ASX ANNOUNCEMENT
Melbourne – 28 October 2021

SEPTEMBER QTR 2021 – APPENDIX 4C
QUARTERLY ACTIVITIES REPORT AND OPERATIONAL UPDATE

Tesserent Limited (ASX:TNT, Tesserent or the Company) is pleased to provide its quarterly cash report and business update of its activities and achievements for **Q1 FY22** (the quarter ended 30 September 2021).

HIGHLIGHTS

Operating EBITDA of $2.0M for the quarter, up 351% on Q1 FY21 comparative period quarter	**Turnover of $26.9M** for the quarter, up 78% from Q1 FY21 and ahead of budget	**Customer receipts of $40.0M** for the quarter	**Organic EBITDA Growth hits 45%** up 50% from the end of 2020
Continuing positive operating cashflows in Q1 FY22 and positive from Jan 2021	**Build out of TNT Academy initiatives** with numerous industry partners	**ARR (annual recurring revenue) now 42% of turnover** up from 30% in prior year	**$16.3M Cash on Hand** as at 22 October 2021

** Turnover includes gross (billed) revenue from consulting and advisory services, plus turnover from product sales*
** Q1 earnings results are unaudited. Operating EBITDA excludes one-off acquisition costs and statutory AASB16 adjustments*

FINANCIAL UPDATE

Tesserent is pleased to announce that it has had a strong start to its FY22 financial year, with the completion of a capital raise in September bolstering the balance sheet, and operating performance running ahead of budget.

STRONG EARNINGS, TURNOVER AND CUSTOMER RECEIPTS

The Company is pleased to report continuing strong growth in the underlying business with year-on-year growth of **78%** against the prior year comparative quarter.

The seasonality within the business drives an expected reduction from Q4 FY21, which is the strongest quarter due to a normal 'step-up' in sales (particularly in product sales).

As referred to in the June Quarter Appendix 4C commentary lodged on 29 July 2021, this seasonal impact is expected and is reflected in the Group's

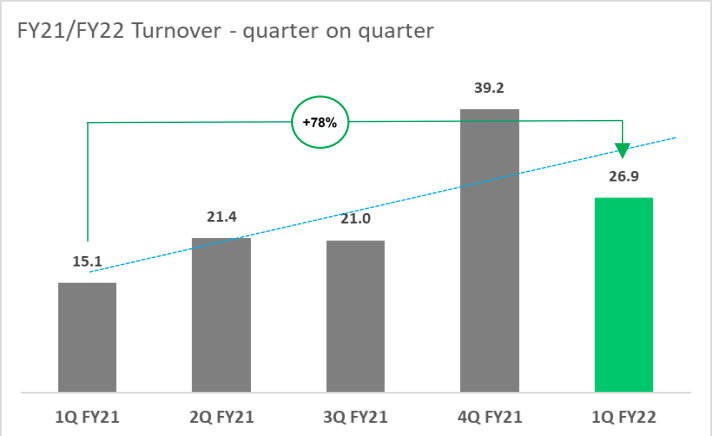


Figure 1 – *Turnover on quarterly basis for current period and previous year*

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budget for FY22, Turnover for Q1 is running **ahead of budget** which includes a significant step up on FY21 actual.

Operating EBITDA has continued to grow strongly (taking into account the impact of Q4 seasonality) with an increase in Operating EBITDA for Q1 of **351%** from the prior year comparative period.

Improved Operating EBITDA reflects improved operating leverage through the business, plus the impact of the business reorganisation whereby the new operating divisions of the business have reviewed and addressed pricing and margin recovery on certain contracts.

The Group has also focused on achieving improved performance of key operating metrics (discussed below).

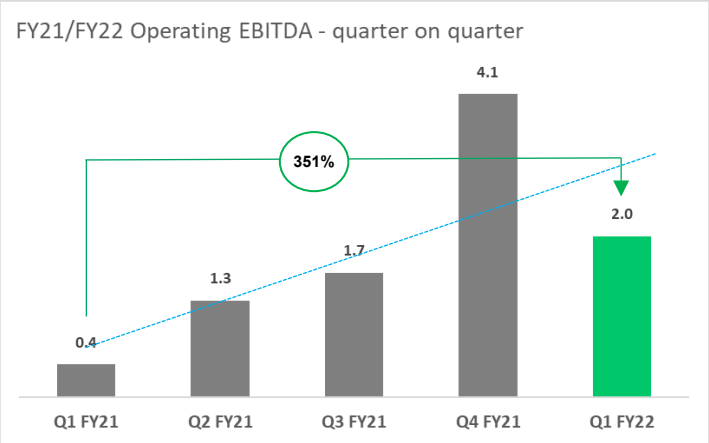


Figure 2 – *Operating EBITDA on quarterly basis for current period and previous year*

Operating cash flow remains positive in Q1 FY22 at $0.6m, albeit lower than Q4 FY22 due to a particularly strong trading quarter in Q4 (in line with normal seasonality), plus the timing impact of some revenue cash receipt inflows upfront in Q4 FY21, with related costs/supplier payments made in Q1 FY22. Although this is optimal structuring of working capital, it presents as a quarter-to-quarter cashflow mismatch impacting Q1 cashflow by approximately $2.3m.

