisions (continued)

Restructuring

The provision represents the estimated costs to sell or terminate a line of business, close or relocate a business location, change the management structure or other fundamental reorganisations that has a material effect on the Group. The provision is recognised once the detailed restructuring plan has been drawn up by management and communicated to the public and those affected by the plans.

Movements in provisions

Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

| Consolidated - 2019 | Restructuring \$'000 |
|--|---------------------------------|
| Carrying amount at the start of the year | - |
| Additional provisions recognised | 189 |
| Carrying amount at the end of the year | <u>189</u> |

Note 18. Issued capital

| | 2019 Shares | Consolidated 2018 Shares | 2019 \$'000 | 2018 \$'000 |
|------------------------------|------------------------|---|------------------------|------------------------|
| Ordinary shares - fully paid | <u>205,643,778</u> | <u>111,631,634</u> | <u>33,981</u> | <u>14,731</u> |

Movements in ordinary share capital

| Details | Date | Shares | Issue price | \$'000 |
|--|-------------------|--------------------|--------------------|---------------|
| Balance | 1 July 2017 | 779,423,331 | | 14,710 |
| Issue of shares on exercise of options | 28 August 2017 | 2,000,000 | \$0.03 | 50 |
| Share consolidation | 29 November 2017 | (669,791,697) | \$0.00 | - |
| Transaction costs | | - | \$0.00 | (4) |
| Movement in tax balance | | - | \$0.00 | (25) |
| Balance | 30 June 2018 | 111,631,634 | | 14,731 |
| Options exercised | 17 September 2018 | 14,285,703 | \$0.17 | 2,500 |
| Shares issued | 15 January 2019 | 4,761,905 | \$0.21 | 1,000 |
| Shares issued | 4 April 2019 | 21,779,662 | \$0.25 | 5,445 |
| Shares on acquisition of Onwatch Pty Ltd | 30 April 2019 | 8,000,000 | \$0.25 | 1,520 |
| Shares issued on conversion of convertible notes | 30 April 2019 | 42,857,143 | \$0.21 | 9,000 |
| Employee share scheme shares issued | 4 June 2019 | 2,327,731 | \$0.00 | - |
| Transaction costs | | - | \$0.00 | (187) |
| Movement in tax balance | | - | \$0.00 | (28) |
| Balance | 30 June 2019 | <u>205,643,778</u> | | <u>33,981</u> |

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. 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.

Share buy-back

There is no current on-market share buy-back.

Note 18. Issued capital (continued)

Capital risk management

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

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

The Group would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current Company's share price at the time of the investment. The Group is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The Group is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

The capital risk management policy remains unchanged from the 30 June 2018 Annual Report.

Note 19. Reserves

| | Consolidated | |
|------------------------------|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Share-based payments reserve | 1,874 | 1,647 |

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.

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

| Consolidated | Share-based payments \$'000 |
|-----------------------------|--|
| Balance at 1 July 2017 | 1,147 |
| Share-based payment expense | 500 |
| Balance at 30 June 2018 | 1,647 |
| Share-based payment expense | 227 |
| Balance at 30 June 2019 | 1,874 |

Note 20. Financial instruments

Financial risk management objectives

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

Note 20. Financial instruments (continued)

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the Group and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the Group's operating units. Finance reports to the Board on a monthly basis.

Market risk

Foreign currency risk

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

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

Price risk

The Group is not exposed to any significant price risk.

Interest rate risk

The Group's main interest rate risk arises from long-term borrowings. Borrowings obtained at variable rates expose the Group to interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk.

As at the reporting date, the Group had the following variable rate borrowings outstanding:

| Consolidated | 2019 | | 2018 | |
|--|----------------------------------|----------------|----------------------------------|----------------|
| | Weighted average interest rate % | Balance \$'000 | Weighted average interest rate % | Balance \$'000 |
| Loans* | 11.15% | 44,406 | 7.17% | 20,477 |
| Net exposure to cash flow interest rate risk | | <u>44,406</u> | | <u>20,477</u> |

* Excludes capitalised borrowing costs

An analysis by remaining contractual maturities is shown in 'liquidity and interest rate risk management' below.

For the Group the loans outstanding, totalling \$44,406,000 (2018: \$20,477,000), are principal and interest payment loans. Quarterly cash outlays of approximately \$700,000 per quarter are required to service the interest payments. An official increase/decrease in interest rates of 100 basis points would have an adverse/favourable effect on profit before tax of \$444,058 (2018: \$204,767) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysts forecasts. In addition, minimum principal repayments of \$1,000,000 due during the year ending 30 June 2020.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The Group obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The Group does not hold any collateral.

