**Threat Protect Australia Limited**
**Appendix 4D**
**Half-year report**

## 1. Company details

| | |
|---|---|
| Name of entity: | Threat Protect Australia Limited |
| ABN: | 36 060 774 227 |
| Reporting period: | For the half-year ended 31 December 2019 |
| Previous period: | For the half-year ended 31 December 2018 |

## 2. Results for announcement to the market

The Group has adopted Accounting Standard AASB 16 'Leases' for the half-year ended 31 December 2019 using the modified retrospective approach and as such the comparatives have not been restated.

| | | $'000 |
|---|---|---|
| Revenues from ordinary activities | increased by 53% to | 14,164 |
| Loss from ordinary activities after tax attributable to the owners of Threat Protect Australia Limited | significantly increased to | (7,019) |
| Loss for the year attributable to the owners of Threat Protect Australia Limited | significantly increased to | (7,019) |

*Dividends*
There were no dividends paid, recommended or declared during the current financial period.

*Comments*
The loss for the Group after providing for income tax amounted to $7,019,000 (31 December 2018: $1,580,000).

For further details refer to 'HY20 Preliminary Interim Report and Commentary' that follows this Appendix 4D.

AASB 16 'Leases' had no significant impact on the current period. The current loss before income tax expense was increased by $10,000. This included an increased depreciation and amortisation expense of $96,000 and increased finance costs of $25,000, offset by a reduction in other expenses (reclassification of lease expenses) of $111,000. As at 31 December 2019, net current assets were reduced by $171,000 (attributable to current lease liabilities) and net assets were reduced by $121,000 (attributable to right-of-use assets and lease liabilities).

## 3. Net tangible assets

| | Reporting period Cents | Previous period Cents |
|---|---|---|
| Net tangible assets per ordinary security | (22.87) | (26.89) |

## 4. Control gained over entities

Not applicable.

## 5. Loss of control over entities

Not applicable.

## 6. Dividend reinvestment plans

Not applicable.

## 7. Details of associates and joint venture entities

| Name of associate / joint venture | Reporting entity's percentage holding | | Contribution to profit/(loss) (where material) | |
|---|---|---|---|---|
| | Reporting period % | Previous period % | Reporting period $'000 | Previous period $'000 |
| Security House Monitoring Pty Ltd | - | 42.95% | - | 41 |
| *Group's aggregate share of associates and joint venture entities' profit/(loss) (where material)* | | | | |
| Profit/(loss) from ordinary activities before income tax | | | - | 41 |
| Income tax on operating activities | | | - | - |

On 27 June 2019, the Group sold its 42.95% investment in associate Security House Monitoring Pty Ltd.

## 8. Foreign entities

*Details of origin of accounting standards used in compiling the report:*

Not applicable.

## 9. Audit qualification or review

*Details of audit/review dispute or qualification (if any):*

The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report. The auditor's review report contains a paragraph addressing material uncertainty related to going concern.

## 10. Attachments

*Details of attachments (if any):*

The Interim Report of Threat Protect Australia Limited for the half-year ended 31 December 2019 is attached.

## 11. Signed

Signed ____________________ Date: 28 February 2020

Demetrios Pynes
Managing Director

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'The Group' or 'Group') consisting of Threat Protect Australia Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the half year ended 31 December 2019.

## Directors

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

| | |
|---|---|
| Derek La Ferla | Non-Executive Chairman |
| Demetrios Pynes | Managing Director |
| Paolo (Paul) Ferrara | Executive Director |
| Dimitri Bacopanos | Non-Executive Director |
| Dennison Hambling (appointed on 20 January 2020) | Non-Executive Director |
| Peter Kennan (appointed on 20 January 2020) | Non-Executive Director |

## Principal activities

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

## Review of operations

The loss for the Group after providing for income tax amounted to $7,019,000 (31 December 2018: $1,580,000).

Total revenue for the half-year of $14,164,000 (December 2018: $9,285,000) is in line with expectations and the growth strategy continues to increase the Group's scale of operations with revenue tracking at a 53% increase on the December 2018 half year result.

Monitoring revenue for the half year totals $11,550,000 compared to $6,286,000 as at half year December 2018 largely due to the May 2019 acquisition of Onwatch Pty Ltd ("Onwatch") based in New South Wales and Victoria. Ongoing organic growth of the Group's current monitoring base, both directly and through the development of our reseller base continues to improve the existing revenue stream.

