



ASX ANNOUNCEMENT | TESSERENT LIMITED

MELBOURNE – THURSDAY 27th MARCH 2017

APPENDIX 4C – QUARTERLY AND ACTIVITIES REPORT

Key highlights during the quarter:

- Customer receipts increased by 16% on previous quarter from \$1.537M to \$1.780M.
- Quarter-on-quarter receivables increased in line with business growth.
- Net cash outflow for the quarter was \$208K .
- During the March quarter the company signed contracts with a Total Contract Value (TCV) of \$1.2M, including one blue-chip customer contract worth more than \$600K.
- Received \$1M cash during March quarter in deferred consideration for the Family Zone Cyber Safety (ASX:FZO) transaction executed in December 2016.
- Received an additional \$1M cash from FZO in April 2017 with final \$1M cash payment scheduled to be received by 31st May 2017.
- Q4 2017 is expected to be cash flow positive, enabling TNT to execute a number of strategic initiatives around product development and sales team performance.
- Successfully engaged with Dell to facilitate revenue growth while minimising cash impact by financing customer hardware off the balance sheet.
- Staff costs and other expenses reduced from prior quarter as a flow-on benefit of FZO deal.
- Cash position at 31 March 2017 was \$1.705M.

Tesseract Limited (ASX:TNT) is pleased to deliver the March quarterly Financial and Activities Report, highlighting a 16% increase in quarterly receipts, continued business growth through new customer acquisition, and significant cash receipts from the previously announced sale of IP to Family Zone (ASX:FZO).

Customer receipts increased by 16% for the March quarter to \$1.780 million, demonstrating the stability of our business and our reliable growth model secured by annuity revenue. The company continues to close new business and renew existing contracts. During the March quarter the company signed contracts with a Total Contract Value (TCV) of \$1.2M. Customers continue to be attracted by our quality, local, managed security services supported by our team of security experts and recently upgraded Security Operations Centre (SOC).



Customer contracts vary in value and duration; however, contracts typically have a three-year term whereby the revenue is recognised on a monthly basis throughout the contract period. Demand for the company's core offerings continues to grow and the pipeline of opportunities reflects this.

Moving forward, our sales strategy is focused on attracting new customers with our managed firewall, managed SIEM and innovative SDWAN connectivity offerings, as well as cross-selling these services to existing customers. Our product offerings are complementary and enable us to increase our customer's total security position and network efficiency by incorporating additional services.

Staff costs for the quarter have declined as a result of the Family Zone transaction in December 2016 and company continues to be focused on managing expenses as part of its drive to positive cashflow.

Our cash position is strong, facilitating the opportunity for further product development and expansion of our core business offering. During the March quarter, we received \$1M cash from Family Zone in deferred consideration for the FZO transaction executed in December 2016. In April 2017, we received an additional \$1M from Family Zone ahead of the final \$1M payment and settlement of the FZO transaction due on 31st May 2017.

Moving Forward

The company is focused on accelerating sales growth and building a scalable business. Our cash position at 31st March 2017 was \$1.705 million but is expected to improve significantly in the June 2017 quarter. We have reduced our expenses even while improving our pipeline and we are aiming for an operating cash breakeven position within FY18.

About Tesseract

Tesseract is a specialist in managed cyber security. Tesseract manages direct end-customers in Australia while also offering a managed security service to wholesale channel partners globally, enabling them to deliver effective cyber-security management to their end-customers.

For more information, please visit the company's web site at www.tesseract.com.

Contact

Oliver Carton
Company Secretary
Phone: +61 (0)3 9880 5559
E-mail: investor@tesseract.com

Warrick Lace
Media and Investor Enquires
Phone: +61 404 656 408
E-mail: warrick@nwrcommunications.com.au

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

TESSERENT LIMITED

ABN

13 605 672 928

Quarter ended ("current quarter")

31 MARCH 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	1,780	4,563
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	(31)	(89)
(d) leased assets	(111)	(115)
(e) staff costs	(890)	(2,700)
(f) administration and corporate costs	(1,243)	(3,518)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	3	29
1.5 Interest and other costs of finance paid	(2)	(7)
1.6 Income taxes paid	(1)	(18)
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	71	(168)
1.9 Net cash from / (used in) operating activities	(424)	(2,023)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(284)	(404)
(b) businesses (see item 10)	-	(500)
(c) investments	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
(d) intellectual property	-	(249)
(e) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	500	1,500
(e) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	-	-
2.6 Net cash from / (used in) investing activities	216	347

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	-
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	-	-
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	-	-

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of quarter/year to date	1,913	3,381
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(424)	(2,023)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	216	347
4.4 Net cash from / (used in) financing activities (item 3.10 above)	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of quarter	1,705	1,705

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	1,633	1,913
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (Term Deposit)	72	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	1,705	1,913

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Current quarter \$A'000

119

-

- Executive Director salaries
- Director fees

Includes amounts paid to entities associated with the Directors

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

Current quarter \$A'000

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8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

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9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	-
9.2 Product manufacturing and operating costs	-
9.3 Advertising and marketing	31
9.4 Leased assets	67
9.5 Staff costs	855
9.6 Administration and corporate costs	1,548
9.7 Other (provide details if material) New office fit out	25
9.8 Total estimated cash outflows	2,526

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	The business of Blue Reef Pty Ltd (Acquired May 2016)	
10.2 Place of incorporation or registration	Melbourne, Australia	
10.3 Consideration for acquisition or disposal	12,875,000 shares \$1,000,000 <ul style="list-style-type: none"> • \$500,000 on completion – May 2016 • \$500,000 deferred to December 2016 	
10.4 Total net assets	\$2,855,520 Provisional – subject to review under Australian Accounting Standards for disclosure in the 31 December 2016 Half Year Report	
10.5 Nature of business	Provider of cyber security solutions in the education market	

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.



Sign here:
(~~Director~~/Company secretary)

Date: 26 April 2017

Print name: Oliver Carton

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.