



# THREAT PROTECT

**Threat Protect Australia Limited**

**ABN 36 060 774 227**

**Annual Report - 30 June 2020**

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Directors	Derek La Ferla - Chairman Demetrios Pynes Dimitri Bacopanos Dennison Hambling Peter Kennan
Company secretary	Peter Webse
Registered office	Level 1, 672 Murray Street West Perth WA 6005 Telephone: 1300 THREAT (1300 847 328) Email: <a href="mailto:info@threatprotect.com.au">info@threatprotect.com.au</a> 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
Stock exchange listing	Threat Protect Australia Limited shares are listed on the Australian Securities Exchange (ASX code: TPS)
Website	<a href="http://www.threatprotect.com.au">www.threatprotect.com.au</a>
Corporate Governance Statement	<p>The directors and management are committed to conducting the business of Threat Protect Australia Limited in an ethical manner and in accordance with the highest standards of corporate governance. Threat Protect Australia Limited has adopted and has substantially complied with the ASX Corporate Governance Principles and Recommendations (Third Edition) ('Recommendations') to the extent appropriate to the size and nature of its operations.</p> <p>The Group's Corporate Governance Statement, which 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, and the ASX Appendix 4G are released to the ASX on the same day the Annual Report is released. The Corporate Governance Statement can be found at <a href="http://www.threatprotect.com.au">www.threatprotect.com.au</a></p>

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 2020 ('FY20120) adjusted earnings before interest, taxation, depreciation and amortisation ('Adjusted EBITDA') increasing.

The directors consider Adjusted EBITDA to reflect the core earnings of the Group. Adjusted EBITDA is a financial measure not prescribed by Australian Accounting Standards ('AAS') and represents the profit under AAS adjusted for non-cash and significant expenses. Adjusted EBITDA is a key measurement used by management and the board to assess and review business performance and accordingly the table below provides a reconciliation between loss after income tax benefit and Adjusted EBITDA.

In FY2020, the Group integrated the Onwatch operations, its largest acquisition to date, whilst also continuing to invest in the acquisition of advanced monitoring operations, technical resources and upskilling people within the business to improve efficiency in operations.

### Financial performance

- The active growth strategy continues to increase the Group's scale of operations, with year-on-year monitoring revenue increasing 40.0%;
- Over 76,000 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
  - Non-cash items such as impairment and share-based payments;
- Adjusted EBITDA for FY2020 is \$4.9 million which increased 69% after adjusting for business acquisition and integration costs and non-cash items, compared to \$2.9 million in FY2019;
- Business acquisition and integration costs were focused on the integration of Onwatch. The process of integrating Onwatch is now complete and will continue to result in substantial reduction in operational and integration costs; and
- The cost cutting project achieved savings of \$280k per month of ongoing costs, representing a \$3.4m increase to EBITDA on an annualised basis. A further \$100k per month (\$1.2m per annum) of savings through operational efficiencies have been identified to be delivered within the first half of FY21.

	FY2020	FY2019	Change on prior comparable period ('PCP')
	\$'000	\$'000	%
Loss before income tax benefit	(37,560)	(13,558)	177%
Finance costs	7,941	2,820	
Depreciation and amortisation in cost of sales	327	204	
Depreciation and amortisation expense	11,254	4,763	
EBITDA	(18,038)	(5,771)	212%
<i>Adjustments</i>			
(Recovery)/impairment of receivables	(56)	199	
Impairment of assets	18,838	5,236	
Share-based payments	-	227	
Business acquisition and integration costs	4,533	3,878	
Other income	409	(883)	
Adjusted EBITDA	5,686	2,886	69%

- Goodwill was impaired by \$17.1 million in line with accounting standard requirements. The expected synergies from the integration of operations and benefits from organic growth are not taken into account in the assessment of value in use of intangible assets in terms of the accounting standard.
- Development cost assets were impaired by \$1.7 million to take into account the expedited consolidation of monitoring systems that make use of alternative technologies.
- The impact of the Coronavirus (COVID-19) pandemic up to 30 June 2020 has been financially unfavourable for the Group, resulting in a decline in revenue growth. This impact is not considered material and it is not practicable to estimate the potential impact, positive or negative, after the reporting date.

- The Group has increased its monitoring of debt recovery as there is an increased probability of customers delaying payment or being unable to pay in the current environment. As a result, the allowance of expected credit losses has been increased as at 30 June 2020.

### **Black Crane Funding**

On 5 December 2019, the Group announced it had secured a new strategic investor Black Crane Asia Pacific Opportunities Fund, ('Black Crane'), a Hong Kong based Investment Fund who will now become a substantial shareholder in TPS.

Black Crane is a deep value fund manager with significant corporate finance expertise, focused on small/mid cap companies in the Asia Pacific region. Black Crane partner with the boards and management teams of their investments to create value for all shareholders.

The Group issued 31,250,000 fully paid ordinary shares to Black Crane at an offer price of \$0.16 per share to raise \$5,000,000 before costs. Aitken Murray Capital Partners arranged the transaction.

The placement funds have been used for working capital and, in conjunction with cashflows from operations, to make further earnings accretive acquisitions.

On 15 April 2020, the Group announced it had secured a further \$6.5m of debt funding from Black Crane. The Group issued an unsecured convertible loan note deed in order to access the additional \$6.5m.

The funds received further secures the Group's position to accelerate its growth strategy and will be specifically applied to:

- Finance further synergies from the consolidation of operations and administration and leveraging the increased scale of operations.
- Reduce the Soliton/SSG debt facility by \$1.5m resulting in a net interest cost saving of \$90k per annum.
- Improve working capital.

The loan note of \$6.5 million plus borrowing costs has been disclosed as a current liability as at 30 June 2020 pending the approval of the replacement of the loan notes with convertible notes by shareholders. At a General Meeting of shareholders held on 31 July 2020, approval was given for the replacement of 6,500,000 loan notes held by Black Crane with convertible securities through the issue of 6,500,000 convertible notes.

The Soliton/SSG covenants were amended at the same time.

### **Outlook**

With the Group now at the targeted level of recurring monitoring revenue, the focus continues to be 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 2020.

### **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
Dimitri Bacopanos	Non-Executive Director
Dennison Hambling (appointed on 20 January 2020)	Non-Executive Director
Peter Kennan (appointed on 20 January 2020)	Non-Executive Director
Paolo (Paul) Ferrara (resigned on 11 May 2020)	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 \$32,380,000 (30 June 2019: \$10,621,000).

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.

AASB 16 'Leases' had no significant impact on the current period. The current loss before income tax expense was decreased by \$28,000. This included an increased depreciation and amortisation expense of \$202,000 and increased finance costs of \$41,000, offset by a reduction in other expenses (reclassification of lease expense) of \$271,000. As at 30 June 2020, net current assets were reduced by \$193,000 (attributable to current lease liabilities) and net assets were decreased by \$99,000 (attributable to right-of-use assets and lease liabilities).

On 20 January 2020, the Group appointed two new board members, Mr Dennison Hambling and Mr Peter Kennan as Non-Executive Directors of the Company.

On 2 March 2020, the Board established a Cost-Cutting Committee in order to identify significant cost-cutting opportunities across the Group.

### **Significant changes in the state of affairs**

During the year ended 30 June 2020 additional capital was raised as follows:

- Capital raising of \$650,000 on 3 October 2019 at 16 cents per share for working capital purposes.
- Capital raising of \$5,000,000 on 10 December 2019 at 16 cents per share for working capital and acquisitions.
- On 31 December 2019, the Group acquired two security monitoring client bases for \$1,900,000. The revenue is expected to increase approximately \$600,000 per annum, without adding additional operating costs.
- On 15 April 2020, the Group raised \$6,500,000 through the issue of unsecured convertible notes to Black Crane Asia Opportunities Fund ('Black Crane'), subject to shareholder approval which was obtained subsequent to reporting date on 31 July 2020.
- On 11 May 2020, Co-Founder Mr Paolo 'Paul' Ferrara resigned from his position as Executive Director of the Company.

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

The impact of the Coronavirus (COVID-19) pandemic is ongoing and while it has been financially unfavourable for the Group up to 30 June 2020, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

At a General Meeting of shareholders held on 31 July 2020, approval was given for the replacement of 6,500,000 loan notes held by Black Crane into convertible securities through the issue of 6,500,000 convertible notes. The loan notes of \$6.5 million plus capitalised borrowing costs disclosed as a current liability at 30 June 2020 will be reclassified as non-current convertible notes in the next reporting period.