Guarding and security revenue for the half year remained consistent with the Group focusing on consolidating the existing service contracts during the period. The sources of revenue for the period reflect the continued focus of the business unit towards contracts with a greater component of recurring work and security consultancy.

The Group's growth strategy is focused on leveraging the largely fixed cost infrastructure and significant capacity of the 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.

On 3 October 2019, the Group announced a successful raising of $650,000 with the issuing of 4,062,500 shares at $0.16 per share to sophisticated investors. The funds have been used for general working capital purposes.

On 28 November 2019, the Group announced it had successfully completed the closure of its monitoring centre located in Alphington, Victoria. The control room, which is surplus to the requirements of Threat Protect, was part of the acquisition of Onwatch Pty Ltd ("Onwatch") as announced to the market on 4 March 2019. Consolidating the Onwatch operations previously located in Alphington into the Group's existing operations in Kingsgrove, NSW achieves a significant cost saving of approximately $85,000 per month ($1,000,000 annualised).

Threat Protect announced in December that it had secured a new strategic investor Black Crane Asia Pacific Opportunities Fund, ("Black Crane"), a Hong Kong based Investment Fund, who became a substantial shareholder in TPS. The Group issued 31,250,000 fully paid ordinary shares to Black Crane at an offer price of $0.16 per Share to raise $5,000,000 before costs.

On 31 December 2019, the Group completed the acquisition of an additional two security monitoring client bases for $1,900,000. These client bases have a long history of service by the Group and are predominantly users of wireless technology, both factors which fit the acquisition profile. The conversion of reseller serviced lines to direct lines delivers an additional uplift in revenue of approximately $600,000 per annum.

AASB 16 'Leases' had no significant impact on the current period. The current loss before income tax expense was increased by $10,000. This included an increased depreciation and amortisation expense of $96,000 and increased finance costs of $25,000, offset by a reduction in other expenses (reclassification of lease expenses) of $111,000. As at 31 December 2019, net current assets were reduced by $171,000 (attributable to current lease liabilities) and net assets were reduced by $121,000 (attributable to right-of-use assets and lease liabilities).

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

## Significant changes in the state of affairs

During the half-year ended 31 December 2019 additional capital was raised as follows:

- Capital raising of $650,000 on 3 October 2019 at 16 cents per share for working capital purposes; and
- Capital raising of $5,000,000 on 10 December 2019 at 16 cents per share for working capital and acquisitions over the coming months.
- On 31 December 2019, the Group acquired two security monitoring client bases for $1,900,000 which is consistent with the business model and strategy. It's expected the revenue should increase approximately $600,000 per annum, without adding additional operating costs.

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

## Rounding of amounts

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

## Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors

Demetrios Pynes
Managing Director

28 February 2020

Tel: +61 8 6382 4600
Fax: +61 8 6382 4601
www.bdo.com.au

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

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

As lead auditor for the review of Threat Protect Australia Limited for the half-year ended 31 December 2019, I declare that, to the best of my knowledge and belief, there have been:

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

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

Dean Just

Director

BDO Audit (WA) Pty Ltd

Perth, 28 February 2020

| | Note | Consolidated 31 Dec 2019 $'000 | Consolidated 31 Dec 2018 $'000 |
|---|---|---|---|
| **Revenue** | | | |
| Revenue from contracts with customers | 4 | 14,164 | 9,285 |
| Cost of sales - operations | | (8,280) | (6,409) |
| Cost of sales - depreciation and amortisation | | (4,577) | (1,401) |
| Total cost of sales | | (12,857) | (7,810) |
| Gross profit | | 1,307 | 1,475 |
| Share of profits of associates accounted for using the equity method | | - | 41 |
| Other income | 5 | 158 | 432 |
| Interest revenue calculated using the effective interest method | | 1 | 3 |
| **Expenses** | | | |
| Administration expenses | | (2,049) | (1,109) |
| Business acquisition and integration costs | | (2,494) | (736) |
| Compliance and regulatory costs | | (445) | (325) |
| Legal and consulting fees | | (46) | (36) |
| Marketing and business development | | (426) | (355) |
| Occupancy costs | | (120) | (99) |
| Recovery/(impairment) of receivables | | 150 | (49) |
| Finance costs | 6 | (3,988) | (822) |
| **Loss before income tax benefit** | | (7,952) | (1,580) |
| Income tax benefit | | 933 | - |
| **Loss after income tax benefit for the half-year attributable to the owners of Threat Protect Australia Limited** | | (7,019) | (1,580) |
| Other comprehensive income for the half-year, net of tax | | - | - |
| **Total comprehensive income for the half-year attributable to the owners of Threat Protect Australia Limited** | | (7,019) | (1,580) |
| | | **Cents** | **Cents** |
| Basic earnings per share | 14 | (3.32) | (1.32) |
| Diluted earnings per share | 14 | (3.32) | (1.32) |

