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**FAMILY ZONE CYBER SAFETY LIMITED**  
**ACN 167 509 177**

**APPENDIX 4E**  
**GIVEN TO THE ASX UNDER LISTING RULE 4.3A**

**Reporting Period**

|   |              |
|---|--------------|
| Financial year end                      | 30 June 2017 |
| Previous corresponding reporting period | 30 June 2016 |

**Results for Announcement to Market**

|  | <b>30 June<br/>2017<br/>\$</b> | <b>30 June<br/>2016<br/>\$</b> | <b>% increase/<br/>(decrease) over<br/>corresponding<br/>period</b> |
|--|--------------------------------|--------------------------------|---|
| Revenue from ordinary activities                         | 1,589,202                      | 5,532                          | 28,627%   |
| Profit/(Loss) after tax attributable to members          | (8,834,735)                    | (2,815,607)                    | 213%  |
| Net profit/(loss) for the period attributable to members | (8,834,735)                    | (2,815,607)                    | 213%  |

**Dividends**

No dividends have been declared or paid during the year ended 30 June 2017. The Directors do not recommend the payments of a dividend in respect of the year ended 30 June 2017.

The Company does not have any dividend reinvestment plan in operation.

**Explanation of Results**

Family Zone Cyber Safety Limited (Company) and its wholly owned subsidiaries (the Group) completed an initial public offering of its shares on ASX in August 2016 raising \$6.0 million to fund its commercialisation and business development strategy. The operations of the Group have since been focused on the sales and marketing of its suite of cyber safety products as well as the provision of customer support services.

Throughout the year the Group has developed, trialed and refined a marketing strategy for the commercialisation of its products and services, which focusses on three key market sectors being consumer, education and telecommunication carriers. In each of these sectors a number of distribution channel opportunities have been targeted resulting in the Group reporting revenues from operations of approximately \$1.59 million in the year ended 30 June 2017.

Given its ongoing investment in R&D activities and the globalisation of its business, the Company also received government grant revenues of approximately \$0.69 million during the year resulting in total income of approximately \$2.29 million.

In December 2016, the Company successfully completed the acquisition of one of Australia's leading cyber security and education platforms, Sonar/MyNet, from Tesseract Limited ('Tesseract') and engaged Tesseract as its global reseller and distribution partner.

With the commencement of commercial operations, the Group invested in the establishment of a strong sales, marketing and support team to support the commercialisation of the business as well as its on-going development and customer support requirements. Employee and contractor wages were the Company key expenditure item for the financial year being approximately \$3.88 million.

To ensure employee interests were closely aligned with the achievement of the Group's operational and financial targets, employees were issued options as an equity based incentive component of their remuneration. This non-cash share based payment expense for the financial period was approximately \$1.50 million. Another significant non-cash expenditure items was the amortisation charge for the financial year of \$1.08 million. Other key expenditure items included marketing, R&D expenditure and administration.

The Group reported a net loss attributable to members for the period of \$8.83 million.

#### **Net Tangible Assets per Security**

| <b>Net Tangible Liabilities per share</b>  | <b>30 June 2017</b> | <b>30 June 2016</b> |
|--|---------------------|---------------------|
| Net tangible liabilities (cents per share) | (1.19)              | (2.55)              |

#### **Controlled entities**

The following entities were incorporated as wholly owned subsidiaries of the Company during the year. These controlled entities did not make any material contribution to the Company's profit from ordinary activities during the period.

| <b>Controlled entities</b>         | <b>Country of Incorporation</b> | <b>Date of incorporation</b> |
|------------------------------------|---------------------------------|------------------------------|
| Family Zone Inc.                   | USA                             | 9 September 2016             |
| Family Zone Cyber Safety Pte. Ltd. | Singapore                       | 2 June 2017                  |

#### **Earnings/(loss) per Share**

| <b>Loss per share</b>                              | <b>30 June 2017</b> | <b>30 June 2016</b> |
|--|---------------------|---------------------|
| Basis and diluted loss per share (cents per share) | (14.70)             | (11.71)             |

#### **Audit**

This Appendix 4E is based on the audited financial statements for the year ended 30 June 2017

**Matters subsequent to the end of the financial year**

On 2 August 2017 the Group announced it had raised \$5.2 million through the issue of 13,000,000 shares at \$0.40 per Share to sophisticated and professional investors. The funds raised are to be used to support investment in service delivery and acceleration of business development activities particularly in education and global partnerships and to strengthen the Company's balance sheet.

Please refer to the Company's audited Annual Financial Report for the year ended 30 June 2017 for further matters subsequent to year end.

**Attachments**

The Company's audited Annual Financial Report for the year ended 30 June 2017 ('Annual Report') is attached.

Additional Appendix 4E disclosure requirements can be found in the Annual Report which contains a Review of Operations, the Directors Report and the 30 June 2017 Financial Statements and accompanying notes.



**Family Zone Cyber Safety Limited**

ACN 167 509 177

**ANNUAL REPORT**

for the year ended 30 June 2017



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## CORPORATE INFORMATION

### Directors

|              |                            |
|--------------|----------------------------|
| Tim Levy     | Managing Director          |
| John Sims    | Non-executive Chairman     |
| Crispin Swan | Executive Director - Sales |
| Phil Warren  | Non-executive Director     |

### Company secretary

Emma Wates

### Registered and principal administrative office:

945 Wellington Street  
WEST PERTH WA 6005  
Telephone: +61 8 9322 7600

### Principal place of business

Level 15, 207 Murray Street  
WEST PERTH WA 6000  
Telephone: 1300 398 326

### Share register

Automic Registry Services  
Suite 310, 50 Holt Street  
SURRY HILLS, NSW 2010  
Telephone: +61 8 9324 2099

### Solicitors

GTP Legal  
68 Aberdeen Street  
NORTHBIDGE WA 6003  
Telephone: +61 8 6555 1866

### Bankers:

Westpac Banking Corporation  
Level 14, 109 St Georges Terrace  
Perth WA 6000

### Auditors:

Pitcher Partners BA&A Pty Ltd  
Level 1, 914 Hay Street  
PERTH WA 6000  
Telephone: +61 8 9322 2022

### Securities Exchange Listing

Family Zone Cyber Safety Limited is listed on the Australian Securities Exchange (ASX Code: FZO)



## CHAIRMAN'S MESSAGE

Dear Fellow Shareholders,

It gives me great pleasure to present the 2017 Annual Report for Family Zone Cyber Safety Limited ('Company') and its wholly owned subsidiaries ('Family Zone' or 'Group'), reflecting on a year that has been transformative and in which our Company has achieved several key milestones.

Family Zone has delivered strong growth since the Company commenced trading on the Australian Securities Exchange ('ASX') in August 2016, following the completion of a \$6.04 million Initial Public Offer.

Today, Family Zone is at the forefront of solving the cyber safety challenges for parents and schools in an increasingly connected world. Our Group's cloud-based ecosystem provides a unique set of cyber safety controls that spread across homes, schools and enterprise networks, regardless of the network or device that may be used.

This holistic approach to solving cyber safety challenges for families sets Family Zone apart. Industry research reveals that there is a compelling need for what we have to offer:

- Teens spend an average of 4 hours per day online, resulting in 75% of teens being sleep deprived;
- 90% of teen boys and 60% of teen girls have watched online porn;
- 70% of teens face cyber bullying;
- 72,000 Australian teen boys have a problem with gambling; and
- 45% of pre-teens are using unsafe apps.

Today, cyber safety is a US\$2 billion market growing 10% year on year. According to Parks Research, the addressable size of this market could expand to US\$100 billion for companies that can provide simple-to-apply protection that covers every connected device in the home.

It is in this context – of a large, growing but relatively poorly-served market – that Family Zone has grasped the opportunity to take its technology to the world.

Since our listing on the ASX, we have made great strides in strengthening our Group, through growth, innovation and acquisition. Our acquisition of valuable technology and intellectual property, which we have integrated into our platform to create School Zone, has allowed us to significantly broaden our offering to encompass schools and to connect with families that are more likely to acquire our Family Zone services. The use of mobile devices among teens has exploded over the past few years and the duty of care that schools have for their students is threatened as a result; our School Zone offering gives schools the tools they need to meet their responsibility to the families they serve.

By year end, we had more than 300 School Zone installations being used in schools across Australia and the US and signed agreements with 20 Australian schools to mandate Family Zone to their communities under the Company's "School Community" model. We expect the education sector to be a strong driver for growth in 2018.

Other highlights of the year included:

- Registered more than 11,000 Family Zone accounts in Australia with 30,000+ users;
- Successfully completed a trial phase with Telkomsel Indonesia;
- Launched a co-branded service with major Philippines carrier PLDT;
- Launched a successful promotion with Australian telco OVO Mobile;
- Signed high profile charity and school cyber safety services supplier, Alannah & Madeline Foundation, as a cyber expert partner;
- Signed two major Australian IT vendors in education (Learning with Technology and EduNet) to distribute Family Zone technology commencing in the fourth calendar quarter 2017;
- Signed a reseller agreement with regional Australian telecom provider, Southern Phone; and



Family Zone Cyber Safety Limited  
Annual Report 30 June 2017

- Completed trials with US company IgniteNet, to provide Family Zone filtering in its suite of consumer and business access point products (and launched this product post year-end).

We finished the year in a strong position, with operating revenue of \$1.59 million and total income of \$2.29 million. As we progressed through the year, Family Zone saw growth in these metrics quarter-over-quarter, providing positive momentum for 2018.

Post year-end, the Company completed a \$5.20 million share placement to support our investment in the scaling of our service delivery and business development activities, and further strengthen our balance sheet. We are grateful to our Shareholders for their continued support in these fundraising activities, which will enable us to execute on our plans and realize the opportunity for greater shareholder returns.

I take this opportunity to thank my fellow Board Members and particularly the management and staff of Family Zone who have worked tirelessly to realize their vision and grow our shareholder value.

We expect the year ahead to be another productive one, and our entire team is excited and energized for 2018. Our market opportunity is large, and we believe that with our unique ecosystem approach to cyber safety, we will continue to forge new horizons in Australia and beyond.

I look forward to sharing our continued success with you.

A handwritten signature in blue ink, appearing to read "John Sims".

John Sims  
Chairman

## REVIEW OF OPERATIONS

Family Zone is a technology company focused on cyber safety. Meeting a growing demand to keep young people safe online and manage digital lifestyles, Family Zone has developed a unique and innovative cloud-based solutions which combines Australian innovation with leading global technology.

### Operational achievements for the 2017 financial year

The Company commenced commercial operations in July 2016 which transformed the business from an engineering and R&D focus to customer support, sales and marketing. The Company also completed an initial public offering of its shares on the ASX in August 2016 raising \$6.04 million to fund its commercialisation and business development strategy.

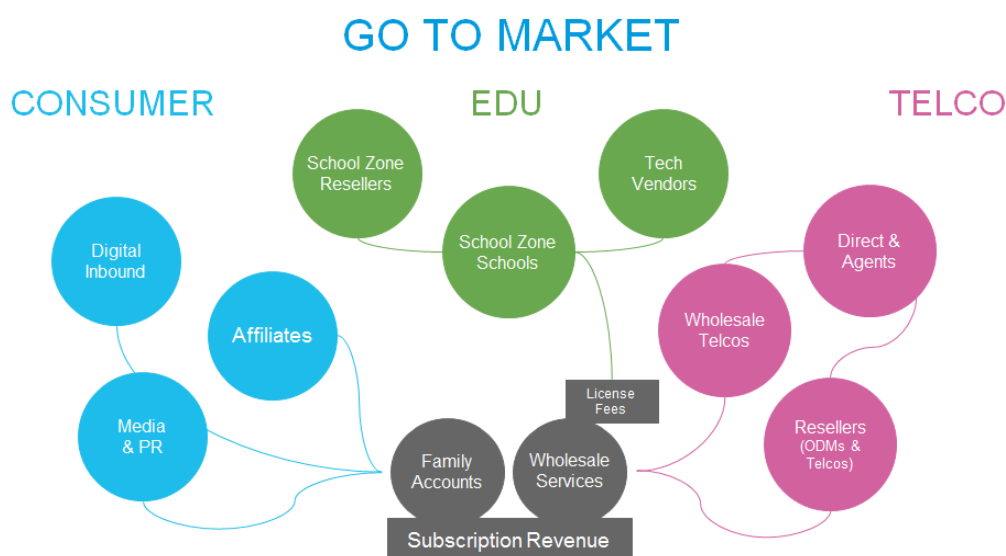
During its first year of commercial operations, Family Zone achieved:

- More than 300 School Zone installations, including 133 school in the USA;
- Signed 20 partner schools mandating Family Zone under the “School Community” model;
- 22 cyber expert partnerships signed, including 5 in the USA and 2 in the Philippines;
- More than 11,000 registered zones in operation;
- Partnerships with two Tier 1 telecommunication carriers in SE Asia;
- Partnership signed with Australian Telco Southern Phone;
- \$1.59 million customer revenues generated; and
- \$2.29 million total revenues.

### The Family Zone ecosystem approach to cyber safety

The Family Zone cyber safety ecosystem is a suite of integrated products and services that provide an unrivalled cyber safety experience. It offers cyber safety services and controls that can be seamlessly implemented across schools, homes, smart devices, mobile networks and hotspots, regardless of the network or device that may be used.

The Group’s holistic approach to cyber safety, broad range of product and services and the increasing global focus on cyber safety has resulted in a significant market opportunity for the Group. Throughout the 2017 financial year Family Zone has developed, trialled and refined a marketing strategy for the commercialisation of its products and services, which focuses on three key market sectors, each with a number of distribution channel opportunities that have been targeted during the 2017 financial year.



## CONSUMER

### Marketing and Brand Awareness

The Group formally launched its consumer product offerings in Australia in July 2016, comprising:

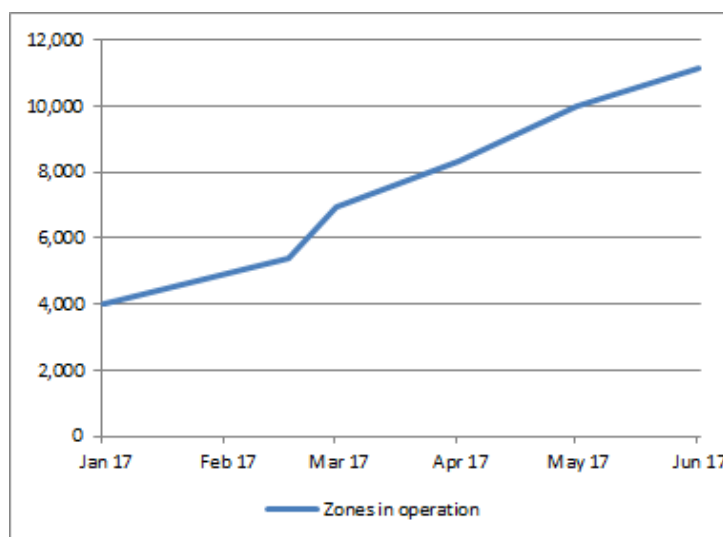
- Family Zone Box and networking service providing a safe Wi-Fi network within the home, business or other network area;
- Family Zone App (iOS and Android) which provides parents with remote device management and enforces filtering when mobile devices are not connected to the Family Zone Box;
- A community of Cyber Experts creating age-appropriate policies and setting their own pricing.

The Company commenced a national marketing and public relations campaign to increase Family Zone's social media presence and build brand momentum in September 2016. Family Zone was featured in a range of national TV and press news stories, participated in a number of cyber safety events and forums as well as technology conferences throughout the year in order to build brand awareness.

It also trialled a number of branding, communication and pricing strategies, with the following key findings:

- Cyber safety is an attractive marketing theme, offering better than expected click through rates;
- Family Zone is capable of generating publicity through major media channels;
- Cyber Experts are and continue to be a key component of media access; and
- Schools and school communities are a strong “influencer” in respect to parental control technology choices.

The Group's consumer sales and marketing efforts have resulted in a steady increase in consumer sign ups during the year with over 11,000 registered zones in operations at 30 June 2017.



### Cyber Experts Partners

A unique feature of the Family Zone business model is its Cyber Expert Partner (**CEP**) programme.

Cyber Experts is a term the Group has coined for professionals working in the emerging industry of cyber safety. These professionals are often in schools talking to kids, teachers and parents about the challenges of the digital age. Family Zone offers the only cyber safety platform that allows these experts to create packages of cyber safety settings and develop business models to offer these packages and communicate with their customers.

The CEP provides a key public relations and sales distribution opportunity for the Family Zone products. CEPs allow parents to outsource the complexity of parental controls and to access ongoing advice and support from experts in their kids' digital world.

Family Zone currently has 14 Australia-based Cyber Experts in the platform, a number of whom are now generating material incomes from their Family Zone partnership.