No other matter or circumstance has arisen since 30 June 2020 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 'Review of operations' 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 Poseidon Nickel Limited.
Former directorships (last 3 years):	BNK Banking Corporation Limited and Veris 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: 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

Name: Dennison Hambling (appointed on 20 January 2020)  
Title: Non-Executive Director  
Qualifications: M.Com (Hons) in economics, CFA Charterholder  
Experience and expertise: Dennison is the head of Public and Private Equity for 360 Capital group and has over 20 years of capital market experience. He joined 360 Capital in 2019. Previously he was Chief Investment Officer of a Private Wealth Manager for 12 years. Prior to this Dennison was a portfolio manager at Cooper Investors Ltd and prior to that worked at Goldman Sachs JBWere as an analyst. Dennison started his investment career in New Zealand working with NZ Funds Management as an Australasian Equity Analyst. He is currently a Non-Executive Director of a leading global heart monitoring business (Cardioscan) and a Director of 360 Capital Equities Management Pty Ltd (a substantial shareholder of the Company).

Other current directorships: Non-Executive Director of a private medical business, a North American silica producer and a Director of the 360 Capital Equities Management Pty Ltd.  
Former directorships (last 3 years): None  
Interests in shares: 25,491,890 ordinary shares

Name: Peter Kennan (appointed on 20 January 2020)  
Title: Non-Executive Director  
Qualifications: B.Eng (Hons), GDipAppFin  
Experience and expertise: Peter is CEO and CIO of Black Crane Capital. The Black Crane Asia Pacific Opportunities Fund, managed by Black Crane Capital, is a substantial shareholder of the Company. Prior to founding Black Crane in 2009, Peter was a leading corporate financier with UBS Asia Pacific. He has 25 years of investment and corporate finance experience across a diverse range of sectors and transactions. With UBS, Peter was Head of Asian Industrials Group for UBS Asia, a corporate finance sector team covering energy and infrastructure, with number 1 team rating in Asia in 2006 and 2007. Peter was also the Head of Telecoms and Media sector team for UBS Australia, specialising in mergers and acquisitions and advising on many large complex transactions. Prior to UBS, Peter spent seven years with BP in a variety of engineering and commercial roles.

Other current directorships: Non-Executive Director MMA Offshore Limited  
Former directorships (last 3 years): None  
Interests in shares: 31,250,000 ordinary shares



Name:	Paolo (Paul) Ferrara (resigned on 11 May 2020)
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

'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 secretary

Peter Webse was appointed as Company Secretary on 23 April 2019. Peter has over 28 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 qualifications are B.Bus, FGIA, FCIS, FCPA, MAICD.

Simon Whybrow was the Joint Company Secretary and resigned on 17 April 2020.

### 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 2020, and the number of meetings attended by each director were:

	Full Board		Audit Committee	
	Attended	Held	Attended	Held
Derek La Ferla	10	10	2	2
Demetrios Pynes	9	10	-	2
Dimitri Bacopanos	10	10	2	2
Dennison Hambling	5	5	-	-
Peter Kennan	5	5	-	-
Paolo (Paul) Ferrara	8	8	1	2

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.

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 28 November 2019, where the shareholders approved a maximum annual aggregate remuneration of \$500,000.

#### *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. 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 2020, 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 2019 Annual General Meeting ('AGM')*

At the 2019 AGM, 99% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2019. 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)
- John Hallam - Chief Operations Officer (appointed on 3 February 2020)
- Simon Whybrow - Joint Company Secretary and Chief Commercial Officer (resigned on 17 April 2020)

	Short-term benefits			Post-employment benefits		Equity-settled Share-based payments	Total
	Cash salary, fees and leave	Cash bonus	Other *	Super-annuation	Termination benefits	Options	
2020	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
Derek La Ferla	50,000	-	-	4,750	-	-	54,750
Dimitri Bacopanos	36,000	-	-	-	-	-	36,000
Dennison Hambling	16,065	-	-	1,526	-	-	17,591
Peter Kennan	16,065	-	-	-	-	-	16,065
<i>Executive Directors:</i>							
Demetrios Pynes**	262,369	-	16,800	23,085	-	-	302,254
Paul Ferrara**	282,588	-	16,800	23,085	67,500	-	389,973
<i>Other Key Management Personnel:</i>							
Karen Haynes	16,988	-	-	1,568	41,250	-	59,806
Brad Kobus	164,266	-	23,000	17,001	-	-	204,267
Simon Whybrow	156,868	-	12,115	15,346	28,462	-	212,791
John Hallam	77,973	-	-	6,906	-	-	84,879
	1,079,182	-	68,715	93,267	137,212	-	1,378,376

	Short-term benefits			Post-employment benefits		Equity-settled Share-based payments	Total
	Cash salary, fees and leave	Cash bonus	Other *	Super-annuation	Termination benefits	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
	915,646	-	48,600	92,048	-	146,250	1,202,544

\* The 'Other' category represents motor vehicle allowances.

\*\* Tactical Conflict Solutions Pty Ltd ('TCS') is a company jointly controlled by Demetrios Pynes and Paolo Ferrara.

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

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2020	2019	2020	2019	2020	2019
<i>Non-Executive Directors:</i>						
Derek La Ferla	100%	100%	-	-	-	-
Dimitri Bacopanos	100%	100%	-	-	-	-
Dennison Hambling	100%	-	-	-	-	-
Peter Kennan	100%	-	-	-	-	-
<i>Executive Directors:</i>						
Demetrios Pynes	100%	100%	-	-	-	-
Paul Ferrara	100%	100%	-	-	-	-
<i>Other Key Management Personnel:</i>						
Karen Haynes	100%	100%	-	-	-	-
Brad Kobus	100%	-	-	-	-	-
Simon Whybrow	100%	62%	-	-	-	38%
John Hallam	100%	-	-	-	-	-

### 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: 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: 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).

Name: Peter Kennan  
Title: Non-Executive Director  
Agreement commenced: 20 January 2020  
Term of agreement: Peter'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. Peter may resign from office at any time.  
Details: Peter's remuneration is set at \$36,000 per annum plus statutory superannuation, where applicable.

Name: Dennison Hambling  
Title: Non-Executive Director  
Agreement commenced: 20 January 2020  
Term of agreement: Dennison'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. Dennison may resign from office at any time.  
Details: Dennison's remuneration is set at \$36,000 per annum plus statutory superannuation, where applicable.

Name: John Hallam  
Title: Chief Operations Officer  
Agreement commenced: 3 February 2020  
Term of agreement: The agreement may be terminated by either the Company or John by giving at least three months' notice. John 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 3 February 2020, John's remuneration comprises a salary of \$180,000 per annum and superannuation guarantee contributions as required by law. John is entitled to annual leave and long service leave as required by law.

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

### **Share-based compensation**

#### *Issue of shares*

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2020.

#### *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 2020.

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 2020.

### Additional information

The earnings of the Group for the five years to 30 June 2020 are summarised below:

	2020 \$'000	2019 \$'000	2018 \$'000	2017 \$'000	2016 \$'000
Sales revenue	27,633	19,741	14,683	11,478	7,245
(Loss)/profit after income tax	(32,380)	(10,621)	(3,246)	1,692	(5,371)

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

	2020	2019	2018	2017	2016
Share price at financial year end (\$)	0.05	0.18	0.17	0.18	0.11
Basic earnings per share (cents per share)	(14.32)	(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	1,177,172	-	-	-	1,177,172
Demetrios Pynes	4,956,682	-	-	-	4,956,682
Dimitri Bacopanos	333,333	-	-	-	333,333
Dennison Hambling *	25,463,268	-	28,622	-	25,491,890
Peter Kennan *	31,250,000	-	-	-	31,250,000
Paul Ferrara **	4,979,580	-	-	(4,979,580)	-
Simon Whybrow **	1,785,714	-	-	(1,785,714)	-
	<u>69,945,749</u>	<u>-</u>	<u>28,622</u>	<u>(6,765,294)</u>	<u>63,209,077</u>

\* Opening balance represents shares held at the time of appointment.

\*\* Disposal of shares represents shares held at the time of resignation.

#### 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	Other	Balance at the end of the year
<i>Options over ordinary shares*</i>					
Derek La Ferla	2,857,142	-	-	-	2,857,142
Demetrios Pynes	4,285,712	-	-	-	4,285,712
Dimitri Bacopanos	1,428,571	-	-	-	1,428,571
Paul Ferrara **	4,285,712	-	-	(4,285,712)	-
	<u>12,857,137</u>	<u>-</u>	<u>-</u>	<u>(4,285,712)</u>	<u>8,571,425</u>

\* All options are vested and exercisable at year ended 30 June 2020.

\*\* Other represents options held at the time of resignation.