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

| | Note | Consolidated 31 Dec 2019 $'000 | Consolidated 30 Jun 2019 $'000 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | 2,044 | 2,146 |
| Trade and other receivables | | 3,068 | 2,482 |
| Contract assets | | 279 | 216 |
| Inventories | | 44 | 24 |
| Other | | 447 | 361 |
| Total current assets | | 5,882 | 5,229 |
| **Non-current assets** | | | |
| Financial assets at fair value through profit or loss | | 192 | 155 |
| Property, plant and equipment | | 981 | 893 |
| Right-of-use assets | 7 | 284 | - |
| Intangibles | 8 | 63,868 | 65,709 |
| Other | | 148 | 173 |
| Total non-current assets | | 65,473 | 66,930 |
| **Total assets** | | 71,355 | 72,159 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 9 | 10,458 | 9,898 |
| Contract liabilities | | 512 | 661 |
| Borrowings | 10 | 2,066 | 1,166 |
| Lease liabilities | | 171 | - |
| Provisions | | 1,207 | 1,494 |
| Total current liabilities | | 14,414 | 13,219 |
| **Non-current liabilities** | | | |
| Borrowings | 10 | 41,596 | 41,238 |
| Lease liabilities | | 234 | - |
| Deferred tax liability | | 6,026 | 6,959 |
| Provisions | | 318 | 328 |
| Total non-current liabilities | | 48,174 | 48,525 |
| **Total liabilities** | | 62,588 | 61,744 |
| **Net assets** | | 8,767 | 10,415 |
| **Equity** | | | |
| Issued capital | 11 | 39,363 | 33,981 |
| Reserves | | 1,874 | 1,874 |
| Accumulated losses | | (32,470) | (25,440) |
| **Total equity** | | 8,767 | 10,415 |

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

| Consolidated | Issued capital $'000 | Reserves $'000 | Accumulated losses $'000 | Total equity $'000 |
|---|---|---|---|---|
| Balance at 1 July 2018 | 14,731 | 1,647 | (14,819) | 1,559 |
| Loss after income tax expense for the half-year | - | - | (1,580) | (1,580) |
| Other comprehensive income for the half-year, net of tax | - | - | - | - |
| Total comprehensive income for the half-year | - | - | (1,580) | (1,580) |
| *Transactions with owners in their capacity as owners:* | | | | |
| Contributions of equity, net of transaction costs | 2,374 | - | - | 2,374 |
| Balance at 31 December 2018 | 17,105 | 1,647 | (16,399) | 2,353 |

| Consolidated | Issued capital $'000 | Reserves $'000 | Accumulated losses $'000 | Total equity $'000 |
|---|---|---|---|---|
| Balance at 1 July 2019 | 33,981 | 1,874 | (25,440) | 10,415 |
| Adjustment for change in accounting policy (note 2) | - | - | (11) | (11) |
| Balance at 1 July 2019 - restated | 33,981 | 1,874 | (25,451) | 10,404 |
| Loss after income tax benefit for the half-year | - | - | (7,019) | (7,019) |
| Other comprehensive income for the half-year, net of tax | - | - | - | - |
| Total comprehensive income for the half-year | - | - | (7,019) | (7,019) |
| *Transactions with owners in their capacity as owners:* | | | | |
| Contributions of equity, net of transaction costs (note 11) | 5,382 | - | - | 5,382 |
| Balance at 31 December 2019 | 39,363 | 1,874 | (32,470) | 8,767 |