ORGANIC GROWTH HITS 45% FOR BUSINESS UNITS POST ACQUISITION

Organic vs. non-organic growth

During the first quarter of FY22, the aggregate operating EBITDA from all of the Group's business units has grown by 130% (from $1.5m to $3.5m for the quarter – excluding corporate related costs).

This underlying growth can be broken down into:

- Non-organic EBITDA growth of 85% (being growth from businesses acquired since Q1 FY20)
- Organic EBITDA growth of 45% in the core business units which were already part of the group in last year's comparative Q1.

As noted in Figure 2 above, upon inclusion of corporate costs, the Q1 FY22 operating EBITDA of $2.0m compared to the prior year comparative Q1 operating EBITDA of $0.4m represents a 351% improvement – demonstrating the improved operating leverage achieved though the profit and loss as the group has grown both organically and through acquisition.

RECURRING REVENUE HITS 42% A SIGNIFICANT UPLIFT FROM 30% IN 2020

The Company has seen an improvement in other key performance measures used to track levels of customer engagement and sales performance. Based on analysis performed in Q1 FY22, Tesserent has recorded:

- An increase in the proportion of recurring revenue which makes up the Group's overall turnover to 42%, up from 30% measured at the end of 2020 calendar year.

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- Number of services sold at an average of 1.5 services per customer. The Group is focused on this key performance measure, with cross selling activity growing following the recent Brand and Business Unit integration project.

The business has worked with 1,000+ customers in the last 3 years and currently services over 790 active customers, with 32 accounts with individual spend of greater than $1m on cyber services provided by Tesserent.

CAPITAL RAISE AND FUTURE ACQUISITIONS

As announced on 28 September 2021, the Group completed a capital raise (via an equity placement with a number of institutional investors) raising $25m to fund future identified acquisitions. The placement was significantly oversubscribed, which management and the Board believe reflects market confidence in the strategy and prospects of the Group. An equity capital raise was chosen to optimise the (debt to equity) capital structure of the Group and has also had the impact of enhancing Tesserent's visibility in the ASX market.

The capital raise was undertaken primarily for the purpose of further strategic acquisitions which have been identified and are in the process of due diligence and also funding the completion payment for the acquisition of Loop Secure (which completed on 7 October 2021).

Each of these identified acquisitions expand the capability offering which Tesserent can bring to its customers and are priced at a level where they are EPS accretive.

A proportion of the funds raised was also used to fund deferred consideration and earn-out payments on previous acquisitions. The Company also notes that it has also funded deferred consideration payments and strategic investments in AttackBound, TrustGrid and Daltrey from operating cash.

The proceeds of the capital raise were received into Company's bank account on 1 October 2021, and therefore are not reflected in this quarterly cash flow report for the Group (Q1 FY22 July-Sept 2021).

BRAND AND BUSINESS UNIT INTEGRATION UPDATE

Following the Brand and Business Unit integration announcement on 11 August 2021, the Company is pleased to report that the integration of business units acquired over the course of FY20 and FY21 has now been largely completed and the business is successfully engaging with its current and prospective customers across its Defend, Detect and Cloud service divisions and identifying cross sell opportunities that both enhance the number of services by customer, but also identify and address potentially critical security deficiencies in customer infrastructure and networks.

Tesserent's government business units and GRC practices also continue to experience high demand and growth.

FUTURE FOCUS

The Board and Management Team continues to focus on creating shareholder value by continuing to build on Tesserent's position as Australia's #1 ASX-listed cybersecurity provider. Important goals over this new financial year include:

- Continue to drive the Company's acquisition strategy to expand on Cyber 360 capabilities and market share, increasing shareholder value through incremental EPS growth
- Foster innovation and expand proprietary intellectual property to drive high-margin product and service offerings

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- Help drive an industry-wide capability uplift and reduce the skill shortage gap through the Tesserent Academy
- Focus on capturing further market share in three key markets: Government (including Defence), Critical Infrastructure and Industry and Financial Services
- Drive growth through deeper customer engagements and increasing our average number of services per customer
- Integrate acquisitions to maximise synergy efficiencies and drive organic revenue growth through cross-selling
- Build out high-value recurring annuity revenue streams
- Explore International expansion opportunities with a focus on Australia's key Five Eyes allies, which consists of the USA, UK, NZ and Canada
- Build a leadership position in the Converged Security and Cyber Education markets

ABOUT TESSERENT

Our mission is to be the sovereign cybersecurity provider of choice for the protection of Australia and New Zealand's digital assets.