In the US the Company is currently working with 5 CEPs and recently signed an Indonesian Cyber Expert Bijak Online and two Filipino experts, to support the growth of the Company's operations in SE Asia.

The Company will continue to expand its roster of Cyber Experts through partnerships with additional cyber safety and religiously focused organisations.

### Alannah & Madeline Foundation



In April 2017, Family Zone announced a partnership with Australian charity The Alannah & Madeline Foundation. The partnership provides parents and schools with the opportunity to subscribe to the Foundation's cyber safety settings within Family Zone, leveraging Alannah & Madeline's expertise in cyber safety training and advice to the community.

The Foundation will offer age-appropriate custom cyber safety packages to parents and schools through the Family Zone platform and will promote these packages through its network.

The Alannah & Madeline Foundation is Australia's leader in cyber safety education, offering services to 2,200 schools and more than 60 per cent of public libraries across Australia.

## EDUCATION

### School Zone

In December 2016, the Company successfully completed the acquisition of one of Australia's leading cyber security and education platforms, Sonar/MyNet, from Tesseract Limited ('Tesseract') and engaged Tesseract as its global reseller and distribution partner.

The Group's market research had highlighted the importance and influence of schools over the technology used by parents in the home. This acquisition fast-tracked Family Zone's sales strategy into school communities, by identifying families that are prime candidates for its service.

The acquisition rounded out the Group's product offerings and suite of technologies. When integrated into the Family Zone ecosystem, the Sonar/MyNet platform became known as School Zone and is designed to solve two of the biggest technology problems facing schools:

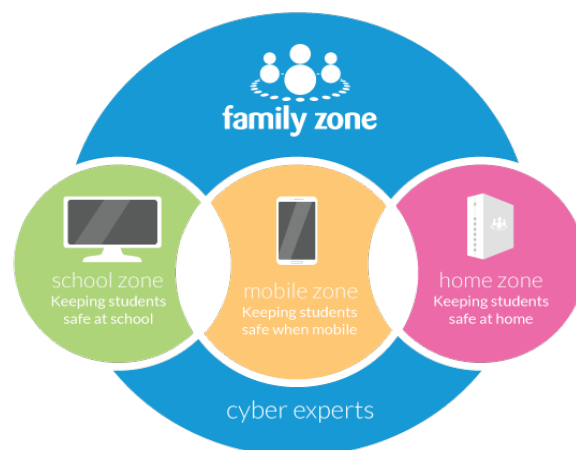
- Managing the extension of a school's duty of care to students' mobile devices; and
- Engaging parents and students in cyber safety.

Following completion of the acquisition, Family Zone focused its consumer sales efforts on leveraging its installed base of schools using its School Zone service. New product branding was developed to explain Family Zone's ecosystem offerings to schools in the context of:

- **School Zone** being the on-campus services;
- **Home Zone** being home networking solutions; and
- **Mobile Zone** being on-device technologies.

Family Zone's work with schools following completion of the acquisition reaffirmed the transaction rationale, particularly the Mobile Zone solution and the ability for schools to extend their 'duty-of-care' to all devices that come to school, whether they are connected to school or cellular mobile networks.

The educational sales team started engaging with existing and new potential school partners, developing innovative commercial models with encouraging take-up by parents in the community.



To support schools' uptake of this technology, in April 2017 the Company launched a disruptive commercial model whereby schools gain subsidised access to School Zone when they mandate Family Zone to the parent community. This model, known as the "School Community", has received a very strong response from the Australian market. Since its introduction, 20 Australian schools have agreed to mandate Family Zone to their community for the 2018 school year, with promotion starting in 2017. These 20 schools represent close to 15,000 Australian families.

Revenue from Family Zone's partner offer will range between \$60 and \$90 per annum upfront per family. The Company also intends to market Family Zone's add-on services, including subscriptions for cyber experts, extended family support and the Family Zone Box (safe Wi-Fi access point) to these families.

The Group had more than 300 schools using School Zone across Australia and US at the end of the financial year.

## US Market

The acquisition of Sonar/MyNet in December 2016, which had 47 existing clients in West Virginia, USA, accelerated the Group's planned entry into the US education market and also provided an initial distribution focus for Family Zone's consumer products.

Certification of the Family Zone box and services for US market were completed in December 2016 and are currently available for sale direct to US customers.

Given the scale of the US market, Family Zone has remained focused on developing partnership strategies and has pursued discussions and trials with several telcos, ISPs and system integrators in the USA. Family Zone has engaged a local distributor to directly promote the Company's offerings to US schools.

By the end of the financial year the Company had 133 schools using its School Zone service. The Company proposes to launch its "School Community" commercial model in the USA in early 2018.

## Educational Technology Vendors

Family Zone formed partnerships with leading educational IT vendors EduNet in May 2017 and Learning with Technologies in early July 2017. Through these partnerships, Family Zone software will be promoted and distributed to schools and parents under the schools' 'bring your own device' (BYOD) programs. The Family Zone software will be either selected by the parent or mandated by the school to be preinstalled on devices sold to parents by these IT vendors.



These partnerships represent a significant opportunity for Family Zone to boost penetration into the education sector, with these two IT vendors selling 70,000 devices into the education sector each year.

## TELECOMMUNICATIONS CARRIERS

### Wholesale Telco Partnerships - Global

#### *PLDT - Philippines*



Philippines Long Distance Telecommunications (**PLDT**) launched its co-branded Family Zone service known as "Fam Zone" as part of its "The Future of Filipino Home" in November 2016, providing Filipino parents a simple and universal approach to cyber safety. It also placed an initial order of Family Zone Boxes to distribute to its customers.

PLDT (PSE: TEL) is the leading telecommunications, digital and multimedia service provider in the Philippines with approximately 70 million subscribers. Through its principal business groups - fixed line, wireless and others - PLDT offers a wide range of digital and telecommunications services across the Philippines.

To support the launch of Family Zone in the Philippines and to provide PLDT and its customers with the best possible local support, Family Zone has established a Manila-based support centre via outsourcing partner Acquire BPO.

#### *Telkomsel - Indonesia*

In February 2016 the Company signed an memorandum of understanding with Telkomsel Indonesia to trial Family Zone services within its networks. Telkomsel is one of the premier telcos in Asia and one of the largest mobile operators in the world. It is 35% owned by SingTel.



Following rigorous trials, Family Zone executed a full Commercial Value-Added Services Agreement with Telkomsel in July 2017 which will see Family Zone enabling on-device and in-network technologies to launch its innovative parental control suite to Telkomsel subscribers.

The initial phase targeting all smartphone users will deliver the Company's new native Parent App (Zone Manager), which offers a simplified end-to-end user experience for Indonesian parents, along with the Child App (Mobile Zone). Family Zone will roll these services out to Telkomsel's postpaid and prepaid user base.

Phase two will see Family Zone deploy in-line filtering within the Telkomsel network via an APN (Access Point Network). Importantly as this service is in-line, Family Zone will also be deployable on legacy feature phones or portable SIM-enabled Wi-Fi devices, which opens a sizable new market. In combination with the Family Zone App, this solution offers parents the most comprehensive cyber safety offering available on the market. Clever kids attempting to hack on-device controls, or remove the SIM and insert it into another device, will remain protected.

## Retail Telco Partnerships - Australia

### *OVO Mobile*

In the November 2016 Family Zone launched its first retail partnership with Australian-based telco provider, OVO Mobile, targeting an estimated 4 million minors with mobile phone services in Australia. In addition to generating revenue, Family Zone wanted to demonstrate that “kids’ mobiles” was a legitimate segment and targeting parents desire for “peace of mind” would result in market penetration.



The promotion and partnership with OVO Mobile showed early success and remains a strong source of new customer activations.

### *Southern Phone*

In June 2017, Family Zone entered a partnership with Southern Phone, one of the largest providers of mobile, fixed line and Internet connectivity to businesses and consumers throughout regional Australia. Key terms of the partnership included:



- Southern Phone recommending Family Zone’s home and mobile offerings to new and existing customers;
- Southern Phone billing for Family Zone’s services and bundling these services into its telco service plans; and
- Southern Phone incurring wholesale charges for Family Zone services.

The companies intend to launch their first market offering in Q4 CY 2017.

## Resellers - Wireless Equipment Provider

The Group’s innovative cyber safety model includes technology that can be embedded in 3rd party access-points. This presents additional distribution opportunities without the need to sell the Family Zone Box and provides resellers and their customers with various points of differentiation in a commoditised industry.

Family Zone has an agreement with IgniteNet to embed Family Zone technology in its wireless access points. IgniteNet is part of the large Accton group (based in Asia) and offers wireless equipment for sale through some 2,000 ISPs and resellers in USA.



A trial platform was developed with IgniteNet, allowing their customers (ISPs) to provide Family Zone as a new offer within their internet offerings. Family Zone successfully completed an Alpha release and testing process which included integration of the IgniteNet and Family Zone cloud platforms and porting of the

Family Zone embedded filter client to run on multiple IgniteNet wireless access point models.

Family Zone the moved into a Beta release program with IgniteNet in the June 2017 quarter. The Beta trials were successfully completed and Family Zone confirmed in August 2017 that its technology was available to IgniteNet distributors and end-user customers globally.

This commercial partnership allows Family Zone and IgniteNet to target:

- ISPs with large residential customers seeking to protect their kids at home and away;
- Educational institutions needing to comply with local regulations and manage duty of care; and
- Enterprise Wi-Fi and hotspot providers seeking the advanced networking and policy management features.

IgniteNet access point customers constitute about 2,000 ISPs and resellers across the US.

## **SME Market - Work Zone**

As a response to the market opportunity, Family Zone launched a new offering, Work Zone in December 2016.

Work Zone is a cyber security and workforce optimisation offering to address the security, productivity and cultural challenges faced by enterprises in managing the digital access of their employees. It was developed in response to demand from telecommunication providers and small and medium-sized enterprises ('SME') seeking an affordable cyber security platform for their businesses.

Leveraging the Family Zone platform, Work Zone provides business owners affordable options for:

- Firewalling local networks from high risk traffic and accessing malevolent websites (e.g. Infected Hosts, Malformed URLs, Phishing and Viruses);
- Blocking staff from accessing inappropriate content in the office or on work provided mobile devices;
- Regulating access to distracting content during work hours (e.g. block all Social Media except during lunch breaks);
- Restricting access to workforce collaboration services (e.g. email) after hours; and
- Alerting IT/Management to Apps downloaded on work provided mobile devices

Work Zone will be primarily distributed through telecommunications partners and generate revenues from hardware sales and recurring licence fees. Reselling through carriers provides the Company with scale, leverages carriers existing SMEs sales teams and minimises operational impacts on the Company.

Following its launch the Company received an initial order from its Philippines telecommunication partner for 9,500 access points which will be distributed to PLDT's SME customers.

Family Zone has also deployed its first enterprise client, a provider of telecoms and media solutions to community villages in Australia. This partner deployed Family Zone technology to manage community hotspots, finding the Work Zone services affordable and ideal for governing the appropriateness of accessed content and remote management of access point infrastructure.

## **CORPORATE**

### **Sonar/MyNet Acquisition**

Family Zone announced in November 2016 it would acquire the integrated Sonar/MyNet cyber security platform from Tesseract in consideration Family Zone would pay \$3,800,000 in cash and shares to Tesseract made up of:

- \$0.25 million non-refundable cash deposit;
- \$0.75 million in cash on completion
- \$0.30 million in shares (1,000,000 shares at assumed price of 30c), issued on completion;
- \$0.50 million in cash on 28 February 2017; and
- \$2.00 million in cash on 31 May 2017.

The final acquisition payment for the Sonar/MyNet IP and the servicing arrangements for Sonar/MyNet customers were varied in June 2017, after the parties renegotiated the terms of the transaction.

Under the revised terms, Family Zone paid \$1.75 million of the final instalment during the June 2017 quarter comprising \$1.5 million in cash and \$0.25 million in Shares (based on 1,000,000 Shares at \$0.25), with a further \$0.40 million payable in six equal monthly instalments commencing in July 2017.

The parties also agreed to modify the licensing and support arrangements with a view to providing a more responsive service for users of Family Zone technology, with Family Zone assuming technical and commercial

responsibility for all remaining Tesserent Sonar customers. The new arrangements improved cash flow and has allowed Family Zone to better serve the increasingly important education market segment.

### **Capital Raisings**

Family Zone successfully completed a number of number of capital raisings during the year to support and fast track investment in service delivery and acceleration of business development activities particularly in education, global partnerships and to strengthen the Group's balance sheet. The Company received strong support from the investment community for these raisings with a number of institutions and strategically aligned investors participating.

In March 2017, the Company completed an oversubscribed placement to sophisticated, institutional and strategic investors at \$0.20 per share to raise \$3.29 million (before costs). The Company's strategic SE Asian partner Fidelio (backed by former CEO of Virgin Group David Baxby) invested \$0.50 million in the this placement, highlighting its support and commitment to the Company.

A placement of 3,333,334 shares at an issue price of \$0.30 per Share pursuant to the Smyth Placement Agreement was completed in July 2017 with \$622,000 funds received in June 2017 and the balance of \$378,000 received in the first week of July 2017.

In August 2017 the Company completed a \$5.20 million capital raising through the issue of 13,000,000 shares at \$0.40 per Share to sophisticated and professional investors.

### **Government Grant**

The Company received a Research & Development and Export Assistance grant funds of \$0.69 million during the 2017 financial year.



## DIRECTORS' REPORT

Your Directors have pleasure in submitting their report together with the financial statements of Family Zone Cyber Safety Limited ('Company') and its wholly owned subsidiaries (the 'Group' or 'Family Zone') for the financial year ended 30 June 2017. In order to comply with the provisions of the Corporations Act 2001, the Directors' report as follows:

### DIRECTORS

The Directors in office at any time during the financial year and until the date of this report are as follows:

|                 |                                    |
|-----------------|------------------------------------|
| Mr Tim Levy     | Managing Director                  |
| Mr John Sims    | Non-executive Independent Chairman |
| Mr Crispin Swan | Executive Director – Sales         |
| Mr Phil Warren  | Non-executive Independent Director |

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

### PRINCIPAL ACTIVITIES

Family Zone is a technology group focussed on cyber safety. The Group commenced commercial operations in July 2017 following which its principal activities transformed from an engineering and R&D focus to sales, marketing and customer support of its suite of cyber safety products and services.

The Family Zone Platform is a cloud based parental control platform owned and operated by the Group. The Family Zone Platform incorporates networking and application technologies which allow parental controls to be embedded within home, enterprise, public and telecommunications carrier networks and installed on mobile devices.

There have been no other significant changes in the nature of these activities during the financial year.

### RESULTS

The Group reported total income for the year ended 30 June 2017 of \$2,290,721 (\$444,122) with revenue from operations being \$1,589,202 (2016: \$5,532).

The net loss attributable to members of the Group for the year ended 30 June 2017 amounted to \$8,834,735 (2016: loss \$2,815,607).

### REVIEW OF OPERATIONS

The Group completed an initial public offering of its shares on ASX in August 2016 raising \$6.04 million to fund its commercialisation and business development strategy. The operations of the Group have since been focussed on the sales and marketing of its suite of cyber safety products as well as the provision of customer support services.

Throughout the year the Group has developed, trialled and refined a marketing strategy for the commercialisation of its products and services, which focusses on three key market sectors being consumer, education and telecommunication carriers. In each of these sectors a number of distribution channel opportunities have been targeted resulting in the Group reporting revenues from operations of approximately \$1.59 million in the year ended 30 June 2017.



## DIRECTORS' REPORT (CONTINUED)

Given its ongoing investment in R&D activities and the globalisation of its business, the Company also received government grant revenues of approximately \$0.69 million during the year resulting in total revenues of approximately \$2.29 million.

In December 2016, the Company successfully completed the acquisition of one of Australia's leading cyber security and education platforms, Sonar/MyNet, from Tesseract Limited ('Tesseract') and engaged Tesseract as its global reseller and distribution partner (Refer to Note 28 of the Financial Accounts for further details in respect to the terms of this acquisition). This acquisition supported Family Zone's sales strategy into school communities, with families identified as prime candidates for its service. The Sonar/MyNet technologies were integrated into the Family Zone ecosystem and the platform became known as School Zone.

The Sonar/MyNet acquisition also fast tracked the Group's entry into the US education market and provided an initial distribution focus for Family Zone's consumer products.

The Group progressed its partnership with Philippines Tier 1 carrier PLDT, with a co-branded Family Zone service launched in Philippines in November 2016. PLDT also ordered 9,500 Work Zone access points from the Company in December 2016 to distribute to its SME clients. It also formed a partnership with Telkomsel Indonesia one of the largest mobile operators in the world to trial Family Zone services within its networks. Following successful trials this progressed to a commercial agreement in July 2017.

With the commencement of commercial operations, the Group invested in the establishment of a strong sales, marketing and support team during the financial year to support the commercialisation of the business as well as its on-going development and customer support requirements. Employee and contractor wages were the Company's key expenditure item for the financial year being approximately \$3.88 million.