#### Other transactions with key management personnel and their related parties

The following transactions occurred with related parties:

Consolidated  
 2020                      2019  
 \$                              \$

**Goods and services provided to Directors on commercial terms (Group income):**

Paolo Ferrara	286	286
Derek La Ferla	462	462
Dimitri Bacopanos	462	462
Simon Whybrow	385	462
Karen Haynes	72	71
	1,667	1,743
	1,667	1,743

**Related entity: Tactical Conflict Solutions Pty Ltd**

Tactical Conflict Solutions Pty Ltd ('TCS') is a company jointly controlled by Demetrios Pynes and Paolo Ferrara.

Training Licence agreement covering 10 years to Threat Protect Security Services Pty Ltd (Group expense)	-	(200,000)
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*Receivable from and payable to related parties*

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

**Consolidated**  
**2020                      2019**  
**\$'000                      \$'000**

Current payables:		
Trade payables to entities controlled by key management personnel (TCS)	20,000	20,000

*Loans to/from related parties*

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

**Consolidated**  
**2020                      2019**  
**\$'000                      \$'000**

Current borrowings:		
Loan from borrowing - Black Crane (where Peter Kennan is also a KMP)	6,099,396	-

*Terms and conditions*

All transactions were made on normal commercial terms and conditions and at market rates, except for the loan from Black Crane (refer to note 17 for details).

***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
26/11/2015	31/10/2020	33.25	2,142,856
26/11/2015	31/10/2020	26.60	1,428,570
26/11/2015	31/10/2020	32.69	1,428,570
26/11/2015	31/10/2020	35.77	1,428,570
23/11/2017	31/10/2020	33.95	7,142,856
			13,571,422
			13,571,422



The weighted average remaining contractual life of options outstanding at 30 June 2020 was 4 months (2019: 1.34 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**

There were no ordinary shares of Threat Protect Australia Limited issued on the exercise of options during the year ended 30 June 2020 and up to the date of this report.

#### **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 25 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 25 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 (including Independence Standards) 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.

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



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Demetrios Pynes  
Managing Director

31 August 2020

**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 2020, 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**

Perth, 31 August 2020

	Note	Consolidated 2020 \$'000	2019 \$'000
<b>Revenue</b>			
Revenue from contracts with customers	5	27,633	19,741
Cost of sales - operations		(16,809)	(12,553)
Cost of sales - depreciation and amortisation	7	(327)	(204)
Total cost of sales		(17,136)	(12,757)
Gross profit		10,497	6,984
Share of profits of associates accounted for using the equity method		-	82
Other income	6	409	801
Interest revenue calculated using the effective interest method		2	8
<b>Expenses</b>			
Administration		(4,304)	(3,365)
Compliance and regulatory costs		(634)	(613)
Marketing and business development expenses		(964)	(758)
Marketing and business development - depreciation and amortisation	7	(11,254)	(4,763)
Marketing and business development - impairment of assets	7	(18,838)	(5,236)
Business acquisition and integration		(4,533)	(3,878)
Finance costs	7	(7,941)	(2,820)
<b>Loss before income tax benefit</b>		(37,560)	(13,558)
Income tax benefit	8	5,180	2,937
<b>Loss after income tax benefit for the year attributable to the owners of Threat Protect Australia Limited</b>		(32,380)	(10,621)
Other comprehensive income for the year, net of tax		-	-
<b>Total comprehensive income for the year attributable to the owners of Threat Protect Australia Limited</b>		(32,380)	(10,621)
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	35	(14.32)	(7.64)
Diluted earnings per share	35	(14.32)	(7.64)

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

	Note	Consolidated 2020 \$'000	2019 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		4,134	2,146
Trade and other receivables	9	3,035	2,482
Contract assets	10	316	216
Inventories		35	24
Other	11	734	361
<b>Total current assets</b>		<b>8,254</b>	<b>5,229</b>
<b>Non-current assets</b>			
Financial assets at fair value through profit or loss	23	192	155
Property, plant and equipment	12	959	893
Right-of-use assets	13	291	-
Intangibles	14	36,159	65,709
Other	11	187	173
<b>Total non-current assets</b>		<b>37,788</b>	<b>66,930</b>
<b>Total assets</b>		<b>46,042</b>	<b>72,159</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	15	9,334	9,898
Contract liabilities	16	910	661
Borrowings	17	8,216	1,166
Lease liabilities	18	193	-
Provisions	19	1,193	1,494
<b>Total current liabilities</b>		<b>19,846</b>	<b>13,219</b>
<b>Non-current liabilities</b>			
Borrowings	17	42,277	41,238
Lease liabilities	18	197	-
Deferred tax liability	8	-	6,959
Provisions	19	300	328
<b>Total non-current liabilities</b>		<b>42,774</b>	<b>48,525</b>
<b>Total liabilities</b>		<b>62,620</b>	<b>61,744</b>
<b>Net (liabilities)/assets</b>		<b>(16,578)</b>	<b>10,415</b>
<b>Equity</b>			
Issued capital	20	39,379	33,981
Reserves	21	1,874	1,874
Accumulated losses		<b>(57,831)</b>	<b>(25,440)</b>
<b>Total (deficiency)/equity</b>		<b>(16,578)</b>	<b>10,415</b>

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

<b>Consolidated</b>	<b>Issued capital \$'000</b>	<b>Reserves \$'000</b>	<b>Accumulated losses \$'000</b>	<b>Total equity \$'000</b>
Balance at 1 July 2018	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 20)	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>

  

<b>Consolidated</b>	<b>Issued capital \$'000</b>	<b>Reserves \$'000</b>	<b>Accumulated losses \$'000</b>	<b>Total deficiency in equity \$'000</b>
Balance at 1 July 2019	33,981	1,874	(25,440)	10,415
Adjustment for change in accounting policy (note 2)	-	-	(11)	(11)
Balance at 1 July 2019 - restated	33,981	1,874	(25,451)	10,404
Loss after income tax benefit for the year	-	-	(32,380)	(32,380)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(32,380)	(32,380)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 20)	5,398	-	-	5,398
Balance at 30 June 2020	<u>39,379</u>	<u>1,874</u>	<u>(57,831)</u>	<u>(16,578)</u>

	Note	Consolidated	
		2020 \$'000	2019 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		30,411	21,463
Payments to suppliers and employees (inclusive of GST)		(30,997)	(21,198)
		(586)	265
Interest received		2	8
Interest and other finance costs paid		(3,954)	(1,969)
Government grants received		183	-
Net cash used in operating activities	31	(4,355)	(1,696)
<b>Cash flows from investing activities</b>			
Payment for purchase of business, net of cash acquired		-	(33,359)
Payments for financial assets		-	(89)
Payments for property, plant and equipment		(438)	(95)
Payments for intangibles		(2,281)	(4,170)
Government grants received		-	926
Proceeds from disposal of financial assets		74	750
Distributions received from associate		-	77
Net cash used in investing activities		(2,645)	(35,960)
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares (net of transaction costs)	20	5,376	8,702
Proceeds from borrowings		6,500	54,679
Repayment of borrowings		(2,658)	(24,718)
Repayment of lease liabilities		(230)	-
Net cash from financing activities		8,988	38,663
Net increase in cash and cash equivalents		1,988	1,007
Cash and cash equivalents at the beginning of the financial year		2,146	1,139
Cash and cash equivalents at the end of the financial year		4,134	2,146

The above consolidated 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 31 August 2020. 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 16 Leases*

The Group has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (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 improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

#### *Impact of adoption*

AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. The impact of adoption on opening retained profits as at 1 July 2019 was as follows:



**Note 2. Significant accounting policies (continued)**

	1 July 2019 \$'000
Operating lease commitments as at 1 July 2019 (AASB 117)	876
Transitional adjustments under AASB 16	319
Less: short-term leases payments not recognised under AASB 16	(89)
Total discount of future lease payments at incremental borrowing rate (9%)	(256)
Gross Right-Of-Use Assets recognised (AASB 16)	<u>850</u>
Less: Accumulated depreciation initially recognised at 1 July 2019	(470)
Written down value of Right-of-Use Asset	<u>380</u>
Elimination of straight line lease liability	122
Adjustment to accumulated losses	<u>11</u>
Lease liabilities at date of transition to AASB 16	<u><u>513</u></u>

*Practical expedients applied*

In adopting AASB 16, the Group has used the following practical expedients permitted by the standard:

- applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
- accounted for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases;
- excluded initial direct costs for the measurement of the right-of-use asset at the date of initial application;
- used hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- not apply AASB 16 to contracts that were not previously identified as containing a lease.

*Interpretation 23 Uncertainty over Income Tax*

The Group has adopted Interpretation 23 from 1 July 2019. The interpretation clarifies how to apply the recognition and measurement requirements of AASB 112 'Income Taxes' in circumstances where uncertain tax treatments exist. The interpretation requires: the Group to determine whether each uncertain tax treatment should be treated separately or together, based on which approach better predicts the resolution of the uncertainty; the Group to consider whether it is probable that a taxation authority will accept an uncertain tax treatment; and if the Group concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates, measuring the tax uncertainty based on either the most likely amount or the expected value. In making the assessment it is assumed that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. Interpretation 23 was adopted using the modified retrospective approach and as such comparatives have not been restated. There was no impact of adoption on opening retained profits as at 1 July 2019.

