



# THREAT PROTECT

ACN 060 774 227  
THREAT PROTECT AUSTRALIA LIMITED

**ANNUAL REPORT**  
30 June 2018

## CORPORATE DIRECTORY

### Current Directors

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

### Company Secretary

Simon Whybrow

### Registered Office

Street: Level 1, 672 Murray Street  
West Perth WA 6005

Postal: PO Box 1920  
West Perth WA 6872

Telephone: 1300 THREAT (1300 847 328)

Facsimile: +61 (0)8 9322 9711

Email: [info@threatprotect.com.au](mailto:info@threatprotect.com.au)

Website: [www.threatprotect.com.au](http://www.threatprotect.com.au)

### Principal Place of Business

Street: Level 1, 672 Murray Street  
West Perth WA 6005

Postal: PO Box 1920  
West Perth WA 6872

Telephone: 1300 THREAT (1300 847 328)

Facsimile: +61 (0)8 9322 9711

### Securities Exchange

Australian Securities Exchange  
Level 40, Central Park, 152-158 St Georges Terrace  
Perth WA 6000

Telephone: 131 ASX (131 279) (within Australia)

Telephone: +61 (0)2 9338 0000

Facsimile: +61 (0)2 9227 0885

Website: [www.asx.com.au](http://www.asx.com.au)

ASX Code: TPS

### Share Registry

Link Market Services Limited  
Level 12 QV1 Building, 250 St Georges Terrace  
PERTH WA 6000

Telephone: 1300 554 474 (investors within Australia)

Facsimile: +61 1300 554 474 (international)

Website: [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

### Auditors

BDO Audit (WA) Pty Ltd  
38 Station Street  
Subiaco WA 6008

Telephone: +61 (0)8 6382 4600

Facsimile: +61 (0)8 6382 4601

Website: [www.bdo.com.au](http://www.bdo.com.au)

### Legal Advisors

Lavan Legal  
The Quadrant, 1 William Street  
Perth WA 6000

Telephone: +61 (0)8 9288 6000

Facsimile: +61 (0)8 9288 6001

Website: [www.lavanlegal.com.au](http://www.lavanlegal.com.au)

# THREAT PROTECT AUSTRALIA LIMITED














AND CONTROLLED ENTITIES  
ACN 060 774 227

ANNUAL REPORT 30 JUNE 2018

## ANNUAL REPORT

30 June 2018

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## OPERATIONS REVIEW

### Financial Performance

In FY18 Threat Protect continued to execute its acquisition growth strategy, gaining significant presence in the southern and eastern states.

Highlights for the year included:

-  Operating revenue for the financial year was up 28% to \$14.7 million, and total revenue after including other income was up 21% to \$15.6 million.
-  Securing a \$15.0 million debt facility with Macquarie Bank Limited which provides the Group with readily available finance to pursue future acquisition opportunities.
-  The Group increasing the recurring monthly revenue (“RMR”) to over \$1 million from April 2018.
-  Major acquisition completed of a leading South Australian monitoring company Security Alarm Monitoring Service Pty Ltd (“SAMS”) in March 2018, adding over 22,100 connections.
-  Continued execution of Threat Protect’s growth strategy by the acquisition of 7 security monitoring client bases – totalling 2,700 direct monitoring lines throughout New South Wales, Victoria and Queensland.
-  Cash at Bank 30 June 2018 of \$1.1 million.

### NET PROFIT AFTER TAX TO EBITDA RECONCILIATION

	2018 \$	2017 \$
<b>Net Profit After Tax (NPAT)</b>	<b>(3,245,938)</b>	<b>1,692,336</b>
Add: Depreciation of property, plant and equipment	249,758	161,026
Add: Amortisation of intangible assets	1,611,417	746,918
Add: Net Finance Costs (Interest)	1,060,129	344,141
Less: Income tax benefit	(387,717)	(417,586)
<b>Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)</b>	<b>(712,350)</b>	<b>2,526,865</b>

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## OPERATIONS REVIEW

### Monitoring

Monitoring continued to experience substantial growth with revenue up 64% year-on-year to \$8.6 million and increased its share of group revenue to 55% in FY18, up from 40% in FY2017. Ongoing organic growth of the Group's current monitoring customer base, both directly and through the development of our reseller base continues to improve the existing revenue stream.

Threat Protect has two forms of connection:

- **Direct:** sold directly to the end customer and managed by Threat Protect
- **Reseller:** sold to end customer by a reseller, who then uses Threat Protect monitoring facility to monitor the connection, under the trading name of Monitoring Excellence.

The Group's growth strategy is focused on leveraging the largely fixed cost infrastructure and significant capacity of its existing monitored security business through the acquisition of monitored security client bases across Australia. Security Monitoring is a readily scalable business model whereby new monitoring revenue can generate increased margin and significant earnings uplift.

Threat Protect announced the acquisition of five security monitoring client bases on the east coast of Australia in October 2017 for \$0.6 million. These were previously serviced by the Company's Monitoring Excellence business.

In December 2017, the Group announced the acquisition of Alpha Alarms Pty Ltd and Seekers Security Management Pty Ltd, also previously serviced by Monitoring Excellence. These acquisitions added approximately 2,100 direct monitored connections, both residential and commercial customers located in New South Wales, Victoria and Queensland.

These acquisitions were fully funded by the Group's Convertible Note facility with First Samuel Limited, announced in November 2016.

During the March quarter, Threat Protect announced that it had acquired Security Alarm Monitoring Service Pty Ltd ("**SAMS**"), a South Australian based security services business for approximately \$7.4m.

Established in 1996, SAMS has grown to be a major privately-owned security monitoring service provider in South Australia, with currently 22,115 monitored connections serviced by 218 resellers.

SAMS is anticipated to contribute in excess of \$5.0 million in monitoring revenue annually, increasing existing monitoring revenue by ~65% (based on current revenue levels).

Through this acquisition, the Group now also owns and operates a purpose built monitoring centre located in Port Lincoln, with a total capacity of 60,000 connections, accredited by ASIAL (Australian Security Industry Association Limited) as "Grade A1".

The agreed acquisition price of approximately \$7.4 million comprises:

- \$5.9 million in cash as the first tranche and interim adjustment payments for the Acquisition;
- \$800,000 in cash has been escrowed in relation to the final deferred consideration, due in March 2019; and;
- The balance is to be paid in cash 12-months post completion subject to a reconciliation of working capital and invoiced revenue.

The first tranche of the Acquisition was fully funded by Threat Protect's recently executed acquisition Debenture Facility with First Samuel, which was announced in February 2018.

This also increased the Group's Recurring Monthly Revenue ("RMR") to over \$1 million from April 2018

## OPERATIONS REVIEW

### Guarding and Services

The provision of manned security and consulting services to corporate clientele remains an important part of Threat Protect's integrated service offering.

The seasonally strong performance of the financial year was characterised by several high-profile events during the summer months, such as the City of Perth Australia Day celebrations, and Anzac Day.



During FY2018 Threat Protect became the first Australian affiliate of the internationally recognised organisation, Certified Counter Terrorism Practitioners ("CCTP"). The CCTP is based in Singapore and administers an international accreditation program for experienced security and law enforcement professionals that provides demonstrable proof of knowledge and expertise in terrorism detection, prevention, and response.

The award is an endorsement of the skill and expertise offered by Threat Protect to corporate and government clients, and further differentiates the Group and its service offering in the Australian security market.

Protective Services has continued its planned entry into other markets with the objectives of recurring revenue and consistency. The department consolidated several of its asset protection relationships during the year, as well as adding a small number of new clients in the not for profit and resource sectors.

Consultancy and corporate risk mitigation services continued to grow as a new service line, providing an integrated security solution to several of its local Government and high net worth clientele.

### Funding

In May 2018 the Group announced it had secured a \$15.0 million Revolving Bilateral Facility Agreement ("Facility") with Macquarie Bank Limited. Facility funding was conditional on the Group obtaining shareholder approval for the conversion of convertible notes issued to First Samuel Limited into shares in the Group, which was received at an Extraordinary General Meeting held on 5 July 2018. The funding facility included the refinancing of the balances of its existing \$3.825 million credit facility with National Australia Bank.

On 10 August 2018, the First Samuel debenture of \$8,000,000 was repaid in full through the utilisation of the Macquarie Bank revolving line of credit facility.

### Board and Management

Threat Protect announced in May 2018 that Simon Whybrow had accepted the role of Chief Commercial Officer, with Karen Haynes being promoted and taking over the role of Chief Financial Officer.

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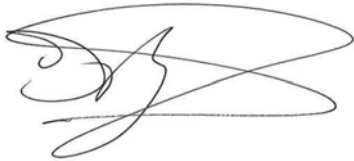
### OPERATIONS REVIEW

#### **Growth Strategy and Outlook**

Threat Protect enters FY2018 in a strong position. 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 Threat Protect 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 Group's focus remains on growing the current monitoring customer base, and by leveraging the largely fixed cost infrastructure and significant capacity of its existing control rooms through the targeted acquisition of monitored security client bases.

Threat Protect continues to actively evaluate new acquisition opportunities in the monitoring sector with a view to increasing its scale of operations and drive further earnings growth, whilst advancing industry consolidation in Australia.



**Demetrios Pynes - Managing Director**





Threat Protect Australia Limited  
26th September 2018

## DIRECTORS' REPORT

Your directors present their report on the Group, consisting of Threat Protect Australia Limited ("**Threat Protect**" or the "**Company**") and its controlled entities (collectively the "**Group**"), for the year ended 30 June 2018.

### 1. Directors

The names of Directors in office at any time during the year or since the end of the year are:

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

Directors have been in office since the start of the year to the date of this report unless otherwise stated.

### 2. Company Secretary

Mr Simon Whybrow held the position of Company Secretary at the end of the financial year. Mr Whybrow also performs the role of Chief Commercial Officer for the Group.

### 3. Principal Activities

The principal activity of the Group is the provision of security, monitoring and risk management services in Australia.

### 4. Operating Results

The consolidated loss for the year amounted to \$(3,245,938) (2017: \$1,692,336 Profit).

### 5. Dividends Paid or Recommended

There were no dividends paid or recommended during the financial year ended 30 June 2018.

### 6. Review of Operations

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

### 7. Financial Position

The net assets of the Group are \$1,681,487 at 30 June 2018 (2017: \$4,406,032)

### 8. Significant Changes in State of Affairs

There have not been any significant changes to the state of affairs of the Group during the period.



## DIRECTORS' REPORT

### 9. Subsequent Events

On 6 August 2018 the group announced the acquisition of the security monitoring client base of Monitored Security Systems Pty Ltd ("MSS") which is a long term wholesale reseller of Threat Protect's alarm monitoring services. Consideration for the acquisition is expected to total approximately \$985,000 with a deferred component of approximately \$350,000, expected to settle 12 months from initial acquisition date. The acquisition is expected to contribute approximately \$550,000 per annum to group revenue.

On 10 August 2018, the First Samuel debenture of \$8,000,000 was repaid in full through the utilisation of the Macquarie Bank revolving line of credit facility. This effectively reduced the interest rate on this \$8,000,000 from 6.00% per annum to 5.68% per annum. The First Samuel debenture's interest rate was due to increase from 6.00% per annum to 7.00% per annum on 31 August 2018. Refer note 17, borrowings, for further information.

On 13 August 2018 (with an effective date of 24 May 2018) the Group successfully renegotiated its banking covenants with Macquarie Bank Limited. Further, on 28 August 2018 the Group received an unconditional written waiver from Macquarie Bank Limited in relation to its breach of covenants as at 30 June 2018. Refer note 17, borrowings, for further information.

On 21 August 2018, the group entered into an unsecured note deed facility agreement with First Samuel Limited. The facility limit is \$4,000,000 at a concessional interest rate of 6% per annum for the first 6 months and 7% per annum thereafter. Interest is payable monthly. The facility is to be repaid by 31 May 2021, and the facility is available for use for working capital purposes. \$1,000,000 of this facility was drawn on 22nd August 2018 and repaid on 7 September 2018. The facility was cancelled on 21 September 2018.

Between 30 June 2018 and the date of this report, 26 September 2018, 14,285,703 share options were exercised at 17.5 cents per share (post-consolidation) resulting in 14,285,703 fully paid ordinary shares being issued on 17 September 2018 and raising a total of \$2,499,998 before costs.

There were no significant subsequent events since the reporting date, other than those reported above.

### 10. Likely Developments and Expected Results of Operations

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

### 11. Information Relating to the Directors and Company Secretary

**Mr Derek La Ferla** - Non-Executive Chairman  
B.Arts, B.Juris, B.Law, Fellow of AICD

Mr La Ferla is an experienced corporate lawyer and company director with more than 30 years' experience. Mr La Ferla is a Partner with leading independent Western Australian firm Lavan Legal. He is also a member of the firm's Advisory Board and previously served on the Norton Rose Australia National Board (when the firm was named Deacons). He is a fellow of the Australian Institute of Company Directors and a Mentor under its Chair's Mentoring Program.

Mr La Ferla has been a director of a number of listed public, private and not-for-profit companies. He is currently Chairman of Sandfire Resources NL, Veris Limited and Cashmere Iron Limited as well as Non-Executive Director and Deputy Chairman of Goldfields Money Limited. Mr La Ferla has not held any other public directorships in the past 3 years.

Mr La Ferla holds 1,177,173 fully paid ordinary shares and 2,857,143 Options as at the date of this report. Please refer to the Remuneration Report below for further details.

## DIRECTORS' REPORT

**Demetrios Pynes** - Managing Director  
B.Com, F.Fin

Demetrios Pynes 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.

Mr Pynes spent several years as a banking and finance director, during which time he was an analyst and adviser to high net-worth clients. For the past 13 years, he has operated various successful businesses, mainly in the security industry. Mr Pynes has previously held security officer and security consultant licenses.

Mr Pynes has not held any other public directorships in the past 3 years.

Mr Pynes holds 4,956,683 fully paid ordinary shares and 4,285,712 Options as at the date of this report. Please refer to the Remuneration Report below for further details.

**Paolo (Paul) Ferrara** - Executive Director  
B.Com

Paul Ferrara is a co-founder of Threat Protect. In his capacity of 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, Mr Ferrara 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.

Mr Ferrara has not held any other public directorships in the past 3 years.

Mr Ferrara holds 4,459,580 fully paid ordinary shares and 4,285,712 Options as at the date of this report. Please refer to the Remuneration Report below for further details.

**Dimitri Bacopanos** - Non-Executive Director  
B.Com, CA

Mr Bacopanos has extensive experience in mergers and acquisitions, most recently as Executive Director in the Transaction Advisory Services team at EY. 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.

Mr Bacopanos has not held any other public directorships in the past 3 years.

Mr Bacopanos holds 285,714 fully paid ordinary shares and 1,428,571 Options as at the date of this report. Please refer to the Remuneration Report below for further details.

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## DIRECTORS' REPORT

**Karen Haynes** – Chief Financial Officer (*Appointed 2 May 2018*)

B. Bus, CPA

Karen is an accomplished executive with over 10 years of experience in financial and commercial management in various industries including oil and gas, transportation, logistics, construction and higher education. Karen brings extensive experience to the Group, leading multi-location finance teams and strategic planning. Karen is a member of the Australian Society of Certified practicing Accountants.

Ms Haynes has not held any public directorships in the past 3 years.

Ms Haynes does not hold any interests in Threat Protect Australia Limited as at the date of this report. Please refer to the Remuneration Report below for further details.

**Simon Whybrow** - Company Secretary and Chief Commercial Officer

B. Bus, CPA, FGIA, FCIS

An experienced CPA qualified accountant with over 15 years of experience in financial, company secretarial and commercial management.

With a strong commercial acumen developed working for a "Big 4" professional services firm he has broad experience across a range of industry sectors and ASX listed companies - including mining, mining services, energy and information technology.

Mr Whybrow has not held any public directorships in the past 3 years.

Mr Whybrow holds 285,714 fully paid ordinary shares as at the date of this report. Please refer to the Remuneration Report below for further details.

### 12. Meetings of Directors

At the date of this Directors' Report, while there is currently an audit committee it has not held any meetings throughout the year. 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.

	Number Board Meetings eligible to attend	Number of Board Meetings Attended
Derek La Ferla	10	10
Demetrios Pynes	10	10
Paul Ferrara	10	10
Dimitri Bacopanos	10	10

## DIRECTORS' REPORT

### 13. Options

#### Unissued shares under option

As at the date of this report, the un-issued ordinary shares of Threat Protect Australia under option (listed and unlisted) are as follows:

Grant Date	Expiry Date	Exercise Price (cents per share) 30 June 2018 (Post Consolidation)	Number of Options 30 June 2018 (Post Consolidation)	Exercise Price (cents per share) 30 June 2017 (Pre-Consolidation)	Number of Options 30 June 2017 (Pre-Consolidation)
7 Sept 2012	29 Nov 2017	-	-	13.36	300,000
7 Sept 2012	29 Nov 2017	-	-	40.00	300,000
7 Sept 2012	29 Nov 2017	-	-	60.00	300,000
4 Sept 2015	4 Sept 2018	17.50	-	2.50	100,000,000
26 Nov 2015	31 Oct 2020	33.95	2,142,856	4.85	15,000,000
23 Nov 2017	31 Oct 2020	33.95	7,142,856	-	-
26 Nov 2015	31 Oct 2020	26.60	1,428,570	3.80	10,000,000
26 Nov 2015	31 Oct 2020	32.69	1,428,570	4.67	10,000,000
26 Nov 2015	31 Oct 2020	35.77	1,428,570	5.11	10,000,000
			13,571,422		145,900,000

The weighted average remaining contractual life of options outstanding at 30 June 2018 was 1.23 years (2017: 1.84 years)

#### Shares issued upon exercise of options

No ordinary shares were issued by the Group as a result of the exercise of options during the year ended 30 June 2018 (2017: none).

Between 30 June 2018 and the date of this report, 26 September 2018, 14,285,703 share options were exercised at 17.5 cents per share (post-consolidation) resulting in 14,285,703 fully paid ordinary shares being issued on 17 September 2018 and raising a total of \$2,499,998 before costs.

### 14. Non-Audit Services

During the year ended 30 June 2018, non-audit services were provided to the Group by parties related to the auditors (BDO Corporate Tax (WA) Pty Ltd, BDO Corporate Finance (WA) Pty Ltd and BDO Advisory (SA) Pty Ltd). These services amounted to \$58,752 in 2018. (2017: \$30,260).