The Group has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the Group based on recent sales experience, historical collection rates and forward-looking information that is available.

Note 20. Financial instruments (continued)

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

Liquidity risk

Vigilant liquidity risk management requires the Group to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

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

Financing arrangements

Unused borrowing facilities at the reporting date:

| | Consolidated | |
|--|----------------|----------------|
| | 2019 \$'000 | 2018 \$'000 |
| Bank borrowings - Macquarie Bank | - | 10,887 |
| Convertible notes - First Samuel Limited | - | 57 |
| Bank guarantee | - | 200 |
| | - | 11,144 |

Remaining contractual maturities

The following tables detail the Group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

| Consolidated - 2019 | Weighted average interest rate % | 1 year or less \$'000 | Between 1 and 2 years \$'000 | Between 2 and 5 years \$'000 | Over 5 years \$'000 | Remaining contractual maturities \$'000 |
|--------------------------------------|---|--------------------------|------------------------------------|------------------------------------|------------------------|--|
| Non-derivatives | | | | | | |
| <i>Non-interest bearing</i> | | | | | | |
| Trade payables | - | 2,638 | - | - | - | 2,638 |
| Deferred consideration | - | 1,700 | - | - | - | 1,700 |
| Other payables | - | 858 | - | - | - | 858 |
| Interest payable | - | 161 | - | - | - | 161 |
| <i>Interest-bearing - variable</i> | | | | | | |
| Soliton borrowings | 11.75% | 1,000 | 2,000 | 33,233 | - | 36,233 |
| First Samuel unsecured notes | 8.49% | - | - | 8,173 | - | 8,173 |
| <i>Interest-bearing - fixed rate</i> | | | | | | |
| Short term borrowings | - | - | 96 | - | - | 96 |
| Total non-derivatives | | 6,357 | 2,096 | 41,406 | - | 49,859 |

Note 20. Financial instruments (continued)

| Consolidated - 2018 | Weighted average interest rate % | 1 year or less \$'000 | Between 1 and 2 years \$'000 | Between 2 and 5 years \$'000 | Over 5 years \$'000 | Remaining contractual maturities \$'000 |
|--------------------------------------|---|--------------------------|------------------------------------|------------------------------------|------------------------|--|
| Non-derivatives | | | | | | |
| <i>Non-interest bearing</i> | | | | | | |
| Trade payables | - | 1,200 | - | - | - | 1,200 |
| Deferred consideration | - | 2,448 | - | - | - | 2,448 |
| Other payables | - | 222 | - | - | - | 222 |
| Interest payable | - | 423 | - | - | - | 423 |
| <i>Interest-bearing - variable</i> | | | | | | |
| Bank loans | 5.96% | 3,206 | - | - | - | 3,206 |
| Hire purchase | - | 138 | - | - | - | 138 |
| <i>Interest-bearing - fixed rate</i> | | | | | | |
| Bank loans | 7.42% | - | 16,943 | - | - | 16,943 |
| Total non-derivatives | | <u>7,637</u> | <u>16,943</u> | <u>-</u> | <u>-</u> | <u>24,580</u> |

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

Fair value of financial instruments

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

Note 21. Fair value measurement

Fair value hierarchy

The following tables detail the Group'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

| Consolidated - 2019 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|---|-------------------|-------------------|-------------------|-----------------|
| Assets | | | | |
| Financial assets at fair value through profit or loss | - | - | 155 | 155 |
| Total assets | <u>-</u> | <u>-</u> | <u>155</u> | <u>155</u> |
| Liabilities | | | | |
| Contingent consideration | - | - | 1,700 | 1,700 |
| Total liabilities | <u>-</u> | <u>-</u> | <u>1,700</u> | <u>1,700</u> |
| Consolidated - 2018 | | | | |
| Assets | | | | |
| Financial assets at fair value through profit or loss | - | - | 118 | 118 |
| Total assets | <u>-</u> | <u>-</u> | <u>118</u> | <u>118</u> |
| Liabilities | | | | |
| Contingent consideration | - | - | 2,448 | 2,448 |
| Total liabilities | <u>-</u> | <u>-</u> | <u>2,448</u> | <u>2,448</u> |

Note 21. Fair value measurement (continued)

There were no transfers between levels during the financial year.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

Valuation techniques for fair value measurements categorised within level 2 and level 3

Unquoted investments have been valued using a discounted cash flow model.