To ensure employee interests were closely aligned with the achievement of the Group's operational and financial targets, employees were issued options as an equity based incentive component of their remuneration. This non-cash share based payment expense for the financial period was approximately \$1.50 million. Another significant non-cash expenditure item was the amortisation charge for the financial year of \$1.08 million.

The Group's other key expenditure items included marketing, R&D expenditure and administration.

The Group's key asset is the intellectual property associated suite of cyber safety offerings. This comprises various trademarks, patents, licenced patents, copyright in the software which is the Family Zone Platform, as well as other unregistered intellectual property constituted by confidential information and know-how. It also comprises registered domain names. Other assets as at 30 June 2017 comprise cash, Family Zone Box inventories and capitalised development costs and IP acquisition costs associated with the Sonar/MyNet acquisition.

## SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There have been no significant changes in the state of affairs of the Group that occurred during the financial year not otherwise disclosed in this report or the financial statements.

## AFTER BALANCE DATE EVENTS

On 6 July 2017, the Group announced it had entered into a distribution agreement with "Leading with Technologies", one of Australia's largest tech vendors into schools. Under the agreement Family Zone will be pre-installed on devices sold to parents as part of the school Bring Your Own Device programme.

On 14 July 2017, the Group announced it had signed a distribution agreement with the ethical telecommunications company "The Peoples Operator" which has operations in both the US and UK.



## **DIRECTORS' REPORT (CONTINUED)**

On 17 July 2017, the Group announced it had executed a commercial value added services agreement with Telkomesel, Indonesia's biggest telecommunications company, to commercially launch Family Zone products to its subscribers.

On 19 July 2017, the announced it had entered into a partnership with New Zealand's Linewize whereby both companies will interface their platforms. Linewize is the leading provider of online content filtering systems to New Zealand's schools providing Family Zone with access to approximately 130,000 students using Linewize systems plus the broader NZ market for parental controls.

On 20 July 2017, the Group issued 3,333,334 fully paid ordinary (shares) at \$0.30 to raise \$1,000,000, pursuant to the Smyth Placement Agreement.

On 31 July 2017 the Group announced that following successful beta trails that it had entering into a commercial partnership with IgniteNet making Family Zone technology available to IgniteNet distributors and end user customers globally.

On 2 August 2017 the Group announced it had raised \$5.2 million through the issue of 13,000,000 shares at \$0.40 per Share to sophisticated and professional investors. The funds raised are to be used to support investment in service delivery and acceleration of business development activities particularly in education and global partnerships and to strengthen the Company's balance sheet.

On 21 August the Group announced it had signed agreement to sell Family Zone services into Philippines' leading mobile provider, Smart Communications.

Apart from the events discussed above, no other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Group in subsequent financial years

### **LIKELY DEVELOPMENTS**

Other than as disclosed elsewhere in this report, there are no likely developments in the operations of the Group that were not finalised at the date of this report.

### **ENVIRONMENTAL REGULATION**

The Company is not subject to any significant environmental Commonwealth or State regulations or laws.

### **DIVIDENDS**

There were no dividends paid or declared or recommended since the start of the financial year.

## DIRECTORS' REPORT (CONTINUED)

### INFORMATION ON DIRECTORS AND COMPANY SECRETARY

#### DIRECTORS

##### Mr Tim Levy

B. Com, CA

##### Experience and expertise

Mr. Levy is a successful telecommunications and technology entrepreneur. He is the founder of Vodafone's largest Australian retail partner Mo's Mobiles and was the former CEO/COO of listed Optus reseller B Digital Limited. Prior to working in commerce Mr. Levy was a management consultant at Andersen's working in technology and change projects across Australia, South Africa, Zambia, Jordan and Saudi Arabia.

Mr. Levy is a graduate of the University of Western Australia and was a practising Chartered Accountant prior to his move into commerce.

##### Other current directorships of ASX listed companies

Nil

##### Other directorships held in ASX listed companies in the last three years

Nil

##### Mr John Sims

B. Acc (Glasgow)

##### Experience and expertise

Mr. Sims is a successful technology and telecommunications executive with over 35 years' experience. Based in San Francisco his former roles include:

- President, Global Sales, BlackBerry Limited
- Global Head of Telecom & President, SAP Mobile Services, SAP AG
- Board Member, Mobixell Networks
- CEO, 724 Solutions Inc
- Founder and CEO, TANTAU Software Inc
- COO, SCC Communications (now Intrado, part of West Corp) and
- Vice President, Telecommunications, Tandem Computers

##### Other current directorships of ASX listed companies

Nil

##### Other directorships held in ASX listed companies in the last three years

Nil

##### Mr Crispin Swan

B. Arts (Hons)  
(UK/Germany)  
European Business  
Programme

##### Experience and expertise

Mr Swan is an experienced sales executive and general manager working across a range of global enterprises. His expertise is in international business development, executive and IT & T sales. Mr. Swan's former roles have included:

- Vice President Sales Asia Pacific, Mavenir Systems
- Regional Sales Director and General Manager, Airwide Solutions
- Network Infrastructure Solutions IS Manager for Australia & Papua New Guinea, Schlumberger
- Sales Manager, Sema
- Account Manager, Cisco Systems
- Account Manager, Alcatel-Lucent and
- Sales Executive, Cable & Wireless Communications

##### Other current directorships of ASX listed companies

Nil

##### Other directorships held in ASX listed companies in the last three years

Nil

## DIRECTORS' REPORT (CONTINUED)

**Mr Phil**  
B. Com, CA

**Warren**

### **Experience and expertise**

Mr Warren is a Chartered Accountant and managing director of West Perth based corporate advisory firm Grange Consulting. Mr. Warren has over 20 years of experience in finance and corporate roles in Australia and Europe. He has specialised in company valuations, mergers and acquisitions, capital raisings, debt financing, financial management, corporate governance and company secretarial services for a number of public and private companies.

Mr. Warren has established a number of ASX listed companies from initial unlisted shell seed raisings through to asset acquisitions leading to ASX listings and continues to act as corporate advisor to some of these companies. Mr. Warren is a non-executive director of Cassini Resources Limited and Rent.com.au Limited and also sits on a number of unlisted company boards in his capacity as finance director.

### **Other current directorships of ASX listed companies**

Cassini Resources Limited

Rent.com.au Limited

### **Other directorships held in ASX listed companies in the last three years**

Nil

## COMPANY SECRETARY

**Ms Emma Wates**  
B.Com, CA, CSA

### **Experience and expertise**

Ms Wates is a Chartered Accountant and corporate advisor at Grange Consulting Group with over 15 years' experience. She specialises in providing valuation advice, due diligence investigation, corporate governance, compliance and company secretarial services to both public and private companies. She has advised on the listing of a number of companies on ASX as well as being involved in various secondary and seed raisings for public and private companies.

**DIRECTORS' REPORT (CONTINUED)**
**MEETINGS OF DIRECTORS**

The number of Director's meetings held and the number of meetings attended by each of the Directors for the year ended 30 June 2017.

| <b>Director</b> | <b>Number of Board meetings eligible to attend</b> | <b>Number Board meetings attended</b> |
|-----------------|--|---------------------------------------|
| Tim Levy        | 4  | 4                                     |
| John Sims       | 4  | 4                                     |
| Crispin Swan    | 4  | 4                                     |
| Phil Warren     | 4  | 4                                     |

The number of audit committee meetings held and the number of meetings attended by each of the Directors for the year ended 30 June 2017.

| <b>Director</b>        | <b>Number of audit committee meetings eligible to attend</b> | <b>Number audit committee meetings attended</b> |
|------------------------|--|---|
| John Sims              | 1  | 1   |
| Phil Warren (Chairman) | 1  | 1   |

**DIRECTORS' INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY**

As at the date of this report, the interests of the Directors in fully paid ordinary shares (**Shares**), unlisted options and performance shares of the Group were:

| <b>Director</b> | <b>Shares</b> | <b>Unlisted Options</b> | <b>Class A Performance Shares</b> | <b>Class B Performance Shares</b> | <b>Class C Performance Shares</b> |
|-----------------|---------------|-------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Tim Levy        | 6,301,118     | 750,000                 | 3,878,611                         | 3,878,610                         | 3,878,610                         |
| John Sims       | 100,000       | 1,500,000               | -                                 | -                                 | -                                 |
| Crispin Swan    | 1,991,190     | 750,000                 | 2,205,384                         | 2,205,383                         | 2,205,383                         |
| Phil Warren     | 115,310       | 2,000,000               | -                                 | -                                 | -                                 |

**INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS**

On 12 September 2016 the Group paid an insurance premium of \$27,182 for Directors and Officers Liability Insurance cover with an indemnity limit of \$10,000,000.

**PROCEEDINGS ON BEHALF OF THE COMPANY**

No person has applied for leave of Court under Section 237 of the Corporations Act 2001 to bring proceedings on behalf of the Group.

**AUDITOR'S INDEPENDENCE DECLARATION**

The auditor's independence declaration as required under section 307C of the Corporations Act 2001 for the year ended 30 June 2017 is provided in this report

**DIRECTORS' REPORT (CONTINUED)**
**NON-AUDIT SERVICES**

Pitcher Partners BA&A Pty Ltd consented to and was appointed as the Group's auditors on 20 May 2016 to replace the Group's former auditor DM Advisor Services.

The Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company are important. Non-audit services were provided by the Company's current auditors, Pitcher Partners BA&A Pty Ltd as detailed below. The Group's former auditors, DM Advisory Services did not provide any non-audit services to the Company.

The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

|  | <b>30 June 2017</b> | <b>30 June 2016</b> |
|--|---------------------|---------------------|
|  | <b>\$</b>           | <b>\$</b>           |
| <b>Amounts paid/ payable to Pitcher Partners BA&amp;A Pty Ltd or related entities for non-audit services</b> |                     |                     |
| Preparation of Investigating Accountants Report  | -                   | 15,000              |
| Pitcher Partners (WA) Pty Ltd - Taxation   | 13,702              | 2,000               |
| <b>Total auditors remuneration for non-audit services</b>  | <b>13,702</b>       | <b>17,000</b>       |

**DIRECTORS' REPORT (CONTINUED)**  
**REMUNERATION REPORT (AUDITED)**

This report outlines the remuneration arrangements in place for Directors and key management personnel of the Group for the year ended 30 June 2017. The information contained in this report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

The information provided includes remuneration disclosures that are required under Accounting Standard AASB 124 "Related Party Disclosures". These disclosures have been transferred from the Financial Report.

This remuneration report details the remuneration arrangements for key management personnel ("KMP") who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group, and includes the following specified executives in the Group:

**A. Details of Key Management Personnel**

| <b>Name</b>     | <b>Position</b>            | <b>Period of Responsibility</b> |
|-----------------|----------------------------|---------------------------------|
| Mr Tim Levy     | Managing Director          | Appointed 1 April 2014          |
| Mr John Sims    | Non-Executive Chairman     | Appointed 13 May 2016           |
| Mr Crispin Swan | Executive Director - Sales | Appointed 3 September 2015      |
| Mr Phil Warren  | Non-Executive Director     | Appointed 13 May 2016           |

**B. Remuneration Policies**

Remuneration levels for Directors, secretaries and senior executives of the Group ("the Directors and senior executives") will be competitively set to attract and retain appropriately qualified and experienced Directors and senior executives. The Board may obtain independent advice on the appropriateness of remuneration packages given trends in comparative companies both locally and internationally and the objectives of the Group's remuneration strategy. No such advice was obtained during the current year.

The remuneration structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The remuneration structures take into account:

- the capability and experience of the Directors and senior executives;
- the Directors and senior executives ability to control the relevant performance;
- the Group's performance; and
- the amount of incentives within each Directors and senior executive's remuneration.

Remuneration packages include a mix of fixed remuneration and variable remuneration and short and long-term performance-based incentives.

Fixed remuneration consists of base remuneration, as well as employer contributions to superannuation funds.

Remuneration levels will be, if necessary reviewed annually by the Board through a process that considers the overall performance of the Group. If required, external consultants provide analysis and advice to ensure the Directors' and senior executives' remuneration is competitive in the market place.

The remuneration policy will be tailored to increase goal congruence between shareholders and Directors and key management personnel. This will be facilitated through the issue of options and performance shares to key management personnel to encourage the alignment of personal and shareholder interests. The Group believes this policy will be effective in increasing shareholder wealth.

**DIRECTORS' REPORT (CONTINUED)**  
**REMUNERATION REPORT CONTINUED (AUDITED)**

**Service Agreements**

The Group has services agreements with each of its executive Directors and key management personnel. The Group has also entered into Non-executive Director appointment letters outlining the policies and terms of this appointment including compensation to the office of Director.

The principal terms of the executive service agreements existing at reporting date are set out below

*Mr Tim Levy – Managing Director*

The Company and Mr Tim Levy entered into an executive services agreement on 28 June 2016 for his role as Managing Director of the Group which commenced 29 August 2016 (the date the Company was admitted to the Official List of ASX) and continues until terminated under the termination provisions outlined below. The principal terms of this agreement are as follows.

- a) a base salary of \$200,000 per annum plus statutory superannuation;
- b) the issue of 750,000 Incentive Options, which have been issued;
- c) the agreement may be terminated
  - (i) by either party without cause with 12 months written notice or if the Company elects to with payment in lieu of notice;
  - (ii) by the Company with one month's notice, or immediately with payment in lieu of notice if Mr Levy is unable to perform his duties under the agreement for three consecutive months or a period aggregating to three months in an 12 month period;
  - (iii) by either party with 12 months written notice if the role of Managing Director becomes redundant. If the Company terminates the employment of Mr Levy within 12 months of a Change of Control it will be deemed to be a termination by reason of redundancy. If the Company terminates for reason of redundancy it shall be obliged to pay Mr Levy for any notice period worked. In addition it will be required to pay any redundancy amount payable under applicable laws, an amount equal to 12 months base salary (less tax) and any accumulated entitlements;
  - (iv) by the Company, at any time with written notice and without payment (other than entitlements accrued to the date of termination) as a result of any occurrence which gives the Company a right of summary dismissal at common law; and
  - (v) by Mr Levy immediately, by giving notice, if the Company is in breach of a material term of this agreement.

*Mr Crispin Swan – Executive Director – Sales*

The Company and Mr Crispin Swan entered into an executive service agreement for his role as Executive Director - Sales of the Company which commenced on 29 August 2016 (the date the Company was admitted to the Official List of ASX) and continues until terminated under the termination provisions outlined below. The principal terms of the agreement are as follows:

- a) a base salary of \$220,000 per annum plus statutory superannuation;
- b) the issue of 750,000 Incentive Options, which have been issued;
- c) the agreement may be terminated
  - (i) by either party without cause with 12 months written notice or if the Company elects to with payment in lieu of notice;
  - (ii) by the Company with one month's notice, or immediately with payment in lieu of notice if Mr Swan is unable to perform his duties under the agreement for three consecutive months or a period aggregating to three months in an 12 month period;
  - (iii) by either party with 12 months written notice if Mr Swan's role becomes redundant. If the Company terminates the employment of Mr Swan within 12 months of a Change of Control it will be deemed to

**DIRECTORS' REPORT (CONTINUED)**  
**REMUNERATION REPORT CONTINUED (AUDITED)**

- be a termination by reason of redundancy. If the Company terminates for reason of redundancy it shall be obliged to pay Mr Swan for any notice period worked. In addition it will be required to pay any redundancy amount payable under applicable laws, an amount equal to 12 months base salary and any accumulated entitlements;
- (iv) by the Company, at any time with written notice and without payment (other than entitlements accrued to the date of termination) as a result of any occurrence which gives the Company a right of summary dismissal at common law; and
  - (v) by Mr Swan immediately, by giving notice, if the Company is in breach of a material term of this agreement.

*Non-Executive Directors and Chairman*

Non-executive Director fees are set based on fees paid to other Non-Executive Directors of comparable companies. The aggregate remuneration for Non-Executive Directors has been set by the Board at an amount not to exceed \$500,000 per annum. The Board has resolved that the Non-Executive Directors' fees will be \$50,000 per annum for the Chairman and \$40,000 per annum for non-executive Directors (plus statutory superannuation).

The key terms of the Non-Executive Director service agreements are as follows:

*Non-Executive Director Appointment – John Sims*

The Company has entered into an agreement with Mr John Sims in respect of his appointment as a Non-Executive Director and Chairman of the Company.

Mr Sims will be paid a fee of \$50,000 per annum (exclusive of statutory superannuation) for his services as Non-Executive Director and Chairman from 29 August 2016 (the date of the Company's admission to the Official List of ASX) and will be reimbursed for all reasonable expenses incurred in performing his duties. In addition, the Company has issued to him 1,500,000 Incentive Options each exercisable at \$0.25 on or before 20 May 2019.