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

| | Note | Consolidated 31 Dec 2019 $'000 | 31 Dec 2018 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of GST) | | 15,165 | 9,632 |
| Payments to suppliers and employees (inclusive of GST) | | (16,246) | (10,110) |
| | | (1,081) | (478) |
| Interest received | | 1 | 3 |
| Interest and other finance costs paid | | (1,597) | (739) |
| Net cash used in operating activities | | (2,677) | (1,214) |
| **Cash flows from investing activities** | | | |
| Payment for purchase of business, net of cash acquired | | - | (491) |
| Payments for financial assets | | (1) | (13) |
| Payments for property, plant and equipment | | (266) | (18) |
| Payments for intangibles | | (1,296) | (2,752) |
| Government grants received | | - | 926 |
| Net cash used in investing activities | | (1,563) | (2,348) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares (net of transaction costs) | 11 | 5,382 | 2,374 |
| Proceeds from borrowings | | - | 10,679 |
| Repayment of borrowings | | (1,137) | (10,419) |
| Repayment of lease liabilities | | (107) | - |
| Net cash from financing activities | | 4,138 | 2,634 |
| Net decrease in cash and cash equivalents | | (102) | (928) |
| Cash and cash equivalents at the beginning of the financial half-year | | 2,146 | 1,139 |
| Cash and cash equivalents at the end of the financial half-year | | 2,044 | 211 |

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

## Note 1. General information

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

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

Level 1, 672 Murray Street
West Perth WA 6005

A description of the nature of the Group's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 28 February 2020.

## Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2019 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

### New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

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

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

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

*AASB 16 Leases*

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

*Impact of adoption*

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

## Note 2. Significant accounting policies (continued)

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

*Practical expedients applied*
In adopting AASB 16, the Group has used the following practical expedients permitted by the standard:
- applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
- accounted for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases;
- excluded initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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

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

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

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

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

### Going concern
For the 6 months ended 31 December 2019, the Group recorded a loss after tax of $7,019,000 (2018: $1,580,000) and had net cash outflows from operating activities of $2,677,000 (2018: $1,214,000). As at 31 December 2019, the Group had a deficiency in working capital of $8,532,000 (2018: $7,990,000).

## Note 2. Significant accounting policies (continued)

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

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

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

The financial statements have been prepared on the basis that the Group is a going concern, which contemplates the continuity of normal business activity, realisation of assets and settlement of liabilities in the normal course of business for the following reasons:
- The Directors of Threat Protect Limited have assessed the cash flow requirements for the 12 month period from the date of this report and its impact on the Group and believe there will be sufficient funds to meet the Group's working capital requirements;
- The working capital deficiency contains amounts not currently owing but will be due to be settled within the next 12 months. The Directors are satisfied additional funds will be available when these obligations arise. In addition, repayment plans have been entered into or are in the process of being negotiated with $2.7 million of creditors which include amounts owed to the ATO;
- The Group has a number of financing arrangements in place including a $36.0 million facility with Soliton drawn at balance date. This facility contains a number of compliance covenants which the Group is required to meet. As at the date of this report, the Group has complied with these covenants and the Directors expect to maintain the ongoing support of its financiers;
- The Directors expect the business to trade profitably and generate positive operating cash flow;
- The Group has historically demonstrated its ability to raise funds to satisfy its immediate cash requirements, including the completion of a $5 million share placement prior to 31 December 2019. Management have considered the future capital requirements of the Group and will consider all funding options as required; and
- The Directors have reason to believe that in addition to the cash flow currently available and expected equity fundraising, additional funds from receipts through vendor warranties of the Onwatch acquisition and research and development incentive grants will be available.

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

## Note 3. Operating segments

*Identification of reportable operating segments*
The Group operates predominantly in the security services industry, providing security alarm monitoring and installations as well as security guarding services across Australia.

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

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

*Intersegment transactions*
An internally determined transfer price is set for all inter-segment sales. This price is based on what would be realised in the event that the sale or services was made to an external party at arm's length. All such transactions are eliminated on consolidation of the Group's financial statements. Corporate charges are recognised in "All other segments" which contains the treasury and oversight functions of the Group.