**Going concern**

For the year ended 30 June 2020, the Group recorded a loss before tax of \$37,560,000 (2019: \$13,558,000) and had net cash outflows from operating activities of \$4,355,000 (2019: \$1,696,000). As at 30 June 2020, the Group had a deficiency in working capital of \$11,592,000 (2019: \$7,990,000).

The ability of the Group to continue as a going concern and to fund its operational activities is dependent on generating operating cashflows 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.

## 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. Repayment plans have been entered into or are in the process of being negotiated with \$273,000 of creditors which include amounts owed to the Australian Taxation Office. The Directors are satisfied funds will be available when these obligations arise;
- the Group has a number of financing arrangements in place including a \$35,184,000 (2019: \$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; and
- the Directors expect the business to trade profitably and generate positive operating cash flow.

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 28.

### Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Threat Protect Australia Limited as at 30 June 2020 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.

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.

## Note 2. Significant accounting policies (continued)

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:

##### (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.

## Note 2. Significant accounting policies (continued)

### *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.

### **Government grants**

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

### **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.

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.

## **Note 2. Significant accounting policies (continued)**

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.

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.

## Note 2. Significant accounting policies (continued)

### 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.

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 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.

## Note 2. Significant accounting policies (continued)

### Right-of-use assets

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

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

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

### 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.

#### *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 2 - 5 years (2019: 5 - 10 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 6 years (2019: 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 4 - 6 years (2019: 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.

## Note 2. Significant accounting policies (continued)

### 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.

### Lease liabilities

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

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

### 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.

### 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.

#### *Contribution superannuation expense*

Contributions to superannuation plans are expensed in the period in which they are incurred.



## Note 2. Significant accounting policies (continued)

### *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.

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.

## **Note 2. Significant accounting policies (continued)**

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.

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.

## Note 2. Significant accounting policies (continued)

### 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.

### Comparatives

Some comparatives in the statement of profit or loss have been realigned where necessary to agree with current year presentation. The changes were made in order to present each item in a more relevant manner with regard to its function within the Group's business.

The following comparative expense categories were grouped within the administration category:

- Legal and consulting fees (2019: \$46,000);
- Occupancy costs (2019: \$266,000);
- Impairment of receivables (2019: \$199,000); and
- Share-based payments (2019: \$227,000).

Marketing and business development related depreciation and amortisation costs (2019: \$4,763,000) were moved from Cost of sales – depreciation and amortisation to Marketing and business development – depreciation and amortisation.

Impairment of assets (2019: \$5,236,000) was moved to Marketing and business development – impairment of assets.

### 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 2020. 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)

### *Conceptual Framework for Financial Reporting (Conceptual Framework)*

The revised Conceptual Framework is applicable to annual reporting periods beginning on or after 1 January 2020 and early adoption is permitted. The Conceptual Framework contains new definition and recognition criteria as well as new guidance on measurement that affects several Accounting Standards. Where the Group has relied on the existing framework in determining its accounting policies for transactions, events or conditions that are not otherwise dealt with under the Australian Accounting Standards, the Group may need to review such policies under the revised framework. At this time, the application of the Conceptual Framework is not expected to have a material impact on the Group's financial statements.

## 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.

### *Coronavirus (COVID-19) pandemic*

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the Group based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the Group operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the Group unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

### *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.

### *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, historical collection rates, the impact of the Coronavirus (COVID-19) pandemic and forward-looking information that is available. The allowance for expected credit losses, as disclosed in note 9, is calculated based on the information available at the time of preparation. The actual credit losses in future years may be higher or lower.

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

#### *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 contract related to intangible assets from 6 years to 4-6 years after new information came to light regarding the average life of these assets. As a result of these changes, amortisation of customer related intangible assets increased by \$2,330,000 for the year ended 30 June 2020.

During the year, the Group also adjusted the useful life of a portion of its development assets from 5-10 years to 2-5 years after new information came to light regarding the average life of these assets. As a result of these changes, amortisation of development assets increased by \$1,054,000 for the year ended 30 June 2020.

#### *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.

#### *Lease term*

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the Group's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The Group reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

#### *Incremental borrowing rate*

Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the Group estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security and economic environment.

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

#### *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 9.73%. The total fair value of customer related intangible assets acquired was \$14,591,000.

#### *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 prior period of twelve months from acquisition date, 30 April 2019. The amount of \$962,000 was management's estimate of the final consideration payable and related to actual customer numbers expected within 12 months of acquisition date. The amount of \$962,000 was management's estimate of the total consideration payable at that date. It was considered to be highly unlikely that actual contingent consideration would be higher than these amounts due to the nature of the contractual terms which they are based on.

During the year, the acquisition date fair value of contingent consideration was reduced to nil (from \$962,000) once additional information regarding the assets, liabilities, revenues and expenses of the business came to light. Refer to note 29 for further details.

#### *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.

#### Note 4. Operating segments (continued)

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.

##### Major customers

There was no customer that contributed more than 10% of revenues (2019: none).

##### Operating segment information

<b>Consolidated - 2020</b>	Monitoring \$'000	Protective services \$'000	Services \$'000	Total \$'000
<b>Revenue</b>				
Sales to external customers	22,574	4,571	488	27,633
<b>Total revenue</b>	<u>22,574</u>	<u>4,571</u>	<u>488</u>	<u>27,633</u>
<b>Segment result</b>	<u>10,599</u>	<u>426</u>	<u>(528)</u>	10,497
Other income including interest received				411
Administration expenses				(4,304)
Compliance and regulatory costs				(634)
Marketing and business development expenses				(964)
Marketing and business development -depreciation and amortisation				(11,254)
Marketing and business development - impairment of assets				(18,838)
Business acquisition and integration costs				(4,533)
Finance costs				(7,941)
<b>Loss before income tax benefit</b>				<u>(37,560)</u>
Income tax benefit				5,180
<b>Loss after income tax benefit</b>				<u>(32,380)</u>
<b>Assets</b>				
Segment assets	38,751	574	35	39,360
<i>Unallocated assets:</i>				
Various				6,682
<b>Total assets</b>				<u>46,042</u>
<b>Liabilities</b>				
Segment liabilities	3,261	199	-	3,460
<i>Unallocated liabilities:</i>				
Various				59,160
<b>Total liabilities</b>				<u>62,620</u>

Note 4. Operating segments (continued)

Consolidated - 2019	Monitoring \$'000	Protective services \$'000	Services \$'000	Total \$'000
<b>Revenue</b>				
Sales to external customers	14,201	4,605	935	19,741
<b>Total revenue</b>	<u>14,201</u>	<u>4,605</u>	<u>935</u>	<u>19,741</u>
<b>Segment result</b>	<u>7,484</u>	<u>199</u>	<u>(699)</u>	6,984
Other income including interest received				891
Administration expenses				(3,365)
Compliance and regulatory costs				(613)
Marketing and business development expenses				(758)
Marketing and business development - depreciation and amortisation				(4,763)
Marketing and business development - impairment of assets				(5,236)
Business acquisition and integration costs				(3,878)
Finance costs				(2,820)
<b>Loss before income tax benefit</b>				<u>(13,558)</u>
Income tax benefit				2,937
<b>Loss after income tax benefit</b>				<u>(10,621)</u>
<b>Assets</b>				
Segment assets	67,876	492	24	68,392
<i>Unallocated assets:</i>				
Various				3,767
<b>Total assets</b>				<u>72,159</u>
<b>Liabilities</b>				
Segment liabilities	4,614	60	-	4,674
<i>Unallocated liabilities:</i>				
Various				57,070
<b>Total liabilities</b>				<u>61,744</u>



## Note 5. Revenue

### *Disaggregation of revenue*

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

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Major product lines</i>		
Ongoing services	25,939	17,420
One-off services	1,445	1,694
Equipment sales	249	627
	<u>27,633</u>	<u>19,741</u>
<i>Geographical regions</i>		
Australia	<u>27,633</u>	<u>19,741</u>
<i>Timing of revenue recognition</i>		
Services transferred at a point in time	1,694	2,321
Services transferred over time	25,939	17,420
	<u>27,633</u>	<u>19,741</u>

## Note 6. Other income

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Net fair value gain on financial instruments	-	24
Net gain on disposal of investments	-	284
Net gain on settlement of contingent consideration	56	428
Government grants	183	-
Dividends received	37	-
Other income	133	65
	<u>409</u>	<u>801</u>

### *Government grants*

During the year the Group received payments from the Australian Government amounting to \$183,000 as part of its 'Boosting Cash Flow for Employers' scheme in response to the Coronavirus ('COVID-19') pandemic. These non-tax amounts have been recognised as government grants and recognised as income once there is reasonable assurance that the Group will comply with any conditions attached.