The appointment of Mr Sims as Non-Executive Chairman is otherwise on terms that are customary for an appointment of this nature.

*Non-Executive Director Appointment – Phil Warren*

The Company has entered into an agreement with Mr Phil Warren in respect of his appointment as a Non-Executive Director of the Company.

Mr Warren will be paid a fee of \$40,000 per annum (exclusive of statutory superannuation) for his services as Non-Executive Director from 29 August 2016 (the date of the Company's admission to the Official List of ASX) and will be reimbursed for all reasonable expenses incurred in performing his duties. In addition, the Company has issued to him 500,000 Incentive Options each exercisable at \$0.25 on or before 20 May 2019.

The Company does not have a Director's Retirement Scheme in place at present.

**DIRECTORS' REPORT (CONTINUED)**  
**REMUNERATION REPORT CONTINUED (AUDITED)**
**C. Remuneration of Key Management Personnel**

Details of the remuneration of the Directors and the key management personnel (as defined in AASB 124 *Related Party Disclosures*) of the Group for the year ended 30 June 2017 are set out in the following table.

| Directors and Key Management Personnel | Short -term    |               |                 |          | Post employment    |                        |                         | Long term          | Share based payments | TOTAL          | Total performance related % | Options/ Shares as % of total |
|--|----------------|---------------|-----------------|----------|--------------------|------------------------|-------------------------|--------------------|----------------------|----------------|-----------------------------|-------------------------------|
|  | Salary fees \$ | Cash bonus \$ | Non-monetary \$ | Other \$ | Super-annuation \$ | Retirement benefits \$ | Termination benefits \$ | Incentive Plans \$ | Options /Shares \$   | \$             |                             |                               |
| Mr Tim Levy                            | 159,420        | -             | -               | -        | 15,145             | -                      | -                       | -                  | -                    | <b>174,565</b> | -                           | 0%                            |
| Mr Crispin Swan                        | 175,362        | -             | -               | -        | 16,659             | -                      | -                       | -                  | -                    | <b>192,021</b> | -                           | 0%                            |
| Mr John Sims                           | 41,667         | -             | -               | -        | -                  | -                      | -                       | -                  | -                    | <b>41,667</b>  | -                           | 0%                            |
| Mr Phil Warren                         | 35,597         | -             | -               | -        | 3,381              | -                      | -                       | -                  | -                    | <b>38,978</b>  | -                           | 0%                            |
| <b>Total Directors</b>                 | <b>412,046</b> | -             | -               | -        | <b>35,185</b>      | -                      | -                       | -                  | -                    | <b>447,231</b> | -                           | <b>0%</b>                     |

**DIRECTORS' REPORT (CONTINUED)**  
**REMUNERATION REPORT CONTINUED (AUDITED)**

Details of the remuneration of the Directors and the key management personnel (as defined in AASB 124 *Related Party Disclosures*) of the Group for the year ended 30 June 2016 are set out in the following table.

| Directors and Key Management Personnel | Short -term    |               |                 |          | Post employment    |                        |                         | Long term          | Share based payments | TOTAL          | Total performance related % | Options as % of total |
|--|----------------|---------------|-----------------|----------|--------------------|------------------------|-------------------------|--------------------|----------------------|----------------|-----------------------------|-----------------------|
|  | Salary fees \$ | Cash bonus \$ | Non-monetary \$ | Other \$ | Super-annuation \$ | Retirement benefits \$ | Termination benefits \$ | Incentive Plans \$ | Options \$           | \$             |                             |                       |
| 30 June 2016                           |                |               |                 |          |                    |                        |                         |                    |                      |                |                             |                       |
| Mr Tim Levy                            | -              | -             | -               | --       | -                  | -                      | -                       | -                  | 76,875               | <b>76,875</b>  | -                           | 100%                  |
| Mr Crispin Swan                        | 40,000         | -             | -               | -        | -                  | -                      | -                       | -                  | 376,875              | <b>416,875</b> | -                           | 90%                   |
| Mr John Sims                           | -              | -             | -               | --       | -                  | -                      | -                       | -                  | 153,750              | <b>153,750</b> | -                           | 100%                  |
| Mr Phil Warren                         | -              | -             | -               | --       | -                  | -                      | -                       | -                  | 51,250               | <b>51,250</b>  | -                           | 100%                  |
| Mr Ben Trigger*                        | -              | -             | -               | -        | -                  | -                      | -                       | -                  | -                    | -              | -                           | -                     |
| Mr Paul Robinson*                      | -              | -             | -               | -        | -                  | -                      | -                       | -                  | -                    | -              | -                           | -                     |
| <b>Total Directors</b>                 | <b>40,000</b>  | -             | -               | --       | -                  | -                      | -                       | -                  | <b>658,750</b>       | <b>698,750</b> | -                           | <b>94%</b>            |

\*- Resigned as directors on 13 May 2016.

**DIRECTORS' REPORT (CONTINUED)**  
**REMUNERATION REPORT CONTINUED (AUDITED)**
**D. Relationship between remuneration and company performance**

The Directors assess performance of the Group with regard to the achievement of both operational and financial targets with a current focus on subscriber numbers, sales revenues and share price. Directors and executives are issued options and, in some cases, performance shares, to encourage the alignment of personal and shareholder interests.

Options issued to Directors and executives may be subject to market based price hurdles and vesting conditions and the exercise price of options is set at a level that encourages the Directors to focus on share price appreciation. The Board believes this policy will be effective in increasing shareholder wealth. Key management personnel are also entitled to participate in the employee share and option arrangements.

Performance shares vest on the achievement of operational and financial milestones, providing those Directors and executives holding performance shares an incentive to meet the operational and financial milestones prior to the expiry date of the performance shares.

On the resignation of Directors and executives any vested options issued as remuneration are retained by the relevant party.

The Board may exercise discretion in relation to approving incentives such as options. The policy is designed to reward key management personnel for performance that results in long-term growth in shareholder value.

The following table shows gross income, profits/(losses) and dividends for the last two years for the listed entity, as well as the share prices at the end of the respective financial years. Analysis of the actual figures shows an increase in gross income which has been reflected in the increase of the Group's share price. The Board is of the opinion that these results can be attributed, in part, to the previously described remuneration policy and is satisfied with the overall upwards trend in shareholder wealth over the past two years.

|                         | <b>2016</b> | <b>2017</b> |
|-------------------------|-------------|-------------|
|                         | <b>\$</b>   | <b>\$</b>   |
| Gross Income            | 444,122     | 2,290,721   |
| Net profit/(loss)       | (2,815,607) | (8,834,735) |
| Share price at year-end | 0.20*       | 0.33        |
| Dividends paid          | 0.00        | 0.00        |

\*Share price as at admission to the ASX on 29 August 2016 at \$0.20 per share

**DIRECTORS' REPORT (CONTINUED)**  
**REMUNERATION REPORT CONTINUED (AUDITED)**
**E. Key management personnel's equity holding**
**a) Number of Options held by Key Management Personnel**

The number of the options of the Group held, directly, indirectly or beneficially, by each Director and key management personnel, including their personally-related entities for the year ended 30 June 2017 are as follows:

| Directors and Executives | Held at 1 July 2016 | Options exercised | Options expired | Other changes | Held at 30 June 2017 | Vested and exercisable at 30 June 2017 |
|--------------------------|---------------------|-------------------|-----------------|---------------|----------------------|--|
| Mr Tim Levy              | 750,000             | -                 | -               | -             | 750,000              | 750,000                                |
| Mr Crispin Swan          | 750,000             | -                 | -               | -             | 750,000              | 750,000                                |
| Mr John Sims             | 1,500,000           | -                 | -               | -             | 1,500,000            | 1,500,000                              |
| Mr Phil Warren           | 500,000             | -                 | -               | 1,500,000     | 2,000,000            | 2,000,000                              |
| <b>Total</b>             | <b>3,500,000</b>    | <b>-</b>          | <b>-</b>        | <b>-</b>      | <b>5,000,000</b>     | <b>5,000,000</b>                       |

**b) Number of Shares held by Key Management Personnel**

The number of ordinary shares of the Group held, directly, indirectly or beneficially, by each Director and key management personnel, including their personally-related entities as at the date of this report is as follows :

| Directors and Executives | Held at 1 July 2016 | Received as remuneration | Shares issued for cash subscription | Other changes | Held at 30 June 2017 |
|--------------------------|---------------------|--------------------------|-------------------------------------|---------------|----------------------|
| Mr Tim Levy              | 5,801,118           | -                        | 500,000                             | -             | 6,301,118            |
| Mr Crispin Swan          | 1,891,191           | -                        | 100,000                             | -             | 1,991,190            |
| Mr John Sims             | -                   | -                        | 100,000                             | -             | 100,000              |
| Mr Phil Warren           | 65,310              | -                        | 50,000                              | -             | 115,310              |
| <b>Total</b>             | <b>7,757,619</b>    | <b>-</b>                 | <b>750,000</b>                      | <b>-</b>      | <b>8,507,618</b>     |

**c) Number of options issued during the year under the Employee Share Option Plan.**

| Tranche | Valuation Date | Expiry Date | Exercise Price | Granted during the period |
|---------|----------------|-------------|----------------|---------------------------|
| 1       | 19/09/2016     | 19/09/2019  | \$0.33         | 3,880,958                 |
| 2       | 02/12/2016     | 19/09/2019  | \$0.33         | 1,614,280                 |
| 3       | 16/12/2016     | 15/12/2019  | \$0.30         | 6,000,000                 |
| 4       | 20/02/2017     | 19/09/2017  | \$0.33         | 634,656                   |

**DIRECTORS' REPORT (CONTINUED)**  
**REMUNERATION REPORT CONTINUED (AUDITED)**

The vesting conditions attached to the Tranche 1,2 & 4 options are as follows

| <b>Vesting Date</b> | <b>Vesting condition</b>  |
|---------------------|---|
| 31/12/2017          | 25% of the Options will vest and become exercisable upon the Company having 20,000 paying subscribers registered by 31 December 2017  |
| 31/12/2017          | 25% of the Options vest and become exercisable upon the Company having 30,000 paying subscribers registered by 31 December 2017   |
| 30/06/2019          | 50% of the Options will vest and become exercisable upon the Company achieving \$10,000,000 of customer revenue in any of the financial years ended 30 June 2017, 30 June 2018 or 30 June 2019. |

The vesting conditions attached to the Tranche 3 options are as follows:

| <b>Vesting Date</b> | <b>Vesting condition</b>   |
|---------------------|--|
| 16/12/2018          | 25% of the Options vest on the Company achieving \$2.0m Cumulative Revenue in 24 months from engagement or 20,000 Paying Zones |
| 16/12/2018          | 25% of the Options vest on the Company achieving \$4.0m Cumulative Revenue in 24 months from engagement or 30,000 Paying Zones |
| 16/12/2018          | 25% of the Options vest on the Company achieving \$8.0m Cumulative Revenue in 24 months from engagement or 40,000 Paying Zone  |
| 16/12/2018          | 25% of the Options vest on the Company achieving \$10.0m Cumulative Revenue in 24 months from engagement or 50,000 Paying Zone |

d) **Performance Share Holdings of Key Management Personnel**

The number of Performance Shares of the Group held, directly, indirectly or beneficially, by each Director and key management personnel, including their personally-related entities for the year ended 30 June 2017 are as follows:

| <b>Directors and Executives</b> | <b>Total held at 1 July 2016</b> | <b>Class A Performance Shares</b> | <b>Class B Performance Shares</b> | <b>Class C Performance Shares</b> | <b>Total held at 30 June 2017</b> |
|---------------------------------|----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Mr Tim Levy                     | 11,635,831                       | 3,878,611                         | 3,878,610                         | 3,878,610                         | 11,635,831                        |
| Mr Crispin Swan                 | 6,616,150                        | 2,205,384                         | 2,205,383                         | 2,205,383                         | 6,616,150                         |
| Mr John Sims                    | -                                | -                                 | -                                 | -                                 | -                                 |
| Mr Phil Warren                  | -                                | -                                 | -                                 | -                                 | -                                 |
| <b>Total</b>                    | <b>18,251,981</b>                | <b>6,083,995</b>                  | <b>6,083,993</b>                  | <b>6,083,993</b>                  | <b>18,251,981</b>                 |

**DIRECTORS' REPORT (CONTINUED)**  
**REMUNERATION REPORT CONTINUED (AUDITED)**

During the year ended 30 June 2016 the Group issued a total of 28,000,000 Performance Shares comprising 9,333,334 Class A Performance Shares, 9,333,333 Class B Performance Shares and 9,333,333 Class C Performance Shares in consideration for a selective buy back of 18,389,653 fully paid ordinary shares in the Group. The Performance Shares convert to ordinary fully paid shares on a one for one basis following the achievement of the performance milestones before the expiry date as outlined below:

- Class A Performance Shares convert on achievement of 15,000 paying subscribers of the Group generating at least \$100,000 revenue per month over 3 consecutive months (as confirmed by the Group's auditor) by 29 August 2018
- Class B Performance Shares convert on achievement of \$10,000,000 revenue by the Group over a 12 month rolling period of which 30% is subscription income (as confirmed by the Group's auditor) by 29 August 2019
- Class C Performance Shares convert on achievement of \$20,000,000 revenue by the Group over a 12 month rolling period of which 30% is subscription income (as confirmed by the Group's auditor) by 29 August 2020

(together the **Performance Milestones**)

As at 30 June 2017 none of the Performance Milestones have been achieved.

**F. Key Management Personnel Loans**

No loans were provided to made, guaranteed or secured directly or indirectly to any KMP or their related entities during the financial year.

**G. Other Transactions with Key Management Personnel**

Transactions with other related parties are made on normal commercial terms and conditions and at market rates. Outstanding balances are unsecured and are repayable in cash.

**a) Grange Consulting and Grange Capital Partners**

Mr Phil Warren, a Director of the Group, is also a director of Grange Consulting and an entity related to him is shareholder of Grange Consulting. Grange Capital is an entity associated with Grange Consulting.

The Group engaged Grange Consulting to act as Corporate Advisor to its initial public offering on ASX and capital raising. Pursuant to this engagement Grange Consulting received a \$75,000 (plus GST) transaction management fee and a \$50,000 (plus GST) success fee following its listing on ASX.

Grange Consulting was also engaged to provide financial management and company secretarial services to the Group. Pursuant to this engagement Grange Consulting will receive \$7,500 (plus GST) per month for these services. An administration fee of 5% is also payable on each invoice. This engagement can be terminated by either party giving 60 days' notice in writing.

**DIRECTORS' REPORT (CONTINUED)**  
**REMUNERATION REPORT CONTINUED (AUDITED)**

A summary of the total fees paid to Grange Consulting and Grange Capital Partners for the year ended 30 June 2017 and 30 June 2016 is as follows:

|   | <b>30 June 2017</b> | <b>30 June 2016</b> |
|---|---------------------|---------------------|
|   | \$                  | \$                  |
| Company secretarial services  | 90,402              | 19,825              |
| Capital raising fee   | -                   | 6,300               |
| Success fee upon listing on ASX   | 50,000              | -                   |
| Transaction management on lodgement of prospectus   | 75,000              | -                   |
| <b>Total</b>  | <b>215,402</b>      | <b>26,125</b>       |
| (1). Amounts payable to Grange Consulting and Grange Capital as at 30 June 2017 were \$17,505 (incl GST). |                     |                     |

A further \$10,000 was paid to Crispin Swan for consulting fees during the month of July 2016.

\*\*\*\*\* **END OF AUDITED REMUNERATION REPORT** \*\*\*\*\*

Signed in accordance with a resolution of the Directors.



**Mr Tim Levy**  
*Managing Director*  
 30 August 2017

**AUDITOR'S INDEPENDENCE DECLARATION  
TO THE DIRECTORS OF FAMILY ZONE CYBER SAFETY LIMITED**

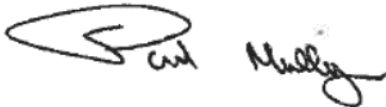
In relation to the independent audit for the year ended 30 June 2017, to the best of my knowledge and belief there have been:

- (i) No contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) No contraventions of APES 110 *Code of Ethics for Professional Accountants*.

This declaration is in respect of Family Zone Cyber Safety Limited and the entities it controlled during the year.