Tesserent provides full service, enterprise-grade cybersecurity and networking solutions targeted at midmarket, enterprise and government customers across Australia and New Zealand. The Company's Cyber 360 strategy delivers integrated solutions covering identification, protection and 24/7 monitoring against cybersecurity threats. With more than 390 security engineers, Tesserent has the capability to support organisations to defend their digital assets against increasing risks and cyber-attacks.

Tesserent has been transformed via the integration of several high-quality cybersecurity businesses making it Australia's largest listed dedicated cybersecurity firm.

Learn more at www.tesserent.com

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Authorised by the Disclosure Team under Tesserent's Continuous Disclosure policy

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

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Name of entity	
Tesserent Limited	
ABN	**Quarter ended ("current quarter")**
13 605 672 928	30 September 2021

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date (12 months) $A'000**
1.	**Cash flows from operating activities**		
1.1	Receipts from customers	40,042	40,042
1.2	Payments for		
	(a) research and development		
	(b) product manufacturing and operating costs	(26,081)	(26,081)
	(c) advertising and marketing	(245)	(245)
	(d) leased assets		
	(e) staff costs	(12,227)	(12,227)
	(f) administration and corporate costs	(738)	(738)
1.3	Dividends received (see note 3)		
1.4	Interest received	2	2
1.5	Interest and other costs of finance paid	(12)	(12)
1.6	Income taxes paid	(140)	(140)
1.7	Government grants and tax incentives		
1.8	Other (provide details if material)	5	5
1.9	**Net cash from / (used in) operating activities**	**606**	**606**

2.	**Cash flows from investing activities**		
2.1	Payments to acquire or for:		
	(a) entities	(744)	(744)
	(b) businesses		
	(c) property, plant and equipment	(25)	(25)
	(d) investments		
	(e) intellectual property		
	(f) other non-current assets	(50)	(50)

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Consolidated statement of cash flows		Current quarter $A'000	Year to date (12 months) $A'000
2.2	Proceeds from disposal of:		
	(a) entities		
	(b) businesses		
	(c) property, plant and equipment		
	(d) investments		
	(e) intellectual property		
	(f) other non-current assets		
2.3	Cash flows from loans to other entities		
2.4	Dividends received (see note 3)		
2.5	Other – deferred settlement payments M&A	(5,561)	(5,561)
2.6	**Net cash from / (used in) investing activities**	**(6,380)**	**(6,380)**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)		
3.2	Proceeds from issue of convertible debt securities		
3.3	Proceeds from exercise of options and warrant shares	305	305
3.4	Transaction costs related to issues of equity securities or convertible debt securities		
3.5	Proceeds from borrowings		
3.6	Repayment of borrowings	(580)	(580)
3.7	Transaction costs related to loans and borrowings		
3.8	Dividends paid		
3.9 a	Other – Interest paid	(728)	(728)
3.9 b	Other – (provide details if material)		
3.10	**Net cash from / (used in) financing activities**	**(1,003)**	**(1,003)**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	**14,860**	**14,860**
4.2	Net cash from / (used in) operating activities (item 1.9 above)	606	606

Consolidated statement of cash flows		Current quarter $A'000	Year to date (12 months) $A'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(6,380)	(6,380)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(1,003)	(1,003)
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	**Cash and cash equivalents at end of period**	**8,083**	**8,083**

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	8,083	14,860
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (provide details)		
5.5	**Cash and cash equivalents at end of quarter (should equal item 4.6 above)**	**8,083**	**14,860**

6.	Payments to related parties of the entity and their associates	Current quarter $A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	-
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.

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7.	**Financing facilities** *Note: the term "facility' includes all forms of financing arrangements available to the entity.* *Add notes as necessary for an understanding of the sources of finance available to the entity.*	**Total facility amount at quarter end $A'000**	**Amount drawn at quarter end $A'000**
7.1	Loan facilities	35,000	35,000
7.2	Credit standby arrangements		
7.3	Other (please specify)		
7.4	**Total financing facilities**	**35,000**	**35,000**

7.5	**Unused financing facilities available at quarter end**	-

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

Facility #1: Pure Asset Management ($15 million @ 8.9% pa, maturing 31 Aug 2024)
Facility #2: Pure Asset Management ($20 million @ 8.5% pa, maturing 19 Apr 2025)

8.	**Estimated cash available for future operating activities**	**$A'000**
8.1	Net cash from / (used in) operating activities (item 1.9)	606
8.2	Cash and cash equivalents at quarter end (item 4.6)	8,083
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	**8,083**
8.5	**Estimated quarters of funding available (item 8.4 divided by item 8.1)**	N/A

Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.

8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:

8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: N/A

8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: N/A

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: N/A

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

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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.

Date: 28 October 2021

Authorised by: The Disclosure Team

(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.

2. If this quarterly cash flow 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 cash flow 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.

4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [*name of board committee – eg Audit and Risk Committee*]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".

5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

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