The Board has considered the non-audit services provided during the year by the auditors and is satisfied that the provision of those non-audit services is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- ▶ all non-audit services were subject to the corporate governance procedures adopted by the Group and have been reviewed to ensure they do not impact the integrity and objectivity of the auditor; and
- ▶ the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Group, or acting as an advocate for the Group or jointly sharing risks and rewards.

### 15. Indemnifying Officers or Auditor

The Group has agreed to indemnify the directors of the Group, the directors of controlled entities and executive officers against all liabilities to other persons (other than the Group or a related body corporate) that may arise from their position as directors of the Group and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Group will meet the full amount of any such liabilities, including costs and expenses.

During the year, the Group paid insurance premiums to insure Directors and Officers against certain liabilities arising out of their conduct while acting as an officer of the Group. Under the terms and conditions of the insurance contract, the nature of the liabilities insured against and the premium paid cannot be disclosed.

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## DIRECTORS' REPORT

### 16. Environmental Regulations

In the ordinary course of business, there are no environmental regulations or requirements that the Company is subject to.

The Directors have considered the enacted National Greenhouse and Energy Reporting Act 2007 (the NGER Act) which introduced a single national reporting framework for the reporting and dissemination of information about the greenhouse gas emissions, greenhouse gas projects, and energy use and production of corporations. At the current stage of development, the Directors have determined that the NGER Act has no effect on the Company for the current, nor subsequent, financial year. The Directors will reassess this position as and when the need arises.

### 17. Corporate Governance Statement

The Group's full Corporate Governance Statement can be found on its website at the following location:

[www.threatprotect.com.au/corporate-governance](http://www.threatprotect.com.au/corporate-governance)

### 18. Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2018 has been received and can be found on the following page of this annual report.

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 2018, I declare that, to the best of my knowledge and belief, there have been:

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

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



Dean Just

Director

BDO Audit (WA) Pty Ltd


Perth, 26 September 2018

## DIRECTORS' REPORT – AUDITED REMUNERATION REPORT

The information in this remuneration report has been audited as required by s308(3C) of the Corporations Act 2001.






This Remuneration Report, which forms part of the Directors' Report, sets out information about the remuneration of Key Management Personnel (KMP) of the Group for the financial year ended 30 June 2018.

The term Key Management Personnel refer to those persons having authority and responsibility for planning, controlling and directing the activities of the consolidated entity, directly or indirectly, including any director (whether executive or otherwise) of the consolidated entity. Any reference to "executives" in this report refers to those KMP who are not Non-Executive Directors. The prescribed details for each person covered by this report are detailed below under the following headings:

-  Key Management Personnel
-  Remuneration Policy
-  Details of Board Remuneration
-  Service Agreements
-  Share-based Remuneration
-  Key Management Personnel Equity Holdings
-  Other Transactions with Key Management Personnel

### 1. Key Management Personnel



The directors and other Key Management Personnel of the consolidated entity during or since the end of the financial year were:

	Derek La Ferla	Non-Executive Chairman
	Demetrios Pynes	Managing Director
	Paolo (Paul) Ferrara	Executive Director
	Dimitri Bacopanos	Non-Executive Director
	Karen Haynes	Chief Financial Officer ( <i>Appointed 2 May 2018</i> )
	Simon Whybrow	Company Secretary and Chief Commercial Officer



Unless otherwise stated, the named persons held their current position for the whole of the financial year and since the end of the financial year.

### 2. Remuneration Policies

The remuneration policy of Threat Protect Australia Limited has been designed to align director and management objectives with shareholder and business objectives by providing a fixed remuneration component, and offering specific long-term incentives based on key performance areas affecting the Group's financial results. The Board of Threat Protect Australia Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best management and directors to run and manage the Group, as well as create goal congruence between directors, executives and shareholders. The Board's policy for determining the nature and amount of remuneration for Board members and senior executives of the Group is as follows:

-  All Executives receive a base salary (which is based on factors such as length of service and experience), superannuation, options and performance incentives. The Board reviews executive packages annually by reference to the Group's performance, executive performance, and comparable information from industry sectors and other listed companies in similar industries.
-  Non-Executive Directors and Executives receive superannuation guarantee contributions as required by legislation and do not receive any other retirement benefits. All remuneration paid to Directors and Executives is valued at cost and expensed. Share-based payments made to Directors and employees are valued using Black-Scholes methodology. The Board's policy is to remunerate Non-Executive Directors at the lower end of market rates for comparable companies for time, commitment, and responsibilities. The current aggregate Non-executive Directors' fee limit as approved by Shareholders is \$150,000.

## DIRECTORS' REPORT – AUDITED REMUNERATION REPORT

-  The Non-Executive Directors have been provided with options that are intended to incentivise the Non-Executive Directors. The Board determines payments to the Non-Executive Directors and reviews their remuneration annually based on market practice, duties, and accountability. Independent external advice may be sought when required. The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders at the Annual General Meeting. Fees for Non-Executive Directors are not linked to the performance of the Group. However, to align Directors' interests with shareholder interests, Directors are encouraged to hold shares in the Company.
-  The Group's Employee Share Plan provides some senior executives with a significant incentive over and above their base salary. The allocation of shares under the Employee Share Plan may not be subject to performance conditions of the Group. The Employee Share Plan 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.

The remuneration policy has been tailored to increase the direct positive relationship between shareholders' investment objectives and Directors' and Executives' performance. Currently, this is facilitated through the issue of options to the majority of Directors and Executives to encourage the alignment of personal and shareholder interests. The Group believes this policy will be effective in increasing shareholder wealth.

The table below shows measures of the Group's financial performance over the last five years as required by the Corporations Act 2001.

	2018	2017	2016	2015	2014
Total comprehensive income/(loss) attributable to members of the parent entity	(3,245,938)	1,692,336	(5,371,110)	Not Applicable	Not Applicable
Basic EPS (Post-Consolidation equivalent)	(2.91)	1.57	(6.65)	Not Applicable	Not Applicable
Dividend Payments	-	-	-	-	-
Dividend Payout Ratio	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Closing share price at year end (Post-Consolidation equivalent)	\$0.170	\$0.182	\$0.112	Not Applicable	Not Applicable
Movement in share price year-on-year	(7%)	63%	Not Applicable	Not Applicable	Not Applicable

The Board does not consider earnings during the current and previous financial periods when determining the nature and amount of remuneration to Key Management Personnel.

External remuneration consultants may be engaged from time-to-time when required in order to review the Group's remuneration policies and to provide recommendations on executive short-term and long-term incentive plan design. There were no external remuneration consultants engaged during the period to provide such services.

Threat Protect Australia Limited received 99% "yes" votes on its remuneration report for the 2017 (previous) financial year. The Group did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

### 3. Details of Board Remuneration

There were no cash bonuses paid during the year and there are no set performance criteria for achieving cash bonuses.

The table on the following page details the various components of remuneration for each member of the key management personnel of the Group. The term "Key Management Personnel" (or "KMP") refers to those persons having authority and responsibility for planning, directing and controlling the activities of the group directly or indirectly including any Director (whether executive or otherwise) of the Group.



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## DIRECTORS' REPORT – AUDITED REMUNERATION REPORT

### 3. Details of Board Remuneration (Continued)

#### 2018 – Consolidated Group

	Short-term benefits				Post-employment Benefits		Equity-settled share-based payments		Total
	Salary, fees and leave \$	Profit share and bonuses \$	Non-monetary \$	Other <sup>1</sup> \$	Superannuation \$	Termination Benefits \$	Equity \$	Options \$	Total \$
Derek La Ferla	50,000	-	-	-	4,750	-	-	100,000	154,750
Demetrios Pynes <sup>2</sup>	244,639	-	-	16,800	22,496	-	-	150,000	433,935
Paul Ferrara <sup>2</sup>	248,807	-	-	16,800	22,496	-	-	150,000	438,103
Dimitri Bacopanos	36,000	-	-	-	-	-	-	100,000	136,000
<b>Other Key Management Personnel</b>									
Karen Haynes <sup>3</sup>	78,016	-	-	-	7,384	-	-	-	85,400
Simon Whybrow	194,297	-	-	15,000	19,000	-	-	-	228,297
<b>Total</b>	<b>851,759</b>	<b>-</b>	<b>-</b>	<b>48,600</b>	<b>76,126</b>	<b>-</b>	<b>-</b>	<b>500,000</b>	<b>1,476,485</b>

<sup>1</sup>The "Other" category represents motor vehicle allowances.

<sup>2</sup>Tactical Conflict Solutions Pty Ltd, a company controlled by Mr Pynes and Mr Ferrara, provided security services to Threat Protect Australia Limited during the year ended 30 June 2018. These services are not provided directly by Mr Pynes or Mr Ferrara and have therefore not been included as remuneration. Please refer to section 7 of the remuneration report for further details.

<sup>3</sup>Ms Haynes was appointed Group Financial Controller on 20 December 2017 and Chief Financial Officer on 2 May 2018.

#### 2017 – Consolidated Group

	Short-term benefits				Post-employment Benefits		Equity-settled share-based payments		Total
	Salary, fees and leave \$	Profit share and bonuses \$	Non-monetary \$	Other <sup>1</sup> \$	Superannuation \$	Termination Benefits \$	Equity \$	Options \$	Total \$
Derek La Ferla <sup>2</sup>	50,000	-	-	-	1,188	-	-	-	51,188
Demetrios Pynes	169,925	-	-	16,800	16,796	-	-	-	203,521
Paul Ferrara	174,393	-	-	16,800	16,796	-	-	-	207,989
Ian Olson <sup>3</sup>	15,000	-	-	-	-	-	-	-	15,000
Dimitri Bacopanos <sup>4</sup>	18,000	-	-	-	-	-	-	-	18,000
<b>Other Key Management Personnel</b>									
Simon Whybrow <sup>4</sup>	158,844	-	-	-	14,250	-	43,478	-	216,572
<b>Total</b>	<b>586,162</b>	<b>-</b>	<b>-</b>	<b>33,600</b>	<b>49,030</b>	<b>-</b>	<b>43,478</b>	<b>-</b>	<b>712,270</b>

<sup>1</sup>The "Other" category represents motor vehicle allowances.

<sup>2</sup>Mr La Ferla's employment arrangements were altered during the period, such that superannuation guarantee charge became applicable.

<sup>3</sup>Mr Olson resigned on 29 November 2016.

<sup>4</sup>Mr Bacopanos was appointed Non-Executive Director on 1 January 2017.

#### 4. Service Agreements

The following service agreements were in place for Directors and Key Management Personnel as at the date of this report:

##### **Derek La Ferla**

Mr La Ferla's current service agreement has been in place since 10 January 2017. Mr La Ferla was appointed as Non-Executive Director and Chairman of Threat Protect Australia Limited on 3 September 2015. Mr La Ferla'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. Mr La Ferla may resign from office at any time.

##### *Other Details:*

Mr La Ferla's remuneration is set at \$50,000 per annum plus statutory superannuation, where applicable.

##### **Demetrios Pynes**

Mr Pynes current service agreement has been in place since 3 September 2015. Mr Pynes commenced his employment with the Group on 1 March 2008.

##### *Notice period and Term of Agreement:*

The agreement may be terminated by either the Company or Mr Pynes by giving at least three months' notice. Mr Pynes 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.

##### *Other Details:*

From 1 July 2017, Mr Pynes' remuneration comprises a salary of \$236,800 per annum (previously \$176,800 per annum) (which includes a motor vehicle allowance of \$16,800 per annum (previously \$16,800 per annum)), plus superannuation guarantee contributions as required by law. Mr Pynes is entitled to annual leave and long service leave as required by law. He is also entitled to receive directors' fees during the time he serves as director of the company.

##### **Paul Ferrara**

Mr Ferrara's current service agreement has been in place since 3 September 2015. Mr Ferrara commenced his employment with the Group on 10 December 2007.

##### *Notice period and Term of Agreement:*

The agreement may be terminated by either the Company or Mr Ferrara by giving at least three months' notice. Mr Ferrara 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.

##### *Other Details:*

From 1 July 2017, Mr Ferrara's remuneration comprises a salary of \$236,800 per annum (previously \$176,800 per annum) (which includes a motor vehicle allowance of \$16,800 per annum (previously \$16,800 per annum)), plus superannuation guarantee contributions as required by law. Mr Ferrara is entitled to annual leave and long service leave as required by law. He is also entitled to receive directors' fees during the time he serves as director of the company.

##### **Dimitri Bacopanos**

Mr Bacopanos' current service agreement has been in place since 10 January 2017. Mr Bacopanos was appointed as Non-Executive Director of Threat Protect Australia Limited on 1 January 2017. Mr Bacopanos' 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. Mr Bacopanos may resign from office at any time.

##### *Other Details:*

Mr Bacopanos' remuneration is set at \$36,000 per annum plus statutory superannuation, where applicable.

##### **Karen Haynes**

Ms Haynes' current service agreement has been in place since the commencement of her employment on 20 Dec 2017.

##### *Notice period and Term of Agreement:*

The agreement may be terminated by either the Company or Ms Haynes by giving at least 1 months' notice.

##### *Other Details:*

Ms Haynes' remuneration comprises a salary of \$165,000 per annum, plus superannuation guarantee contributions as required by law (currently 9.5% of gross salary). Ms Haynes is entitled to annual leave and long service leave as required by law.

# THREAT PROTECT AUSTRALIA LIMITED

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## Simon Whybrow

Mr Whybrow's current service agreement has been in place since 1 July 2017.

### Notice period and Term of Agreement:

The agreement may be terminated by either the Company or Mr Whybrow by giving at least four weeks' notice.

### Other Details:

Mr Whybrow's remuneration comprises a salary of \$200,000 per annum which includes a motor vehicle allowance of \$15,000 per annum (previously \$150,000 per annum with no motor vehicle allowance), plus superannuation guarantee contributions as required by law (currently 9.5% of gross salary). Mr Whybrow is entitled to annual leave and long service leave as required by law.

## 5. Share-based Remuneration

On 23 November 2017, shareholders approved the issue of 50,000,000 share options on a pre-consolidation basis (Post-consolidation: 7,142,856) to Directors of the Company. Fair value at grant date of \$500,000 was calculated using the Black-Scholes pricing model which takes into account the term of the share options, the underlying value of the shares, the exercise price, the expected dividend yield, the impact of dilution and the risk-free interest rate.

Model inputs used for the valuation were as follows, on a pre-consolidation basis:

<b>Exercise Price</b>	4.85 cents	<b>Market price at grant date</b>	2.6 cents
<b>Grant Date</b>	23 November 2017	<b>Risk Free Interest Rate</b>	1.5 percent
<b>Vesting Date</b>	23 November 2017	<b>Expected Volatility</b>	81%
<b>Expiry Date</b>	31 October 2020	<b>Valuation Per Employee Share</b>	1 cent

The expected volatility of the share price during the term of the option is based around assessments of the volatility of similar-sized listed entities and entities in similar industries at grant date. For the purposes of the valuation, a 0% dividend yield has been used as the Company does not have a current dividend policy at this time. The value of the instruments has been expensed to remuneration in its entirety as there were no vesting restrictions on the shares issued. \$500,000 has been accounted for in the share option reserve during the period ended 30 June 2018.

Refer note 20, Share-based payments and note 22, related party transactions for further details regarding the share options issued to each Director of the Company.

The Employee Share Plan was approved by the Shareholders of the Company on 29 November 2016. There were no such shares issued in prior periods relating to the Employee Share Plan. The Employee Share Plan 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 Company. The experience of senior employees is an important factor in the long term success of the Company.

## 6. Key Management Personnel Equity Holdings

- a. Fully paid ordinary shares of Threat Protect Australia Limited held directly, indirectly or beneficially by each Key Management Personnel

### Year ended 30 June 2018

	Opening balance	Received during the year as remuneration	Other changes during the year	Consolidation of share capital	Balance at end of year
	No.	No.	No.	No.	No.
Derek La Ferla	3,240,212	-	-	(2,777,325)	462,887
Demetrios Pynes	30,696,778	-	-	(26,311,525)	4,385,253
Paul Ferrara	28,417,068	-	-	(24,357,488)	4,059,580
Dimitri Bacopanos	2,000,000	-	-	(1,714,286)	285,714
Simon Whybrow	2,000,000	-	-	(1,714,286)	285,714
	66,354,058	-	-	(56,874,910)	9,479,148

## DIRECTORS' REPORT – AUDITED REMUNERATION REPORT

## b. Options in Threat Protect Australia Limited held directly, indirectly or beneficially by each Key Management Personnel

Year ended	Opening balance	Granted as remuneration during the year	Exercised during the year	Other changes during the year	Consolidation of share capital	Balance at end of year	Vested and Exercisable
30 June 2018	No.	No.	No.	No.	No.	No.	No.
Derek La Ferla	15,000,000	10,000,000	-	-	(21,428,573)	3,571,427	3,571,427
Demetrios Pynes	20,000,000	15,000,000	-	-	(30,000,003)	4,999,997	4,999,997
Paul Ferrara	20,000,000	15,000,000	-	-	(30,000,003)	4,999,997	4,999,997
Dimitri Bacopanos	-	10,000,000	-	-	(8,571,429)	1,428,571	1,428,571
	55,000,000	50,000,000	-	-	(90,000,008)	14,999,992	14,999,992

## 7. Other Transactions with Key Management Personnel

## Equity-based Key Management Personnel Transactions

There have been no other transactions with Key Management Personnel involving equity instruments other than those already detailed above.

## Loans to Key Management Personnel

There were no other loans made to Directors or Key Management Personnel during the period or as at 30 June 2018.

In the prior period, a limited-recourse loan totalling \$34,000 was entered into with Mr Simon Whybrow in accordance with the Company's Employee Share Plan. The Employee Share Plan was approved by Shareholders of the Company on 29 November 2016. For further details regarding this loan please see section 5 of the Directors' remuneration report above, as well as note 20 of the financial statements.

## Other transactions with Key Management Personnel or their Related Parties

All transactions with related parties are on commercial terms and under conditions no more favourable than those available to other parties unless otherwise stated.

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

	2018 \$
Demetrios Pynes	360
Paolo Ferrara	260
Derek La Ferla	400
Dimitri Bacopanos	288

## Related entity: Tactical Conflict Solutions Pty Ltd

Tactical Conflict Solutions Pty Ltd ("TCS"), a company jointly controlled by Mr Pynes and Mr Ferrara, provided training services to and rents office space from the Group.

The Group also charges TCS for administrative and security staff.

Rent paid by TCS (Group income)	8,000
Staffing provided to TCS (Group income)	50,760
Balance of trade payables	-
Balance of trade receivables	23,737

## Related entity: KLE Management Services

KLE Management Services (KLE) is an entity controlled by Mr Bacopanos that provided a temporary administrative staff member to the group during the period.