The fair value of contingent consideration payable is management's estimate of the final consideration payable for each customer and business acquisition and relates to actual customer numbers and revenues expected within 12 months of acquisition date, less amounts already paid.

Level 3 assets and liabilities

Movements in level 3 assets and liabilities during the current and previous financial year are set out below:

| Consolidated | Financial assets at fair value through profit or loss \$'000 | Contingent consideration \$'000 |
|--|--|---------------------------------------|
| Balance at 1 July 2017 | - | 3,204 |
| Additions | 118 | 1,951 |
| Payments | - | (1,873) |
| Net gain on settlement of contingent consideration | - | (834) |
| | <hr/> | <hr/> |
| Balance at 30 June 2018 | 118 | 2,448 |
| Additions | 13 | 2,191 |
| Payments | - | (2,511) |
| Net fair value gain on financial instruments | 24 | - |
| Net gain on settlement of contingent consideration | - | (428) |
| | <hr/> | <hr/> |
| Balance at 30 June 2019 | <u>155</u> | <u>1,700</u> |

Note 22. Key management personnel disclosures

Compensation

The aggregate compensation made to directors and other members of key management personnel of the Group is set out below:

| | Consolidated 2019 | Consolidated 2018 |
|------------------------------|------------------------------|------------------------------|
| | \$ | \$ |
| Short-term employee benefits | 964,246 | 900,359 |
| Post-employment benefits | 92,048 | 76,126 |
| Share-based payments | 146,250 | 500,000 |
| | <hr/> | <hr/> |
| | <u>1,202,544</u> | <u>1,476,485</u> |

Note 23. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by BDO Audit (WA) Pty Ltd, the auditor of the Company:

| | Consolidated | |
|---|--------------|---------|
| | 2019 | 2018 |
| | \$ | \$ |
| <i>Audit services - BDO Audit (WA) Pty Ltd</i> | | |
| Audit or review of the financial statements | 142,733 | 116,938 |
| <i>Other services</i> | | |
| Corporate finance services (BDO Corporate Finance (WA) Pty Ltd) | - | 28,662 |
| R&D tax incentive purposes (BDO Corporate Tax (WA) Pty Ltd) | 5,000 | 30,090 |
| | 5,000 | 58,752 |
| | 147,733 | 175,690 |

Note 24. Contingent liabilities

The Group had no contingent liabilities as at 30 June 2019 and 30 June 2018.

Note 25. Commitments

| | Consolidated | |
|---|--------------|--------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| <i>Lease commitments - operating</i> | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | 402 | 313 |
| One to five years | 474 | 664 |
| | 876 | 977 |
| <i>Lease commitments - finance</i> | | |
| Committed at the reporting date and recognised as liabilities, payable: | | |
| Within one year | 47 | 79 |
| One to five years | 37 | 40 |
| | 84 | 119 |
| Less: Future finance charges | - | - |
| | 84 | 119 |

Operating lease commitments includes contracted amounts for various offices and plant and equipment under non-cancellable operating leases expiring within one to three years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

Finance lease commitments includes contracted amounts for various plant and equipment with a written down value of \$105,000 (2018: \$128,000) under finance leases expiring within one to two years. Under the terms of the leases, the Group has the option to acquire the leased assets for predetermined residual values on the expiry of the leases.

Note 26. Related party transactions

Parent entity

Threat Protect Australia Limited is the parent entity.

Note 26. Related party transactions (continued)

Subsidiaries

Interests in subsidiaries are set out in note 29.

Associates

Interests in associates are set out in note 30.

Key management personnel

Disclosures relating to key management personnel are set out in note 22 and the remuneration report included in the directors' report.

Transactions with related parties

The following transactions occurred with related parties:

| | Consolidated | |
|---|--------------|--------|
| | 2019 | 2018 |
| | \$ | \$ |
| Goods and services: | | |
| Sale of good and services to KMP | 1,743 | 1,308 |
| Other income: | | |
| Rental income from other related party (Tactical Conflict Solutions Pty Ltd)* | - | 8,000 |
| Staff provided to other related party (Tactical Conflict Solutions Pty Ltd)* | - | 50,760 |
| Payment for other expenses: | | |
| Training Licence agreement covering 10 years to Threat Protect Security Services Pty Ltd (Tactical Conflict Solutions Pty Ltd)* | (200,000) | - |
| Other expenses paid to other related party (KLE Management Services)** | - | (727) |

* Tactical Conflict Solutions Pty Ltd ('TCS') a company jointly controlled by Mr Pynes and Mr Ferrara, provides training services to and rents office space from the Group. The Group also charges TCS for administrative and security staff.