**Note 7. Expenses**

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Loss before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Plant and equipment	151	62
Motor vehicles	15	23
Monitoring infrastructure	182	187
Buildings right-of-use assets	202	-
	<hr/>	<hr/>
Total depreciation	550	272
<i>Amortisation</i>		
Development assets	2,484	358
Intellectual property	2	2
Customer contracts	8,545	4,335
	<hr/>	<hr/>
Total amortisation	11,031	4,695
Total depreciation and amortisation	<hr/>	<hr/>
	11,581	4,967
<i>Impairment</i>		
Goodwill (note 14)	17,110	5,236
Development assets (note 14)	1,702	-
Plant and equipment (note 12)	26	-
	<hr/>	<hr/>
Total impairment	18,838	5,236
<i>Finance costs</i>		
Interest and finance charges paid/payable on borrowings	7,900	2,820
Interest and finance charges paid/payable on lease liabilities	41	-
	<hr/>	<hr/>
Finance costs expensed	7,941	2,820
<i>Leases</i>		
Minimum lease payments	-	591
Short-term lease payments	204	-
	<hr/>	<hr/>
	204	591
<i>Superannuation expense</i>		
Superannuation contribution expense	<hr/>	<hr/>
	714	668
<i>Share-based payments expense</i>		
Share-based payments expense	<hr/>	<hr/>
	-	227
<i>Employee benefits expense excluding superannuation</i>		
Employee benefits expense excluding superannuation	<hr/>	<hr/>
	10,121	8,553

**Note 8. Income tax**

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Income tax benefit</i>		
Current tax	-	44
Deferred tax - origination and reversal of temporary differences	(5,180)	(2,981)
	<u>(5,180)</u>	<u>(2,981)</u>
Aggregate income tax benefit	<u>(5,180)</u>	<u>(2,937)</u>
Deferred tax included in income tax benefit comprises:		
Decrease in deferred tax liabilities	(5,180)	(2,981)
<i>Numerical reconciliation of income tax benefit and tax at the statutory rate</i>		
Loss before income tax benefit	(37,560)	(13,558)
Tax at the statutory tax rate of 27.5%	(10,329)	(3,728)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Deductible equity raising costs	(53)	(39)
Non-deductible expenses	228	525
Non-assessable income	(44)	(116)
Impairment of assets	4,705	1,440
Tax offset for franked dividends	-	(29)
Other assessable income	-	8
Deferred tax impact of capitalised R&D expenditure	-	(221)
	(5,493)	(2,160)
Current year tax losses not recognised	387	-
Prior year tax losses not recognised now recouped	-	(26)
Prior year temporary differences not recognised now recognised	-	(505)
Over provision for prior year	(74)	(246)
	<u>(5,180)</u>	<u>(2,937)</u>
Income tax benefit	<u>(5,180)</u>	<u>(2,937)</u>
	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Amounts credited directly to equity</i>		
Deferred tax liabilities	(22)	(28)
<i>Tax losses not recognised</i>		
Unused revenue and capital losses for which no deferred tax asset has been recognised	5,474	3,362
Potential tax benefit @ 27.5%	<u>1,505</u>	<u>925</u>

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)**

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Deferred tax asset</i>		
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Tax losses	3,098	1,991
Employee benefits	411	436
Accrued expenses	493	338
Capital raising costs	126	125
Other deferred tax assets	527	16
Set-off deferred tax liabilities	(4,655)	(2,906)
	<u>-</u>	<u>-</u>

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Deferred tax liability</i>		
Deferred tax liability comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Intangible assets	4,630	9,852
Investments	13	13
Prepayments	12	-
Set-off of deferred tax assets	(4,655)	(2,906)
	<u>-</u>	<u>6,959</u>
Movements:		
Opening balance	6,959	4,199
Credited to profit or loss	(5,180)	(2,981)
Credited to equity	(22)	(28)
Additions through business combinations (note 29)	(1,757)	5,769
	<u>-</u>	<u>6,959</u>

**Note 9. Trade and other receivables**

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Current assets</i>		
Trade receivables	3,270	2,952
Less: Allowance for expected credit losses	(474)	(579)
	<u>2,796</u>	<u>2,373</u>
Other receivables	<u>239</u>	<u>109</u>
	<u>3,035</u>	<u>2,482</u>

**Note 9. Trade and other receivables (continued)**

*Allowance for expected credit losses*

The Group has recognised a net recovery of \$56,000 (2019: net loss of \$199,000) in profit or loss in respect of the expected credit losses for the year ended 30 June 2020.

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	
	2020 %	2019 %	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Not overdue	0.5%	0.4%	1,325	827	7	3
0 to 90 days overdue	0.9%	1.0%	1,186	1,239	11	12
90 to 180 days overdue	9.7%	5.8%	200	141	19	8
180 to 365 days overdue	50.0%	49.8%	244	377	122	188
365 days overdue	100.0%	100.0%	315	368	315	368
			<u>3,270</u>	<u>2,952</u>	<u>474</u>	<u>579</u>

The Group has increased its monitoring of debt recovery as there is an increased probability of customers delaying payment or being unable to pay, due to the Coronavirus (COVID-19) pandemic. As a result, the calculation of expected credit losses has been revised as at 30 June 2020 and rates have increased in each category over 90 days overdue.

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

	Consolidated	
	2020 \$'000	2019 \$'000
Opening balance	579	127
Additional provisions recognised	-	91
Additions through business combinations	-	239
Movements in provision	(105)	-
Other adjustments	-	122
Closing balance	<u>474</u>	<u>579</u>

**Note 10. Contract assets**

Current assets	Consolidated	
	2020 \$'000	2019 \$'000
Contract assets	<u>316</u>	<u>216</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	216	242
Additions	316	216
Transfer to trade receivables	(216)	(242)
Closing balance	<u>316</u>	<u>216</u>

**Note 11. Other**

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Current assets</i>		
Prepayments	580	132
Security deposits	154	229
	<u>734</u>	<u>361</u>
<i>Non-current assets</i>		
Prepayments	<u>187</u>	<u>173</u>

**Note 12. Property, plant and equipment**

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Non-current assets</i>		
Plant and equipment - at cost	1,181	776
Less: Accumulated depreciation	(569)	(420)
Less: Impairment	(26)	-
	<u>586</u>	<u>356</u>
Motor vehicles - at cost	123	123
Less: Accumulated depreciation	(115)	(100)
	<u>8</u>	<u>23</u>
Monitoring infrastructure - at cost	1,267	1,234
Less: Accumulated depreciation	(902)	(720)
	<u>365</u>	<u>514</u>
	<u>959</u>	<u>893</u>

*Reconciliations*

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

<b>Consolidated</b>	<b>Plant and equipment \$'000</b>	<b>Motor vehicles \$'000</b>	<b>Monitoring infrastructure \$'000</b>	<b>Total \$'000</b>
Balance at 1 July 2018	337	46	635	1,018
Additions	81	-	66	147
Depreciation expense	(62)	(23)	(187)	(272)
	<u>356</u>	<u>23</u>	<u>514</u>	<u>893</u>
Balance at 30 June 2019	356	23	514	893
Additions	407	-	33	440
Impairment of assets	(26)	-	-	(26)
Depreciation expense	(151)	(15)	(182)	(348)
	<u>586</u>	<u>8</u>	<u>365</u>	<u>959</u>

**Note 13. Right-of-use assets**

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Non-current assets</i>		
Buildings - right-of-use	981	-
Less: Accumulated depreciation	(690)	-
	291	-
	291	-

Additions to the right-of-use assets during the year were \$94,000.

The Group leases buildings for its offices under agreements of between 1 to 5 years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

The Group leases office equipment under agreements of less than 2 years. These leases are either short-term or low-value, so have been expensed as incurred and not capitalised as right-of-use assets.

For impairment testing, the right-of-use assets have been allocated to the monitoring cash-generating units. Refer to note 14 for further information on the impairment testing key assumptions.