Staff provided by KLE (Group expense)	(727)
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## Employment of Directors' spouses

A director's spouse was employed within the business during the period.

Amounts include gross salary, fees and superannuation.

Paolo Ferrara's spouse (Group expense)	(77,256)
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## THREAT PROTECT AUSTRALIA LIMITED

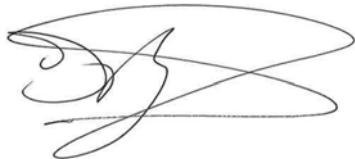
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### DIRECTORS' REPORT – AUDITED REMUNERATION REPORT

#### END OF AUDITED REMUNERATION REPORT

This Report of the Directors, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors.



**Demetrios Pynes - Managing Director**

Dated this 26th day of September 2018

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2018

	Note	2018 \$	2017 \$
<b>Continuing operations</b>			
Revenue	3	14,692,292	11,477,957
Other income	3	896,226	1,436,034
		15,588,518	12,913,991
Cost of sales		(12,480,947)	(8,068,232)
		3,107,571	4,845,759
Administrative expenses		(2,978,583)	(1,499,137)
Business acquisition and integration costs		(924,647)	(715,759)
Compliance and regulatory costs		(339,059)	(351,847)
Finance costs		(1,069,436)	(350,479)
Legal and consulting fees		(43,493)	(61,187)
Marketing and business development		(494,312)	(369,494)
Occupancy costs		(271,118)	(223,106)
Impairment	13	(642,310)	
Share in profit/(loss) of associate using the equity method	26	21,733	-
Profit/(Loss) before income tax	4	(3,633,655)	1,274,750
Income tax benefit	6	387,717	417,586
Profit/(Loss) from continuing operations		(3,245,938)	1,692,336
<b>Other comprehensive income, net of income tax</b>			
▀ Items that will not be reclassified subsequently to profit or loss		-	-
▀ Items that may be reclassified subsequently to profit or loss:		-	-
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income/(loss) attributable to members of the parent entity		(3,245,938)	1,692,336
<b>Earnings per share (Cents)</b>			
Basic and diluted earnings/(loss) per share (cents)	7	(2.91)	1.57

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the accompanying notes.

# THREAT PROTECT AUSTRALIA LIMITED

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## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Note	2018 \$	2017 Restated \$
<b>Current assets</b>			
Cash and cash equivalents	8	1,139,298	1,163,364
Trade and other receivables	9	3,217,180	3,946,763
Financial assets	10	952,563	182,669
Other current assets	11	430,179	248,423
Inventories		35,227	32,386
<b>Total current assets</b>		<b>5,774,448</b>	<b>5,573,605</b>
<b>Non-current assets</b>			
Plant and equipment	12	1,017,686	718,294
Intangible assets	13	26,485,655	13,601,882
Financial assets	10	579,533	-
<b>Total non-current assets</b>		<b>28,082,874</b>	<b>14,320,176</b>
<b>Total assets</b>		<b>33,857,322</b>	<b>19,893,781</b>
<b>Current liabilities</b>			
Trade and other payables	15	6,738,943	5,995,425
Provisions	16	821,595	471,915
Borrowings	17	3,343,046	1,707,386*
<b>Total current liabilities</b>		<b>10,903,584</b>	<b>8,174,726</b>
<b>Non-current liabilities</b>			
Provisions	16	130,155	71,168
Borrowings	17	16,942,623	5,603,295*
Deferred tax liability	6	4,199,473	1,638,560
<b>Total non-current liabilities</b>		<b>21,272,251</b>	<b>7,313,023</b>
<b>Total liabilities</b>		<b>32,175,835</b>	<b>15,487,749</b>
<b>Net assets</b>		<b>1,681,487</b>	<b>4,406,032</b>
<b>Equity</b>			
Issued capital	18	14,731,476	14,710,082
Reserves	19	1,647,135	1,147,135
Accumulated losses		(14,697,124)	(11,451,186)
<b>Total equity</b>		<b>1,681,487</b>	<b>4,406,032</b>

\*The classification of borrowings has been restated for balances as at 30 June 2017. Please refer note 17 for further details.  
The consolidated statement of financial position is to be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2018

	Note	Issued Capital \$	Accumulated Losses \$	Share-based payments Reserve \$	Total \$
Balance at 1 July 2016		13,284,696	(13,143,522)	983,549	1,124,723
Profit/(loss) for the year attributable owners of the parent		-	1,692,336	-	1,692,336
Other comprehensive income for the year attributable owners of the parent		-	-	-	-
Total comprehensive income/(loss) for the year attributable owners of the parent		-	1,692,336	-	1,692,336
<i>Transaction with owners, directly in equity</i>					
Shares issued during the year	18	1,500,000	-	-	1,500,000
Transaction costs	18	(74,614)	-	-	(74,614)
Share-based payments issued during the period	19,20	-	-	163,586	163,586
Balance at 30 June 2017		14,710,082	(11,451,186)	1,147,135	4,406,032
Balance at 1 July 2017		14,710,082	(11,451,186)	1,147,135	4,406,032
Profit/(loss) for the year attributable owners of the parent		-	(3,245,938)	-	(3,245,938)
Other comprehensive income for the year attributable owners of the parent		-	-	-	-
Total comprehensive income for the year attributable owners of the parent		-	(3,245,938)	-	(3,245,938)
<i>Transaction with owners, directly in equity</i>					
Transaction costs	18	(3,862)	-	-	(3,862)
Movement in tax balances	18	(24,744)	-	-	(24,744)
Share-based payments issued during the period	19,20	50,000	-	500,000	550,000
Balance at 30 June 2018		14,731,746	(14,697,124)	1,647,135	1,681,487

*The consolidated statement of changes in equity is to be read in conjunction with the accompanying notes.*



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## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended 30 June 2018

	Note	2018 \$	2017 \$
<b>Cash flows from operating activities</b>			
Receipts from customers		16,576,644	11,940,285
Interest received		23,662	6,338
Interest and borrowing costs		(1,317,293)	(353,404)
Operating cash flows from government grants		772,370	-
Payments to suppliers and employees		(16,177,819)	(10,292,492)
<b>Net cash provided by / (used in) operating activities</b>	8	<b>(122,436)</b>	<b>1,300,727</b>
<b>Cash flows from investing activities</b>			
Purchase of intangible assets	13	(2,902,377)	(4,200,000)
Investing cash flows from government grants		789,707	-
Purchase of businesses, net of cash acquired	2	(9,671,261)	(2,118,929)
Proceeds from sale of intangible assets		28,364	-
Purchase of financial assets		(818,006)	(14,700)
Proceeds from realisation of financial assets		14,460	-
Proceeds from sale of property, plant and equipment		8,428	5,481
Purchases of property, plant and equipment		(334,668)	(53,040)
<b>Net cash provided by / (used in) investing activities</b>		<b>(12,885,352)</b>	<b>(6,381,188)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares (net of transaction costs)		(3,862)	1,403,288
Proceeds from borrowings		16,275,736	4,646,000
Repayment of borrowings		(3,288,152)	(254,045)
<b>Net cash provided by financing activities</b>		<b>12,983,722</b>	<b>5,795,243</b>
<b>Net (decrease)/increase in cash held</b>		<b>(24,066)</b>	<b>714,783</b>
Cash at beginning of year		1,163,364	448,581
<b>Cash at end of year</b>	8	<b>1,139,298</b>	<b>1,163,364</b>

*The consolidated statement of cash flows is to be read in conjunction with the accompanying notes.*

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

### NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

These are the consolidated financial statements and notes of Threat Protect Australia Limited (“**Company**”) and controlled entities (“**Consolidated Group**” or “**Group**”). Threat Protect Australia Limited is a company limited by shares, domiciled and incorporated in Australia.

The separate financial statements of the parent entity, Threat Protect Australia Limited, have not been presented with this financial report as permitted by the *Corporations Act 2001*.

The financial statements were authorised for issue on 26 September 2018 by the Directors of the Company.

#### a. Basis of preparation

The financial statements comprise the consolidated financial statements of the Group. For the purpose of preparing the consolidated financial statements, the Company is a for-profit entity. Material accounting policies adopted in the preparation of these financial statements are presented below. They have been consistently applied unless otherwise stated.

##### i. Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board (**AAS Board**) and International Financial Reporting Standards (**IFRS**) as issued by the International Accounting Standards Board (**IASB**), and the Corporations Act 2001 (Cth).

Australian Accounting Standards (**AASBs**) set out accounting policies that the AAS Board has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with AASBs ensures that the financial statements and notes also comply with IFRS as issued by the IASB.

##### ii. Financial position

The consolidated financial statements have been prepared on an accruals basis and are based on historical costs unless otherwise stated in the notes. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted. The amounts presented in the financial statements have been rounded to the nearest dollar.

##### iii. Going Concern

The consolidated financial statements have been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the ordinary course of business.

As at 30 June 2018, the Group's working capital deficit increased to \$(5,129,137) (June 2017: \$(2,601,121) working capital deficit). Notwithstanding this, on 21st August 2018 the group entered into an unsecured note deed facility agreement with First Samuel Limited. The facility limit is \$4,000,000 at a concessional interest rate of 6% per annum for the first 6 months and 7% per annum thereafter. Interest is payable monthly. The facility is to be repaid by 31 May 2021, and the facility is available for use for working capital purposes. \$1,000,000 of this facility was drawdown on 22nd August 2018 and repaid on 7 September 2018. The facility was cancelled on 21 September 2018.

Between 30 June 2018 and the date of this report, 26 September 2018, 14,285,703 share options were exercised at 17.5 cents per share (post-consolidation) resulting in 14,285,703 fully paid ordinary shares being issued on 17 September 2018 and raising a total of \$2,499,998 before costs.

Based on a cash flow forecast, and as a result of the above funding facilities and ongoing cash flows from operations, the Group has sufficient working capital to fund its mandatory obligations for the period ending 12 months from the date of this report.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

### NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

#### iv. Use of estimates and judgements

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period which the estimate is revised and in any future periods affected.

Judgments made by management in the application of AASBs that have significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 1q.

#### v. Comparative figures

Where required by AASBs, comparative (2017) figures have been adjusted to conform with changes in presentation for the current financial year.

Where the Group retrospectively applies an accounting policy, makes a retrospective restatement or reclassifies items in its financial statements, an additional (third) statement of financial position as at the beginning of the preceding period in addition to the minimum comparative financial statements is presented.

#### b. Principles of consolidation

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended. Where controlled entities have entered or left the Consolidated Group during the year, their operating results have been included or excluded from the date control was obtained or ceased.

#### i. Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control exists when the Group is exposed to variable returns from another entity and has the ability to affect those returns through its power over the entity.

The Group measures goodwill at the acquisition date as:

- ▀ the fair value of the consideration transferred; plus
- ▀ the recognised amount of any non-controlling interests in the acquiree; plus
- ▀ if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less;
- ▀ the net recognised amount of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent or deferred consideration payable is recognised at fair value at the acquisition date and subsequently until settled. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

### NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

#### ii. Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. 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 and are deconsolidated from the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

A list of controlled entities is contained at note 14 Controlled Entities.

#### iii. Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, such interest is measured at fair value at the date control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

#### iv. Transactions eliminated on consolidation

All intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

#### v. Associates

Associates are all entities over which the group has significant influence but not control or joint control. This is generally the case where the group holds between 20% and 50% of the voting rights of an entity. Investments in associates are accounted for using the equity method of accounting after initially being recognised at cost.

### c. Income tax

The income tax expense/(income) for the year comprises current income tax expense/(income) and deferred tax expense/(income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items recognised outside profit or loss.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised. Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Management considers that it is probable that future taxable profits will be available to utilise those temporary differences. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future profits.

# THREAT PROTECT AUSTRALIA LIMITED

AND CONTROLLED ENTITIES  
ACN 060 774 227

ANNUAL REPORT 30 JUNE 2018

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

### NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

#### d. Inventories

Inventories are measured at the lower of cost and net realisable value.

#### e. Property, plant, and equipment

##### i. Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation (see below) and impairment losses (see note 1j Impairment of non-financial assets).

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in profit or loss.

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have not been discounted to their present values in determining recoverable amounts.





##### ii. Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the statement of profit or loss and other comprehensive income as an expense as incurred.

##### iii. Depreciation

Depreciation is charged to the statement of profit or loss and other comprehensive income on a straight-line basis over the asset's useful life to the consolidated group commencing from the time that the assets is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

Depreciation rates and methods are reviewed annually for appropriateness. The depreciation rates used for the current and comparative period are:

	2018 %	2017 %
 Information technology	10.00 – 50.00	10.00 – 50.00
 Motor vehicles	12.50 – 33.33	12.50 – 33.33
 Office equipment	6.67 – 25.00	6.67 – 25.00
 Plant and equipment	7.80 – 50.00	7.80 – 50.00

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

### NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

#### f. Intangibles

##### i. Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value as 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.

Research costs are expensed in the period which they are incurred. Development costs are capitalised as development assets when it is probable that the project will be a success considering its commercial and technical feasibility; the consolidated entity is able to use or sell the asset; the consolidated entity has sufficient resources and intent to complete the development and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services and direct labour. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit, being four years for development assets that are ready for use. The useful life of development assets that are not yet ready for use will be estimated at the time that they become ready for use.

##### ii. Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of the acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

#### g. Employee benefits

##### i. Short-term benefits

Liabilities for employee benefits for wages, salaries, superannuation and leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to the reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay at the reporting date including related on-costs, such as worker's compensation insurance and payroll tax. Liabilities for employee benefits expected to be settled in excess of the 12 months from reporting date are recognised as non-current liabilities.

Non-accumulating non-monetary benefits, such as medical care, housing, cars and free or subsidised goods and services, are expensed based on the net marginal cost to the Group as the benefits are taken by employees.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

### NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

#### ii. Termination benefits

When applicable, the Group recognises a liability and expense for termination benefits at the earlier of the date when the Group can no longer withdraw the offer for termination benefits and the date when the Group recognises costs for restructuring pursuant to AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and the costs include termination benefits. In either case, unless the number of employees affected is known, the obligation for termination benefits is measured on the basis of the number of employees expected to be affected. Termination benefit that are expected to be settled wholly before 12 months after the annual reporting period in which the benefits are recognised are measured at the (undiscounted) amounts expected to be paid. All other termination benefits are accounted for on the same basis as other long-term employee benefits.

#### iii. Share-based payment transactions

The Company 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. For further details of share-based payments made during the year refer note 20, Share-based Payments.

#### h. Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to entities in the Group are classified as finance leases.

Leased assets are depreciated on a straight-line basis over their estimated useful lives where it is likely that the Group will obtain ownership of the asset or over the term of the lease.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised in the statement of profit or loss and other comprehensive income on a straight-line basis over the term of the lease.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

#### i. Financial instruments

##### i. Initial recognition and measurement

A financial instrument is recognised if the Group becomes party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Group's obligations specified on the contract expire or are discharged or cancelled.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

##### ii. Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity securities, trade and other receivables, cash and cash equivalents and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transactions costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

##### iii. Classification and Subsequent Measurement

###### (1) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of nine (9) months or less, and bank overdrafts. Bank overdrafts are shown within short-borrowings in current liabilities on the Statement of financial position.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

### NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(2) *Loans*

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period.

(3) *Trade and other receivables*

Receivables are usually settled within 60 days. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Collectability of trade and other receivables is reviewed on an ongoing basis. An impairment loss is recognised for debts which are known or expected to be uncollectible. An impairment provision is raised for any doubtful amounts.

(4) *Trade and other payables*

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid and stated at their amortised cost. The amounts are unsecured and are generally settled on 30 day terms.

(5) *Borrowings and borrowing costs*

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the consolidated statement of profit or loss and other comprehensive income over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

iv. *Amortised cost*

Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

v. *Fair value*

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

vi. *Effective interest method*

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) over the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying amount with a consequential recognition of an income or expense item in profit or loss.

vii. *Impairment*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Financial assets are tested for impairment on an individual basis. All impairment losses are recognised in the income statement.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

### NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in the statement of profit or loss and other comprehensive income.

#### viii. Derecognition

Financial assets are derecognised where the contractual rights to cash flow expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

#### ix. Finance income and expenses

Finance income comprises interest income on funds invested (including available-for-sale financial assets), gains on the disposal of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Financial expenses comprise interest expense on borrowings calculated using the effective interest method, unwinding of discounts on provisions, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets. All borrowing costs are recognised in profit or loss using the effective interest method. Finance expenses also represents movements in convertible debt that is recognised at fair value through profit or loss.

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in income in the period in which they are incurred.

Foreign currency gains and losses are reported on a net basis.

#### x. Convertible notes liability and embedded derivatives

Convertible notes were issued by the Group (see note 17b), which include embedded derivatives (option to convert the note to variable number of shares in the Group due to the ratchet feature included in its term). These convertible notes are recognised as financial liabilities at fair value through profit or loss. On initial recognition, the fair value of the convertible note will equate to the proceeds received and subsequently the liability is remeasured at fair value each reporting period. The fair value movements are recognised on the profit or loss as finance costs.

#### j. Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets (refer note 1c) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the statement of profit or loss and other comprehensive income, unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the statement of profit or loss and other comprehensive income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

### NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment loss had been recognised.

#### k. Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

#### l. Revenue recognition

Interest revenue is recognised in accordance with note 1i.vi Finance income and expenses.

Revenue from the sale of goods and services is measured at the fair value of the consideration received or receivable, net of returns and allowances. Revenue is recognised in the statement of profit or loss and other comprehensive income when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due or there is a risk of return of goods or there is continuing management involvement with the goods.

All revenue is stated net of the amount of value added taxes (note 1o Goods and Services Tax).

#### m. Share capital

Ordinary issued capital is recorded at the consideration received. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any related income tax benefit. Ordinary issued capital bears no special terms or conditions affecting income or capital entitlements of the shareholders.

#### n. Government grants

Government grants are assistance by the government in the form of transfers of resources to the Company in return for past or future compliance with certain conditions relating to the operating activities of the entity. AASB 120 requires that income earned from grants in relation to expenditure on intangible assets is offset against the value of those assets. Income earned from grants relating to costs that are recognised in the statement of profit or loss and other comprehensive income is recognised as income over the period necessary to match it with the costs to which it relates to. Where income is earned from grants that is related to costs recognised in the statement of profit or loss and other comprehensive in a prior period, that grant income is recognised as other income during the current period.