Pitcher Partners BA&A PTY LTD

PITCHER PARTNERS BA&A PTY LTD



PAUL MULLIGAN  
Executive Director  
Perth, 30 August 2017



## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2017

|   | Note | 2017<br>\$         | 2016<br>\$         |
|---|------|--------------------|--------------------|
| Revenue   | 4    | 1,589,202          | 5,532              |
| Cost of sales   |      | (969,317)          | -                  |
| <b>Gross profit</b>   |      | <b>619,885</b>     | <b>5,532</b>       |
| Other income  | 4    | 701,519            | 438,590            |
| Administration  | 5    | (1,383,382)        | (577,061)          |
| Impairment of intangible assets   |      | (52,248)           | (690,041)          |
| Employee and director benefits expense  | 5    | (3,876,030)        | (559,725)          |
| Finance costs   |      | (25,604)           | (27)               |
| Marketing expenses  | 6    | (1,118,759)        | (7,685)            |
| Research & development expenses   |      | (1,118,011)        | (908,855)          |
| Share based payment expense   | 22   | (1,498,978)        | (512,141)          |
| Depreciation & amortisation   |      | (1,083,127)        | (84,367)           |
| <b>Loss before income tax</b>   |      | <b>(8,834,735)</b> | <b>(2,895,780)</b> |
| Income tax benefit/(expense)  | 7    | -                  | 80,173             |
| <b>Loss after tax for the period attributable to the members of Family Zone Cyber Safety Limited</b>                          |      | <b>(8,834,735)</b> | <b>(2,815,607)</b> |
| Other comprehensive income  |      | -                  | -                  |
| <b>Total comprehensive (loss) for the period attributable to the members of Family Zone Cyber Safety Limited</b>              |      | <b>(8,834,735)</b> | <b>(2,815,607)</b> |
| Basic and diluted loss per share (cents per share) for the year attributed to the members of Family Zone Cyber Safety Limited | 8    | (14.70)            | (11.71)            |

The above Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the accompanying notes.

**STATEMENT OF FINANCIAL POSITION**

As at 30 June 2017

|                                      | Note | 2017<br>\$       | 2016<br>\$       |
|--------------------------------------|------|------------------|------------------|
| <b>ASSETS</b>                        |      |                  |                  |
| <b>Current Assets</b>                |      |                  |                  |
| Cash and cash equivalents            | 9    | 1,387,577        | 720,227          |
| Trade and other receivables          | 18   | 963,183          | 41,427           |
| Inventory                            | 10   | 169,987          | 216,029          |
| <b>Total Current Assets</b>          |      | <b>2,520,747</b> | <b>977,683</b>   |
| <b>Non-Current Assets</b>            |      |                  |                  |
| Intangibles                          | 11   | 3,325,003        | 380,146          |
| Trade and other receivables          | 18   | 1,007,424        | -                |
| Plant and equipment                  | 19   | 217,421          | 6,852            |
| <b>Total Non-current Assets</b>      |      | <b>4,549,848</b> | <b>386,998</b>   |
| <b>TOTAL ASSETS</b>                  |      | <b>7,070,595</b> | <b>1,364,681</b> |
| <b>LIABILITIES</b>                   |      |                  |                  |
| <b>Current Liabilities</b>           |      |                  |                  |
| Trade and other payables             | 12   | 3,462,118        | 525,044          |
| Provisions                           | 17   | 191,099          | 13,586           |
| Borrowings                           | 13   | -                | 1,430,000        |
| <b>Total Current Liabilities</b>     |      | <b>3,652,837</b> | <b>1,968,630</b> |
| <b>Non-current Liabilities</b>       |      |                  |                  |
| Trade and other payables             | 12   | 806,424          | -                |
| Deferred tax                         | 7    | -                | -                |
| <b>Total Non-current Liabilities</b> |      | <b>806,424</b>   | <b>-</b>         |
| <b>TOTAL LIABILITIES</b>             |      | <b>4,459,261</b> | <b>1,968,630</b> |
| <b>NET ASSETS/(LIABILITIES)</b>      |      | <b>2,611,334</b> | <b>(603,949)</b> |
| <b>EQUITY</b>                        |      |                  |                  |
| Issued capital                       | 14   | 12,582,677       | 1,433,717        |
| Reserves                             | 15   | 2,506,406        | 1,605,348        |
| Accumulated losses                   | 16   | (12,477,749)     | (3,643,014)      |
| <b>TOTAL EQUITY/(DEFICIT)</b>        |      | <b>2,611,334</b> | <b>(603,949)</b> |

The above Statement of Financial Position is to be read in conjunction with the accompanying notes.

**STATEMENT OF CHANGES OF EQUITY**

For the year ended 30 June 2017

|  | Issued<br>Capital | Option<br>Reserve | Accumulated<br>Losses | Total              |
|--|-------------------|-------------------|-----------------------|--------------------|
|  | \$                |                   | \$                    |                    |
| <b>Balance at 1 July 2015</b>                                | <b>1,311,618</b>  | -                 | <b>(827,407)</b>      | <b>\$ 484,211</b>  |
| Loss for the year  | -                 | -                 | (2,815,607)           | (2,815,607)        |
| Total other comprehensive income                             | -                 | -                 | -                     | -                  |
| <b>Total comprehensive loss for the year</b>                 | -                 | -                 | <b>(2,815,607)</b>    | <b>(2,815,607)</b> |
| <i>Transaction with owners, directly recorded in equity:</i> |                   |                   |                       |                    |
| Issue of Ordinary Shares, net of transaction costs           | 1,317,306         | -                 | -                     | 1,317,306          |
| Issue of Options   | -                 | 410,141           | -                     | 410,141            |
| Share buy-back   | (1,195,207)       | -                 | -                     | (1,195,207)        |
| Issue of performance rights                                  | -                 | 1,195,207         | -                     | 1,195,207          |
| Total transactions with owners                               | 122,099           | 1,605,348         | -                     | 1,727,447          |
| <b>Balance at 30 June 2016</b>                               | <b>1,433,717</b>  | <b>1,605,348</b>  | <b>(3,643,014)</b>    | <b>(603,949)</b>   |

|  | Issued<br>Capital | Option &<br>Performance<br>Reserve | Accumulated<br>Losses | Total              |
|--|-------------------|------------------------------------|-----------------------|--------------------|
|  | \$                |                                    | \$                    | \$                 |
| <b>Balance at 1 July 2016</b>                                | <b>1,433,717</b>  | <b>1,605,348</b>                   | <b>(3,643,014)</b>    | <b>(603,949)</b>   |
| Loss for the year  | -                 | -                                  | (8,834,735)           | (8,834,735)        |
| Total other comprehensive income                             | -                 | -                                  | -                     | -                  |
| <b>Total comprehensive loss for the year</b>                 | -                 | -                                  | <b>(8,834,735)</b>    | <b>(8,834,735)</b> |
| <i>Transaction with owners, directly recorded in equity:</i> |                   |                                    |                       |                    |
| Issue of Ordinary Shares, net of transaction costs           | 11,148,960        | -                                  | -                     | 11,148,960         |
| Issue of Options & performance rights                        | -                 | 901,058                            | -                     | 901,058            |
| Total transactions with owners                               | 11,148,960        | 901,058                            | -                     | 12,050,018         |
| <b>Balance at 30 June 2017</b>                               | <b>12,582,677</b> | <b>2,506,406</b>                   | <b>(12,477,749)</b>   | <b>2,611,334</b>   |

The above Statement of Changes in Equity is to be read in conjunction with the accompanying notes

**STATEMENT OF CASH FLOWS**  
For the year ended 30 June 2017

|  | Note | 2017<br>\$         | 2016<br>\$         |
|--|------|--------------------|--------------------|
| <b>Cash flows from operating activities</b>          |      |                    |                    |
| Receipt from customers                               |      | 1,344,222          | 6,086              |
| Government grants received                           |      | 687,778            | 437,612            |
| Payments to suppliers and employees                  |      | (7,370,432)        | (1,592,709)        |
| Interest received                                    |      | 9,522              | 978                |
| Interest paid  |      | -                  | (27)               |
| <b>Net cash flows (used in) operating activities</b> | 20   | <b>(5,328,910)</b> | <b>(1,148,060)</b> |
| <b>Cash flows from investing activities</b>          |      |                    |                    |
| Purchase of plant & equipment                        |      | (40,140)           | (7,241)            |
| Payments for intangible assets                       |      | (3,025,000)        | (200,164)          |
| <b>Net cash flows (used in) investing activities</b> |      | <b>(3,065,140)</b> | <b>(207,405)</b>   |
| <b>Cash flows from financing activities</b>          |      |                    |                    |
| Proceeds from issue of shares, net of issue costs    |      | 8,439,400          | 568,971            |
| Repayment of borrowings                              |      | -                  | 1,430,000          |
| Proceeds received for shares not yet issued          |      | 622,000            | -                  |
| <b>Net cash flows from financing activities</b>      |      | <b>9,061,000</b>   | <b>1,996,971</b>   |
| Net increase in cash and cash equivalents            |      | 667,350            | 641,506            |
| Cash and cash equivalents at beginning year          |      | 720,227            | 78,721             |
| <b>Cash and cash equivalents at end year</b>         | 9    | <b>1,387,577</b>   | <b>720,227</b>     |

The above Statement of Cash Flows is to be read in conjunction with the accompanying notes.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

### NOTE 1: REPORTING ENTITY

Family Zone Cyber Safety Limited is the listed public company incorporated and domiciled in Australia and head of the Group. The financial statements of the Group are as at and for the year ended 30 June 2017.

A description of the nature of the Group's operations and its principal activities is included in the Directors' Report which does not form part of this financial report.

The financial statements were authorised by the Board of Directors on the date of signing the Directors' Declaration.

### NOTE 2: BASIS OF PREPARATION

This General Purpose Financial Report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (including Australian Interpretations) and the *Corporations Act 2001*.

The Financial Statements and Notes of the Group comply with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the Financial Statements and Notes comply with International Financial Reporting Standards.

Family Zone Cyber Safety Limited is a company limited by shares. The financial report is presented in Australian currency. Family Zone Cyber Safety Limited is a for-profit entity.

#### (a) Going Concern

These financial statements have been prepared on the going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the normal course of business.

The Statement of Comprehensive Income shows that the Group incurred a net loss of \$8,834,735 during the year ended 30 June 2017 (2016: loss of \$2,895,780). The statement of Financial Position shows that the Group had cash and cash equivalents of \$1,387,577 (2016: \$720,227).

Subsequent to year end the Group successfully raised \$5.2 million through the issue of 13,000,000 shares at \$0.40 per Share to sophisticated and professional investors. The funds raised are to be used to support investment in service delivery and acceleration of business development activities particularly in education and global partnerships and to strengthen the Group's financial position.

The ability of the Group to continue as a going concern is dependent on it being able to successfully raise further debt or capital funding

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, nor to amounts or classification of liabilities that might be necessary should the Group not be able to continue as a going concern.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2017

**(b) Use of Estimates and Judgements****Significant Judgements and Key Assumptions**

The preparation of financial statements in conformity with AASBs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. 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 in which the estimate is revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are included in the following notes:

*Share Based Payments*

Goods or services received or acquired in a share-based payment transaction are recognised as an increase in equity if the goods or services were received in an equity-settled share-based payment transaction or as a liability if the goods and services were acquired in a cash settled share-based payment transaction.

For equity-settled share-based transactions, goods or services received are measured directly at the fair value of the goods or services received provided this can be estimated reliably. If a reliable estimate cannot be made the value of the goods or services is determined indirectly by reference to the fair value of the equity instrument granted using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

Transactions with employees and others providing similar services are measured by reference to the fair value at grant date of the equity instrument granted using a Black-Scholes option pricing model.

*Research and Development Assets*

The Group's accounting policy for capitalised development expenditure is set out in Note 3(h). The application of this policy necessarily requires management to make certain estimates and assumptions as to the future events and circumstances of the Company. Any such estimate and assumptions may change as new information becomes available. If, after having capitalised expenditure under this policy, it is concluded that the expenditures relate to aspects of the asset no longer utilised, or it is concluded that the expenditures are unlikely to be recovered by future exploitation or sale, then the relevant capitalised amount will be written off to the profit or loss.

*Impairment of assets*

In determining the recoverable amount of assets, in the absence of quoted market prices, estimations are made regarding the present value of future cash flows using asset specific discount rates and the recoverable amount of the asset is determined. Value in use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

### NOTE 3: SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements. 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. Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

#### (a) Revenue Recognition

Revenue is recognised when it is probable that the economic benefit will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

##### *Interest Revenue*

Interest revenue is recognised using the effective interest method. It includes the amortisation of any discount or premium.

##### *Other revenue*

Other revenue is recognised when it is received or when the right to receive payment is established.

#### (b) Government Grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

#### (c) Income Tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in Statement of Profit or Loss and Other Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2017

**(e) Financial Assets and Financial Liabilities**

Financial assets and financial liabilities are recognised when the Company becomes party to the contractual provisions of the financial instrument.

A financial asset is derecognised when the contractual rights to the cash flows from the financial assets expire or are transferred and no longer controlled by the Company. A financial liability is removed from the Statement of Financial Position when the obligation specified in the contract is discharged or cancelled or expires. Financial assets not measured at fair value comprise loans and receivables with fixed or determinable payments that are not quoted in an active market. These are measured at amortised cost using the effective interest method.

All financial liabilities are measured at amortised cost using the effective interest rate method. The amortised cost of a financial asset or a financial liability is the amount initially recognised minus principal repayments, plus or minus cumulative amortisation of any difference between the initial amount and maturity amount and minus any write-down for impairment or un-collectability.

When the terms of financial assets that would otherwise have been past due or impaired have been renegotiated, the Group recognises the impairment for such financial assets by taking into account the original terms as if the terms have not been renegotiated so that the loss events that have occurred are duly considered.

**(f) Trade and Other Receivables**

Trade accounts and other receivables represent the principal amounts due at reporting date less, where applicable, any allowances for doubtful accounts.

**(g) Inventories**

Finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

**(h) Intangible**

Expenditure on the research phase of projects to develop new customised software for IT and billing systems is recognised as expense as incurred. Costs that are directly attributable to a project's development phase are recognised as intangible assets provided they meet the following recognition requirements

- Development costs can be reliably measured
- The project is technically and commercially feasible
- The Group intends to and has sufficient resources to complete the project
- The Group has the ability to use or sell the software.

Additionally, as part of its asset acquisition the group has committed to the development of projects which are expected to bring substantial economic benefits over the next 12-36 months. Costs relating to the acquisition and development of the products have been capitalised.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

All intangible assets are amortised at 33%.

### (i) Plant and Equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation.

The carrying amount of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that carrying value may not be recoverable. If any such indication exists and where the carrying amount values exceeds the estimated recoverable amount the assets are written down to the recoverable amounts.

The depreciable amount of all fixed assets is depreciated on a straight line basis over their useful lives to the Company commencing from the time the asset is held ready for use. The depreciation rates used for each class of depreciable assets are:

| <u>Class of Fixed Asset</u> | <u>Depreciation Rate</u> |
|-----------------------------|--------------------------|
| Plant and Equipment         | 10% - 40%                |

### (j) Research & Development Expense

The Company expenses all research and development costs as incurred. The amounts incurred in relation to patent development costs and patent applications are expensed until the Company has received formal notification that a patent has been granted. The Company believes expensing patent development and application costs provides the most relevant and reliable information to financial statement users. The Company will only record a development asset when there is certainty that the Company will be able to patent the technology it has created, as demonstrated by the approval of the patent application and as a result expect future economic benefits to flow to the Company.

Following initial recognition of development expenditure as a development asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit, which will normally be the useful life of the patent. Amortisation is recorded in other expenses and is currently undertaken at a rate of 33%.

During the period of development, the asset is tested for impairment annually.

### (k) Impairment of Assets

At each reporting date, the Company reviews the carrying value of its tangible and intangible assets to determine whether there is any indication that those assets should be impaired. If such indication exists, the recoverable amount of the assets, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

### (l) Trade and Other Payables

Trade accounts and other payables and accrued liabilities represent the principal amounts outstanding at reporting date plus, where applicable, any accrued interest.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2017

**(m) Cash and Cash Equivalents**

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

**(n) Employee Benefits****(i) Short-term employee benefit obligations**

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled wholly within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. The expected cost of short-term employee benefits in the form of compensated absences such as annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

**(ii) Long-term employee benefit obligations**

Liabilities arising in respect of long service leave and annual leave which is not expected to be settled wholly within twelve months of the reporting date are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date.

Employee benefit obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur

Contributions are made by the Company to employee's superannuation funds. These superannuation contributions are recognised as an expense in the same period when the employee services are received.

**(m) Share-Based Payment Arrangements**

Goods or services received or acquired in a share-based payment transaction are recognised as an increase in equity if the goods or services were received in an equity-settled share-based payment transaction or as a liability if the goods and services were acquired in a cash settled share-based payment transaction.

For equity-settled share-based transactions, goods or services received are measured directly at the fair value of the goods or services received provided this can be estimated reliably. If a reliable estimate cannot be made the value of the goods or services is determined indirectly by reference to the fair value of the equity instrument granted using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

Transactions with employees and others providing similar services are measured by reference to the fair value at grant date of the equity instrument granted using a Black-Scholes option pricing model.