**Note 14. Intangibles**

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Non-current assets</i>		
Goodwill - at cost	34,598	30,706
Less: Accumulated impairment	(22,988)	(5,878)
	11,610	24,828
Development assets - at cost	5,550	5,307
Less: Accumulated amortisation	(2,904)	(419)
Less: Impairment	(1,702)	-
	944	4,888
Intellectual property - at cost	23	23
Less: Accumulated amortisation	(7)	(5)
	16	18
Customer contracts - at cost *	39,765	43,608
Less: Accumulated amortisation	(15,348)	(6,805)
Less: Accumulated impairment	(828)	(828)
	23,589	35,975
	36,159	65,709

**Note 14. Intangibles (continued)**

*Reconciliations*

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

<b>Consolidated</b>	Goodwill \$'000	Development assets \$'000	Intellectual property \$'000	Customer contracts \$'000	Total \$'000
Balance at 1 July 2018	6,047	2,273	14	18,152	26,486
Additions	-	2,973	6	1,179	4,158
Additions through business combinations (note 29)	24,017	-	-	20,979	44,996
Impairment of assets	(5,236)	-	-	-	(5,236)
Amortisation expense	-	(358)	(2)	(4,335)	(4,695)
<b>Balance at 30 June 2019</b>	<b>24,828</b>	<b>4,888</b>	<b>18</b>	<b>35,975</b>	<b>65,709</b>
Additions	-	242	-	2,547	2,789
Adjustments through business combinations (note 29)	3,892	-	-	(6,388)	(2,496)
Impairment of assets	(17,110)	(1,702)	-	-	(18,812)
Amortisation expense	-	(2,484)	(2)	(8,545)	(11,031)
<b>Balance at 30 June 2020</b>	<b>11,610</b>	<b>944</b>	<b>16</b>	<b>23,589</b>	<b>36,159</b>

\* Includes a reduction of \$6,388,000 as a result of adjustment through business combinations.

*Impairment testing*

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

	<b>Consolidated</b>	
	<b>2020</b> \$'000	<b>2019</b> \$'000
<b>Monitoring:</b>		
Threat Protect	3,927	4,464
South Australia	775	1,583
Onwatch	6,908	18,781
	<b>11,610</b>	<b>24,828</b>

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:



**Note 14. Intangibles (continued)**

	Projected revenue growth rate 2020 %	Projected revenue growth rate 2019 %	Net margin 2020 %	Net margin 2019 %	Pre-tax discount rate 2020 %	Pre-tax discount rate 2019 %	Terminal growth rate 2020 %	Terminal growth rate 2019 %
<b>Monitoring:</b>								
Threat Protect	(2.5%)	3.0%	21.4%	29.0%	11.6%	12.9%	-	1.6%
South Australia	(2.5%)	3.0%	15.9%	22.0%	11.6%	12.9%	-	1.6%
Onwatch	(2.5%)	3.0%	26.8%	42.0%	11.6%	12.9%	-	1.6%

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. Estimated potential future impacts of COVID-19 have been considered within the forecast of revenue growth.
Net margin	<p>Net margin for Threat Protect monitoring CGU is below the prior year net margin for the CGU as a result of a lower growth rate.</p> <p>The net margin for South Australia monitoring CGU is below the prior year net margin for the CGU as a result of a higher allocation of overheads to the CGU.</p> <p>The net margin for Onwatch monitoring CGU is below the prior year net margin for the CGU as a result of synergies being realised not included in compliance with the accounting standard.</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, impairment charges have been applied to the goodwill allocated to the monitoring CGUs, as the carrying amount of these CGUs exceeded their recoverable amount:

	Consolidated	
	2020 \$'000	2019 \$'000
<b>Monitoring:</b>		
Threat Protect	537	-
South Australia	808	-
Onwatch	15,765	5,236
	<u>17,110</u>	<u>5,236</u>

**Sensitivity**

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

**Note 15. Trade and other payables**

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Current liabilities</i>		
Trade payables	1,420	2,638
Contingent consideration (notes 23 and 29)	1,158	1,700
Accrued expenses	1,438	1,932
Interest payable	153	161
Payable to ATO	3,508	2,609
Other payables	1,657	858
	9,334	9,898
	9,334	9,898

Refer to note 22 for further information on financial instruments.

Refer to note 23 for further information on contingent consideration.

**Note 16. Contract liabilities**

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Current liabilities</i>		
Contract liabilities	910	661
	910	661
<i>Reconciliation</i>		
Reconciliation of the written down values at the beginning and end of the current and previous financial year are set out below:		
Opening balance	661	381
Adjustments through business combinations	367	898
Transfer to revenue - included in the opening balance	(661)	(381)
Transfer to revenue - other balances	543	(237)
	910	661
Closing balance	910	661

*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 \$910,000 as at 30 June 2020 (\$661,000 as at 30 June 2019) and is expected to be recognised as revenue in future periods as follows:

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Within 6 months	860	525
6 to 12 months	50	136
	910	661
	910	661

**Note 17. Borrowings**

	Consolidated	
	2020	2019
	\$'000	\$'000
<i>Current liabilities</i>		
Other short-term borrowings	88	166
Borrowings - Soliton Capital Partners Pty Ltd	2,000	1,000
Borrowings - Black Crane	6,624	-
Capitalised borrowing costs - Black Crane	(525)	-
Hire purchase	29	-
	8,216	1,166
	8,216	1,166
<i>Non-current liabilities</i>		
Unsecured note - First Samuel Limited	8,810	8,173
Borrowings - Soliton Capital Partners Pty Ltd	33,184	35,233
Capitalised borrowing costs - Soliton Capital Partners Pty Ltd	283	(2,168)
	42,277	41,238
	42,277	41,238

Refer to note 22 for further information on financial instruments.

In April 2020, the Group issued unsecured convertible notes to Black Crane Asia Opportunities Fund ('Black Crane') to the value of \$6,500,000, convertible at \$0.10 per share. The notes have a term of 3 years and at the time of issue the notes were subject to shareholder approval relating to the conversion of the notes into shares. As the notes were fully repayable in the event that shareholder approval was not obtained within 90 days of note issue, the notes were deemed to be classified as current liabilities as at 30 June 2020. Subsequent to year end, on 31 July 2020, shareholder approval for conversion was obtained and the notes will be reclassified as non-current in the next reporting period. Interest on the notes accrues at a rate of 9% per annum and accrues monthly. Interest is only payable upon final repayment or by conversion to shares if the loan is repaid. Black Crane can elect to convert some or all of the notes into shares after the initial 6 months from notes being issued and only within a 10-business day conversion window commencing on each 1 January, 1 April, 1 June and 1 October.

*Assets pledged as security*

Borrowings to Soliton Capital Partners Pty Ltd are secured over the general property of the Group.

The Group has fully utilised its borrowings facilities at reporting date.

**Note 17. Borrowings (continued)**

*Financing arrangements*

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

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Total facilities		
Other short-term borrowings	88	96
Borrowings - Soliton	35,184	36,233
Hire purchase	29	70
Unsecured note - First Samuel	8,810	8,173
Borrowings - Black Crane	6,624	-
	50,735	44,572
Used at the reporting date		
Other short-term borrowings	88	96
Borrowings - Soliton	35,184	36,233
Hire purchase	29	70
Unsecured note - First Samuel	8,810	8,173
Borrowings - Black Crane	6,624	-
	50,735	44,572
Unused at the reporting date		
Other short-term borrowings	-	-
Borrowings - Soliton	-	-
Hire purchase	-	-
Unsecured note - First Samuel	-	-
Borrowings - Black Crane	-	-
	-	-

**Note 18. Lease liabilities**

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Current liabilities</i>		
Lease liability	193	-
	193	-
<i>Non-current liabilities</i>		
Lease liability	197	-
	197	-

Refer to note 22 for information on the maturity analysis of lease liabilities.

Refer to note 13 for details of right-of-use assets.

**Note 19. Provisions**

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Current liabilities</i>		
Employee benefits provision	1,193	1,305
Restructuring provision	-	189
	<u>1,193</u>	<u>1,494</u>
<i>Non-current liabilities</i>		
Employee benefits provision	<u>300</u>	<u>328</u>

*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:

<b>Consolidated - 2020</b>	<b>Restructuring \$'000</b>
Carrying amount at the start of the year	189
Amounts used	<u>(189)</u>
Carrying amount at the end of the year	<u>-</u>

**Note 20. Issued capital**

	<b>Consolidated</b>			
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	<b>Shares</b>	<b>Shares</b>	<b>\$'000</b>	<b>\$'000</b>
Ordinary shares - fully paid	<u>240,956,278</u>	<u>205,643,778</u>	<u>39,379</u>	<u>33,981</u>

**Note 20. Issued capital (continued)**

*Movements in ordinary share capital*

Details	Date	Shares	Issue price	\$'000
Balance	1 July 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	205,643,778		33,981
Shares issued	3 October 2019	4,062,500	\$0.16	650
Shares issued	10 December 2019	31,250,000	\$0.16	5,000
Transaction costs		-	\$0.00	(274)
Movement in tax balance		-	\$0.00	22
Balance	30 June 2020	<u>240,956,278</u>		<u>39,379</u>

*Ordinary shares*

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

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

*Share buy-back*

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

*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 2019 Annual Report.