#### o. Goods and services tax

Revenues, expenses, and assets are recognised net of the amount of Goods and Services Tax ("GST"), except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

The net amount of GST recoverable from, or payable to, the Australian Taxation Office is included as a current asset or liability in the statement of financial position. Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

#### p. Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' results are regularly reviewed by the Group's Board to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

### NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

#### q. Critical Accounting Estimates and Judgments

Management discusses with the Board the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates. The estimates and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### i. Key estimates: Business Combinations

##### (1) Deferred consideration relating to Alpha Alarms Pty Ltd business combination

Fair value of deferred consideration totaling \$300,000 was determined with reference to the contractual terms of the business purchase agreements that were entered into for the transaction. Deferred consideration relating to the Alpha Alarms business combination comprises:

	Fair value (\$)
i. Consideration relating to actual customer numbers 12 months from acquisition date	300,000
<b>Total fair value of deferred consideration</b>	<b>300,000</b>

The group has estimated these amounts based on management's best judgement as to the actual expected outcome for this component over the period of twelve months from acquisition date, 1 December 2017. The amount of \$300,000 is management's estimate of the final consideration payable and relates to actual customer numbers expected within 12 months of acquisition date, less amounts already paid. The amount of \$300,000 is management's estimate of the total consideration payable at that date (30 June 2017: nil). It is considered to be highly unlikely that actual deferred consideration will be higher than these amounts due to the nature of the contractual terms which they are based on. Refer note 2, Business Combinations for further information regarding the transaction.

##### (2) Fair value of net assets acquired as part of Alpha Alarms Pty Ltd business combination

The net assets acquired as part of the Alpha Alarms business combination have been accounted for at fair value as of acquisition date, as required by AASB 3. Fair value of the net assets acquired was determined as follows:

#### Trade and other receivables

The fair value of acquired trade and other receivables was \$231,789. The gross contractual amount for trade receivables due was \$223,833 which was expected to fully recoverable as of acquisition date.

#### Customer related intangible assets

The fair value of the retail portion of customer related intangible assets was determined by assessing the market value of the customer contracts acquired. The total fair value of customer related intangible assets acquired was \$2,648,310.

#### Inventories

The fair value of inventories acquired was determined using a market value for the inventories acquired, which was \$10,000 at acquisition date 1 December 2017.

#### Deferred tax liability

The deferred tax liability recognised at acquisition date is directly related to the fair value of the customer related intangible assets acquired, as there are differences between their cost base for accounting and taxation purposes. The corporate taxation rate of 27.5% is applied to the value of customer related intangible assets to calculate the deferred tax liability value of \$728,285.

#### Property, plant and equipment

Property, plant and equipment assets acquired were assessed for fair value by management based on their market value at acquisition date. Fair value of these assets was assessed at \$31,283.

#### Trade and other payables

The fair value of trade and other payables was determined using a market value for the liabilities acquired, which was \$311,697 at acquisition date 1 December 2017.

#### Employee provisions

The fair value of employee provisions acquired was determined by calculating the exact liabilities owed to employees, which were \$86,645 at acquisition date 1 December 2017.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

## NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

**Short-term borrowings**

The fair value of short term borrowings acquired was determined by reference to the contractual value of borrowings outstanding, which were \$40,638 at acquisition date 1 December 2017.

**Goodwill**

Goodwill is recognised as the difference between the fair value of consideration and the fair value of net assets acquired as part of a business combination in accordance with AASB 3. Goodwill recognised as a result of the business acquisition was \$904,238.

*(3) Deferred consideration relating to Security Alarm Monitoring Service Pty Ltd business combination*

Fair value of deferred consideration totaling \$1,621,160 was determined with reference to the contractual terms of the business purchase agreements that were entered into for the transaction. Deferred consideration relating to the Security Alarm Monitoring Service Pty Ltd business combination comprises:

	Fair value (\$)
i. Consideration relating to actual revenues achieved within 12 months of acquisition date	1,600,000
ii. Consideration relating to interest on financial assets in relation to the acquisition	(80,000)
iii. Consideration relating to the reconciliation of assets and liabilities acquired	101,160
<b>Total fair value of deferred consideration</b>	<b>1,621,160</b>

The group has estimated these amounts based on management's best judgement as to the actual expected outcomes for these components over the period of twelve months from acquisition date, 27 March 2018.

- i. Consideration relating to actual revenues achieved relating to the Security Alarm Monitoring Service Pty Ltd business combination within 12 months of acquisition date is calculated as two times the actual revenue achieved in the first twelve months following the acquisition date, 27 March 2018, less those amounts already paid, contractually capped to a maximum of \$1,600,000.
- ii. Consideration relating to interest costs on financial assets in relation to the acquisition has been calculated as 10% of the \$800,000 placed into escrow by Threat Protect Australia Limited as part of the sale. Total value \$80,000 in Threat Protect' Favour.
- iii. Consideration relating to the final reconciliation of assets and liabilities acquired. This amount was calculated and agreed at \$101,160 and subsequently paid to the vendors on 2 July 2018.

It is considered to be highly unlikely that actual deferred consideration will be higher than these amounts due to the nature of the contractual terms which they are based on. Refer note 2, Business Combinations for further information regarding the transaction.

*(4) Fair value of net assets acquired as part of Security Alarm Monitoring Service Pty Ltd business combination*

The net assets acquired as part of the Security Alarm Monitoring Service business combination have been accounted for at fair value as of acquisition date, as required by AASB 3. Fair value of the net assets acquired was determined as follows:

**Trade and other receivables**

The fair value of acquired trade and other receivables was \$719,689. The gross contractual amount for trade receivables due was \$480,449 which was expected to fully recoverable as of acquisition date. Other receivables totalling \$239,241 were recognised in reference to the relevant contractual arrangements which they were based on.

**Customer related intangible assets**

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 at acquisition date by applying a discount rate of 12.50%. The total fair value of customer related intangible assets acquired was \$7,982,000.

**Financial assets**

The fair value of financial assets was determined by calculating the Group's share of the present value of expected future cash flows relating to the financial assets at acquisition date by applying a discount rate of 12.50%. The total fair value of financial assets acquired was \$562,427. Further information regarding financial assets acquired as part of this business combination can be found at note 2, Business Combinations, and note 26, Investment in Associates.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

### NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

#### **Inventories**

The fair value of inventories acquired was determined using a market value for the inventories acquired, which was \$14,728 at acquisition date 27 March 2018.

#### **Deferred tax liability**

The deferred tax liability recognised at acquisition date is directly related to the fair value of the customer related intangible assets acquired, as there are differences between their cost base for accounting and taxation purposes. The corporate taxation rate of 27.5% is applied to the value of customer related intangible assets to calculate the deferred tax liability value of \$2,195,050.

#### **Property, plant and equipment**

Property, plant and equipment assets acquired were assessed for fair value by management based on their market value at acquisition date. Fair value of these assets were assessed at \$117,022.

#### **Trade and other payables**

The fair value of trade and other payables was determined using a market value for the liabilities acquired, which was \$1,150,237 at acquisition date 27 March 2018.

#### **Employee provisions**

The fair value of employee provisions acquired was determined by calculating the exact liabilities owed to employees, which were \$251,987 at acquisition date 27 March 2018.

#### **Short-term borrowings**

The fair value of short term borrowings acquired was determined by reference to the contractual value of borrowings outstanding, which were \$52,042 at acquisition date 27 March 2018.

#### **Goodwill**

Goodwill is recognised as the difference between the fair value of consideration and the fair value of net assets acquired as part of a business combination in accordance with AASB 3. Goodwill recognised as a result of the business acquisition was \$1,583,209.

For further details relating to business combinations, refer note 2, Business Combinations.

#### ii. Key estimate: Impairment

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired.

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

The carrying amount of goodwill at 30 June 2018 was \$6,047,129 (30 June 2017: 4,201,441).

During the period the group applied an impairment loss of \$642,310 to goodwill. Refer note 13, Intangible Assets.

#### iii. Key estimate: Taxation

Balances disclosed in the financial statements and the notes thereto, related to taxation, are based on the best estimates of directors. These estimates take into account both the financial performance and position of the Group as they pertain to current income taxation legislation, and the directors understanding thereof. No adjustment has been made for pending or future taxation legislation. The current income tax position represents that directors' best estimate, pending an assessment by the Australian Taxation Office.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Management considers that it is probable that future taxable profits will be available to utilise those temporary differences. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future profits.

#### iv. Key judgement: Capitalised Development

Development costs have been capitalised as development assets in accordance with the accounting policy detailed in note 1f.i. At 30 June 2018, management has assessed that all of the net capitalised development expenditure carried forward at year end, totalling \$2,272,362 (2017: \$1,042,415), comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

### NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

v. **Key judgement: Customer-related intangible assets**

Customer-related intangible assets are amortised over their estimate life, being six to ten years, based on the observable lives of customer contracts and relationships.

vi. **Key judgement: Government Grants Receivable**

Expected income from government grants relating directly to costs incurred during the period totalling \$911,326 have been recognised as other receivables based on taxation advice that these are reasonably expected to be receivable in the following period, once grant applications are finalised and lodged. Refer note 1n for details regarding the Group's accounting policy for government grants as well as note 9 for details of government grants receivable.

vii. **Key estimate: Convertible Notes**

On initial recognition the value of the convertible notes equate to the value of proceed received under the agreement. Subsequently the fair value of the convertible notes liability is accreted up to its face value by taking into account the changes in the value of the conversion option of \$0.21 post-consolidation (Pre-consolidation: \$0.03) and the value of the ratchet feature embedded in the contract.

The accounting for the notes assumes that shareholders' approval on the mandatory conversion on or before maturity date will be passed. The value of the note is impacted by the changes in the share price of the company. At 30 June 2018 there has been no movement in the value of the note given that there were no material movement in the share price of the entity that would increase the value of the note. Furthermore, there were no shares that were issued by the entity that result in an adjustment to the conversion price (due to the ratchet feature within the note), which impacted the value of the note. Refer note 17b, Borrowings, for details regarding convertible notes issued during the period.

viii. **Key estimate: Collectability of trade receivables.**

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance (provision for impairment of trade receivables) is used when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Examples of such evidence includes but is not limited to evidence of default in payment arrangements, evidence of significant financial difficulty or bankruptcy or advice from debt collection agents suggesting that receivables are no longer collectible. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the allowance is recognised as impairment in the statement of profit or loss and other comprehensive income.

r. **New, revised or amending Accounting Standards and Interpretations adopted**

The group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the group during the financial year.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

s. **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 2018. 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 30 June 2018

**NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES****AASB 9 Financial Instruments**

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI').

For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in Other Comprehensive Income (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard also introduces additional new disclosures. The group will adopt this standard from 1 July 2018.

The group's short term trade receivables are expected to be impacted by an increased allowance for credit losses. The group's investments in associates and other equity investments are expected to be revalued periodically based on fair value assessments which are adjusted through other comprehensive income. The group is currently in the process of assessing the impact of this transition at 1 July 2018.

**AASB 15 Revenue from Contracts with Customers**

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied.

Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied.

Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgements made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The group will adopt this standard from 1 July 2018.

The group operates in the security services industry, predominantly providing services with a minor portion of the groups revenue attributable to the sale of goods. The group recognises revenue as and when the services are provided and when the significant risks and rewards of ownership of goods have been passed to the buyer. Service revenue is recognised on an ongoing basis as services are provided, and adjustments are made in the rare instance that services are billed in advance at reporting periods. When AASB 15 is adopted, some revenue may be deferred on transition date 1 July 2018 as it is apportioned according to particular performance obligations inherent in each contract or purchase order. At 30 June 2018, the group is still assessing the quantification of this potential impact.

**AASB 16 Leases**

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

### NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16.

For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The group will adopt this standard from 1 July 2019 but the impact of its adoption is yet to be assessed by the group.

To the extent that the entity, as lessee, has operating leases outstanding at the date of initial application (1 January 2019), right-of-use assets will be recognised for the amount of the unamortised portion of the useful life and the lease liabilities will be recognised as the present value of the outstanding lease payments. Thereafter, earnings before interest, depreciation, amortisation and tax (EBITDA) will increase because operating lease expenses currently included in EBITDA will be recognised instead as amortisation of the right-of-use asset, and interest expense on the lease liability. There will, however, be an overall reduction in net profit before tax in the early years of each of the group's leases as amortisation and interest charges will exceed the current straight-line expense incurred under the current AASB 117, *Leases*. This trend will reverse in the later years. The Group will make a more detailed assessment of the impact during the next 12 months.



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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 2 BUSINESS COMBINATIONS

#### a. Alpha Alarms Pty Ltd Business Combination

On 1 December 2017, the Group acquired 100% of the ordinary share capital and voting rights of Alpha Alarms Pty Ltd ("Alpha Alarms"), a New South Wales based business whose principal activities are the provision of security monitoring services in New South Wales.

##### i. Purchase consideration

	Fair value \$
Cash paid	2,436,370
Fair value of deferred consideration	300,000
Total purchase consideration	2,736,370

Acquisition-related costs of \$64,694 are included in business acquisition and integration costs in profit or loss and in operating cash flows in the statement of cash flows. Refer note 1q(i)(1) for further detail regarding the key estimates involved in calculating the fair value of deferred consideration.

##### ii. Assets and liabilities acquired

*The assets and liabilities recognised as a result of the acquisition are as follows:*

	Fair value \$
Cash	78,015
Trade and other receivables	231,789
Property, plant & equipment	31,283
Inventory	10,000
Customer related intangible assets	2,648,310
Goodwill	904,238
Trade and other payables	(311,697)
Provisions	(86,645)
Borrowings	(40,638)
Deferred tax liability	(728,285)
Net assets acquired	2,736,370

The business combination was accounted for provisionally in line with AASB 3 during the year ended 30 June 2018 and as such the Group may adjust the fair value of assets and liabilities acquired during the following reporting period.

Refer note 1q(i)(2) for further detail regarding the key estimates involved in calculating the fair value of the assets and liabilities acquired as part of the business combination.

##### iii. Revenue and profit contribution

The acquired business contributed revenues of \$1,035,025 and net profit of \$256,187 to the group for the period 1 December 2017 to 30 June 2018. If the acquisition had occurred on 1 July 2017, pro-forma revenue and profit for the year ended 30 June 2018 would have been \$1,774,329 and \$486,394 respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

## NOTE 2 BUSINESS COMBINATIONS (CONTINUED)

## b. Security Alarm Monitoring Service Pty Ltd ("SAMS") Business Combination

On 27 March 2018, the Group acquired 100% of the ordinary share capital and voting rights of Security Alarm Monitoring Service ("SAMS"), a South Australian based business whose principal activities are the provision of security monitoring services in South Australia.

## iii. Purchase consideration

	Fair value \$
Cash paid	5,800,000
Fair value of deferred consideration	1,621,160
<b>Total purchase consideration</b>	<b>7,421,160</b>

Acquisition-related costs of \$149,214 are included in business acquisition and integration costs in profit or loss and in operating cash flows in the statement of cash flows. Refer note 1q(ii)(1) for further detail regarding the key estimates involved in calculating the fair value of deferred consideration.

## iv. Assets and liabilities acquired

	Fair value \$
<i>The assets and liabilities recognised as a result of the acquisition are as follows:</i>	
Cash and cash equivalents	91,401
Trade and other receivables	719,689
Inventories	14,728
Customer related intangible assets	7,982,000
Property, plant and equipment	117,022
Financial assets	562,427
Trade and other payables	(1,150,237)
Provisions	(251,987)
Borrowings	(52,042)
Deferred tax liability	(2,195,050)
Goodwill	1,583,209
<b>Net assets acquired</b>	<b>7,421,160</b>

The business combination was accounted for provisionally in line with AASB 3 during the year ended 30 June 2018 and as such the Group may adjust the fair value of assets and liabilities acquired during the following reporting period. Refer note 1q(i)(4) for further detail regarding the key estimates involved in calculating the fair value of the assets and liabilities acquired as part of the business combination.

## iv. Revenue and profit contribution

The acquired business contributed revenues of \$1,406,331 and net profit of \$675,271, to the group for the period 27 March 2018 to 30 June 2018. If the acquisition had occurred on 1 July 2017, pro-forma revenue and profit for the year ended 30 June 2018 would have been \$5,625,326 and \$2,352,467 respectively.

## c. Finalisation of Apollo Business Combination (Acquired during prior year ended 30 June 2017)

During the prior year ended 30 June 2017, the group acquired the business assets of Apollo Securities Pty Ltd ("Apollo") whose principal activities are the provision of security monitoring services in New South Wales and Queensland. The business combination was accounted for provisionally in line with AASB 3 during the year ended 30 June 2017, allowing the Group to adjust the fair values of assets and liabilities acquired during the following year ended 30 June 2018. No material adjustments have been made to the fair values of assets and liabilities acquired as a result of these provisions.