**(n) Issued Capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

### (o) Earnings per Share

#### (i) *Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

#### (ii) *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

### (p) Segment Reporting

An operating segment is a component of a company that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same company), whose operating results are regularly reviewed by the company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

AASB 8 'Operating Segments' requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and assess its performance.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

The Company has one operating segment being the provision of cyber safety services that is consistent with internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Board of Directors. In the year ended 30 June 2016 the Company operated under two operating segments being Box Services and Corporate.

### (q) Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Company's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Company's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

### (r) Goods and Services Tax ('GST')

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

### (s) New Accounting Standards and Interpretations

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory have not been early adopted by the Company for the year ended 30 June 2017. The Company's assessment of the impact of these new or amended Accounting Standards and Interpretations are set out below.

#### *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 Company 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 Company's own credit risk to be presented in OCI (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 Company. 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 introduces additional new disclosures. The Company will adopt this standard from 1 July 2018 but the impact of its adoption is assessed by the Company to be insignificant.

#### *AASB 15 Revenue from Contracts with Customers*

This standard is applicable to annual reporting periods beginning on or after 1 January 2017. The standard provides a single standard for revenue recognition. The core principle of the standard is that a Company will

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2017

recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company 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, a Company 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 the Company's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the Company'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 judgments 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 Company will adopt this standard from 1 July 2018 but the impact of its adoption is assessed by the Company to be insignificant as all sales are made in advance

**(s) New Accounting Standards and Interpretations (Continued)***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. 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 Company will adopt this standard from 1 July 2019 but the impact of its adoption is yet to be assessed by the Company.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

### NOTE 4: REVENUE AND OTHER INCOME

|                                  | 2017<br>\$       | 2016<br>\$     |
|----------------------------------|------------------|----------------|
| <b>Operating Revenue</b>         |                  |                |
| Service revenue                  | 709,035          | 840            |
| Hardware revenue                 | 880,167          | 4,692          |
|                                  | <b>1,589,202</b> | <b>5,532</b>   |
| <b>Interest and other income</b> |                  |                |
| Interest revenue                 | 12,399           | 978            |
| Other                            | 1,214            | 569            |
|                                  | <b>13,613</b>    | <b>1,547</b>   |
| <b>Government Grant</b>          |                  |                |
| Research and Development Grant   | 631,813          | 367,942        |
| Export Assistance Grant          | 56,093           | 69,099         |
|                                  | <b>687,906</b>   | <b>437,042</b> |

### NOTE 5: LOSS

Loss before income tax has been determined after charging the following expenses:

|                                 | 2017<br>\$       | 2016<br>\$     |
|---------------------------------|------------------|----------------|
| Directors' fees                 | 412,046          | 40,000         |
| Director consulting costs (1)   | 10,000           | 300,000        |
| Employee wages                  | 2,619,728        | 206,074        |
| Consulting                      | 178,426          | -              |
| Travel & Accommodation          | 298,730          | -              |
| Contractors & Service Providers | 814,979          | -              |
| Superannuation                  | 273,150          | 13,651         |
| Other                           | 652,353          | -              |
| Total expenditure               | <b>5,259,412</b> | <b>559,725</b> |

- (1) Relates to Mr Crispin Swan for consulting services provided. These services have been provided on an arm's length basis with commercial terms no more favourable than those that the Company would have transacted with other parties for similar services provided.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2017

**NOTE 6: MARKETING EXPENSES**

|                            | 2017<br>\$       | 2016<br>\$   |
|----------------------------|------------------|--------------|
| <b>Sales and Marketing</b> |                  |              |
| Advertising                | 676,061          | -            |
| Call centre charges        | 123,296          | -            |
| Domain licenses            | 5,120            | 7,685        |
| Other                      | 314,282          | -            |
|                            | <b>1,118,759</b> | <b>7,685</b> |

**NOTE 7: INCOME TAX**

|  | 2017<br>\$         | 2016<br>\$         |
|--|--------------------|--------------------|
| <b>(a) The major components of income tax expense / (benefit) comprise of:</b>                           |                    |                    |
| Current tax benefit  | -                  | -                  |
| Deferred tax benefit   | -                  | (80,173)           |
|  | <b>-</b>           | <b>(80,173)</b>    |
| <b>(b) Reconciliation of prima facie tax on continuing operations to income tax expense / (benefit):</b> |                    |                    |
| Profit / (loss) before tax for the year  | (8,834,735)        | (2,895,780)        |
| Tax benefit @ 30% tax rate (Australia)   | (2,650,402)        | (868,734)          |
| <i>Adjustments for:</i>  |                    |                    |
| Entertainment  | 4,094              | 83                 |
| Share based payments   | 449,693            | 153,642            |
| R&D tax incentive classified as income   | (189,544)          | (110,383)          |
| Non-deductible R&D expenditure   | 474,236            | -                  |
| Tax losses not recognised  | 1,911,922          | 825,391            |
| <b>Income tax expense attributable to profit</b>   | <b>-</b>           | <b>-</b>           |
|  | <b>2017<br/>\$</b> | <b>2016<br/>\$</b> |
| <b>(c) Deferred taxes</b>  |                    |                    |
| <i>Deferred tax asset:</i>   |                    |                    |
| Tax losses   | 1,900,905          | 690,886            |
| Plant & Equipment  | 291,885            | -                  |
| Provisions & Accruals  | 225,815            | 79,790             |
| Capital & Business related costs   | 218,954            | 32,538             |
| Offset against deferred tax liability / not recognised   | (2,637,558)        | (803,213)          |

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2017

*Deferred tax liability:*

|   |       |           |
|---|-------|-----------|
| Intangible assets                                   | -     | (103,813) |
| Prepayments   | (120) | -         |
| Offset against deferred tax assets / not recognised | 120   | 103,813   |
| Net deferred tax asset / (liability)                | -     | -         |

|             |             |
|-------------|-------------|
| <b>2017</b> | <b>2016</b> |
| <b>\$</b>   | <b>\$</b>   |

**(d) Deferred tax assets / liabilities included in income tax expense**

|   |             |                 |
|---|-------------|-----------------|
| Decrease / (increase) in deferred tax assets      | (2,391,305) | (628,746)       |
| (Decrease) / increase in deferred tax liabilities | 214,720     | (231,000)       |
| Adjust for recognition/offset of DTA/DTL          | 2,176,585   | 779,573         |
|   | -           | <b>(80,173)</b> |

**(e) Deferred income tax related to items charged or credited directly to equity**

|   |           |   |
|---|-----------|---|
| Decrease / (increase) in deferred tax assets      | 243,188   | - |
| (Decrease) / increase in deferred tax liabilities | -         | - |
| Adjust for derecognition / offset of DTA/DTL      | (243,188) | - |
|   | -         | - |

|             |             |
|-------------|-------------|
| <b>2017</b> | <b>2016</b> |
| <b>\$</b>   | <b>\$</b>   |

**(f) Deferred tax assets / liabilities not brought to account**

|                       |                  |                |
|-----------------------|------------------|----------------|
| Temporary differences | 736,533          | 8,514          |
| Operating tax losses  | 1,900,905        | 690,886        |
|                       | <b>2,637,437</b> | <b>699,400</b> |

The tax benefits of the above deferred tax assets will only be obtained if:

- the Company derives future assessable income of a nature and of an amount sufficient to enable the benefits to be utilised;
- the Company continues to comply with the conditions for deductibility imposed by law; and
- - no changes in income tax legislation adversely affect the company in utilising the benefits.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

### NOTE 8: LOSS PER SHARE

Basic earnings/(loss) per share amounts are calculated by dividing net profit/(loss) for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.

The following reflects the income or loss and share data used in the total operations basic and diluted earnings per share computations:

|   | <b>2017</b>       | <b>2016</b>       |
|---|-------------------|-------------------|
|   | <b>\$</b>         | <b>\$</b>         |
| Loss used in the calculation of basic and diluted loss per share  | (8,838,458)       | (2,815,607)       |
| Basic earnings/(loss) per share attributable to equity holders<br>(cents Per Share)   | (14.70)           | (11.71)           |
|   | <b>Number</b>     | <b>Number</b>     |
| Weighted average number of ordinary shares outstanding  | 60,117,590        | 38,661,941        |
| <i>Adjustments for calculation of basic and diluted earnings per share:</i>   |                   |                   |
| Share consolidation on a 1:1.914 basis  | -                 | (14,623,557)      |
| Weighted average number of ordinary shares outstanding during the<br>year used in calculation of basic and diluted loss per share | <b>60,117,590</b> | <b>24,038,384</b> |

Options outstanding during the year have not been taken into account in the calculation of the weighted average number of ordinary shares as they are considered anti-dilutive.

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

### NOTE 9: CASH AND CASH EQUIVALENTS

|  | <b>2017</b>      | <b>2016</b>    |
|--|------------------|----------------|
|  | <b>\$</b>        | <b>\$</b>      |
| Cash at bank                           | 1,387,577        | 720,227        |
| <b>Total Cash and Cash Equivalents</b> | <b>1,387,577</b> | <b>720,227</b> |

Cash at bank earns interest at floating rates based on daily bank rates. Refer to note 24 on financial instruments for details on the Company's exposure to risk in respect of its cash balance.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2017

**NOTE 10: INVENTORY**

|                          | <b>2017</b>    | <b>2016</b>    |
|--------------------------|----------------|----------------|
|                          | <b>\$</b>      | <b>\$</b>      |
| <b>Current:</b>          |                |                |
| At net realisable value: |                |                |
| Finished goods           | 169,987        | 216,029        |
| <b>Total Inventory</b>   | <b>169,987</b> | <b>216,029</b> |

**NOTE 11: INTANGIBLES**

|   | <b>2017</b>      | <b>2016</b>    |
|---|------------------|----------------|
|   | <b>\$</b>        | <b>\$</b>      |
| Development and capitalised IP acquisition expenses – at cost | 5,187,142        | 1,170,348      |
| Less: Accumulated amortisation and impairment                 | (1,862,139)      | (790,202)      |
|   | <b>3,325,003</b> | <b>380,146</b> |

a) Reconciliation of movements in intangible assets

**Intellectual property**

|                                | <b>\$</b>        |
|--------------------------------|------------------|
| Balance at 1 July 2015         | 884,801          |
| Additions                      | 240,921          |
| Impairment expense             | (661,598)        |
| Amortisation expense           | (83,978)         |
| <b>Balance at 30 June 2016</b> | <b>380,146</b>   |
| Additions                      | 4,069,042        |
| Impairment expense             | (52,248)         |
| Amortisation expense           | (1,071,937)      |
| <b>Balance at 30 June 2017</b> | <b>3,325,003</b> |

Details surrounding the amount of contractual commitments for the acquisition of intangible assets are disclosed within note 28.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2017

**NOTE 12: TRADE AND OTHER PAYABLES**

|  | 2017<br>\$       | 2016<br>\$     |
|--|------------------|----------------|
| <b>Current:</b>                                  |                  |                |
| Trade payables                                   | 589,321          | 225,195        |
| Revenue in advance (1)                           | 1,078,281        | -              |
| Accruals & other payables                        | 1,172,516        | 299,849        |
| Share monies received in advance (2)             | 622,000          | -              |
| <b>Total Current Trade and Other Payables</b>    | <b>3,462,118</b> | <b>525,044</b> |
| <b>Non Current:</b>                              |                  |                |
| Revenue in advance (1)                           | 806,424          | -              |
| <b>Total Non Current Trade and Other Payable</b> | <b>806,424</b>   | -              |
| <b>Total Trade and Other Payables</b>            | <b>4,227,350</b> | <b>525,044</b> |

- (1) Relates to revenues received in advance from Tesseract following the variation to the Reseller and Licence Agreement between the parties whereby the Company bought out Tesseract Installation Contracts for the Net Contract Value outlined in the agreements. Refer to Note 25 further details
- (2) Relates to share monies which were received in the 30 June 2017 financial year for shares issued during financial year 30 June 2018.
- (3) Current trade payables are non-interest bearing and are normally settled on 30-day terms.

**NOTE 13: BORROWINGS**

|                         | 2017<br>\$ | 2016<br>\$       |
|-------------------------|------------|------------------|
| <b>Current:</b>         |            |                  |
| Convertible notes       | -          | 1,430,000        |
| <b>Total Borrowings</b> | <b>-</b>   | <b>1,430,000</b> |

The Group issued 1,430,000 Convertible notes with a face value of \$1.00 each during the months of March 2016 – June 2016 in order to meet its short term working capital needs prior to the Company's listing on ASX. The notes were interest free for a period of 6 months and a maturity date of 18 months from their date of issue. Interest on the Convertible notes accrues 6 months after their issue at a rate of 10% p.a.

The Group completed its initial public offering and was admitted for Official Quotation on the ASX on 29 August 2016. All convertible notes on issue were converted into 13,758,927 shares and 2,593,750 attaching options.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2017

**NOTE 14: ISSUED CAPITAL**

|   | <b>2017</b>             | <b>2016</b>             |
|---|-------------------------|-------------------------|
|   | <b>Number of Shares</b> | <b>Number of Shares</b> |
| Issued Ordinary Shares - no par value (fully paid)  | 81,795,928              | 16,000,029              |
| <b>Total</b>  | <b>81,795,928</b>       | <b>16,000,029</b>       |
|   | <b>Number of Shares</b> | <b>Value \$</b>         |
| <b>Opening balance – 1 July 2015</b>  | <b>34,913,488</b>       | <b>1,311,618</b>        |
| <b>Closing balance – 30 June 2016</b>   | <b>16,000,029</b>       | <b>1,433,717</b>        |
| Shares issued to Fidelio Partners on 29 July 2016   | 718,750                 | 115,000                 |
| Conversion of stage 1 convertible note issued 29 August 2016  | 5,187,500               | 600,000                 |
| Conversion of stage 2 convertible note issued 29 August 2016  | 8,571,427               | 830,000                 |
| Shares issued to Alto Capital on 29 August 2016   | 1,500,000               | 300,000                 |
| Shares issued pursuant to public offer on 29 August 2016  | 30,000,000              | 6,000,000               |
| Shares issued to Tesseract on 16 December 2016  | 1,000,000               | 200,000                 |
| Shares issued to Tracey Smyth on 16 December 2016   | 833,333                 | 154,167                 |
| Shares issued to investors on 14 March 2017   | 12,950,000              | 2,590,000               |
| Shares issued to Fidelio partners on 11 April 2017  | 2,500,000               | 500,000                 |
| Shares issued to Directors and executives on 4 May 2017   | 1,000,000               | 276,000                 |
| Shares issued to Alto Capital on 4 May 2017   | 225,000                 | 60,750                  |
| Shares issued to Fidelio Partners on 4 May 2017   | 309,889                 | 83,670                  |
| Shares issued to Tesseract in consideration of final payment for intellectual property on 9 June 2017 | 1,000,000               | 250,000                 |
| Less: share issue costs   |                         | (810,627)               |
| <b>Closing balance – 30 June 2017</b>   | <b>81,795,928</b>       | <b>12,582,677</b>       |

The Company has unlimited authorised capital. There are no restrictions on distribution of dividends or repayment of capital.

**Capital Management**

When managing capital, the Board's objective is to ensure the Group continues as a going concern as well as to maximise the returns to shareholders and benefits for other stakeholders. The Board also aims to maintain a capital structure that ensures the lowest cost of capital available to the Group.

The Board is constantly reviewing the capital structure to take advantage of favourable costs of capital or high returns on assets. As the market is constantly changing, the Board may issue new shares, return capital to shareholders or sell assets to reduce debt.