## Note 21. Reserves

	Consolidated	
	2020 \$'000	2019 \$'000
Share-based payments reserve	1,874	1,874

### *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 2018	1,647
Share-based payment expense	227
Balance at 30 June 2019	1,874
Balance at 30 June 2020	1,874

## Note 22. Financial instruments

### *Financial risk management objectives*

The Group's activities expose it to a variety of financial risks: market risk (including 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, and equity price risks and ageing analysis for credit risk.

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*

#### *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.

**Note 22. Financial instruments (continued)**

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

Consolidated	2020		2019	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Loans*	10.08%	50,618	11.15%	44,406
Net exposure to cash flow interest rate risk		50,618		44,406

\* 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 \$50,618,000 (2019: \$44,406,000), are principal and interest payment loans. Quarterly cash outlays of approximately \$606,000 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 \$506,000 (2019: \$444,058) 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 \$2,000,000 are due during the year ending 30 June 2021.

**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. As disclosed in note 9, due to the Coronavirus (COVID-19) pandemic, the calculation of expected credit losses has been revised as at 30 June 2020 and rates have increased in each category over 90 days overdue.

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.



**Note 22. Financial instruments (continued)**

*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.

<b>Consolidated - 2020</b>	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
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade payables	-	1,420	-	-	-	1,420
Contingent consideration	-	1,158	-	-	-	1,158
Other payables	-	1,657	-	-	-	1,657
Interest payable	-	153	-	-	-	153
<i>Interest-bearing - variable</i>						
Soliton borrowings	10.92%	2,000	33,184	-	-	35,184
First Samuel unsecured notes	7.53%	-	8,810	-	-	8,810
Black Crane Asia Fund	9.00%	6,624	-	-	-	6,624
Hire purchase	-	29	-	-	-	29
Lease liability	9.00%	194	189	9	-	392
<i>Interest-bearing - fixed rate</i>						
Short term borrowings	-	88	-	-	-	88
<b>Total non-derivatives</b>		<b>13,323</b>	<b>42,183</b>	<b>9</b>	<b>-</b>	<b>55,515</b>

<b>Consolidated - 2019</b>	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
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade payables	-	2,638	-	-	-	2,638
Contingent 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	-	166	-	-	-	166
<b>Total non-derivatives</b>		<b>6,523</b>	<b>2,000</b>	<b>41,406</b>	<b>-</b>	<b>49,929</b>

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 23. 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

<b>Consolidated - 2020</b>	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Assets</i>				
Financial assets at fair value through profit or loss	-	-	192	192
Total assets	-	-	192	192
<i>Liabilities</i>				
Contingent consideration	-	-	1,158	1,158
Total liabilities	-	-	1,158	1,158
<b>Consolidated - 2019</b>	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Assets</i>				
Financial assets at fair value through profit or loss	-	-	155	155
Total assets	-	-	155	155
<i>Liabilities</i>				
Contingent consideration	-	-	1,700	1,700
Total liabilities	-	-	1,700	1,700

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.

### Note 23. Fair value measurement (continued)

#### Level 3 assets and liabilities

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

<b>Consolidated</b>	Financial assets at fair value through profit or loss \$'000	Contingent consideration \$'000
Balance at 1 July 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 (note 6)	-	(428)
	<hr/>	<hr/>
Balance at 30 June 2019	155	1,700
Additions	37	-
Additions *	-	1,365
Payments	-	(889)
Contingent consideration no longer payable	-	(962)
Net gain on settlement of contingent consideration (note 6)	-	(56)
	<hr/>	<hr/>
Balance at 30 June 2020	<u>192</u>	<u>1,158</u>

\* During the period, additional contingent consideration was recognised in relation to the acquisitions of various security monitoring customer bases including Securex (\$1,064,000), Chris Jones Security (\$223,000) and other minor monitoring customer bases (\$78,000). The fair value of contingent consideration payable is management's estimate of the final consideration that will be payable for each acquisition and relates to actual customer numbers and revenues expected within 12 months of acquisition date, less amounts already paid.

### Note 24. 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:

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Short-term employee benefits	1,147,897	964,246
Post-employment benefits	93,267	92,048
Termination benefits	137,212	-
Share-based payments	-	146,250
	<hr/>	<hr/>
	<u>1,378,376</u>	<u>1,202,544</u>

#### Note 25. 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 2020 \$	2019 \$
<i>Audit services - BDO Audit (WA) Pty Ltd</i>		
Audit or review of the financial statements	117,970	142,733
<i>Other services</i>		
R&D tax incentive purposes (BDO Corporate Tax (WA) Pty Ltd)	11,512	5,000
	<u>129,482</u>	<u>147,733</u>

#### Note 26. Contingent liabilities

The Group had no contingent liabilities as at 30 June 2020 and 30 June 2019.

The Group has given bank guarantees as at 30 June 2020 of \$128,000 (2019: \$nil) to Westpac as a contractual requirement relating to one of customer contracts.

#### Note 27. Related party transactions

##### *Parent entity*

Threat Protect Australia Limited is the parent entity.

##### *Subsidiaries*

Interests in subsidiaries are set out in note 30.

##### *Key management personnel*

Disclosures relating to key management personnel are set out in note 24 and the remuneration report included in the directors' report.

##### *Transactions with related parties*

The following transactions occurred with related parties:

	Consolidated 2020 \$	2019 \$
Goods and services:		
Sale of good and services to key management personnel	1,667	1,743
Payment for other expenses:		
Training Licence agreement covering 10 years to Threat Protect Security Services Pty Ltd (Tactical Conflict Solutions Pty Ltd)*	-	(200,000)

\* Tactical Conflict Solutions Pty Ltd ('TCS') is a company jointly controlled by Mr Pynes and Mr Ferrara.

**Note 27. Related party transactions (continued)**

*Receivable from and payable to related parties*

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

	<b>Consolidated 2020</b>	<b>2019</b>
	\$	\$
Current payables:		
Trade payables to entities controlled by key management personnel (TCS)	20,000	20,000

*Loans to/from related parties*

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

	<b>Consolidated 2020</b>	<b>2019</b>
	\$	\$
Current borrowings:		
Loan from borrowing - Black Crane (where Peter Kennan is also a KMP)	6,099,396	-

*Terms and conditions*

All transactions were made on normal commercial terms and conditions and at market rates, except for the loan from Black Crane (refer to note 17 for details).

**Note 28. Parent entity information**

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

*Statement of profit or loss and other comprehensive income*

	<b>Parent</b>	
	<b>2020</b>	<b>2019</b>
	\$'000	\$'000
Loss after income tax	(32,392)	(13,456)
Total comprehensive income	(32,392)	(13,456)

*Statement of financial position*

	<b>Parent</b>	
	<b>2020</b>	<b>2019</b>
	\$'000	\$'000
Total current assets	552	97
Total assets	35,177	55,333
Total current liabilities	1,113	2,050
Total liabilities	51,755	44,917
Equity		
Issued capital	87,195	81,797
Share-based payments reserve	1,944	1,944
Accumulated losses	(105,717)	(73,325)
Total (deficiency)/equity	(16,578)	10,416

## Note 28. Parent entity information (continued)

### *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 2020 and 30 June 2019.

### *Contingent liabilities*

The parent entity had no contingent liabilities as at 30 June 2020 and 30 June 2019.

### *Capital commitments - Property, plant and equipment*

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2020 and 30 June 2019.

### *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 29. 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 \$33,746,303. The goodwill recognised at acquisition date of \$27,910,000 represents the consideration payment less net assets acquired. The goodwill has subsequently been impaired by \$5,236,000 (prior year), plus an additional amount of \$15,765,000 during the current year. (Refer to note 14 for further information).

The acquisition recognised in the 2019 financial statements was provisional as there was insufficient time between the acquisition date and reporting date to finalise the fair values of the assets and liabilities acquired.

During the year, the Company finalised these amounts based on new information obtained regarding the opening balances, with the following adjustments being made:

- a decrease in customer contracts of \$6,388,000;
- an increase in the goodwill acquired of \$3,892,000 (before the impairment was recognised);
- a decrease in deferred tax liability of \$1,757,000;
- a decrease in trade and other payables of \$232,000;
- a decrease in short term borrowings of \$18,000; and
- a decrease in trade and other receivables of \$9,000.

Acquisition date fair value of contingent consideration was subsequently reduced to nil (from \$962,000) once additional information regarding the assets, liabilities, revenues and expenses of the business came to light.