The final value of deferred consideration was calculated and partially settled during the period, resulting in a gain of \$833,934 which has been recognised in other income during the period. \$485,318 relating to the final settlement remains outstanding as deferred consideration as at 30 June 2018. This amount was settled in full subsequent to year end.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 3 REVENUE AND OTHER INCOME

#### Revenue

Revenue from provision of goods and services

Interest income

#### Other income

Gains on disposal of property, plant and equipment

Gains on disposal of intangible assets

Gains on settlement of deferred consideration

Dividends received

Government grants relating to prior period

Historic superannuation penalties withdrawn

Other income

	2018 \$	2017 \$
Revenue from provision of goods and services	14,682,985	11,471,619
Interest income	9,307	6,338
	14,692,292	11,477,957
Gains on disposal of property, plant and equipment	6,899	100,445
Gains on disposal of intangible assets	28,364	-
Gains on settlement of deferred consideration	833,934	-
Dividends received	6,580	-
Government grants relating to prior period	-	772,370
Historic superannuation penalties withdrawn	-	545,773
Other income	20,449	17,446
	896,226	1,436,034

### NOTE 4 PROFIT / (LOSS) BEFORE INCOME TAX

The following significant revenue and expense items are relevant in explaining the financial performance:

Depreciation of property, plant and equipment

Amortisation of intangible assets

Impairment of receivables

Impairment of goodwill

Share-based payments

Employee benefits

Occupancy expense

Note	2018 \$	2017 \$
12	249,758	161,026
13	1,611,417	746,918
	186,168	65,492
13f	642,310	-
20	550,000	163,586
	5,766,843	4,693,047
	456,838	288,547

### NOTE 5 AUDITORS REMUNERATION

#### Auditing or reviewing the financial statements

BDO Audit (WA) Pty Ltd

#### Non-audit services

Taxation services provided by BDO

Corporate finance services provided by BDO

	2018 \$	2017 \$
BDO Audit (WA) Pty Ltd	116,938	92,407
	116,938	92,407
Taxation services provided by BDO	30,090	15,300
Corporate finance services provided by BDO	28,662	14,960
	58,752	30,260

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

## NOTE 6 INCOME TAX

a. **Income tax expense / (benefit)**

Current tax (benefit) / expense

Deferred tax (benefit) / expense

b. **Reconciliation of income tax expense to prima facie tax payable**

The prima facie tax payable / (benefit) on loss from ordinary activities before income tax is reconciled to the income tax expense as follows:

Profit/(Loss) from continuing operations before income tax expense

Australian tax rate

Tax amount at the Australian tax rate

Add / (Less) the tax effect of:

Reduction in company tax rate

Non-assessable income

Deductible equity raising costs

Other assessable income

Current year capital losses not recognised

Imputation credits converted to losses

Non-deductible expenses

Non-deductible impairment

Deferred tax impact of capitalised R&amp;D expenditure

Over provision for prior year

Benefit from previously unrecognised temporary differences and losses

Total income tax expense/(benefit)

c. **Deferred tax recognised directly in equity**

Relating to equity raising costs

Deferred tax expense/(benefit) attributable to entity recognised in equity

d. **Unused tax losses and temporary differences for which no deferred tax asset has been recognised**

Deferred tax assets have not been recognised in respect of the following, using corporate tax rates of:

Tax Revenue Losses

Tax Capital Losses

Total unrecognised deferred tax assets

	2018 \$	2017 \$
	-	-
	(387,717)	(417,586)
	(387,717)	(417,586)
	(3,633,655)	1,274,752
	27.5%	30.0%
	(999,255)	382,426
	-	(156,350)
	(298,851)	(122,274)
	(25,806)	(27,920)
	8,513	-
	-	9,000
	(10,141)	-
	532,962	115,538
	176,635	-
	332,804	-
	(29,669)	-
	(74,909)	(618,006)
	(387,717)	(417,586)
	24,744	(22,098)
	24,744	(22,098)
	27.5%	27.5%
	1,421,315	1,421,315
	34,184	34,184
	1,455,499	1,455,499

The corporate tax rates on both recognised and unrecognised deferred tax assets and deferred tax liabilities have been calculated with respect to the tax rate that is expected to apply in the year the deferred tax asset is realised or the liability is settled. Movements throughout the 2018 year were charged at 27.5% (2017: 30.0%) and balances at 30 June 2018 were converted to 27.5%.

The benefit for tax losses will only be obtained if the company and consolidated entity derive future assessable income of a nature and an amount sufficient to enable the benefit from the deductions for the losses to be realised, if the company and consolidated entity continue to comply with the conditions for deductibility imposed by law and if no changes in tax legislation adversely affect the ability of the Company and consolidated entity to realise these benefits.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 6 INCOME TAX (CONTINUED)

#### e. Recognised deferred tax assets and liabilities

	2018 \$	2017 \$
Opening balance	(1,638,560)	-
Charged to income	387,717	417,586
Charged to equity	(24,744)	22,098
Acquisitions/disposals	(2,923,886)	(2,078,244)
Closing balance	(4,199,473)	(1,638,560)
Using a corporate tax rate of	27.5%	27.5%
<b>Deferred tax assets</b>		
Employee benefits	220,583	149,348
Accrued expenses	271,153	135,578
Provision for doubtful debts	-	-
Capital raising costs	96,008	137,863
Tax losses	575,571	509,940
Other deferred tax assets	20,090	2,191
Gross deferred tax assets	1,183,406	934,919
Set-off deferred tax liabilities	(1,183,406)	(934,919)
Net deferred tax liabilities	-	-
<b>Deferred tax liabilities</b>		
Prepayments	(10,922)	(12,600)
Intangible assets	(5,371,958)	(2,558,959)
Other deferred tax liabilities	-	(1,920)
Gross deferred tax liabilities	(5,382,879)	(2,573,479)
Set-off of deferred tax assets	1,183,406	934,919
Net deferred tax liabilities	(4,199,473)	(1,638,560)

### NOTE 7 EARNINGS PER SHARE (EPS)

#### a. Reconciliation of earnings to profit or loss

Profit / (Loss) used in the calculation of basic and diluted EPS

(3,245,938) 1,692,336

#### b. Weighted average number of ordinary shares outstanding during the year used in calculation of basic and diluted EPS

111,586,108 107,563,861

(Post Consolidation Equivalent)

#### c. Basic EPS (cents per share)

(2.91) 1.57

d. The Group does not report diluted earnings per share where options would not result in the issue of ordinary share for less than the average market price during the period ("out of the money"). In addition, the Group does not report diluted earnings per share on annual losses generated by the Group. At the end of the 2018 financial year, the Group had 27,857,125 unissued shares under option that were out of the money and which were anti-dilutive (2017: 145,900,000 (Post consolidation equivalent: 20,842,857)).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

### NOTE 8 CASH AND CASH EQUIVALENTS

Note	2018 \$	2017 \$
Cash at bank	1,139,298	1,163,364
<b>a. Reconciliation of cash flow from operations to loss after income tax</b>		
Profit / (Loss) after income tax	(3,245,938)	1,692,336
Non-cash flows in profit from ordinary activities:		
Depreciation and amortisation	1,861,176	907,943
Non-cash gains on disposal of assets	(35,264)	(100,481)
Impairment of receivables	178,964	65,492
Impairment of goodwill	642,310	-
Non-cash other income	(833,934)	(555,872)
Non-cash interest expense	-	15,575
Borrowing costs capitalised	(378,444)	-
Share-based payments	550,000	163,586
Income tax benefit	(387,717)	(417,586)
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		
(Increase)/decrease in trade and other receivables	510,200	(1,418,344)
(Increase)/decrease in prepayments and other assets	707,997	75,791
(Increase)/decrease in inventories	21,887	(19,381)
Increase/(decrease) in trade and other payables	280,203	883,786
Increase/(decrease) in provisions	6,123	7,882
Cash flow from operations	(122,436)	1,300,727

#### b. Credit standby facilities

The Group has fully drawn the \$9,000,000 First Samuel Limited convertible note facility as at 30 June 2018 (30 June 2017: \$4,500,000 remained undrawn). As at 30 June 2018, the Group has available credit facilities with Macquarie Bank Limited totalling \$11,323,344 which are restricted to be used for business acquisition purposes (2017:nil). In the prior period, at 30 June 2017, \$19,000 was available from National Australia Bank as a working capital facility as well as \$531,000 which was available specifically for the acquisition of new businesses. Refer note 17, Borrowings, for further details regarding all facilities.

#### c. Risk management

For details relating to the Group's management of risks surrounding cash and cash equivalents refer note 25, Financial Risk Management.

#### d. Non-cash investing and financing activities

During the period, \$273,168 of short-term borrowings were entered into in relation to insurance premium funding and equipment finance arrangements without the exchange of cash. There were also additions to borrowings as a result of business combinations during the period. (2017: \$95,000 non-cash sale of mining tenements).

#### e. Changes in financial liabilities arising from cash flow and non-cash flow items

	2017 \$	Cash Flows (Net) \$	Non-cash items			2018 \$
			Acquisitions \$	Non-Cash Financing \$	Borrowing Costs \$	
Short term borrowings	1,707,386	1,648,256	92,680	273,168	(378,444)	3,343,046
Long term borrowings	5,603,295	11,339,328				16,942,623
Total liabilities from financing liabilities	7,310,681	12,987,584	92,680	273,168	(378,444)	20,285,669

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### NOTE 9 TRADE AND OTHER RECEIVABLES

	2018 \$	2017 \$
<b>Current</b>		
Trade debtors	2,110,504	2,745,025
Less: provision for impairment	(126,779)	(539,332)
Accrued income receivable	241,627	133,096
Government grants receivable	911,326	1,588,595
Goods and services tax receivable	6,153	18,319
Other receivables	74,349	1,059
	<b>3,217,180</b>	<b>3,946,763</b>
<b>a. Movements in provision for impairment during the period</b>		
Opening provision for impairment	(539,322)	(18,676)
Provision acquired as part of Apollo business combination	-	(995,523)
Provision reduced through revenue	245,095	480,013
Apollo debtors recognised as bad debts	191,718	-
Other adjustments to doubtful debts	(24,270)	(5,146)
Closing provision for impairment	(126,779)	(539,332)

The Group's exposure to interest rate risk, analysis of impairment and sensitivity analysis for financial assets and liabilities including trade and other receivables are disclosed in note 25.

### NOTE 10 FINANCIAL ASSETS

	2018 \$	2017 \$
<b>a. Current</b>		
Security bonds and guarantees	152,563	182,669
Funds in escrow in relation to SAMS deferred consideration payment	800,000	-
	<b>952,563</b>	<b>182,669</b>
<b>b. Non current</b>		
Investment in associate using the equity method (refer note 26)	461,119	-
Equity investments held at cost	118,414	-
	<b>579,533</b>	<b>-</b>
<b>c. Fair value hierarchy</b>		

No assets were held at fair value during the years ended 30 June 2018 or 2017.

### NOTE 11 OTHER CURRENT ASSETS

	2018 \$	2017 \$
<b>Current</b>		
Prepayment of group expenses	430,179	248,423
	<b>430,179</b>	<b>248,423</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 12 PROPERTY, PLANT AND EQUIPMENT CURRENT YEAR 2018	Monitoring Infrastructure	Motor Vehicles	Information Technology	Plant & Equipment	Total
	\$	\$	\$	\$	\$
Balance at cost	1,167,831	122,488	244,644	449,938	1,984,902
Accumulated depreciation	(532,743)	(76,586)	(215,282)	(142,604)	(967,216)
Carrying amount at the end of the year	635,088	45,902	29,362	307,334	1,017,686
Carrying amount at the beginning of the year	593,218	85,955	27,661	11,461	718,294
Additions during the period	220,731	31,283	13,380	329,996	595,389
Disposals during the period	-	(46,240)	-	-	(46,240)
Depreciation during the period	(178,860)	(25,095)	(11,679)	(34,123)	(249,758)
Carrying amount at the end of the year	635,088	45,902	29,362	307,334	1,017,686
PRIOR YEAR 2017	Monitoring Infrastructure	Motor Vehicles	Information Technology	Plant & Equipment	Total
	\$	\$	\$	\$	\$
Balance at cost	947,391	164,474	231,264	120,131	1,463,260
Accumulated depreciation	(354,174)	(78,519)	(203,603)	(108,670)	(744,966)
Carrying amount at the end of the year	593,218	85,955	27,661	11,461	718,294
Carrying amount at the beginning of the year	270,515	74,331	15,265	15,851	375,962
Additions during the period	442,173	35,629	23,691	1,865	503,358
Disposals during the period	-	-	-	-	-
Depreciation during the period	(119,470)	(24,006)	(11,295)	(6,254)	(161,026)
Carrying amount at the end of the year	593,218	85,955	27,661	11,461	718,294



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NOTE 13 INTANGIBLE ASSETS	Development assets	Customer related intangible assets	Intellectual property	Goodwill	Total
	(a)	(b)	(c)	(d)	
CURRENT YEAR 2018	\$	\$	\$	\$	\$
Intangible asset	2,333,701	21,450,335	17,087	6,689,436	30,490,562
Accumulated amortisation	(61,339)	(2,470,213)	(3,045)	-	(2,534,597)
Accumulated impairment	-	(828,000)	-	(642,310)	(1,470,310)
Carrying amount at the end of the year	2,272,362	18,152,122	14,042	6,047,129	26,485,655
Carrying amount at the beginning of the year	1,042,415	8,342,275	15,751	4,201,441	13,601,882
Additions during the period	2,142,852	11,391,459	-	2,487,998	16,022,309
Government grant income not recognisable (net of amount realised during the period) (e)	(884,808)	-	-	-	(884,808)
Amortisation expense	(28,097)	(1,581,611)	(1,709)	-	(1,611,417)
Impairment expense - guarding	-	-	-	(642,310)	(642,310)
Carrying amount at the end of the year	2,272,362	18,152,122	14,042	6,047,129	26,485,655
PRIOR YEAR 2017	\$	\$	\$	\$	\$
Intangible asset	1,075,657	10,058,876	17,087	4,201,441	15,353,061
Accumulated amortisation	(33,242)	(888,601)	(1,336)	-	(923,179)
Accumulated impairment	-	(828,000)	-	-	(828,000)
Carrying amount at the end of the year	1,042,415	8,342,275	15,751	4,201,441	13,601,882
Carrying amount at the beginning of the year	67,818	1,803,145	6,065	2,664,153	4,541,179
Additions during the period	1,813,834	7,105,478	11,022	1,693,511	10,623,846
Government grant income not recognisable (e)	(816,225)	-	-	-	(816,225)
Adjustments during the period	-	156,223	-	(156,223)	-
Amortisation expense	(23,012)	(722,571)	(1,336)	-	(746,918)
Carrying amount at the end of the year	1,042,415	8,342,275	15,751	4,201,441	13,601,882

### a. Development assets

Development assets are carried at cost less accumulated amortisation. The carrying amount of development costs of \$2,272,362 has been subject to impairment testing at 30 June 2018. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount. There was no impairment arising as a result of impairment testing at 30 June 2018 (2017: None).

### b. Customer related intangible assets

Customer related intangible assets consist of customer contracts and relationships acquired externally and are carried at cost less accumulated amortisation and impairment. These intangible assets have been assessed as having useful lives of between 6 and 10 years and are amortised using the straight line method over that period. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## NOTE 13 INTANGIBLE ASSETS (CONTINUED)

## c. Intellectual property

Intellectual property has been externally acquired and is carried at cost less accumulated amortisation. These intangible assets have been assessed as having a useful life of 10 years and are amortised using the straight line method over that period. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

## d. Goodwill

Goodwill has been externally acquired and is carried at cost less accumulated impairment losses. The additions to goodwill arose on the acquisition of Alpha Alarms Pty Ltd and Security Alarm Monitoring Service Pty Ltd during the year ended 30 June 2018. During the year ended 30 June 2017, the additions arose on the Apollo business combination. Goodwill represents the difference between the fair value of the consideration paid for a business and the fair value of net assets acquired.

## i. Goodwill relating to Alpha Alarms and Security Alarm Monitoring Service Pty Ltd business combinations

Refer note 2a, Business Combinations for details regarding goodwill of \$904,238 recognised as part of the Alpha Alarms Pty Ltd business acquisition.

Refer note 2b, Business Combinations for details regarding goodwill of \$1,583,209 recognised as part of the Security Alarm Monitoring Service Pty Ltd business acquisition.

## e. Government grant income not recognisable

AASB 120 requires that income earned from grants in relation to expenditure on intangible assets is offset against the value of those assets. During the period, an adjustment of \$(26,581) was made, to grants received relating to the previous financial period, which were offset against the value of development assets as at 30 June 2018. Refer note 1n for details regarding the Group's accounting policies surrounding government grants.

## f. Impairment testing of intangible assets

## i. Key estimate: key assumptions used for impairment testing

AASB 136 requires annual impairment testing to be performed for goodwill and intangible assets which are not yet ready for use. In order for these assets to be tested for impairment, they are allocated the cash-generating-units ("CGUs") which they form a part of. The carrying values of intangible assets have been allocated to the following CGUs for impairment testing purposes, as follows.

	2018 Opening	Additions During The Period	Amortisation During The Period	Impairment During The Period	2018 Total
	\$	\$	\$	\$	\$
<b>Guarding CGU</b>					
Goodwill - Guarding	642,310	-	-	(642,310)	-
Customer-related intangibles	25,247	-	(25,247)	-	-
<b>Total intangible assets allocated</b>	<b>667,557</b>	<b>-</b>	<b>(25,247)</b>	<b>(642,310)</b>	<b>-</b>
<b>Monitoring CGU</b>					
Goodwill - Monitoring	3,559,131	2,487,998	-	-	6,047,129
Customer-related intangibles	8,317,027	11,391,459	(1,556,364)	-	18,152,122
Development assets (net of government grants)	1,042,415	1,258,044	(28,097)	-	2,272,362
Intellectual property	15,751	-	(1,709)	-	14,042
<b>Total intangible assets allocated</b>	<b>12,934,324</b>	<b>15,137,501</b>	<b>(1,586,170)</b>	<b>-</b>	<b>26,485,655</b>
<b>Total intangible assets</b>	<b>13,601,881</b>	<b>15,137,501</b>	<b>(1,611,417)</b>	<b>(642,310)</b>	<b>26,485,655</b>

No intangible assets were allocated to the Services CGU during the period.

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### NOTE 13 INTANGIBLE ASSETS (CONTINUED)

The recoverable amount of each CGU which was tested for impairment has been determined using the value in use method. Value in use has been derived by calculating the discounted value of net cash flows expected to be derived from each CGU. Value in use has been based on five-year forecasts with terminal values calculated to simulate the value of cash flows beyond that period. Cash flows for the year ended 30 June 2018 were estimated based on the board-approved budget for that period. The value in use models used the following key assumptions.

	Monitoring CGU 2018	Monitoring CGU 2017
Annual revenue growth rate (Average)	3%	5%
Average gross margin	46%	47%
Terminal growth rate	2.25%	3.75%
Capital expenditure required to sustain operations	Minimal	Minimal
Corporate overhead allocation	73%	40%
Pre-tax discount rate	12.50%	12.41%

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

Assumption	Approach used to determine values
Annual revenue growth rate	Average annual growth rate over the five-year forecast period based on past performance and management's expectations of market development.
Average gross margin	Average annual gross margin over the five-year forecast period based on past performance, industry trends and long-term inflation forecasts.
Terminal growth rate	This is the average growth rate used to extrapolate cash flows beyond the budget period based on observed long term average growth rates.
Capital expenditure rate	Capital expenditure requirements based on expected levels of revenues, costs and capital investments in property, plant and equipment including costs to maintain assets in their current condition as well as estimated costs to complete current development projects at which point development costs will cease.
Corporate overhead allocation	Based on an estimated proportion of corporate overheads attributable to each CGU
Pre-tax discount rate	Reflects specific risks relating to the entity and the industries which it operates within.

The models have excluded the value of cash flows from financing activity and non-cash items such as depreciation.

An impairment loss of \$642,310 was recognised during the period. Refer note 13f(iii) (below) for details regarding the impairment. No other impairment losses were recognised during the period.