** KLE Management Services ('KLE') is an entity controlled by Mr Bacopanos that provided a temporary administrative staff member to the Group during the prior year.

Receivable from and payable to related parties

The following balances are outstanding at the reporting date in relation to transactions with related parties:

| | Consolidated | |
|--|--------------|--------|
| | 2019 | 2018 |
| | \$ | \$ |
| Current receivables: | | |
| Trade receivables from entities controlled by key management personnel (TCS) | - | 23,737 |
| Current payables: | | |
| Trade payables to entities controlled by key management personnel (TCS) | (20,000) | - |

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 27. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

| | Parent | |
|----------------------------|----------------|----------------|
| | 2019 \$'000 | 2018 \$'000 |
| Loss after income tax | (13,456) | (204) |
| Total comprehensive income | (13,456) | (204) |

Statement of financial position

| | Parent | |
|------------------------------|----------------|----------------|
| | 2019 \$'000 | 2018 \$'000 |
| Total current assets | 97 | 472 |
| Total assets | 55,333 | 26,913 |
| Total current liabilities | 2,050 | 1,368 |
| Total liabilities | 44,917 | 25,232 |
| Equity | | |
| Issued capital | 81,797 | 59,833 |
| Share-based payments reserve | 1,944 | 1,717 |
| Accumulated losses | (73,325) | (59,869) |
| Total equity | <u>10,416</u> | <u>1,681</u> |

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2019 and 30 June 2018.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2019 and 30 June 2018.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2019 and 30 June 2018.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Note 28. Business combinations

Onwatch Pty Ltd ('Onwatch')

On 30 April 2019, Threat Protect Australia Limited ('Threat Protect') acquired 100% of the ordinary shares of Onwatch Pty Ltd ('Onwatch'), a successful eastern states monitoring alarm security business for the consideration \$34,708,000. The goodwill recognised at acquisition date of \$24,017,000 represents the consideration payment less net assets acquired. The goodwill has subsequently been impaired by \$5,236,000. The acquired business contributed revenues of \$1,707,172 and loss after tax of \$776,229 to the Group for the period from 30 April 2019 to 30 June 2019. If the acquisition occurred on 1 July 2018, the full year contributions would have been revenues of \$10,243,032 and loss after tax of \$4,657,374. The values identified in relation to the acquisition of Onwatch are provisional as at 30 June 2019.

Details of the acquisition are as follows:

| | Fair value \$'000 |
|--|------------------------------|
| Current assets: | |
| Cash and cash equivalents | 79 |
| Trade and other receivables | 1,023 |
| Non-current assets: | |
| Plant and equipment | 43 |
| Customer contracts | 20,979 |
| Current liabilities: | |
| Trade and other payables | (5,010) |
| Borrowings | (46) |
| Employee benefits | (393) |
| Non-current liabilities: | |
| Employee benefits | (215) |
| Deferred tax liability | (5,769) |
| Net assets acquired | 10,691 |
| Goodwill | 24,017 |
| Acquisition-date fair value of the total consideration transferred | <u>34,708</u> |
| Representing: | |
| Cash paid or payable to vendor | 32,226 |
| Threat Protect Australia Limited shares issued to vendor | 1,520 |
| Contingent payment consideration | 962 |
| | <u>34,708</u> |
| Acquisition costs expensed to profit or loss | <u>785</u> |
| Cash used to acquire business, net of cash acquired: | |
| Acquisition-date fair value of the total consideration transferred | 34,708 |
| Add: borrowing | 46 |
| Less: cash and cash equivalents | (79) |
| Less: contingent payment consideration | (962) |
| Less: shares issued by Company as part of consideration | (1,520) |
| Net cash used | <u>32,193</u> |