## Note 3. Operating segments (continued)

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

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

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

*Operating segment information*

| Consolidated - 31 Dec 2019 | Monitoring $'000 | Protective services $'000 | Services $'000 | Total $'000 |
|---|---|---|---|---|
| **Revenue** | | | | |
| Sales to external customers | 11,550 | 2,290 | 324 | 14,164 |
| **Total revenue** | 11,550 | 2,290 | 324 | 14,164 |
| | | | | |
| **Segment result** | 1,391 | 162 | (246) | 1,307 |
| Other income including interest received | | | | 159 |
| Administration expenses | | | | (2,049) |
| Business acquisition and integration costs | | | | (2,494) |
| Compliance and regulatory costs | | | | (445) |
| Legal and consulting fees | | | | (46) |
| Marketing and business development | | | | (426) |
| Occupancy costs | | | | (120) |
| Recovery of receivables | | | | 150 |
| Finance costs | | | | (3,988) |
| **Loss before income tax benefit** | | | | (7,952) |
| Income tax benefit | | | | 933 |
| **Loss after income tax benefit** | | | | (7,019) |
| | | | | |
| **Assets** | | | | |
| Segment assets | 65,923 | 771 | 44 | 66,738 |
| *Unallocated assets:* | | | | |
| Various | | | | 4,617 |
| **Total assets** | | | | 71,355 |
| | | | | |
| **Liabilities** | | | | |
| Segment liabilities | 4,768 | 290 | - | 5,058 |
| *Unallocated liabilities:* | | | | |
| Various | | | | 57,530 |
| **Total liabilities** | | | | 62,588 |

## Note 3. Operating segments (continued)

| Consolidated - 31 Dec 2018 | Monitoring $'000 | Protective services $'000 | Services $'000 | Total $'000 |
|---|---|---|---|---|
| **Revenue** | | | | |
| Sales to external customers | 6,286 | 2,297 | 702 | 9,285 |
| **Total revenue** | 6,286 | 2,297 | 702 | 9,285 |
| | | | | |
| **Segment result** | 1,414 | 65 | (4) | 1,475 |
| Other income including interest received | | | | 435 |
| Administration expenses | | | | (1,109) |
| Business acquisition and integration costs | | | | (736) |
| Compliance and regulatory costs | | | | (325) |
| Legal and consulting fees | | | | (36) |
| Marketing and business development | | | | (355) |
| Occupancy costs | | | | (99) |
| Impairment of receivables | | | | (49) |
| Share of profits of associates accounted for using the equity method | | | | 41 |
| Finance costs | | | | (822) |
| **Loss before income tax expense** | | | | (1,580) |
| Income tax expense | | | | - |
| **Loss after income tax expense** | | | | (1,580) |

| Consolidated - 30 Jun 2019 | Monitoring $'000 | Protective services $'000 | Services $'000 | Total $'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Segment assets | 67,876 | 492 | 24 | 68,392 |
| *Unallocated assets:* | | | | |
| Various | | | | 3,767 |
| **Total assets** | | | | 72,159 |
| | | | | |
| **Liabilities** | | | | |
| Segment liabilities | 4,614 | 60 | - | 4,674 |
| *Unallocated liabilities:* | | | | |
| Various | | | | 57,070 |
| **Total liabilities** | | | | 61,744 |

## Note 4. Revenue

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

| | Consolidated | |
|---|---|---|
| | 31 Dec 2019 $'000 | 31 Dec 2018 $'000 |
| *Major product lines* | | |
| Ongoing services | 13,049 | 7,933 |
| One-off services | 917 | 962 |
| Equipment sales | 198 | 390 |
| | 14,164 | 9,285 |
| *Geographical regions* | | |
| Australia | 14,164 | 9,285 |
| *Timing of revenue recognition* | | |
| Goods and services transferred at a point in time | 1,115 | 1,352 |
| Services transferred over time | 13,049 | 7,933 |
| | 14,164 | 9,285 |

## Note 5. Other income

| | Consolidated | |
|---|---|---|
| | 31 Dec 2019 $'000 | 31 Dec 2018 $'000 |
| Net fair value gain on financial instruments | - | 33 |
| Net gain on settlement of contingent consideration | 56 | 336 |
| Recovery of bad debts | - | 48 |
| Other income | 102 | 15 |
| Other income | 158 | 432 |