#### ii. Sensitivity analysis: Monitoring CGU

The following table sets out the sensitivities of the key assumptions to the recoverable value calculated by the value in use model for the Monitoring CGU:

	Sensitivity based on reasonable possible change	Positive Impact \$m	Negative Impact \$m	Observed potential impact on impairment
Base revenue value (FY2019)	± 5.0%	2.8	(2.8)	Nil – \$0.8m
Annual revenue growth rate	± 0.5%	1.6	(1.5)	Nil
Average gross margin	± 5.0%	6.0	(6.0)	Nil – \$4.1m
Terminal growth rate	± 0.5%	1.2	(1.1)	Nil
Corporate overhead allocation	± 5.0%	1.2	(1.2)	Nil
Pre-tax discount rate	± 0.5%	1.7	(1.5)	Nil

The directors and management have considered and assessed reasonably possible changes for these and other key assumptions and have not identified any instances that could cause the carrying amount of the Monitoring CGU to exceed its recoverable amount, other than those disclosed above. During the prior year ended 30 June 2017, none of the above changes observed any resulting impairment for any CGU.

#### iii. Impairment of goodwill relating to guarding during the period

Impairment indicators at the CGU level arose from the annual review of the value in use of the guarding CGU due to lower-than-expected performance of this CGU during the year ended 30 June 2018. The impairment expense amounted to \$642,310 against goodwill during the period (30 June 2017: nil) based on the estimated recoverable value of the assets being below their carrying values.

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## NOTE 14 CONTROLLED ENTITIES

## Legal parent entity

Threat Protect Australia Limited is the ultimate parent of the Group.

## i. Legal subsidiaries

	Country of Incorporation	Class of Shares	Percentage Owned	
			30 June 2018 %	30 June 2017 %
Threat Protect Group Pty Ltd	Australia	Ordinary	100	100
Threat Protect Security Services Pty Ltd	Australia	Ordinary	100	100
Chipla Holdings Pty Ltd	Australia	Ordinary	100	100
VIP Security Industries Pty Ltd	Australia	Ordinary	100	100
AVMC (Aust) Pty Ltd	Australia	Ordinary	100	100
Alpha Alarms Pty Ltd	Australia	Ordinary	100	-
Seekers Security & Management Pty Ltd	Australia	Ordinary	100	-
Security Alarm Monitoring Service Pty Ltd	Australia	Ordinary	100	-
Goldfields Commercial Security Pty Ltd	Australia	Ordinary	-	100

Investments in subsidiaries are accounted for at cost.

## NOTE 15 TRADE AND OTHER PAYABLES

	Note	2018 \$	2017 \$
<b>Current</b>			
<i>Unsecured</i>			
Trade payables	15a	1,199,835	1,077,243
Deferred consideration payable, comprising:			
Alpha Alarms business combination	2a	300,000	-
Security Alarm Monitoring Service business combination	2b	1,621,160	-
Apollo business combination (2017)	2c	485,318	3,155,156
Other minor retail monitoring acquisitions		42,000	49,000
		2,448,478	3,204,156
Accrued expenses		1,618,034	419,043
Interest payable		422,508	291,921
ATO liabilities		445,765	669,417
Payroll tax liabilities		54,198	175,211
Superannuation payable		139,193	106,126
Revenue in advance		381,447	35,651
Other payables		29,485	16,659
		6,738,943	5,995,426

a. Trade payables are non-interest bearing and arise from the usual operating activities of the Group. Trade payables and other payables and accruals, except directors' fees, are usually settled within the lower of terms of trade or 30 days.

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 25 Financial risk management.

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### NOTE 16 PROVISIONS

#### Current

Provision for current employee benefits

#### Non-current provisions

Provision for non-current employee benefits

Note	2018 \$	2017 \$
	821,595	471,915
	821,595	471,915
	130,155	71,168
	130,155	71,168

### NOTE 17 BORROWINGS

#### Current borrowings

Bank borrowings

Less: capitalised borrowing costs

Hire purchase and finance leases

Less: unexpired interest

Short-term borrowings

#### Non-current borrowings

Convertible notes – First Samuel Limited

Less: capitalised borrowing costs

Debenture – First Samuel Limited

Bank borrowings

Note	2018 \$	2017 \$
17a	3,476,656	1,562,000
17a	(364,025)	-
17d	142,339	100,108
17d	(4,759)	(15,199)
17e	92,837	60,477
	3,343,046	1,707,386
17b	9,000,000	4,500,000
17b	(57,377)	(96,705)
17c	8,000,000	-
17a	-	1,200,000
	16,942,623	5,603,295

#### a. Bank borrowings

Bank borrowings comprised the following facilities on the following terms and conditions at each reporting period:

#### As at year ended 30 June 2018

Lender	Facility Type	Interest Rate (% pa)	Facility balance Current 2018 \$	Facility balance Non-Current 2018 \$	Facility balance Total 2018 \$	Facility Limit 2018 \$	Facility Available 2018 \$
Macquarie Bank	Revolving Line of Credit	5.50%	2,646,020	-	2,646,020	14,000,000	11,353,980
Macquarie Bank	Overdraft Facility	6.75%	830,636	-	830,636	800,000	(30,636)
Macquarie Bank	Bank Guarantee Facility	6.75%	-	-	-	200,000	200,000
			3,476,656	-	3,476,656	15,000,000	11,523,344

The Group refinanced its bank borrowings during the period with Macquarie Bank Limited, using proceeds totalling \$2,660,900 to repay its National Australia Bank facilities on 8 June 2018. The new financing arrangement with Macquarie Bank Limited comprises a Revolving Line of Credit which is available for use with business acquisitions, an Overdraft Facility which can be used for working capital as well as a Bank Guarantee Facility which is to be used to refinance the Group's existing Bank Guarantees.

Interest is paid monthly on all facilities. The Revolving Line of Credit is to be repaid at a rate of 2.5% of outstanding balance at every calendar quarter and the Overdraft Facility is required to be fully repaid for a minimum of 5 working days per 6 month period. The term of each facility is 3 years, ending on 8 June 2021.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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During the prior year ended 30 June 2018 the Group failed to meet one of its Macquarie Bank banking covenant compliance obligations and as a result the Group has reclassified all Macquarie Bank borrowings to current as at that date. Subsequent to 30 June 2018, on 13 August 2018 (with an effective date of 24 May 2018) the group successfully renegotiated its banking covenants with Macquarie Bank Limited. Further, on 28 August 2018 the Group received an unconditional written waiver from Macquarie Bank Limited in relation to its breach of covenants as at 30 June 2018.

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

On 21 August 2018, the group entered into an unsecured note deed facility agreement with First Samuel Limited. The facility limit is \$4,000,000 at a concessional interest rate of 6% per annum for the first 6 months and 7% per annum thereafter. Interest is payable monthly. The facility is to be repaid by 31 May 2021, and the facility is available for use for working capital purposes. \$1,000,000 of this facility was drawdown on 22nd August 2018 and repaid on 7 September 2018.

As at year ended 30 June 2017

Lender	Facility Type	Interest Rate (% pa)	Facility balance Current 2017 \$	Facility balance Non-Current 2017 \$	Facility balance Total 2017 \$	Facility Limit 2017 \$	Facility Available 2017 \$
National Australia Bank	Group Loan Refinancing Facility	5.470%	*400,000	*1,200,000	1,600,000	1,600,000	-
National Australia Bank	Business Acquisition Facility	5.465%	681,000	-	681,000	1,212,000	531,000
National Australia Bank	Working Capital Facility	5.465%	481,000	-	481,000	500,000	19,000
			1,562,000	1,200,000	2,762,000	3,312,000	550,000

As at 30 June 2017 the National Australia Bank Group Loan Refinancing Facility totalled \$2,000,000 and had been repaid to \$1,600,000. The National Australia Bank Business Acquisition Facility had a total limit of \$1,212,000 of which \$531,000 remained available at that date for the purposes of business acquisitions.

## Restatement of borrowings

Due to a misclassification during the year ended 30 June 2017, \$400,000 of bank borrowings relating to the National Australia Bank Group Loan Refinancing Facility were retrospectively restated as current liabilities in order to reflect their true nature as of that date.

## b. Convertible notes

The parent entity, Threat Protect Australia Limited ("the issuer"), issued a further 4,500,000 9% convertible notes to First Samuel Limited ("the subscriber") at a face value of \$1 per note, raising \$600,000 on 3 October 2017, \$2,700,000 on 4 December 2017 and \$1,200,000 on 13 April 2018. The total aggregate value of convertible notes available under the convertible note deed is \$9,000,000 and as such the notes available under the convertible note deed are now fully drawn at \$9,000,000 as at 30 June 2018 (30 June 2017: \$4,500,000 remained unissued).

Notes mature on 24 February 2020 with a sunset date of 24 February 2022.

- ▶ The subscriber (First Samuel Limited) may convert the notes to fully paid ordinary shares at a conversion rate equivalent to 21 cents per share post-consolidation (Pre-consolidation: 3 cents per share) (\$1.00 per note), subject to Threat Protect shareholder approval, at any time during the term.
- ▶ If Threat Protect Australia Limited issues shares at a discount to 21 cents per share (Pre-consolidation: 3 cents per share) prior to conversion date, the subscriber's conversion rate going forward shall be reduced to a conversion rate that will equal the discounted price per share (This is the note's "ratchet feature"). The Group has confirmed with First Samuel Limited that the issue of \$50,000 worth of shares to MKT Taxation Advisors at post-consolidation equivalent share price of 17.5 cents per share (Pre-consolidation: 2.5 cents per share) has not triggered this "ratchet feature".
- ▶ The issuer (Threat Protect Australia Limited) may elect to redeem any notes on issue in whole or in part during the term, at a conversion rate equivalent to 35 cents per share (Pre-consolidation: 5 cents per share) (\$1.67 per note).
- ▶ Convertible notes will automatically convert into fully paid ordinary shares of Threat Protect Australia Limited on the maturity date (24 February 2020). In the event that shareholder approval is not obtained for such a conversion on or before the maturity date, the interest rate for the convertible notes will increase from 9% to 11% from that date until the sunset date (24 February 2022) and the subscriber may require the issuer to redeem all outstanding convertible notes at any time along with a redemption premium of \$0.67 per note, a 67% premium to the original face value of \$1 per note.
- ▶ Convertible notes are unsecured and are subordinated to senior debt.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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- The convertible note facility may be used for working capital purposes.

The convertible notes are presented on the statement of financial position at the transaction price of \$9,000,000 (2017:\$4,500,000), less borrowing costs which are capitalised at issue date and applied to the Group finance expense over the 5 year term of the convertible note using the effective interest method. Borrowing costs capitalised at issue date were \$112,500 of which \$39,328 were expensed to group finance expense during the year ended 30 June 2018 (2017:\$15,795) leaving \$57,377 capitalised against the convertible note liability (2017: \$96,705). Refer to note 25ix.

### c. Debenture

On 28 February 2018, The parent entity, Threat Protect Australia Limited ("the issuer"), issued 8,000,000 unsecured debentures to First Samuel Limited at a face value of \$1 per debenture, raising a total of \$8,000,000 on that date. Key terms of the debenture are as follows:

- The face value of the debentures together with all interest accrued and any other amounts potentially owing under the debenture deed are repayable on the date that is 18 months after the date of execution of the debenture deed unless otherwise agreed between the parties. The debenture deed was executed on 27 February 2018 and as such the repayment date is 27 August 2019.
- Interest is paid monthly in arrears during the term, calculated on the outstanding face value of the debenture at the applicable interest rate, on the basis of a 365 day year.
- The interest rate for the first 6 months following issue date is 9.00% per annum, and thereafter the interest rate is 10.00% per annum. If no event of default is subsisting, First Samuel Limited shall accept a concessionary interest rate of 6.00% per annum for the first 6 months after the issue date of the debentures, and 7.00% per annum thereafter.

- There are no financial covenants imposed on the Group under the debenture deed.

- The events of default are typical of a facility of this nature, and include:

- the failure to pay or repay any amount of the outstanding moneys when due, and such failure is not remedied within 2 business days;
- the failure to perform any undertaking or obligation of Threat Protect under the debenture deed, and if capable of remedy, is not remedied for 5 business days (of such longer time as First Samuel may agree);
- misrepresentation of any warranty;
- enforcement of any security interest over an asset of Threat Protect in excess of \$100,000;
- a judgement, or any execution or other process of a government agency in an amount in exceeding \$250,00 is obtained against Threat Protect; and
- an insolvency event occurring in respect of Threat Protect.

- If an event of default subsists, First Samuel may at any time by notice to Threat Protect, declare that the outstanding moneys under the debentures and the debenture deed are immediately due and payable.

Subsequent to year end, on 10 August 2018, the debenture of \$8,000,000 was repaid in full. Refer note 29, subsequent events, for further details regarding this transaction.

### d. Hire purchase and finance leases.

Hire purchase and finance lease arrangements are secured over the equipment to which the borrowings relate.

### e. Short-term borrowings

Short-term borrowings comprise premium funding for insurance policies, repayable within 12 months.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Note	18	ISSUED CAPITAL	Note	2018 No.	2017 No.	2018 \$	2017 \$
		Fully paid ordinary shares at no par value		111,631,634	779,423,331	14,731,476	14,710,082
<b>a. Ordinary shares</b>							
		At the beginning of the period		779,423,331	721,898,331	14,710,082	13,284,696
		7 November 2016 share issue		-	30,000,000	-	900,000
		2 December 2016 share issue		-	20,000,000	-	600,000
		19 June 2017 share issue		-	7,525,000	-	-
		28 August 2017 share-based payment	20	2,000,000	-	50,000	-
		29 November 2017 share consolidation	18c	(669,791,697)	-	-	-
		Transaction costs relating to share issues		-	-	(3,862)	(74,614)
		Movement in tax balances		-	-	(24,744)	-
		At reporting date		111,631,634	779,423,331	14,731,476	14,710,082

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has a vote on a show of hands.

**b. Options**

	2018 No.	2017 No.
Unlisted options on issue as at balance date.	27,857,125	145,900,000
At the beginning of the period	145,900,000	145,900,000
29 November 2017 options expired	(900,000)	-
29 November 2017 share consolidation	(124,285,731)	-
12 February 2018 options issued to directors (50,000,000 options on a pre-consolidation basis). (Exp 31.10.2020; Exercise Price \$33.95 on a post-consolidation basis; Fair Value \$500,000 as at grant date)	7,142,856	-
At reporting date	27,857,125	145,900,000

**c. Share consolidation**

On 29 November 2017, the Company's securities were consolidated on the basis that:

- i. Every 7 fully paid ordinary shares be consolidated into 1 fully paid ordinary share; and
- ii. Every 7 share options be consolidated into 1 share option.

Fractional entitlements were rounded down to the nearest whole number. Following the consolidation, there were 111,631,634 fully paid ordinary shares on issue at 30 June 2018 (30 June 2017: 779,423,331).



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### d. Capital Management

The consolidated entity's objectives when managing capital are 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.

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.

The Group regularly reviews its working capital position and has externally imposed capital requirements by Macquarie Bank Limited based on its borrower base ratio.

The working capital position of the Group at balance date is as follows:

	Note	2018 \$	2017 \$
Cash and cash equivalents	8	1,139,298	1,163,364
Trade and other receivables	9	3,217,180	3,946,763
Financial assets	10	952,563	182,669
Other current assets	11	430,179	248,423
Inventories		35,227	32,387
Trade and other payables	15	(6,738,943)	(5,995,426)
Short-term provisions	16	(821,595)	(471,915)
Short-term borrowings	17	(3,343,046)	(1,707,386)
Working capital position		(5,129,137)	(2,601,121)

### NOTE 19 RESERVES

	2018 \$	2017 \$
Share-based payments reserve	1,647,135	1,147,135
Total reserves	1,647,135	1,147,135

The share-based payments reserve is used to recognise the grant date fair value of options issued to employees but not exercised and the grant date fair value of shares issued to employees.

For details regarding share-based payments during the period, please refer note 20, Share-based Payments.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## NOTE 20 SHARE BASED PAYMENTS

Total share-based payments expensed through the consolidated statement of profit or loss and other comprehensive income

2018	2017
\$	\$
550,000	163,586

## 2016 Employee Share Plan

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 Employee Share Plan provides some senior executives and employees with a significant incentive over and above their base salary. The Employee Share Plan 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.

## Share options for directors approved by shareholders on 23 November 2017

On 23 November 2017, shareholders approved the issue of 50,000,000 share options on a pre-consolidation basis (Post-consolidation: 7,142,856) to Directors of the Company.

Fair value at grant date of \$500,000 was calculated using the Black-Scholes pricing model which takes into account the term of the share options, the underlying value of the shares, the exercise price, the expected dividend yield, the impact of dilution and the risk-free interest rate.

Model inputs used for the valuation were as follows, on a pre-consolidation basis:

<b>Exercise Price</b>	4.85 cents	<b>Market price at grant date</b>	2.6 cents
<b>Grant Date</b>	23 November 2017	<b>Risk Free Interest Rate</b>	1.5 percent
<b>Vesting Date</b>	23 November 2017	<b>Expected Volatility</b>	81%
<b>Expiry Date</b>	31 October 2020	<b>Valuation Per Employee Share</b>	1 cent

The expected volatility of the share price during the term of the option is based around assessments of the volatility of similar-sized listed entities and entities in similar industries at grant date. For the purposes of the valuation, a 0% dividend yield has been used as the Company does not have a current dividend policy at this time.

The value of the instruments has been expensed to remuneration in its entirety as there were no vesting restrictions on the shares issued. \$500,000 has been accounted for in the share option reserve during the period ended 30 June 2018.

Refer note 22, Related Party Transactions, for further details regarding the share options issued to each Director of the Group.

## Fully paid ordinary shares issued to MKT Taxation Advisors

On 28 August 2017, 2,000,000 fully paid ordinary shares were issued to MKT Taxation Advisors as consideration for professional services rendered during the period which were valued at \$50,000. The share-based payment was ratified by shareholders at the Company's Annual General Meeting on 23 November 2017.