Note 29. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

| Name | Principal place of business / Country of incorporation | Ownership interest | |
|---|---|--------------------|-----------|
| | | 2019 % | 2018 % |
| Threat Protect Group Pty Ltd | Australia | 100% | 100% |
| Threat Protect Security Services Pty Ltd | Australia | 100% | 100% |
| Chipla Holdings Pty Ltd | Australia | 100% | 100% |
| VIP Security Industries Pty Ltd | Australia | 100% | 100% |
| AVMC (Aust) Pty Ltd | Australia | 100% | 100% |
| Alpha Alarms Pty Ltd | Australia | 100% | 100% |
| Seekers Security & Management Pty Ltd | Australia | 100% | 100% |
| Security Alarm Monitoring Service Pty Ltd | Australia | 100% | 100% |
| Onwatch Pty Ltd | Australia | 100% | - |
| Onwatch (VIC) Pty Ltd | Australia | 100% | - |
| Alarm Monitoring Pty Ltd | Australia | 100% | - |
| Electralarm Australia Pty Ltd | Australia | 100% | - |
| House of Security Plus Pty Ltd | Australia | 100% | - |
| Service 101 Pty Ltd | Australia | 100% | - |

Note 30. Interests in associates

Interests in associates are accounted for using the equity method of accounting. Information relating to associates that are material to the Group are set out below:

| Name | Principal place of business / Country of incorporation | Ownership interest | |
|--|---|--------------------|-----------|
| | | 2019 % | 2018 % |
| Security House Monitoring Pty Ltd (disposed on 27 June 2019) | Australia | - | 42.95% |

Note 30. Interests in associates (continued)

Summarised financial information

**Security House Monitoring
Pty Ltd**

| | 2019 \$'000 | 2018 \$'000 |
|--|------------------------|------------------------|
|--|------------------------|------------------------|

Summarised statement of financial position
(2019 represents as at 27 June 2019)

| | | |
|--------------------------|------------|------------|
| Current assets | 47 | 21 |
| Non-current assets | 900 | 884 |
| Total assets | 947 | 905 |
| Current liabilities | 59 | 29 |
| Non-current liabilities | 40 | 37 |
| Total liabilities | 99 | 66 |
| Net assets | 848 | 839 |

Summarised statement of profit or loss and other comprehensive income
(2019 represents the period 1 July 2018 to 27 June 2019 and
2018 represents the period 27 March 2018 to 3 June 2018)

| | | |
|-----------------------------------|------------|-----------|
| Revenue | 739 | 183 |
| Expenses | (477) | (116) |
| Profit before income tax | 262 | 67 |
| Income tax expense | (72) | (19) |
| Profit after income tax | 190 | 48 |
| Other comprehensive income | - | - |
| Total comprehensive income | 190 | 48 |

Reconciliation of the Group's carrying amount

| | | |
|----------------------------------|----------|------------|
| Opening carrying amount | 462 | - |
| Share of profit after income tax | 82 | 22 |
| Share of dividends received | (77) | (20) |
| Cash received on sale | (750) | - |
| Investment during the year | - | 460 |
| Deficit not recognised | 283 | - |
| Closing carrying amount | - | 462 |

Note 31. Reconciliation of loss after income tax to net cash used in operating activities

| | Consolidated | |
|---|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Loss after income tax benefit for the year | (10,621) | (3,246) |
| Adjustments for: | | |
| Depreciation and amortisation | 4,958 | 1,861 |
| Impairment of goodwill | 5,236 | 642 |
| Net gain on disposal of property, plant and equipment | (284) | (35) |
| Share-based payments | 227 | 550 |
| Impairment of receivables | 200 | 179 |
| Non-cash other income (Contingent consideration written back) | (422) | (833) |
| Non-cash movement in financial assets | (107) | - |
| Borrowing costs capitalised | 707 | (378) |
| Interest capitalised to borrowings | 406 | - |
| Income tax benefit | (2,937) | (388) |
| Change in operating assets and liabilities: | | |
| Decrease in trade and other receivables | 256 | 510 |
| Decrease in contract assets | 39 | - |
| Decrease in inventories | 12 | 22 |
| Decrease in prepayments | 125 | 708 |
| Increase in trade and other payables | 572 | 280 |
| Decrease in contract liabilities | (280) | - |
| Increase in other provisions | 217 | 6 |
| Net cash used in operating activities | <u>(1,696)</u> | <u>(122)</u> |

Note 32. Non-cash investing and financing activities

| | Consolidated | |
|--|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Shares issued in relation to business combinations | 1,520 | - |
| Shares issued on conversion of convertible note | 9,000 | - |
| | <u>10,520</u> | <u>-</u> |