## Note 6. Expenses

| | Consolidated | |
|---|---|---|
| | 31 Dec 2019<br>$'000 | 31 Dec 2018<br>$'000 |
| Loss before income tax includes the following specific expenses: | | |
| *Depreciation* | | |
| Plant and equipment | 46 | 44 |
| Motor vehicles | 10 | 10 |
| Monitoring infrastructure | 100 | 80 |
| Buildings right-of-use assets | 96 | - |
| Total depreciation | 252 | 134 |
| *Amortisation* | | |
| Development assets | 715 | 24 |
| Intellectual property | 1 | 1 |
| Customer contracts | 3,659 | 1,261 |
| Total amortisation | 4,375 | 1,286 |
| Total depreciation and amortisation | 4,627 | 1,420 |
| *Finance costs* | | |
| Interest and finance charges paid/payable on borrowings | 3,963 | 822 |
| Interest and finance charges paid/payable on lease liabilities | 25 | - |
| Finance costs expensed | 3,988 | 822 |
| *Leases* | | |
| Minimum lease payments | - | 215 |
| Short-term lease payments | 128 | - |
| | 128 | 215 |

## Note 7. Right-of-use assets

| | Consolidated | |
|---|---|---|
| | 31 Dec 2019<br>$'000 | 30 Jun 2019<br>$'000 |
| *Non-current assets* | | |
| Buildings - right-of-use | 850 | - |
| Less: Accumulated depreciation | (566) | - |
| | 284 | - |

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

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

## Note 8. Intangibles

| | Consolidated 31 Dec 2019 $'000 | Consolidated 30 Jun 2019 $'000 |
|---|---|---|
| *Non-current assets* | | |
| Goodwill - at cost | 30,706 | 30,706 |
| Less: Accumulated impairment | (5,878) | (5,878) |
| | 24,828 | 24,828 |
| Development assets - at cost | 5,408 | 5,307 |
| Less: Accumulated amortisation | (1,134) | (419) |
| | 4,274 | 4,888 |
| Intellectual property - at cost | 23 | 23 |
| Less: Accumulated amortisation | (6) | (5) |
| | 17 | 18 |
| Customer contracts - at cost | 46,039 | 43,608 |
| Less: Accumulated amortisation | (10,462) | (6,805) |
| Less: Accumulated impairment | (828) | (828) |
| | 34,749 | 35,975 |
| | 63,868 | 65,709 |

*Reconciliations*

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

| Consolidated | Goodwill $'000 | Development assets $'000 | Intellectual property $'000 | Customer contracts $'000 | Total $'000 |
|---|---|---|---|---|---|
| Balance at 1 July 2019 | 24,828 | 4,888 | 18 | 35,975 | 65,709 |
| Additions | - | 101 | - | 2,433 | 2,534 |
| Amortisation expense | - | (715) | (1) | (3,659) | (4,375) |
| Balance at 31 December 2019 | 24,828 | 4,274 | 17 | 34,749 | 63,868 |

## Note 9. Trade and other payables

| | Consolidated 31 Dec 2019 $'000 | Consolidated 30 Jun 2019 $'000 |
|---|---|---|
| *Current liabilities* | | |
| Trade payables | 2,136 | 2,638 |
| Contingent consideration | 2,740 | 1,700 |
| Accrued expenses | 1,021 | 1,932 |
| Interest payable | 157 | 161 |
| Payable to ATO | 2,646 | 2,609 |
| Other payables | 1,758 | 858 |
| | 10,458 | 9,898 |

## Note 10. Borrowings

| | Consolidated | |
|---|---|---|
| | 31 Dec 2019 $'000 | 30 Jun 2019 $'000 |
| *Current liabilities* | | |
| Other short-term borrowings | 66 | 166 |
| Borrowings - Soliton Capital Partners Pty Ltd | 2,000 | 1,000 |
| | 2,066 | 1,166 |
| *Non-current liabilities* | | |
| Unsecured note - First Samuel Limited | 8,491 | 8,173 |
| Borrowings - Soliton Capital Partners Pty Ltd | 34,933 | 35,233 |
| Capitalised borrowing costs | (1,828) | (2,168) |
| | 41,596 | 41,238 |

*Assets pledged as security*
Borrowings to Soliton Capital Partners Pty Ltd are secured over the general property of the Group.