The Group was not subject to any externally imposed capital requirements during the year.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

### NOTE 15: RESERVES

|                       | 2017             | 2016             |
|-----------------------|------------------|------------------|
|                       | \$               | \$               |
| Performance Shares    | 1,156,424        | 1,195,207        |
| Options               | 1,349,982        | 410,141          |
| <b>Total Reserves</b> | <b>2,506,406</b> | <b>1,605,348</b> |

#### *Options outstanding at 30 June 2017*

The following options over ordinary shares of the Group existed at reporting date:

| Balance at 30 June 2017 | Expiry Date | Number of<br>Options | Exercise<br>Price (\$) |
|-------------------------|-------------|----------------------|------------------------|
| Options                 | 20/05/2019  | 4,000,000            | 0.25                   |
| Options                 | 29/08/2019  | 10,093,751           | 0.25                   |
| Options                 | 19/09/2019  | 4,899,773            | 0.33                   |
| Options                 | 15/12/2019  | 6,000,000            | 0.30                   |
| Options                 | 05/05/2020  | 1,750,000            | 0.30                   |
| <b>Total</b>            |             | <b>26,743,524</b>    |                        |

#### *Performance shares outstanding at 30 June 2017*

The following performance shares of the Group existed at reporting date:

|  | Number of<br>Shares | Value<br>\$      |
|--|---------------------|------------------|
| Balance at 1 July 2016                     | 28,000,000          | 1,195,207        |
| Performance shares issued 5 December 2016  | 500,000             | 22,900           |
| Performance shares issued 16 December 2016 | 2,999,997           | 131,875          |
|  | <b>31,499,997</b>   | <b>1,349,982</b> |

#### **Nature and Purpose of Reserve**

The share based payment reserve records the value of options and performance shares issued to the Group's directors, employees, and third parties. The value of the amount disclosed during the year 2016 reflects the value of options and performance shares issued by the Group.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

### NOTE 16: ACCUMULATED LOSSES

|                                 | 2017<br>\$          | 2016<br>\$         |
|---------------------------------|---------------------|--------------------|
| Accumulated Losses              | (12,477,749)        | (3,643,014)        |
| Opening balance                 | (3,643,014)         | (747,234)          |
| Net loss for the financial year | (8,834,735)         | (2,895,780)        |
| <b>Total Accumulated Losses</b> | <b>(12,477,749)</b> | <b>(3,643,014)</b> |

### NOTE 17: PROVISIONS

|                                 | 2017<br>\$     | 2016<br>\$    |
|---------------------------------|----------------|---------------|
| <b>Current:</b>                 |                |               |
| Provision of annual leave       | 191,099        | 13,586        |
| <b>Total Current Provisions</b> | <b>191,099</b> | <b>13,586</b> |

### NOTE 18: TRADE AND OTHER RECEIVABLES

|   | 2017<br>\$       | 2016<br>\$    |
|---|------------------|---------------|
| <b>Current:</b>                                     |                  |               |
| Trade receivable                                    | 138,351          | 41,427        |
| Prepayments   | 75,519           | -             |
| GST Receivable                                      | 94,458           | -             |
| Contract receivable                                 | 654,855          | -             |
| <b>Total Current Trade and Other Receivable</b>     | <b>963,183</b>   | <b>41,427</b> |
| <b>Non-Current:</b>                                 |                  |               |
| Contract Receivable                                 | 1,007,424        | -             |
| <b>Total Non-Current Trade and Other Receivable</b> | <b>1,007,424</b> | <b>-</b>      |
| <b>Total Trade and Other Receivable</b>             | <b>1,970,607</b> | <b>41,427</b> |

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2017

**NOTE 19: PROPERTY PLANT & EQUIPMENT**

|   | 2017           | 2016         |
|---|----------------|--------------|
|   | \$             | \$           |
| Property plant & equipment – at cost          | 232,611        | 6,852        |
| Less: Accumulated amortisation and impairment | (15,190)       | -            |
|   | <b>217,421</b> | <b>6,852</b> |

a) Reconciliation of movements in intangible assets

**Property Plant and Equipment**

|                                | \$             |
|--------------------------------|----------------|
| Balance at 1 July 2015         | -              |
| Additions                      | 6,852          |
| Depreciation expense           | -              |
| <b>Balance at 30 June 2016</b> | <b>6,852</b>   |
| Additions                      | 225,759        |
| Depreciation expense           | (15,190)       |
| <b>Balance at 30 June 2017</b> | <b>217,421</b> |

**NOTE 20: OPERATING CASH FLOW INFORMATION**

|   | 2017               | 2016               |
|---|--------------------|--------------------|
|   | \$                 | \$                 |
| <b>Reconciliation of cash flow from operations with loss after income tax</b> |                    |                    |
| Loss for the year   | (8,834,735)        | (2,815,607)        |
| <i>Non-cash items</i>   |                    |                    |
| Impairment  | 52,248             | 690,041            |
| Share based payments  | 1,498,978          | 817,480            |
| Depreciation and amortisation   | 1,083,127          | 84,367             |
| Other   | (319,386)          | -                  |
| <i>Changes in Assets and Liabilities</i>                                      |                    |                    |
| Increase / (Decrease) in Trade and Other Payables                             | 3,073,995          | 285,076            |
| (Increase)/ Decrease in Inventory   | 46,042             | (125,563)          |
| (Increase)/ Decrease in Trade and Other Receivables                           | (1,929,179)        | (3,681)            |
| Increase)/ (Decrease) in income tax payable                                   | -                  | (80,173)           |
| <b>Cash flows used in operations</b>  | <b>(5,328,910)</b> | <b>(1,148,060)</b> |

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2017

**NOTE 21: AUDITOR'S REMUNERATION**

|  | <b>2017</b>   | <b>2016</b>   |
|--|---------------|---------------|
|  | <b>\$</b>     | <b>\$</b>     |
| The auditor of Family Zone Cyber Safety Limited                                  |               |               |
| <i>Amounts received or due and receivable by Pitcher Partners for:</i>           |               |               |
| Pitcher Partners BA&A Pty Ltd  |               |               |
| - Audit and review services  | 36,000        | 16,000        |
| - Non-audit services – Investigating Accountants Report                          | -             | 15,000        |
| Pitcher Partners (WA) Pty Ltd – Taxation   | 8,000         | 2,000         |
| <b>Total remuneration of Pitcher Partners BA&amp;A Pty Ltd and related firms</b> | <b>44,000</b> | <b>33,000</b> |
| Other auditors   |               |               |
| <i>Amounts received or due and receivable by DM Advisory for:</i>                |               |               |
| Audit and review services  | -             | 10,550        |
| <b>Total auditors' remuneration</b>  | <b>44,000</b> | <b>43,550</b> |

**NOTE 22: SHARE BASED PAYMENTS**

Share based payments made during the year ended 30 June 2017 are summarised below.

**(a) Recognised Share Based Payment Expense**

|   | <b>2017</b>      | <b>2016</b>    |
|---|------------------|----------------|
|   | <b>\$</b>        | <b>\$</b>      |
| Broker options issued for capital raising services provided | 286,035          | 410,141        |
| Shares issued to consultants in lieu of services provided   | 635,421          | 349,449        |
| Options issued to employees as incentive (1)                | 422,747          | -              |
| Shares issued to employees as incentive                     | 154,775          | 90,000         |
|   | <b>1,498,978</b> | <b>849,590</b> |

- (1) Options were provided to employees of the Group under the Company's Employee Share Option Plan in place at the time. The fair value assigned to these shares has been made with reference to the Group's recent capital raising activities at the time of the issue.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2017

**(b) Options Granted During the Year**

The Group granted the following broker options to Consultants in the year ended 30 June 2017:

| <b>Number of Options Issued</b> | <b>Issue Date</b> | <b>Vesting Date</b> | <b>Expiry Date</b> | <b>Exercise Price</b> | <b>Total Value</b> | <b>Recipient</b> |
|---------------------------------|-------------------|---------------------|--------------------|-----------------------|--------------------|------------------|
| 1,750,000                       | 4 May 2017        | 4 May 2017          | 4 May 2020         | \$0.30                | \$286,035          | Brokers          |

As the options were considered to represent the value of the services received over the vesting period, the Company determined the most appropriate value using the Black Scholes Model applying the following inputs:

|                        |           |
|------------------------|-----------|
| Number of Options      | 1,750,000 |
| Underlying share price | \$0.27    |
| Exercise price         | \$0.30    |
| Expected volatility    | 100%      |
| Expiry date (years)    | 3         |
| Expected dividends     | Nil       |
| Risk free rate         | 2.11%     |
| Value per option       | \$0.1634  |

The establishment of an Employee Share Option Plan was approved by the board of directors on 7 July 2016.

The option scheme is designed to provide long term incentives for senior managers and above (including non-executive and executive directors) and to attract and retain experienced employees, board members and executive officers and provide motivation to make the group more successful. Under the plan, participants are granted options which only vest if certain performance standards are met. Participation in the plan is at the board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefit.

Any option may only be exercised after the option has vested and other conditions imposed by the board have been satisfied. Options are granted under the plan for no consideration. Options granted under the plan carry no dividend or voting rights. When exercisable, shares allotted pursuant to the exercise of options will be allotted following receipt of relevant documentation and payments will rank equally with all other shares.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2017

These options have been valued using the Black Scholes Model applying the following inputs:

|                        | <b>Tranche 1</b>  | <b>Tranche 2</b>  | <b>Tranche 3</b>  | <b>Tranche 4</b>  |
|------------------------|-------------------|-------------------|-------------------|-------------------|
| <b>Issue Date</b>      | <b>19/09/2016</b> | <b>02/12/2016</b> | <b>16/12/2016</b> | <b>20/02/2017</b> |
| Number of Options      | 3,880,958         | 1,614,280         | 6,000,000         | 636,656           |
| Underlying share price | \$0.30            | \$0.195           | \$0.20            | \$0.18            |
| Exercise price         | \$0.33            | \$0.33            | \$0.30            | \$0.33            |
| Expected volatility    | 100%              | 100%              | 100%              | 100%              |
| Expiry date (years)    | 3.00              | 3.00              | 3                 | 2.5               |
| Expected dividends     | Nil               | Nil               | Nil               | Nil               |
| Risk free rate         | 2.28%             | 2.28%             | 2.28%             | 2.11%             |
| Value per option       | \$0.1825          | \$0.1018          | \$0.11            | \$0.08            |

The Group issued four tranches of options during the period as noted below:

| <b>Tranche</b> | <b>Valuation Date</b> | <b>Expiry Date</b> | <b>Exercise Price</b> | <b>Granted during the period</b> | <b>Total Share-Based Payment Expense for the period</b> |
|----------------|-----------------------|--------------------|-----------------------|----------------------------------|---|
| 1              | 19/09/2016            | 19/09/2019         | \$0.33                | 3,880,958                        | \$214,535   |
| 2              | 02/12/2016            | 19/09/2019         | \$0.33                | 1,614,280                        | \$23,460  |
| 3              | 16/12/2016            | 15/12/2019         | \$0.30                | 6,000,000                        | \$169,956   |
| 4              | 20/02/2017            | 19/09/2017         | \$0.33                | 634,656                          | \$14,796  |

The vesting conditions attached to the Tranches 1, 2 and 4 options are as follows:

| <b>Vesting Date</b> | <b>Vesting condition</b>  |
|---------------------|---|
| 31/12/2017          | 25% of the Options will vest and become exercisable upon the Company having 20,000 paying subscribers registered by 31 December 2017  |
| 31/12/2017          | 25% of the Options vest and become exercisable upon the Company having 30,000 paying subscribers registered by 31 December 2017   |
| 30/06/2019          | 50% of the Options will vest and become exercisable upon the Company achieving \$10,000,000 of customer revenue in any of the financial years ended 30 June 2017, 30 June 2018 or 30 June 2019. |

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2017

The vesting conditions attached to the Tranche 3 options are as follows:

| <b>Vesting Date</b> | <b>Vesting condition</b>   |
|---------------------|--|
| 16/12/2018          | 25% of the Options vest on Family Zone achieving \$2.0m Cumulative Revenue in 24 months from engagement or 20,000 Paying Zones |
| 16/12/2018          | 25% of the Options vest on Family Zone achieving \$4.0m Cumulative Revenue in 24 months from engagement or 30,000 Paying Zones |
| 16/12/2018          | 25% of the Options vest on Family Zone achieving \$8.0m Cumulative Revenue in 24 months from engagement or 40,000 Paying Zone  |
| 16/12/2018          | 25% of the Options vest on Family Zone achieving \$10.0m Cumulative Revenue in 24 months from engagement or 50,000 Paying Zone |

During the financial period, the Group also issued performance shares. The performance shares issued are subject to a series of vesting conditions. The performance shares issued during the period are noted below:-

| <b>Issue date</b> | <b>Class A Performance Shares</b> | <b>Class B Performance Shares</b> | <b>Class C Performance Shares</b> | <b>Total Performance Shares</b> |
|-------------------|-----------------------------------|-----------------------------------|-----------------------------------|---------------------------------|
| 5-Dec-16          | 166,667                           | 166,667                           | 166,666                           | 500,000                         |
| 16-Dec-16         | 999,999                           | 999,999                           | 999,999                           | 2,999,997                       |
| <b>Total</b>      | <b>1,166,666</b>                  | <b>1,166,666</b>                  | <b>1,166,665</b>                  | <b>3,499,997</b>                |

The deemed value as at 30 June 2017 of these performance shares totalled \$154,775

**NOTE 23: SEGMENT INFORMATION**

AASB 8 'Operating Segments' requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Group has one operating segment that is consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Board of Directors.

The Group operates in one main operating and geographic segment being cyber security services in Australia for the year ended 30 June 2017.

In 2016 the Group operated under two operating segments.

- i) Box Services – representing the development of the Cyber Safe Technology (Box Services)
- ii) Corporate – representing other corporate undertakings (Corporate).



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

### 2017

There were no segment results or segment assets and liabilities for the year ended 30 June 2017.

### 2016

The Company therefore operated in two segments being Box Services and Corporate in the year ended 30 June 2016.

|                               | <b>Box Services<br/>2016</b> | <b>Corporate<br/>2016</b> | <b>Total<br/>2016</b> |
|-------------------------------|------------------------------|---------------------------|-----------------------|
| <b>Segment income</b>         | -                            |                           |                       |
| Sales Revenue                 | 5,532                        | -                         | 5,532                 |
| Other income                  | -                            | 438,590                   | 438,590               |
| <b>Total income</b>           | <b>5,532</b>                 | <b>438,590</b>            | <b>444,122</b>        |
| <b>Segment expenses</b>       |                              |                           |                       |
| Impairment of intangibles     | (690,041)                    | -                         | (690,041)             |
| Operating expenses            | -                            | (577,061)                 | (577,061)             |
| Employee expenses             | -                            | (559,725)                 | (599,725)             |
| Marketing                     | (7,685)                      | -                         | (7,685)               |
| Research & Development        | (908,855)                    | -                         | (908,855)             |
| Other                         | -                            | (27)                      | (27)                  |
| Share based payment expenses  | -                            | (512,141)                 | (512,141)             |
| Loss before depreciation      | (1,601,049)                  | (1,210,364)               | (2,811,413)           |
| Depreciation                  | (84,367)                     | -                         | (84,367)              |
| <b>Loss before income tax</b> | <b>(1,685,416)</b>           | <b>(1,210,364)</b>        | <b>(2,895,780)</b>    |

|                                       | <b>Box Services<br/>2016</b> | <b>Corporate<br/>2016</b> | <b>Total<br/>2016</b> |
|---------------------------------------|------------------------------|---------------------------|-----------------------|
| <b>Segment assets and liabilities</b> |                              |                           |                       |
| Cash                                  | -                            | 720,227                   | 720,227               |
| Trade and other receivables           | -                            | 41,427                    | 41,427                |
| Inventory                             | 216,029                      | -                         | 216,029               |
| Plant and equipment                   | -                            | 6,851                     | 6,851                 |
| Trade and other creditors             | -                            | (538,631)                 | (538,631)             |
| Intangibles                           | 380,145                      | -                         | 380,145               |
| Borrowings                            | -                            | (1,430,000)               | (1,430,000)           |
| <b>Net assets</b>                     | <b>596,174</b>               | <b>(1,200,126)</b>        | <b>(603,952)</b>      |

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2017

**NOTE 24: FINANCIAL INSTRUMENTS**
**(a) Financial Risk Management Objectives and Policies**

The Group's principal financial instruments comprise cash, receivables, and payables.

Primary responsibility for identification and control of financial risks rests with the Board. The Board reviews and agrees policies for managing each of the risks identified.

The Group manages its exposure to key financial risks, including interest rate, credit and liquidity risks in accordance with the Company's risk management policy. The primary objective of the policy is to reduce the volatility of cash flows and asset values arising from such movements.

The Group uses different methods to measure and manage the different types of risks to which it is exposed. These include monitoring the levels of exposure to interest rate risk, ageing analysis and monitoring of credit allowances to manage credit risk and the use of future cash flow forecasts to monitor liquidity risk.

**(b) Significant Accounting Policies**

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, with respect to each class of financial asset, financial liability and equity instrument are disclosed in Note 3 to the financial statements.

**(c) Categorisation of Financial Instruments**

Details of each category in accordance with Australian Accounting Standard AASB 139 *Financial Instruments: Recognition and Measurement*, are disclosed either on the face of the Statement of Financial Position or in the notes.

**(d) Credit Risk**
**(i) Exposure to Credit Risk**

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

|                                   | 2017<br>\$       | 2016<br>\$     |
|-----------------------------------|------------------|----------------|
| <b>Financial Assets - Current</b> |                  |                |
| Cash and cash equivalents         | 1,387,577        | 720,227        |
| <b>Total Financial Assets</b>     | <b>1,387,577</b> | <b>720,227</b> |

Financial assets as at 30 June 2017 are neither past due nor impaired.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2017

**(ii) Interest Rate Risk**

The Group's maximum exposure to interest rates at the reporting date was:

|                                   | Range of Effective Interest Rate (%) | Carrying Amount<br>\$ | Interest Rate Exposure       |                            |                           | Total<br>\$      |
|-----------------------------------|--------------------------------------|-----------------------|------------------------------|----------------------------|---------------------------|------------------|
|                                   |                                      |                       | Variable Interest Rate<br>\$ | Non Interest Bearing<br>\$ | Fixed Interest Rate<br>\$ |                  |
| <b>2017</b>                       |                                      |                       |                              |                            |                           |                  |
| <b>Financial Assets - Current</b> |                                      |                       |                              |                            |                           |                  |
| Cash and cash equivalents         | 0 – 1                                | 1,387,577             | -                            | -                          | 1,387,577                 | <b>1,387,577</b> |
| <b>2016</b>                       |                                      |                       |                              |                            |                           |                  |
| <b>Financial Assets - Current</b> |                                      |                       |                              |                            |                           |                  |
| Cash and cash equivalents         | 0 – 1                                | 720,227               | -                            | -                          | 720,227                   | <b>720,227</b>   |

**(e) Fair value of Financial Instruments**

The directors consider the carrying amount of the Group's financial instruments to be a reasonable approximation of their fair value, on account of their short maturity cycle.