Note 33. Changes in liabilities arising from financing activities

| Consolidated | Short term borrowings \$'000 | Long term borrowings \$'000 | Total \$'000 |
|---|------------------------------------|-----------------------------------|-----------------|
| Balance at 1 July 2017 | 1,708 | 5,604 | 7,312 |
| Net cash from financing activities | 1,648 | 11,339 | 12,987 |
| Acquisition of plant and equipment by means of finance leases | 273 | - | 273 |
| Changes through business combinations (note 28) | 93 | - | 93 |
| Movement in borrowing costs | (378) | - | (378) |
| Balance at 30 June 2018 | 3,344 | 16,943 | 20,287 |
| Net cash from/(used in) financing activities | (2,602) | 34,380 | 31,778 |
| Conversion of notes to shares | - | (9,000) | (9,000) |
| Changes through business combinations (note 28) | 46 | - | 46 |
| Movement in borrowing costs | 378 | (1,084) | (706) |
| Balance at 30 June 2019 | <u>1,166</u> | <u>41,239</u> | <u>42,405</u> |

Note 34. Share-based payments

Employee Share Plan ('ESP')

Shares issued pursuant to this plan ("incentive shares") are for services rendered by eligible employees to date and, going forward, for services rendered by existing and new eligible employees. The Group's ESP provides some senior executives and employees with a significant incentive over and above their base salary. The ESP was established to align the interests of senior management with Shareholders and to provide an incentive for employees to extend their employment terms with the Group. The experience of senior employees is an important factor in the long-term success of the Group.

Where the Group offers to issue incentive shares to an employee, the Group may offer to provide the employee with a limited recourse, interest free loan to be used for the purpose of subscribing for the incentive shares.

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

2019

| Grant date | Expiry date | Exercise price (cents per share) | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the year |
|------------|-------------|--|--|---------|---------------------|---------------------------------|--------------------------------------|
| 04/09/2015 | 04/09/2018 | \$17.50 | 14,285,703 | - | (14,285,703) | - | - |
| 26/11/2015 | 31/10/2020 | \$33.95 | 2,142,856 | - | - | - | 2,142,856 |
| 23/11/2017 | 31/10/2020 | \$33.95 | 7,142,856 | - | - | - | 7,142,856 |
| 26/11/2015 | 31/10/2020 | \$26.60 | 1,428,570 | - | - | - | 1,428,570 |
| 26/11/2015 | 31/10/2020 | \$32.69 | 1,428,570 | - | - | - | 1,428,570 |
| 26/11/2015 | 31/10/2020 | \$35.77 | 1,428,570 | - | - | - | 1,428,570 |
| | | | <u>27,857,125</u> | - | <u>(14,285,703)</u> | - | <u>13,571,422</u> |

Note 34. Share-based payments (continued)

2018

| Grant date | Expiry date | Exercise price (cents per share) | Balance at the start of the year | Share consolidation | Granted | Expired/ forfeited/ other | Balance at the end of the year |
|------------|-------------|--|--|------------------------|------------------|---------------------------------|--------------------------------------|
| 07/09/2012 | 29/11/2017 | \$13.36 | 300,000 | - | - | (300,000) | - |
| 07/09/2012 | 29/11/2017 | \$40.00 | 300,000 | - | - | (300,000) | - |
| 07/09/2012 | 29/11/2017 | \$60.00 | 300,000 | - | - | (300,000) | - |
| 04/09/2015 | 04/09/2018 | \$17.50 | 100,000,000 | (85,714,297) | - | - | 14,285,703 |
| 26/11/2015 | 31/10/2020 | \$33.95 | 15,000,000 | (12,857,144) | - | - | 2,142,856 |
| 23/11/2017 | 31/10/2020 | \$33.95 | - | - | 7,142,856 | - | 7,142,856 |
| 26/11/2015 | 31/10/2020 | \$26.60 | 10,000,000 | (8,571,430) | - | - | 1,428,570 |
| 26/11/2015 | 31/10/2020 | \$32.69 | 10,000,000 | (8,571,430) | - | - | 1,428,570 |
| 26/11/2015 | 31/10/2020 | \$35.77 | 10,000,000 | (8,571,430) | - | - | 1,428,570 |
| | | | <u>145,900,000</u> | <u>(124,285,731)</u> | <u>7,142,856</u> | <u>(900,000)</u> | <u>27,857,125</u> |

The share-based payment expense during the financial year was \$229,000 (2018: \$550,000).

The weighted average exercise price of options at the end of the financial year was 33.24 cents (2018: 25.17 cents).

The weighted average remaining contractual life of options outstanding at the end of the financial year was 1.34 years (2018: 1.23 years).