**Note 29. Business combinations (continued)**

Details of the acquisition are as follows:

	<b>Fair value \$'000</b>
Current assets:	
Cash and cash equivalents	79
Trade and other receivables	1,014
Non-current assets:	
Plant and equipment	43
Customer contracts	14,591
Current liabilities:	
Trade and other payables	(5,244)
Borrowings	(27)
Employee benefits	(393)
Non-current liabilities:	
Employee benefits	(215)
Deferred tax liability	(4,012)
Net assets acquired	5,836
Goodwill	27,910
Acquisition-date fair value of the total consideration transferred	<u>33,746</u>
Representing:	
Cash paid or payable to vendor	32,226
Threat Protect Australia Limited shares issued to vendor	1,520
	<u>33,746</u>
Cash used to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	33,746
Add: borrowing	46
Less: cash and cash equivalents	(79)
Less: shares issued by Company as part of consideration	(1,520)
Net cash used	<u>32,193</u>

**Note 30. 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:

<b>Name</b>	<b>Principal place of business / Country of incorporation</b>	<b>Ownership interest</b>	
		<b>2020 %</b>	<b>2019 %</b>
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%	100%
Onwatch (VIC) Pty Ltd	Australia	100%	100%

**Note 30. Interests in subsidiaries (continued)**

Name	Principal place of business / Country of incorporation	Ownership interest	
		2020 %	2019 %
Alarm Monitoring Pty Ltd	Australia	100%	100%
Electralarm Australia Pty Ltd	Australia	100%	100%
House of Security Plus Pty Ltd	Australia	100%	100%
Service 101 Pty Ltd	Australia	100%	100%

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

	Consolidated	
	2020 \$'000	2019 \$'000
Loss after income tax benefit for the year	(32,380)	(10,621)
Adjustments for:		
Depreciation and amortisation	11,581	4,967
Impairment of goodwill	18,838	5,236
Net gain on disposal of property, plant and equipment	-	(284)
Share-based payments	-	227
Impairment of receivables	(56)	200
Non-cash other income (Contingent consideration written back)	-	(422)
Non-cash movement in financial assets	-	(107)
Borrowing costs capitalised	1,790	707
Interest capitalised to borrowings	2,204	406
Income tax benefit	(5,180)	(2,937)
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(807)	256
Decrease/(increase) in contract assets	(100)	39
Decrease/(increase) in inventories	(12)	12
Decrease/(increase) in prepayments	(190)	125
Increase in trade and other payables	37	563
Increase/(decrease) in contract liabilities	248	(280)
Increase/(decrease) in other provisions	(328)	217
Net cash used in operating activities	<u>(4,355)</u>	<u>(1,696)</u>

**Note 32. Non-cash investing and financing activities**

	Consolidated	
	2020 \$'000	2019 \$'000
Shares issued in relation to business combinations	-	1,520
Shares issued on conversion of convertible note	-	9,000
	<u>-</u>	<u>10,520</u>



### Note 33. Changes in liabilities arising from financing activities

Consolidated	Short term borrowings \$'000	Long term borrowings \$'000	Lease liabilities \$'000	Total \$'000
Balance at 1 July 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 29)	46	-	-	46
Movement in borrowing costs	378	(1,084)	-	(706)
Balance at 30 June 2019	1,166	41,239	-	42,405
Net cash from/(used in) financing activities	6,836	(2,993)	(230)	3,613
Acquisition of leases	-	-	620	620
Business combination adjustment	18	-	-	18
Interest capitalised	761	1,443	-	2,204
Movement in borrowing costs	(565)	2,589	-	2,024
Balance at 30 June 2020	<u>8,216</u>	<u>42,278</u>	<u>390</u>	<u>50,884</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:

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
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>13,571,422</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,571,422</u>

**Note 34. Share-based payments (continued)**

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>

The share-based payment expense during the financial year was \$nil (2019: \$229,000).

The weighted average exercise price of options at the end of the financial year was 33.24 cents (2019: 33.24 cents).

The weighted average remaining contractual life of options outstanding at the end of the financial year was 4 months (2019: 1.34 years).

**Note 35. Earnings per share**

	Consolidated	
	2020 \$'000	2019 \$'000
Loss after income tax attributable to the owners of Threat Protect Australia Limited	<u>(32,380)</u>	<u>(10,621)</u>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>226,080,936</u>	<u>139,105,158</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>226,080,936</u>	<u>139,105,158</u>
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	(14.32)	(7.64)
Diluted earnings per share	(14.32)	(7.64)

13,571,422 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**

The impact of the Coronavirus (COVID-19) pandemic is ongoing and while it has been financially unfavourable for the Group up to 30 June 2020, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

At a General Meeting of shareholders held on 31 July 2020, approval was given for the replacement of 6,500,000 loan notes held by Black Crane into convertible securities through the issue of 6,500,000 convertible notes. The loan notes of \$6.5 million plus capitalised borrowing costs disclosed as a current liability at 30 June 2020 will be reclassified as non-current convertible notes in the next reporting period.

No other matter or circumstance has arisen since 30 June 2020 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 2020 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 be "Demetrios Pynes", written over a horizontal line.

Demetrios Pynes  
Managing Director

31 August 2020

## 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 at 30 June 2020, 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 2020 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 (including Independence Standards)* (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.

### Recoverability of cash generating units (“CGUs”)

<b>Key audit matter</b>	<b>How the matter was addressed in our audit</b>
<p>Note 14 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 2020.</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 14 of the financial report.</p>	<p>Our procedures included, but were not limited to the following:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• Evaluating management’s ability to accurately forecast cash flows by assessing the precision of the prior year forecasts against actual outcomes;</li> <li>• Challenging key inputs used in management’s impairment assessment including the following: <ul style="list-style-type: none"> <li>- In conjunction with our valuation specialists, comparing the discount rate utilised by management to an independently calculated discount rate;</li> <li>- Comparing growth rates with historical data and economic and industry growth forecast;</li> <li>- Evaluating the Group’s forecast cash flows with our knowledge of the business, board approved budget, incorporating any potential impact of the COVID-19 pandemic and corroborating our work with external information where possible;</li> </ul> </li> </ul>

Key audit matter	How the matter was addressed in our audit
	<ul style="list-style-type: none"> <li>- Performing sensitivity analysis on the revenue, growth rates, gross profit margins, discount rates and impact of COVID-19; and</li> <li>• Assessing the adequacy of related disclosures in Note 3 and Note 14 of the financial report.</li> </ul>

### 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 2020, 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 at:

[https://www.auasb.gov.au/admin/file/content102/c3/ar1\\_2020.pdf](https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.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 9 to 16 of the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Threat Protect Australia Limited, for the year ended 30 June 2020, 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**

A handwritten signature in black ink, appearing to read 'Dean Just', written over a faint, light-colored BDO logo watermark.

**Dean Just**

**Director**

Perth, 31 August 2020



The shareholder information set out below was applicable as at 20 July 2020.

**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	77	14,348
1,001 to 5,000	64	200,376
5,001 to 10,000	40	318,913
10,001 to 100,000	187	7,978,922
100,001 and over	150	232,443,719
	<u>518</u>	<u>240,956,278</u>
Holding less than a marketable parcel	<u>185</u>	<u>576,303</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	66,192,047	27.47
Citicorp Nominees Pty Limited	31,261,453	12.97
Patner Pty Ltd	8,312,500	3.45
HSBC Custody Nominees (Australia) Limited	6,355,406	2.64
Lenale Holdings Pty Ltd	6,000,000	2.49
MMS1 Pty Ltd	5,626,823	2.34
Cintell Pty Ltd	5,167,665	2.14
Siren Nominees Pty Ltd	5,069,492	2.10
Mr Jamie Pherous	5,006,349	2.08
Redun Pty Ltd	4,450,000	1.85
Ms Alison Elizabeth Howe	4,431,224	1.84
Ms Concetta Ferrara	4,424,001	1.84
Ms Michelle Pynes	4,285,163	1.78
Aegus Pty Ltd	4,260,142	1.77
Mr Peter Aristide Pynes and Mrs Lara Olimpia Pynes	4,257,221	1.77
Mr Craig Alexander Bortignon and Mrs Pauline Licia Bortignon	3,862,285	1.60
HSBC Custody Nominees (Australia) Limited - A/C 2	3,023,810	1.25
Invia Custodian Pty Limited	2,190,475	0.91
Mr Peter Pynes and Mrs Lara Pynes	2,114,285	0.88
Whitehaven Capital Pty Ltd	2,000,000	0.83
	<u>178,290,341</u>	<u>74.00</u>

*Unquoted equity securities*

	<b>Number on issue</b>	<b>Options over ordinary shares % of total shares issued</b>
33.95 cent options exercisable on or before 31 October 2020		
Ms Michelle Pynes (The Ren WA Budo A/C)	2,142,856	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:

	<b>Number held</b>	<b>Ordinary shares % of total shares issued</b>
First Samuel Limited	66,974,634	27.80
Black Crane Asia Pacific Opportunities Fund	31,250,000	12.97
360 Capital Equities Management Pty Ltd	25,170,000	10.45
MMS1 Pty Ltd	13,587,641	5.64

**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.