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

## Note 11. Issued capital

| | Consolidated | | | |
|---|---|---|---|---|
| | 31 Dec 2019 Shares | 30 Jun 2019 Shares | 31 Dec 2019 $'000 | 30 Jun 2019 $'000 |
| Ordinary shares - fully paid | 240,956,278 | 205,643,778 | 39,363 | 33,981 |

*Movements in ordinary share capital*

| Details | Date | Shares | Issue price | $'000 |
|---|---|---|---|---|
| Balance | 1 July 2019 | 205,643,778 | | 33,981 |
| Shares issued | 3 October 2019 | 4,062,500 | $0.16 | 650 |
| Shares issued | 10 December 2019 | 31,250,000 | $0.16 | 5,000 |
| Transaction costs | | - | $0.00 | (268) |
| Balance | 31 December 2019 | 240,956,278 | | 39,363 |

*Ordinary shares*
Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

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

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

## Note 12. Fair value measurement

*Fair value hierarchy*

The following tables detail the Group's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

| Consolidated - 31 Dec 2019 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| *Assets* | | | | |
| Financial assets at fair value through profit or loss | - | - | 192 | 192 |
| Total assets | - | - | 192 | 192 |
| *Liabilities* | | | | |
| Contingent consideration | - | - | 2,740 | 2,740 |
| Total liabilities | - | - | 2,740 | 2,740 |

| Consolidated - 30 Jun 2019 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| *Assets* | | | | |
| Financial assets at fair value through profit or loss | - | - | 155 | 155 |
| Total assets | - | - | 155 | 155 |
| *Liabilities* | | | | |
| Contingent consideration | - | - | 1,700 | 1,700 |
| Total liabilities | - | - | 1,700 | 1,700 |

There were no transfers between levels during the financial half-year.

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

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

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

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

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

## Note 12. Fair value measurement (continued)

*Level 3 assets and liabilities*

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

| Consolidated | Financial assets at fair value through profit or loss $'000 | Contingent consideration $'000 |
|---|---|---|
| Balance at 1 July 2019 | 155 | 1,700 |
| Additions | 37 | - |
| Additions * | - | 1,365 |
| Payments | - | (269) |
| Net gain on settlement of contingent consideration (note 5) | - | (56) |
| Balance at 31 December 2019 | 192 | 2,740 |

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

## Note 13. Contingent liabilities

The Group had no contingent liabilities as at 31 December 2019 and 30 June 2019.

## Note 14. Earnings per share

| | Consolidated 31 Dec 2019 $'000 | Consolidated 31 Dec 2018 $'000 |
|---|---|---|
| Loss after income tax attributable to the owners of Threat Protect Australia Limited | (7,019) | (1,580) |
| | **Number** | **Number** |
| Weighted average number of ordinary shares used in calculating basic earnings per share | 211,367,283 | 119,828,349 |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | 211,367,283 | 119,828,349 |
| | **Cents** | **Cents** |
| Basic earnings per share | (3.32) | (1.32) |
| Diluted earnings per share | (3.32) | (1.32) |

13,571,422 options over ordinary shares are not included in the calculation of diluted earnings per share because they are anti-dilutive. These options could potentially dilute basic earnings per share in the future.

## Note 15. Events after the reporting period

On 20 January 2020, the Group appointed Mr Dennison Hambling and Mr Peter Kennan as Non-Executive Directors of the company.

No other matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the financial half-year ended on that date; and

- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors

Demetrios Pynes
Managing Director

28 February 2020

Tel: +61 8 6382 4600
Fax: +61 8 6382 4601
www.bdo.com.au

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

# INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Threat Protect Australia Limited

## Report on the Half-Year Financial Report

### Conclusion

We have reviewed the half-year financial report of Threat Protect Australia Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the Corporations Act 2001 including:

(i) Giving a true and fair view of the Group's financial position as at 31 December 2019 and of its financial performance for the half-year ended on that date; and

(ii) Complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

### Emphasis of matter – Material uncertainty relating to going concern

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

### Directors' responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the Group's financial position as at 31 December 2019 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO Audit (WA) Pty Ltd

BDO

Dean Just

Director

Perth, 28 February 2020