On 4 June 2019, 1,500,000 fully paid ordinary shares were issued to Simon Whybrow at an issue price of 17 cents per share and a corresponding interest-free (interest rate: 0% pa), limited-recourse loan totaling \$255,000 was entered into in accordance with the Company's ESP. The loan term is 5 years, expiring on 14 June 2022. The shares were issued as part of Mr Whybrow's remuneration with regard to his past and potential contribution to the Company. The shares and limited-recourse loan were not subject to any vesting conditions and as such Mr Whybrow is entitled to the benefits of the arrangement immediately.

Note 35. Earnings per share

| | Consolidated | |
|---|---------------------|--------------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Loss after income tax attributable to the owners of Threat Protect Australia Limited | <u>(10,621)</u> | <u>(3,246)</u> |
| | Number | Number |
| Weighted average number of ordinary shares used in calculating basic earnings per share | <u>139,105,158</u> | <u>111,586,108</u> |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | <u>139,105,158</u> | <u>111,586,108</u> |
| | Cents | Cents |
| Basic earnings per share | (7.64) | (2.91) |
| Diluted earnings per share | (7.64) | (2.91) |

Options over ordinary shares are not included in the calculation of diluted earnings per share because they are anti-dilutive. These options could potentially dilute basic earnings per share in the future.

Note 36. Events after the reporting period

As at the date of signing this report, the Company has received firm commitments for \$750,000 in regards to a share placement at 16 cents per share. These shares will be issued in the first week of October 2019.

No other matter or circumstance has arisen since 30 June 2019 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.

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the financial 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.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

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

On behalf of the directors

A handwritten signature in black ink, appearing to read "DP", written over a horizontal line.

Demetrios Pynes
Managing Director

30 September 2019

INDEPENDENT AUDITOR'S REPORT

To the members of Threat Protect Australia Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Threat Protect Australia Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the 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 report.

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

Material uncertainty related to going concern

We draw attention to Note 2 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the group's ability to continue as a going concern and therefore the group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Accounting for business acquisitions

| <i>Key audit matter</i> | <i>How the matter was addressed in our audit</i> |
|--|---|
| <p>During the financial year ended 30 June 2019, the Group acquired the business of Onwatch Pty Ltd as disclosed in Note 28 of the financial report.</p> <p>Accounting for acquisitions is complex and involves a number of significant judgements and estimates as disclosed in Note 3. The key areas of significant judgement and estimation in relation to the transactions were the:</p> <ul style="list-style-type: none"> • Determination of fair value of the contingent consideration, and accordingly the total purchase consideration, for the transaction; and • Identification and measurement of the fair value of assets and liabilities acquired. | <p>Our procedures included, but were not limited to the following:</p> <ul style="list-style-type: none"> • Reviewing the purchase and sale agreement to understand the terms and conditions of the acquisition and evaluating management's application of the relevant Australian Accounting Standards; • Comparing the assets and liabilities recognised on acquisition against the executed agreements and historical financial information of the acquired business; • Assessing the estimation of the contingent consideration by challenging the key assumptions including the probability of achievement of future operational targets; • Evaluating the methodology and assumptions utilised to identify and determine the fair value of the assets and liabilities acquired; and • Assessing the adequacy of the Group's disclosure of the acquisition in Note 3 and Note 28 of the financial report. |

Recoverability of cash generating units (“CGUs”)

| <i>Key audit matter</i> | <i>How the matter was addressed in our audit</i> |
|--|---|
| <p>Note 13 of the financial report discloses the individual intangible assets and the assumptions used by the Group in testing these assets for impairment.</p> <p>As required by the Australian Accounting Standards, the Group performs an annual impairment test for each CGU to which goodwill and other intangible assets have been allocated to determine whether the recoverable amount is below the carrying amount as at 30 June 2019.</p> <p>This was determined to be a key audit matter as management’s assessment of the recoverability of the intangible asset is supported by a value in use cash flow forecast which requires estimates and judgements about future performance.</p> <p>These include judgements and estimates over the expectation of future revenues, anticipated gross profit margin, growth rates expected and the discount rate applied as disclosed in Note 3 and Note 13 of the financial report.</p> | <p>Our procedures included, but were not limited to the following:</p> <ul style="list-style-type: none"> • Assessing the appropriateness of the Group’s categorisation of Cash Generating Units (‘CGUs’) and the allocation of assets to the carrying value of CGUs based on our understanding of the Group’s business and the Group’s internal reporting; • Evaluating management’s ability to accurately forecast cash flows by assessing the precision of the prior year forecasts against actual outcomes; • Challenging key inputs used in management’s impairment assessment including the following: <ul style="list-style-type: none"> - In conjunction with our valuation specialists, comparing the discount rate utilised by management to an independently calculated discount rate; - Comparing growth rates with historical data and economic and industry growth forecast; - Comparing the Group’s forecast cash flows to the board approved budget; - Performing sensitivity analysis on the revenue, growth rates, gross profit margins and discount rates; and • Assessing the adequacy of related disclosures in Note 3 and Note 13 of the financial report. |

Other information

The directors are responsible for the other information. The other information comprises the information in the Group’s annual report for the year ended 30 June 2019, but does not include the financial report and the auditor’s report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 15 of the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Threat Protect Australia Limited, for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.



Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

BDO Audit (WA) Pty Ltd

BDO


Dean Just

Director

Perth, 30 September 2019

The shareholder information set out below was applicable as at 25 September 2019.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

| | Number of holders of ordinary shares | Number of ordinary shares |
|---------------------------------------|---|---------------------------------|
| 1 to 1,000 | 78 | 14,618 |
| 1,001 to 5,000 | 65 | 200,753 |
| 5,001 to 10,000 | 40 | 311,101 |
| 10,001 to 100,000 | 186 | 7,896,448 |
| 100,001 and over | 137 | 197,220,858 |
| | <u>506</u> | <u>205,643,778</u> |
| Holding less than a marketable parcel | <u>113</u> | <u>-</u> |

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

| | Number held | Ordinary shares % of total shares issued |
|--|--------------------|---|
| J P Morgan Nominees Australia Pty Limited | 79,060,504 | 38.45 |
| Patner Pty Ltd | 8,000,000 | 3.89 |
| Lenale Holdings Pty Ltd | 5,540,000 | 2.69 |
| HSBC Custody Nominees (Australia) Limited | 5,476,290 | 2.66 |
| Cintell Pty Ltd | 5,167,665 | 2.51 |
| Siren Nominees Pty Ltd | 4,619,492 | 2.25 |
| Redun Pty Ltd | 4,450,000 | 2.16 |
| Ms Alison Elizabeth Howe | 4,431,224 | 2.15 |
| Ms Concetta Ferrara | 4,424,001 | 2.15 |
| Ms Michelle Pynes | 4,285,163 | 2.08 |
| Ms Christina Michael | 4,260,142 | 2.07 |
| Mr Peter Aristide Pynes and Mrs Lara Olimpia Pynes | 6,371,506 | 3.10 |
| Mr Jamie Pherous | 3,000,000 | 1.46 |
| Mms1 Pty Ltd | 2,299,472 | 1.12 |
| Invia Custodian Pty Limited | 2,190,475 | 1.07 |
| James McCrea and Pauleen McCrea | 1,928,800 | 0.94 |
| Sweet Nominees Pty Ltd | 1,839,200 | 0.89 |
| Quicksilver Asset Pty Ltd | 1,827,210 | 0.89 |
| Simon John Whybrow | 1,785,714 | 0.87 |
| Whitehaven Capital Pty Ltd | 1,625,000 | 0.79 |
| | <u>152,581,858</u> | <u>74.19</u> |

Unquoted equity securities

| | Number on issue | Options over ordinary shares % of total shares issued |
|---|----------------------------|--|
| 33.95 cent options exercisable on or before 31 October 2020 | | |
| Ms Michelle Pynes (The Ren WA Budo A/C) | 2,142,857 | 23 |
| Ms Concetta Ferrara (Ferrara Family A/C) | 2,142,857 | 23 |
| 26.60 cent options exercisable on or before 31 October 2020 | | |
| Ms Michelle Pynes (The Ren WA Budo A/C) | 714,285 | 50 |
| Ms Concetta Ferrara (Ferrara Family A/C) | 714,285 | 50 |
| 32.69 cent options exercisable on or before 31 October 2020 | | |
| Ms Michelle Pynes (The Ren WA Budo A/C) | 714,285 | 50 |
| Ms Concetta Ferrara (Ferrara Family A/C) | 714,285 | 50 |
| 35.77 cent options exercisable on or before 31 October 2020 | | |
| Ms Michelle Pynes (The Ren WA Budo A/C) | 714,285 | 50 |
| Ms Concetta Ferrara (Ferrara Family A/C) | 714,285 | 50 |

Substantial holders

Substantial holders in the Company are set out below:

| | Number held | Ordinary shares % of total shares issued |
|----------------------|--------------------|---|
| First Samuel Limited | 79,337,702 | 38.58 |

Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

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.

There are no other classes of equity securities.