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### NOTE 20 SHARE BASED PAYMENTS (CONTINUED)

Share options outstanding as at the end of each period have the following expiry dates and exercise prices:

#### Unissued shares under option

As at the date of this report, the un-issued ordinary shares of Threat Protect Australia under option (listed and unlisted) are as follows:

Grant Date	Expiry Date	Exercise Price (cents per share) 30 June 2018 (Post Consolidation)	Number of Options 30 June 2018 (Post Consolidation)	Exercise Price (cents per share) 30 June 2017 (Pre-Consolidation)	Number of Options 30 June 2017 (Pre-Consolidation)
7 Sept 2012	29 Nov 2017	-	-	13.36	300,000
7 Sept 2012	29 Nov 2017	-	-	40.00	300,000
7 Sept 2012	29 Nov 2017	-	-	60.00	300,000
4 Sept 2015	4 Sept 2018	17.50	14,285,703	2.50	100,000,000
26 Nov 2015	31 Oct 2020	33.95	2,142,856	4.85	15,000,000
23 Nov 2017	31 Oct 2020	33.95	7,142,856	-	-
26 Nov 2015	31 Oct 2020	26.60	1,428,570	3.80	10,000,000
26 Nov 2015	31 Oct 2020	32.69	1,428,570	4.67	10,000,000
26 Nov 2015	31 Oct 2020	35.77	1,428,570	5.11	10,000,000
			27,857,125		145,900,000

The weighted average remaining contractual life of options outstanding at 30 June 2018 was 1.23 years (2017: 1.84 years)

#### Shares issued upon exercise of options

No ordinary shares were issued by the Company as a result of the exercise of options during the year. Between 30 June 2018 and the date of this report, 26 September 2018, 14,285,703 share options were exercised at 17.5 cents per share (post-consolidation) resulting in 14,285,703 fully paid ordinary shares being issued on 17 September 2018 and raising a total of \$2,499,998 before costs.

Set out below are summaries of options granted during the period:

	2018		2017	
	Average exercise price per option	Number of options	Average exercise price per option	Number of options
As at 1 July	\$0.034	145,900,000	\$0.034	145,900,000
Expired during the year	\$0.370	(900,000)	-	-
Share consolidation	-	(124,285,731)	-	-
Granted during the year	\$0.340	7,142,856	-	-
Exercised during the year	-	-	-	-
Forfeited during the year	-	-	-	-
As at 30 June	\$0.252	27,857,125	\$0.034	145,900,000
Vested and exercisable as at 30 June	\$0.252	27,857,125	\$0.034	145,900,000

#### Fair value of share-based payments

The assessed fair value at grant date of share-based payments made during the year ended 30 June 2018 was \$0.010 per share (2017: weighted average \$0.022 per share). The fair values at grant dates were calculated using the Black-Scholes pricing model which took into account the term of the limited-recourse loan or option, the underlying value of the shares, the exercise price (a product of the share issue price and the loan amount per share), the expected dividend yield, the impact of dilution and the risk-free interest rate.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

### NOTE 21 KEY MANAGEMENT PERSONNEL COMPENSATION

The names and positions of Key Management Personnel ("KMP") during the period are as follows:

 Derek La Ferla	Non-Executive Chairman
 Demetrios Pynes	Managing Director
 Paolo (Paul) Ferrara	Executive Director
 Dimitri Bacopanos	Non-Executive Director
 Simon Whybrow	Company Secretary and Chief Commercial Officer
 Karen Haynes	Chief Financial Officer (effective 2 May 2018)

	2018 \$	2017 \$
Short-term employee benefits	851,759	586,162
Other short-term benefits	48,600	33,600
Post-employment benefits	76,126	49,030
Share-based payments	500,000	43,478
Other long-term benefits	-	-
Termination benefits	-	-
	<b>1,476,485</b>	<b>712,270</b>

### NOTE 22 RELATED PARTY TRANSACTIONS

All transactions with related parties are on commercial terms and under conditions no more favourable than those available to other parties unless otherwise stated.

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

Demetrios Pynes	360	-
Paolo Ferrara	260	182
Derek La Ferla	400	338
Dimitri Bacopanos	288	-

#### Employment of Directors' spouses (Group expense)

Directors' spouses were employed within the business during the period.

Amounts include salary, fees and superannuation.

Paolo Ferrara's spouse (Group expense)	(77,256)	(48,561)
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#### Related entity: Tactical Conflict Solutions Pty Ltd

Tactical Conflict Solutions Pty Ltd ("TCS"), a company jointly controlled by Mr Pynes and Mr Ferrara, provides training services to and rents office space from the Group.

The Group also charges TCS for administrative and security staff.

Rent paid by TCS (Group income)	8,000	8,000
Staff provided to TCS (Group income)	50,760	4,528
Trade payables balance	-	-
Trade receivables balance	23,737	7,344
Balance of loan from TCS to Threat Protect Australia Limited	-	-

#### Related entity: KLE Management Services Pty Ltd

KLE Management Services Pty Ltd is an entity controlled by Mr Bacopanos that provided a temporary administrative staff member to the group during the period.

Staff provided by KLE (Group expense)	(727)	-
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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 23 CONTINGENT LIABILITIES

There were no contingent liabilities not recognised in the financial statements of the parent entity and the consolidated entity as at 30 June 2018 (2017: None).

### NOTE 24 OPERATING SEGMENTS

#### a. Identification of reportable 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 (“**Guarding**”) and Alarm and CCTV installation and maintenance services (“**Service**”).

#### b. Basis of accounting for purposes of reporting by operating segments

##### i. Accounting policies adopted

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

##### ii. Inter-segment 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.

##### iii. Segment assets

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.

##### iv. Segment liabilities

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.

##### v. 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## NOTE 24 OPERATING SEGMENTS (CONTINUED)

## Year ended 30 June 2018

## Revenue

Revenue

8,566,678 4,962,354 1,153,953 14,682,985

## Total Segment Revenue

8,566,678 4,962,354 1,153,953 14,682,985

*Reconciliation of segment revenue to group revenue:*

Interest

9,307

Other income

896,226

## Total group revenue and other income

15,588,518

## Segment net profit / (loss) from continuing operations before tax

2,256,514 (492,540) (204,247) 1,559,728

*Reconciliation of segment profit / (loss) to group profit / (loss):*

Amounts not included in segment results but reviewed by the board:

Administrative expenses

(2,978,583)

Business acquisition and integration costs

(924,647)

Compliance and regulatory

(339,059)

Finance costs

(1,069,436)

Legal costs

(43,493)

Marketing &amp; business development

(494,312)

Occupancy expenses

(271,118)

Share in profit/(loss) of associate using the equity method

21,733

Income tax benefit

387,717

## Net profit for the year

(3,245,938)

## Segment Assets

29,726,042 587,676 35,227 30,348,945

*Reconciliation of segment assets to group assets:*

Unallocated assets

3,508,377

## Total Assets

33,857,322

## Segment Liabilities

5,468,511 419,327 - 5,887,837

*Reconciliation of segment liabilities to group liabilities:*

Unallocated liabilities

26,287,998

## Total Liabilities

32,175,835

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### NOTE 24 OPERATING SEGMENTS (CONTINUED)

#### Year ended 30 June 2017

##### Revenue

Revenue

2017 Monitoring \$	2017 Guarding \$	2017 Services \$	2017 Total \$
5,239,359	5,618,581	613,679	11,471,619
5,239,359	5,618,581	613,679	11,471,619
			6,338
			1,436,034
			12,913,991
2,998,637	325,172	79,578	3,403,387
			(1,499,137)
			(715,759)
			(351,847)
			(350,479)
			(61,186)
			(369,494)
			(223,106)
			417,586
			1,692,336
15,121,773	1,198,329	32,387	16,352,489
			3,541,292
			19,893,781
674,391	650,146	8,417	1,332,954
			14,154,795
			15,487,749

##### Total Segment Revenue

##### Reconciliation of segment revenue to group revenue:

Interest

Other income

##### Total group revenue and other income

##### Segment net profit / (loss) from continuing operations before tax

##### Reconciliation of segment profit / (loss) to group profit / (loss):

Amounts not included in segment results but reviewed by the board:

Administrative expenses

Business acquisition and integration costs

Compliance and regulatory

Finance costs

Legal costs

Marketing & business development

Occupancy expenses

Income tax benefit

##### Net (loss)/profit for the year

##### Segment Assets

##### Reconciliation of segment assets to group assets:

Unallocated assets

##### Total Assets

##### Segment Liabilities

##### Reconciliation of segment liabilities to group liabilities:

Unallocated liabilities

##### Total Liabilities

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

## NOTE 25 FINANCIAL RISK MANAGEMENT

## a. Financial risk management policies

This note presents information regarding the Group's exposure to each of the above risks, its objectives, policies and procedures for measuring and managing risk, and the management of capital. The Group's financial instruments consist mainly of deposits with banks, borrowings, short-term investments and accounts payable and receivable. The Group does not speculate in the trading of derivative instruments. A summary of the Group's financial assets and liabilities is shown below:

	Floating Interest Rate \$	Fixed Interest Rate \$	Non- Interest Bearing \$	2018 Total \$	Floating Interest Rate \$	Fixed Interest Rate \$	Non- Interest Bearing \$	2017 Total \$
<b>Financial Assets</b>								
<b>Current</b>								
Cash and cash equivalents	1,139,298	-	-	1,139,298	1,163,364	-	-	1,163,364
Trade and other receivables	-	-	3,217,180	3,217,180	-	-	3,946,763	3,946,763
Financial assets	128,277	800,000	24,286	952,563	182,669	-	-	182,669
<b>Total Current Financial Assets</b>	<b>1,267,575</b>	<b>800,000</b>	<b>3,241,466</b>	<b>5,309,041</b>	<b>1,346,033</b>	<b>-</b>	<b>3,946,763</b>	<b>5,292,796</b>
<b>Non-current</b>								
Financial assets	-	-	579,533	579,533	-	-	-	-
<b>Total Non-Current Financial Assets</b>	<b>-</b>	<b>-</b>	<b>579,533</b>	<b>579,533</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Financial Assets</b>	<b>1,267,575</b>	<b>800,000</b>	<b>3,820,999</b>	<b>5,888,574</b>	<b>1,346,033</b>	<b>-</b>	<b>3,946,763</b>	<b>5,292,796</b>
<b>Financial Liabilities</b>								
<b>Current</b>								
Trade and other payables excluding deferred consideration (below)	-	529,448	3,761,017	4,290,465	-	861,286	1,929,984	2,791,270
Deferred consideration (at fair value through profit or loss)	-	-	2,448,478	2,448,478	-	-	3,204,156	3,204,156
Hire purchase and finance leases	-	137,579	-	137,579	-	84,909	-	84,909
Short-term borrowings	-	92,837	-	92,837	-	60,477	-	60,477
Bank borrowings	3,112,631	-	-	3,112,631	1,162,000	-	-	1,162,000
<b>Total Current Financial Liabilities</b>	<b>3,112,631</b>	<b>759,864</b>	<b>6,209,495</b>	<b>10,081,990</b>	<b>1,162,000</b>	<b>1,006,672</b>	<b>5,134,140</b>	<b>7,302,812</b>
<b>Non-current</b>								
Convertible note	-	8,942,623	-	8,942,623	-	4,403,295	-	4,403,295
Debenture	-	8,000,000	-	8,000,000	-	-	-	-
Bank borrowings	-	-	-	-	1,600,000	-	-	1,600,000
<b>Total Non-current Financial Liabilities</b>	<b>-</b>	<b>16,942,623</b>	<b>-</b>	<b>16,942,923</b>	<b>1,600,000</b>	<b>4,403,295</b>	<b>-</b>	<b>6,003,295</b>
<b>Total Financial Liabilities</b>	<b>3,112,631</b>	<b>17,702,487</b>	<b>6,209,495</b>	<b>27,024,613</b>	<b>2,762,000</b>	<b>5,409,967</b>	<b>5,134,140</b>	<b>13,306,107</b>
<b>Net Financial Assets</b>	<b>(1,845,056)</b>	<b>(16,902,487)</b>	<b>(2,388,496)</b>	<b>(21,136,039)</b>	<b>(1,415,967)</b>	<b>(5,409,967)</b>	<b>(1,187,377)</b>	<b>(8,013,311)</b>

## b. Specific financial risk exposures and management

The key risks that the Group is exposed to through its financial instruments are credit risk, liquidity risk and market risk consisting of interest rate, foreign currency and equity price risk.

The Board has overall responsibility for the establishment and oversight of the risk management framework. The Board adopts practices designed to identify significant areas of business risk and to effectively manage those risks in accordance with the Group's risk profile. This includes assessing, monitoring and managing risks for the Group and setting appropriate risk limits and controls. The Group is not of a size nor its affairs of such complexity to justify the establishment of a formal system for risk management and associated controls. Instead, the Board approves all expenditure, is intimately acquainted with all operations and discuss all relevant issues at the Board meetings. Operational and other compliance risk management have also been assessed and found to be operating efficiently and effectively.



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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 25 FINANCIAL RISK MANAGEMENT

#### i. Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group.

The Group does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the Group.

The objective of the Group is to minimise the risk of loss from credit risk.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is minimal. The Group's maximum credit risk exposure is limited to the carrying value of its financial assets as indicated on the statement of financial position.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables.

#### Credit risk exposures

The maximum exposure to credit risk is to the Group's trade receivables and that is limited to 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.

Credit risk related to balances with banks and other financial institutions is managed by the Group in accordance with approved Board policy. Such policy requires that surplus funds are only invested with financial institutions residing in Australia, wherever possible.

#### Impairment losses

The ageing of the Group's trade and other receivables at reporting date was as follows:

	2018 Gross \$	2018 Impaired \$	2018 Net \$	2018 Past due but not impaired \$
<b>CURRENT YEAR 2018</b>				
<i>Trade receivables</i>				
Not past due	1,262,211	4,348	1,257,863	-
Past due up to 3 months	366,237	-	366,237	366,237
Past due over 3 months	482,056	122,431	359,625	359,625
	2,110,504	126,779	1,983,725	725,862
<i>Other receivables</i>				
Not past due	1,233,455	-	1,233,455	-
<b>Total trade and other receivables</b>	3,343,959	126,779	3,217,180	725,862

	2017 Gross \$	2017 Impaired \$	2017 Net \$	2017 Past due but not impaired \$
<b>PRIOR YEAR 2017</b>				
<i>Trade receivables</i>				
Not past due	1,267,230	-	1,267,230	-
Past due up to 3 months	480,591	2,528	478,062	478,062
Past due over 3 months	997,204	536,804	460,400	460,440
	2,745,025	539,332	2,205,692	938,502
<i>Other receivables</i>				
Not past due	1,741,070	-	1,741,070	-
<b>Total trade and other receivables</b>	4,486,095	539,332	3,946,762	938,502

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

## NOTE 25 FINANCIAL RISK MANAGEMENT

## ii. Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities.

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and ensuring cash is available to meet the current and future commitments of the Group.

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. Typically, the Group ensures that it has sufficient cash to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted.

The financial liabilities of the Group are confined to trade and other payables and borrowings as disclosed in the statement of financial position. All trade and other payables are non-interest bearing and due within 30 days of the reporting date.

 Contractual Maturities

The following are the contractual maturities of financial assets and liabilities of the Group:

	WITHIN 1 YEAR		GREATER THAN 1 YEAR		TOTAL	
	2018	2017	2018	2017	2018	2017
	\$	\$	\$	\$	\$	\$
<b>Financial Assets</b>						
Cash and cash equivalents	1,139,298	1,163,364	-	-	1,136,298	1,163,364
Trade and other receivables	3,217,180	3,946,763	-	-	3,217,180	3,946,763
Financial assets	952,563	182,669	579,533	-	1,532,096	182,669
<b>Total anticipated inflows</b>	<b>5,309,041</b>	<b>5,292,796</b>	<b>579,533</b>	<b>-</b>	<b>5,885,574</b>	<b>5,292,796</b>
<b>Financial Liabilities</b>						
Trade and other payables	6,738,943	5,995,426	-	-	6,738,943	5,995,426
Hire purchase and finance leases	137,579	84,909	-	-	137,579	84,909
Short-term borrowings	92,837	60,477	-	-	92,837	60,477
Convertible note - principal	-	-	9,000,000	4,500,000	9,000,000	4,500,000
Convertible note – interest (until 24 Feb 2022)	796,685	405,000	2,432,219	1,480,010	3,228,904	1,885,010
Bank borrowings - principal	3,112,631	1,562,000	-	1,200,000	3,112,631	2,762,000
Bank borrowings - interest	-	103,282	-	43,371	-	146,652
Debenture – principle	-	-	8,000,000	-	8,000,000	-
Debenture – interest (until 27 August 2019)	546,849	-	93,589	-	640,438	-
<b>Total contractual outflows</b>	<b>11,425,524</b>	<b>8,211,094</b>	<b>19,525,808</b>	<b>7,223,381</b>	<b>30,951,332</b>	<b>15,434,474</b>
<b>Net (outflow) / inflow from financial instruments</b>	<b>(6,116,483)</b>	<b>(2,918,298)</b>	<b>(18,946,275)</b>	<b>(7,223,381)</b>	<b>(25,065,758)</b>	<b>(10,141,678)</b>

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts than presented.

## iii. Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Board meets on a regular basis and considers the Group's exposure to market risk.

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### NOTE 25 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### iv. Foreign exchange risk

Exposure to foreign exchange risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments which are other than the Australian Dollar presentation currency of the Group.

Foreign exchange risk is not material to the Group as the Group does not hold any financial instruments in currencies other than Australian Dollars.

#### v. Price risk

Price risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

#### vi. Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group is also exposed to earnings volatility on floating rate instruments.

The Group had the following variable rate borrowings outstanding at the end of each reporting period:

	Interest rate		Facility balance	
	2018 %	2017 %	2018 \$	2017 \$
Macquarie Bank - Revolving Line of Credit	5.712% pa	-	2,646,020	-
Macquarie Bank - Overdraft Facility	6.750% pa	-	830,636	-
NAB - Group Loan Refinancing Facility	-	5.470% pa	-	1,600,000
NAB - Business Acquisition Facility	-	5.465% pa	-	681,000
NAB - Working Capital Facility	-	5.465% pa	-	481,000
Weighted Average Interest Rate / Total Facility Balance	5.960% pa	5.468% pa	3,476,656	2,762,000

The proportion of total borrowings that was subject to variable rates at 30 June 2018 was 15% (2017: 45%).

Refer note 17a for further information relating to the group's borrowings, including its banking covenant compliance.

#### Sensitivity analysis

The following table illustrates sensitivities to the Group's exposures to changes in interest rates. The table indicates the impact on how profit and equity values at reporting date would have been affected by changes in the relevant risk variable that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

	Profit Effect		Equity Effect	
	2018 \$	2017 \$	2018 \$	2017 \$
<i>Interest rates on borrowings</i>				
± 100 basis points change in interest rates	± 34,767	± 27,620	± 34,767	± 27,620

#### vii. Net fair values

The fair values of financial assets and financial liabilities are presented in the table in this note and can be compared to their carrying values as presented in the statement of financial position. Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Cash and cash equivalents, trade and other receivables, and trade and other payables are short-term investments in nature whose carrying value is equivalent to fair value.

The methods and assumptions used in determining the fair values of financial instruments are disclosed in the accounting policy notes specific to the asset or liability.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

## NOTE 25 FINANCIAL RISK MANAGEMENT (CONTINUED)

## viii. Recurring fair value measurements

AASB 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

**Level 1** – the instrument has quoted prices (unadjusted) in active markets for identical assets and liabilities;

**Level 2** – a valuation technique is used, using inputs other than quoted prices within Level 1 that are observable for the financial instrument, either directly (i.e. as prices) or indirectly (i.e. derived from prices); or

**Level 3** – a valuation technique is used, using inputs that are not based on observable market data (i.e. the technique is based on unobservable inputs).

The following financial instruments are subject to recurring fair value measurement:

	2018 \$	2017 \$
Level 3 – Convertible notes (equity component)	-	-
Level 3 – Deferred consideration	2,448,478	3,204,156

## ix. Valuation techniques used to derive level 3 fair values

 Convertible notes at fair value through profit or loss

The fair value of the convertible notes are determined based on the accretion of their carrying amount recognised at inception up to the value of the shares on conversion. The value of the notes are mainly impacted by changes in the share price of the entity. The ratchet feature has no value until a capital raising of below the post-consolidation \$0.21 per share (pre-consolidation: \$0.03) takes place. The Group has confirmed with First Samuel Limited that the issue of \$50,000 worth of shares to MKT Taxation Advisors at post-consolidation equivalent share price of 17.5 cents per share (Pre-consolidation: 2.5 cents per share) has not triggered this “ratchet feature”.

 Deferred consideration

**Alpha Alarms Pty Ltd Business Combination Deferred Consideration**

Consideration relating to actual customer numbers derived from the Alpha Alarms Pty Ltd business combination within 12 months of acquisition, 1 December 2017. The amount of \$300,000 is management’s estimate of the final consideration payable and relates to actual customer numbers expected within 12 months of acquisition date, less amounts already paid. Consideration calculated in this way totalled \$300,000 as at 30 June 2018 (2017: nil).

**Security Alarm Monitoring Service Pty Ltd Business Combination Deferred Consideration**

Consideration relating to actual revenues achieved relating to the Security Alarm Monitoring Service Pty Ltd business combination within 12 months of acquisition date is calculated as two times the actual revenue achieved in the first twelve months following the acquisition date, 27 March 2018, less those amounts already paid, contractually capped to a maximum of \$1,600,000. Consideration calculated in this way totalled \$1,600,000 as at 30 June 2018 (2017: nil).

Consideration relating to interest costs on financial assets in relation to the acquisition has been calculated as 10% of the \$800,000 placed into escrow by Threat Protect Australia Limited as part of the sale. This resulted in an \$80,000 reduction in deferred consideration relating to the transaction.

Consideration relating to the final reconciliation of assets and liabilities acquired. This amount was calculated and agreed at \$101,160 and subsequently paid to the vendors on 2 July 2018. Consideration calculated in this way totalled \$101,160 as at 30 June 2018 (2017: nil).

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

### NOTE 25 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Apollo Business Combination Deferred Consideration

Consideration relating to actual revenues achieved relating to the Apollo business combination within 12 months of acquisition date is calculated as the lower of (a), twenty four times the actual revenue achieved in the first month following the acquisition date and (b), two times the actual revenue achieved in the first twelve months following the acquisition date, 1 March 2017, less consideration already transferred. Consideration was originally based on (a) being the most probably outcome, however final consideration on settlement was based on scenario (b). Consideration calculated in this way and remaining to be paid totalled \$400,944 as at 30 June 2018 (2017: \$3,070,832).

Consideration relating to actual trade receivables received relating to the Apollo business combination within 12 months of acquisition date is calculated based on the actual trade receivables amounts collected at anniversary date in relation to the opening trade receivables aged less than 90 days as of acquisition date, 1 March 2017, less consideration already transferred. Consideration calculated in this way totalled \$84,324 as at 30 June 2018 (2017:\$84,324).

Consideration relating to actual revenues achieved by minor acquisition of retail monitoring contracts, less consideration already transferred totalled \$42,000 as at 30 June 2018 (2017: \$46,000).

### NOTE 26 INVESTMENT IN ASSOCIATE

#### a. Investment in Associate Security House Monitoring Pty Ltd (43%)

Ownership Interest (%)

Carrying amount of investment

#### Movements in carrying amounts

Opening Balance

27 March 2018 acquisition of interest in Security House Monitoring Pty Ltd as part of Security Alarm Monitoring Service Pty Ltd business combination

Share of net profit after tax

Dividends received

Carrying amount of investment

#### b. Summarised statement of financial position of Security House Monitoring Pty Ltd

Assets

Current assets

Non-current assets

Total assets

Liabilities

Current liabilities

Non-current liabilities

Total liabilities

Net assets

#### c. Summarised statement of profit or loss and other comprehensive income Security House Monitoring Pty Ltd for the period 27 March 2018 to 30 June 2018

Revenue

Expenses

Profit before income tax

Income tax expense

Profit after income tax

Other comprehensive income

Total comprehensive income

#### d. Accounting policy

Refer note 1(b)v for details regarding accounting policies surrounding investments in associates.

	2018 \$	2017 \$
Ownership Interest (%)	42.95%	-
Carrying amount of investment	461,119	-
<b>Movements in carrying amounts</b>		
Opening Balance	-	-
27 March 2018 acquisition of interest in Security House Monitoring Pty Ltd as part of Security Alarm Monitoring Service Pty Ltd business combination	459,543	-
Share of net profit after tax	21,733	-
Dividends received	(20,156)	-
Carrying amount of investment	461,119	-
<b>b. Summarised statement of financial position of Security House Monitoring Pty Ltd</b>		
<b>Assets</b>		
Current assets	20,707	-
Non-current assets	884,566	-
Total assets	905,274	-
<b>Liabilities</b>		
Current liabilities	29,443	-
Non-current liabilities	36,466	-
Total liabilities	65,909	-
Net assets	839,365	-
<b>c. Summarised statement of profit or loss and other comprehensive income Security House Monitoring Pty Ltd for the period 27 March 2018 to 30 June 2018</b>		
Revenue	183,448	-
Expenses	(116,453)	-
Profit before income tax	66,995	-
Income tax expense	(19,008)	-
Profit after income tax	47,987	-
Other comprehensive income	-	-
Total comprehensive income	47,987	-

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

## NOTE 27 COMMITMENTS

## e. Operating lease commitments

The Group holds a number of operating leases for premises in Western Australia, New South Wales and Queensland which are used for the Group's east and west coast monitoring operations, head office as well as regional satellite offices. Remaining lease terms vary between 5 months and 5 years on all premises as at 30 June 2018. Capital commitments in relation to these leases are summarised below:

	2018 \$	2017 \$
Non-cancellable operating leases:		
Payable within 1 year	313,520	313,981
Payable later than 1 year but not later than 5 years	663,687	903,857
Payable later than 1 year but not later than 5 years	-	12,431
	977,207	1,230,269

## f. Finance lease commitments

The Group holds a number of finance leases for Motor Vehicles and Equipment which are used for the Group's operations. Remaining lease terms vary between 12 and 36 months as at 30 June 2018.

	2018 \$	2017 \$
Non-cancellable leases:		
Payable within 1 year	78,916	67,534
Payable later than 1 year but not later than 5 years	40,136	44,665
Payable later than 1 year but not later than 5 years	-	-
	119,053	112,199

The group had no other material commitments as at 30 June 2018 or 30 June 2017, other than those mentioned above.

## NOTE 28 PARENT ENTITY DISCLOSURES

## g. Financial position of Threat Protect Australia Limited (Parent Only)

	2018 \$	2017 \$
Assets		
Current assets	472,220	659,802
Non-current assets	26,440,950	9,923,995
Total assets	26,913,170	10,583,797
Liabilities		
Current liabilities	1,367,910	447,148
Non-current liabilities	23,863,774	5,879,998
Total liabilities	25,231,684	6,327,146
Net assets	1,681,487	4,256,651
Equity		
Issued capital	59,833,200	63,111,805
Reserves	1,716,735	1,216,735
Accumulated losses	(59,868,448)	(60,071,889)
Total equity	1,681,487	4,256,651

## h. Financial performance of Threat Protect Australia Limited (Parent Only)

Profit / (loss) for the year	203,441	1,565,053
Other comprehensive income	-	-
Total comprehensive income/(loss)	203,441	1,565,053

## i. Guarantees entered into by Threat Protect Australia Limited (Parent Only)

There are no guarantees entered into by Threat Protect Australia Limited for the debts of its subsidiaries as at 2018 or 2017.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

### NOTE 29 EVENTS SUBSEQUENT TO REPORTING DATE

On 6 August 2018 the group announced the acquisition of the security monitoring client base of Monitored Security Systems Pty Ltd ("MSS") which is a long term wholesale reseller of Threat Protect's alarm monitoring services. Consideration for the acquisition is expected to total approximately \$985,000 with a deferred component of approximately \$350,000, expected to settle 12 months from initial acquisition date. The acquisition is expected to contribute approximately \$550,000 per annum to group revenue.

On 10 August 2018, the First Samuel debenture of \$8,000,000 was repaid in full through the utilisation of the Macquarie Bank revolving line of credit facility. This effectively reduced the interest rate on this \$8,000,000 from 6.00% per annum to 5.68% per annum. The First Samuel debenture's interest rate was due to increase from 6.00% per annum to 7.00% per annum on 31 August 2018. Refer note 17, borrowings, for further information.

On 13 August 2018 (with an effective date of 24 May 2018) the group successfully renegotiated its banking covenants with Macquarie Bank Limited. Further, on 28 August 2018 the Group received an unconditional written waiver from Macquarie Bank Limited in relation to its breach of covenants as at 30 June 2018. Refer note 17, borrowings, for further information.

On 21 August 2018, the group entered into an unsecured note deed facility agreement with First Samuel Limited. The facility limit is \$4,000,000 at a concessional interest rate of 6% per annum for the first 6 months and 7% per annum thereafter. Interest is payable monthly. The facility is to be repaid by 31 May 2021, and the facility is available for use for working capital purposes. \$1,000,000 of this facility was drawn on 22nd August 2018 and repaid on 7 September 2018. The facility was cancelled on 21 September 2018.

Between 30 June 2018 and the date of this report, 26 September 2018, 14,285,703 share options were exercised at 17.5 cents per share (post-consolidation) resulting in 14,285,703 fully paid ordinary shares being issued on 17 September 2018 and raising a total of \$2,499,998 before costs.

There were no significant subsequent events since the reporting date, other than those reported above.

### NOTE 30 COMPANY DETAILS

The registered office and principal place of business of the Company as at the date of this report is as follows:

#### Registered Office

Street: Level 1, 672 Murray Street  
West Perth WA 6005  
Postal: PO Box 1920  
West Perth WA 6872  
Telephone: 1300 THREAT (1300 847 328)  
Facsimile: +61 (0)8 9322 9711  
Email: info@threatprotect.com.au  
Website: www.threatprotect.com.au

#### Principal Place of Business

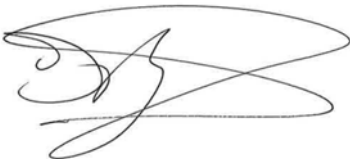
Street: Level 1, 672 Murray Street  
West Perth WA 6005  
Postal: PO Box 1920  
West Perth WA 6872  
Telephone: 1300 THREAT (1300 847 328)  
Facsimile: +61 (0)8 9322 9711

## DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The financial statements and notes, as set out on pages 22 to 71 are in accordance with the *Corporations Act 2001* (Cth) and:
  - (a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
  - (b) are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, as stated in Note 1 to the financial statements; and
  - (c) give a true and fair view of the financial position as at 30 June 2018 and of the financial performance for the year ended on that date of the Company and the Consolidated Group.
2. The Chief Executive Officer (or equivalent) and Chief Financial Officer (or equivalent) have each declared that:
  - (a) the financial records of the Company for the financial year have been properly maintained in accordance with s286 of the *Corporations Act 2001* (Cth);
  - (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
  - (c) the financial statements and notes for the financial year give a true and fair view.
3. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:



**DEMETRIOS PYNES**  
Managing Director



**PAOLO FERRARA**  
Chief Operating Officer

Dated this Wednesday, 26 September 2018



## INDEPENDENT AUDITOR'S REPORT

To the members of Threat Protect Australia Limited

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of Threat Protect Australia Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as 30 June 2018, 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 2018 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the Corporations Regulations 2001.

#### Basis for opinion

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

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

#### 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.

## Accounting for business acquisitions

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>During the financial year ended 30 June 2018, the Group acquired the businesses of Security Alarm Monitoring Service Pty Ltd and Alpha Alarms Pty Ltd as disclosed in Note 2 of the financial report.</p> <p>Accounting for acquisitions is complex and involves a number of significant judgements and estimates as disclosed in Note 1q. The key areas of significant judgement and estimation in relation to the transactions were the:</p> <ul style="list-style-type: none"><li>• Determination of fair value of the deferred consideration, and accordingly the total purchase consideration, for the transaction; and</li><li>• Identification and measurement of the fair value of assets and liabilities acquired.</li></ul>	<p>Our procedures included, but were not limited to the following:</p> <ul style="list-style-type: none"><li>• Reviewing the purchase and sale agreements to understand the terms and conditions of the acquisitions and evaluating management's application of the relevant Australian Accounting Standards;</li><li>• Assessing the estimation of the deferred consideration by challenging the key assumptions including the probability of achievement of future revenue targets;</li><li>• Challenging the methodology and assumptions utilised to identify and determine the fair value of the assets and liabilities acquired;</li><li>• Assessing the adequacy of the Group's disclosure of the acquisitions in Note 1q and Note 2 of the financial report.</li></ul>

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

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>Note 13 to 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 2018.</p> <p>This was determined to be a key audit matter as management’s assessment of the recoverability of the intangible assets 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 1q and Note 13 of the financial report.</p>	<p>Our procedures included, but were not limited to the following:</p> <ul style="list-style-type: none"> <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 specialist, 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>• Comparing the Group’s forecast cash flows to the board approved budget;</li> <li>• Performing sensitivity analysis on the revenue, growth rates and gross profit margins and discount rates; and</li> </ul> </li> <li>• Assessing the adequacy of related disclosures in Note 1q and Note 13 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 2018, but does not include the financial report and the auditor's report thereon.

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

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

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

## Responsibilities of the directors for the Financial Report

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

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

## Auditor's responsibilities for the audit of the Financial Report

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

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

[http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf)

This description forms part of our auditor's report.

## Report on the Remuneration Report

### Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 15 to 21 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Threat Protect Australia Limited, for the year ended 30 June 2018, 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 blue ink, appearing to read 'Dean Just', is written over a faint, light blue BDO logo watermark.

Dean Just

Director

Perth, 26 September 2018

## ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

The following additional information is required by the Australian Securities Exchange in respect of listed public companies:

**1 Capital****(a) Quoted Securities**

Ordinary Fully Paid Shares	125,917,337
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**(b) Unquoted Securities**

Ordinary Fully Paid Shares	125,917,337
33.95 cent Options exercisable on or before 31/10/2020	9,285,712
26.60 cent Options exercisable on or before 31/10/2020	1,428,570
32.69 cent Options exercisable on or before 31/10/2020	1,428,570
35.77 cent Options exercisable on or before 31/10/2020	1,428,570

**(c) Distribution of Shareholders**

Number of shareholders	528
Percentage of holdings by 20 largest shareholders	63.86%
The number of shareholdings held in less than marketable parcels	98

**(d) Category (size of holding)**

	Number Ordinary
100,001 and Over	116,769,287
10,001 to 100,000	8,593,186
5,001 to 10,000	333,565
1,001 to 5,000	206,703
1 to 1,000	14,596
	125,917,337

**(e) Voting Rights**

All ordinary shares carry one vote per share without restriction. Options for ordinary shares do not carry any voting rights.

**(f) Substantial Shareholders**

Name	Number of Ordinary Fully Paid Shares Held	% held of Issued Ordinary Capital
First Samuel Limited	15,734,164	12.5%
Peter Pynes	8,519,670	6.8%

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## ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

### (g) 20 Largest Shareholders — Ordinary Shares as at 21 September 2018

	NAME	Number of Ordinary Fully Paid Shares Held	% held of Issued Ordinary Capital
1	J P MORGAN NOMINEES AUSTRALIA LIMITED	15,593,972	12.38
2	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	6,450,366	5.12
3	PATNER PTY LTD	5,980,951	4.75
4	MS CONCETTA FERRARA	4,459,580	3.54
5	MS ALISON ELIZABETH HOWE	4,431,224	3.52
6	MS MICHELLE PYNES	4,420,968	3.51
7	REDUN PTY LTD	4,295,602	3.41
8	MS CHRISTINA MICHAEL MICHAEL	4,260,142	3.38
9	MR PETER ARISTIDE PYNES & MRS LARA OLIMPIA PYNES	4,257,221	3.38
10	LENALE HOLDINGS PTY LTD	4,000,000	3.18
11	SIREN NOMINEES PTY LTD	3,905,207	3.10
12	CINTELL PTY LTD	3,867,142	3.07
13	NATIONAL NOMINEES LIMITED	3,206,503	2.55
14	MR MARTIN LUKE SIMICH	2,002,380	1.59
15	INVIA CUSTODIAN PTY LIMITED	1,904,761	1.51
16	WESTDAY ENTERPRISES PTY LTD	1,642,857	1.30
17	QUICKSILVER ASSET PTY LTD	1,587,210	1.26
18	MR CRAIG ALEXANDER BORTIGNON & MRS PAULINE LICIA BORTIGNON	1,435,714	1.14
19	MS PAULA MARIE GRIEVES	1,428,571	1.13
20	MR JOHN JOSEPH PALERMO	1,279,311	1.02
	<b>TOTAL TOP 20</b>	<b>80,409,682</b>	<b>63.86%</b>

### 2 **Company Secretary**

The name of the Company Secretary is Simon Whybrow

### 3 **Principal Registered Office**

As disclosed in the Corporate Directory on page 3 of this Annual Report

### 4 **Registers of Securities**

As disclosed in the Corporate Directory on page 3 of this Annual Report

### 5 **Stock Exchange Listing**

Quotation has been granted for all the ordinary shares of the Company on all Member Exchanges of the Australian Securities Exchange Limited, as disclosed in the Corporate Directory on page 3 of this Annual Report.

### 6 **Use of Funds**

The Company has used its funds in accordance with its initial business objectives.



**THREAT  
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