**(f) Liquidity Risk**
**(i) Exposure to Liquidity Risk**

The carrying amount of the Group's financial liabilities represents the maximum liquidity risk. The Group's maximum exposure to liquidity risk at the reporting date was:

|  | 2017<br>\$       | 2016<br>\$       |
|--|------------------|------------------|
| <b>Financial Liabilities - Current</b> |                  |                  |
| Trade and other payables               | 589,321          | 581,729          |
| Borrowings                             | -                | 1,430,000        |
| Share monies received in advance       | 622,000          | -                |
| <b>Total financial liabilities</b>     | <b>1,211,321</b> | <b>2,011,729</b> |

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2017

## (ii) Contractual Maturity Risk

The following table discloses the contractual maturity analysis at the reporting date:

| <b>2017</b>                   | <b>0-6 months</b> | <b>6-12 months</b> | <b>Over 1 to 5</b> | <b>More than 5</b> | <b>Total</b>     |
|-------------------------------|-------------------|--------------------|--------------------|--------------------|------------------|
| <b>Financial Instrument</b>   | <b>\$</b>         | <b>\$</b>          | <b>years</b>       | <b>years</b>       | <b>\$</b>        |
|                               |                   |                    | <b>\$</b>          | <b>\$</b>          |                  |
| <b>Financial Assets</b>       |                   |                    |                    |                    |                  |
| Cash                          | 1,387,577         | -                  | -                  | -                  | 1,387,577        |
| Trade and other receivables   | 1,007,424         | -                  | 703,782            | -                  | 1,970,607        |
| <b>Total financial assets</b> | <b>2,395,001</b>  | -                  | -                  | -                  | <b>3,358,184</b> |

**Financial Liabilities**

|                                    |                  |   |   |   |                  |
|------------------------------------|------------------|---|---|---|------------------|
| Trade and other payables           | 589,321          | - | - | - | 589,321          |
| Share monies in advance            | 622,000          | - | - | - | 622,000          |
| <b>Total financial liabilities</b> | <b>1,211,321</b> | - | - | - | <b>1,211,321</b> |

| <b>2016</b>                   | <b>0-6 months</b> | <b>6-12 months</b> | <b>Over 1 to 5</b> | <b>More than 5</b> | <b>Total</b>   |
|-------------------------------|-------------------|--------------------|--------------------|--------------------|----------------|
| <b>Financial Instrument</b>   | <b>\$</b>         | <b>\$</b>          | <b>years</b>       | <b>years</b>       | <b>\$</b>      |
|                               |                   |                    | <b>\$</b>          | <b>\$</b>          |                |
| <b>Financial Assets</b>       |                   |                    |                    |                    |                |
| Cash                          | 720,227           | -                  | -                  | -                  | 720,227        |
| Trade and other receivables   | 41,427            | -                  | -                  | -                  | 41,427         |
| <b>Total financial assets</b> | <b>761,654</b>    | -                  | -                  | -                  | <b>761,654</b> |

**Financial Liabilities**

|                                    |                  |   |   |   |                  |
|------------------------------------|------------------|---|---|---|------------------|
| Trade payables                     | 538,631          | - | - | - | 538,631          |
| Other payables                     | 1,430,000        | - | - | - | 1,430,000        |
| <b>Total financial liabilities</b> | <b>1,968,631</b> | - | - | - | <b>1,968,631</b> |

## (g) Market Risk

## (i) Currency Risk

The Group's primary operations were in Australia during the years ended 30 June 2017 and 30 June 2016 and therefore had limited exposure to foreign exchange risk.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2017

## (ii) Interest Rate Risk

The Group's only exposure to interest rate risk is Cash as set out in Note 21(e)(ii). The Group is not exposed to debt interest rate risk as there is nil debt for 2017 (2016: no exposure as borrowings bear interest at a fixed rate).

## (iii) Other Price Risk

By virtue of the nature and classification of the financial instruments held by the entity, it is not exposed to significant other price risk.

## (iv) Sensitivity Disclosure Analysis

Taking into account past performance, future expectations and economic forecasts, the Group believes the following movements are 'reasonably possible' over the next 12 months (base rates are sourced from the Reserve Bank of Australia).

It is considered that 100 basis points is a 'reasonably possible' estimate of potential variations in the interest rate.

The following table discloses the impact on net operating result and equity for each category of financial instrument held by the Company at year end as presented to key management personnel, if changes in the relevant risk occur.

|                                   | Carrying<br>Amount<br>\$ | Interest Rate Risk |                     |                     |              |
|-----------------------------------|--------------------------|--------------------|---------------------|---------------------|--------------|
|                                   |                          | Profit<br>\$       | +1%<br>Equity<br>\$ | -1%<br>Profit<br>\$ | Equity<br>\$ |
| <b>2017</b>                       |                          |                    |                     |                     |              |
| <b>Financial Assets - Current</b> |                          |                    |                     |                     |              |
| Cash and cash equivalents         | 1,387,577                | 13,875             | 13,875              | (13,875)            | (13,875)     |
| <b>2016</b>                       |                          |                    |                     |                     |              |
| <b>Financial Assets - Current</b> |                          |                    |                     |                     |              |
| Cash and cash equivalents         | 720,227                  | 7,202              | 7,202               | (7,202)             | (7,202)      |



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

### NOTE 25: RELATED PARTY TRANSACTIONS

#### (a) Parent and Subsidiaries

The parent entity and ultimate parent entity of the Group is Family Zone Cyber Safety Limited, a company listed on the Australian Securities Exchange. The components of the Group are:

|                                    | Incorporation | Extent of control |      |
|------------------------------------|---------------|-------------------|------|
|                                    |               | 2017              | 2016 |
| <b>Parent</b>                      |               |                   |      |
| Family Zone Cyber Safety Limited   | Australia     | -                 | -    |
| <b>Controlled entities</b>         |               |                   |      |
| Family Zone Inc.                   | USA           | 100%              | -    |
| Family Zone Cyber Safety Pte. Ltd. | Singapore     | 100%              | -    |

#### (b) Key Management Personnel Compensation

Information on remuneration of all Directors and Key Management Personnel is contained in the Remuneration Report within the Directors' Report. The aggregated compensation paid to Directors and Key Management Personnel of the Group is as follows

|                              | 2017           | 2016           |
|------------------------------|----------------|----------------|
|                              | \$             | \$             |
| :                            |                |                |
| Short-term employee benefits | 412,046        | 40,000         |
| Post-employment benefits     | -              | -              |
| Share Based Payment          | -              | 658,750        |
| <b>Total</b>                 | <b>412,046</b> | <b>698,750</b> |

#### (c) Loans with Key Management Personnel

(Mr Tim Levy – Managing Director)

A loan balance has arisen between Family Zone Cyber Safety Limited and Mr Tim Levy as a result of funds loaned to the Company and payments made on behalf of the Company by the Mr Levy. Movements in the loan account during the year are as follows:

|  | 2017            | 2016            |
|--|-----------------|-----------------|
|  | \$              | \$              |
| Opening balance payable by the Company | (44,483)        | -               |
| Loans received from director           | (120,483)       | (67,143)        |
| Cash repayments                        | 144,483         | 23,000          |
| <b>Total Payable to the Company</b>    | <b>(20,483)</b> | <b>(44,483)</b> |

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2017

**(c) Other Transactions with Key Management Personnel**

## a) Grange Consulting and Grange Capital Partners

Mr Phil Warren, a Director of the Company, is also a Managing Director of Grange Consulting and an entity related to him is shareholder of Grange Consulting. Grange Capital is an entity associated with Grange Consulting.

A summary of the total fees paid to Grange Consulting and Grange Capital Partners for the year ended 30 June 2017 and 30 June 2016 is as follows:

|   | <b>30 June 2017</b> | <b>30 June 2016</b> |
|---|---------------------|---------------------|
|   | <b>\$</b>           | <b>\$</b>           |
| Company secretarial services                          | 90,402              | 19,825              |
| Capital raising fee                                   | -                   | 6,300               |
| Success fee on listing on the ASX                     | 50,000              | -                   |
| Transaction management on lodgement of the prospectus | 75,000              | -                   |
| <b>Total</b>  | <b>215,402</b>      | <b>26,125</b>       |

(1) Amounts payable to Grange Consulting/Grange Capital as at 30 June 2017 were \$17,505 (Including GST)

**NOTE 26: EVENTS OCCURRING AFTER THE REPORTING PERIOD**

On 6 July 2017, the Group announced it had entered into a distribution agreement with “Leading with Technologies”, one of Australian largest tech vendors into schools. Under the agreement Family Zone will be pre-installed on devices sold to parents as part of the school Bring Your Own Device programme.

On 14 July 2017, the Group announced it had signed a distribution agreement with the ethical telecommunications company “The Peoples Operator” which has operations in both the US and UK.

On 17 July 2017, the Group announced it had executed a commercial value added services agreement with Telkomesel, Indonesia’s biggest telecommunications company, to commercially launch Family Zone products to its subscribers.

On 19 July 2017, the announced it had entered into a partnership with New Zealand’s Linewize whereby both companies will interface their platforms. Linewize is the leading provider of online content filtering systems to New Zealand’s schools providing Family Zone with access to approximately 130,000 students using Linewize systems plus the broader NZ market for parental controls.

On 20 July 2017, the Group issued 3,333,334 fully paid ordinary (shares) at \$0.30 to raise \$1,000,000, pursuant to the Smyth Placement Agreement.

On 31 July 2017 the Group announced that following successful beta trails that it had entering into a commercial partnership with IgniteNet making Family Zone technology available to IgniteNet distributors and end user customers globally.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

On 2 August 2017 the Group announced it had raised \$5.2 million through the issue of 13,000,000 shares at \$0.40 per Share to sophisticated and professional investors. The funds raised are to be used to support investment in service delivery and acceleration of business development activities particularly in education and global partnerships and to strengthen the Company's balance sheet.

Apart from the events discussed above, no other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Company in subsequent financial years

### NOTE 27: CONTINGENT LIABILITIES

The Directors are not aware of any contingent liabilities that may arise from the Group's operations as at 30 June 2017.

### NOTE 28: ASSET ACQUISITION AND RESELLER AND LICENCE AGREEMENT

On 8 November 2016, the Group announced it had entered into an agreement to acquire the intellectual property rights in the cyber security and education platform Sonar/MyNet owned by Tesseract for \$3.5 million in cash and the issue of 1,000,000 shares ('Acquisition Agreement') payable based on the following cash payment schedule:

- \$0.25 million cash deposit;
- \$0.75 million on completion;
- \$0.5 million by 28 February 2017; and
- \$2.0 million by 30 May 2017 ('Final Payment').

Tesseract was also engaged as the Group's reseller and distribution partner and paid Family Zone a monthly licence fee for the use of the Sonar/MyNet IP on all active installations ('Reseller and Licence Agreement').

On 6 June 2017 the parties agreed to vary the terms of the Acquisition Agreement and Reseller and Licence Agreement as outlined below.

Family Zone paid \$1.0 million of the Final Payment instalment under the Acquisition Agreement in April 2017 and renegotiated the payment terms for the remaining \$1.0 million as follows:

- \$0.50 million will be paid immediately;
- 1,000,000 Shares issued at an indicative price of \$0.25 (issued 9 June 2016); and
- \$0.40 million payable in six equal monthly instalments commencing in July 2017.

At the date of this report, the timeline as set above has been followed with no exception.

The parties also agreed to vary the Reseller and Licence Agreement with the Company acquiring all the Installation Contracts and assuming technical and commercial responsibility for the remaining Tesseract Sonar customers. The Installation Contracts were acquired for Tesseract based on the Net Contract Value being the value of all outstanding payments due to Tesseract pursuant to an Installation Contract less the sum of Licence Fees which would otherwise be due to be paid to Family Zone by Tesseract until the expiry of such Installation Contract.

The Company also announced on 8 November 2016 that it had acquired a client filtering technology application called the "Company and Application Security Manager" ('CASM') in consideration in the issue of 833,333 shares, which were approved at the General Meeting held in December 2016.



## DIRECTORS' DECLARATION

In the Directors' opinion:

- (a) the accompanying financial statements set out on pages 32 to 66 and the Remuneration Report in the Directors' Report are 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 2017 and of its performance, as represented by the results of its operations, changes in equity and cash flows, for the year ended on that date; and
  - ii. complying with Australian Accounting Standards, Corporations Regulations 2001 and other mandatory professional reporting requirements;
- (b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.
- (c) the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

This declaration is made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the year ended 30 June 2017.

This declaration is made in accordance with a resolution of the Board of Directors.

On behalf of the Directors

A handwritten signature in blue ink, appearing to read "Tim Levy", with a long, sweeping flourish extending to the right.

Tim Levy  
Managing Director  
30 August 2017

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF  
FAMILY ZONE CYBER SAFETY LIMITED**

**Report on the Audit of the Financial Report**

*Opinion*

We have audited the financial report of Family Zone Cyber Safety Limited “the Company” and its controlled entities “the Group”, which comprises the statement of financial position as at 30 June 2017, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, 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:

- (a) giving a true and fair view of the Group’s financial position as at 30 June 2017 and of its financial performance for the year then ended; and
- (b) 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 auditor independence requirements of 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.

**INDEPENDENT AUDITOR’S REPORT  
TO THE MEMBERS OF  
FAMILY ZONE CYBER SAFETY LIMITED**

*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.

| <b>Key Audit Matter</b>   | <b>How our audit addressed the key audit matter</b>   |
|---|---|
| <p>Carrying value of intangible assets<br/><i>Refer to Note 2, 11 &amp; 28</i></p>  |   |
| <p>Intangible assets of \$3,325,003 represent 47% of the Group’s total assets.</p> <p>The evaluation of the recoverable amount of these intangible assets requires significant judgement in determining the key assumptions supporting the expected future cash flows of the business and the utilisation of the relevant assets.</p> | <p>Our procedures included, amongst others:</p> <p>Obtaining an understanding of the key controls associated with the preparation of the valuation models used to assess the recoverable amount of the Group’s intangible assets.</p> <p>Critically evaluating and challenging the methodology and key assumptions of management in their preparation of impairment models.</p> <p>Assessing the appropriateness of the disclosures included within the financial report.</p> |

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF  
FAMILY ZONE CYBER SAFETY LIMITED**

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Revenue Recognition

*Refer to Note 3(a), 3(b) & 4*

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The Group has revenue from contracts to provide services which involve a high volume of transactions and are recognised as the services are delivered.

We believe this is a key audit matter because of its significance to profit and the high volume of revenue transactions associated with services revenue.

Our procedures included, amongst others:

Considering the appropriateness of the Group's revenue recognition accounting policies including those relating to discounts, incentives and rebates and assessing compliance with the policies in terms of applicable accounting standards.

Testing a sample of transactions by sighting evidence of completed invoices and compared the revenue amount recognised to the contracted rate with the customer. Transactions pre and post year end we tested for cut off.

Assessing the Group's research and development grants received during the year, assessing the timing of revenue recognition as well as testing a sample to supporting documentation.

Assessing the Group's accounting policies as set out within Notes 3(a) & 3(b) for compliance with revenue recognition requirements of *Australian Accounting Standards "AASBs"*.

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**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF  
FAMILY ZONE CYBER SAFETY LIMITED**

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Share Based Payments

*Refer to Note 3(m) & 22*

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Share based payments of \$1,498,978 represent a significant portion of the Group's expenditure.

Share based payments must be recorded at fair value of the service provided, or in the absence of such, at the fair value of the underlying equity instrument granted.

Our procedures included, amongst others:

Obtaining an understanding of the key controls associated with the preparation of the valuation models used to assess the fair value of share based payments, including those relating to volatility of the underlying security and the appropriateness of the model used for valuation.

Critically evaluating and challenging the methodology and assumptions of management in their preparation of valuation models.

Assessing the Group's accounting policy as set out within Note 3(m) for compliance with the requirements of AASB 2 *Share-based Payment*.

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*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.

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF  
FAMILY ZONE CYBER SAFETY LIMITED**

*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.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF  
FAMILY ZONE CYBER SAFETY LIMITED**

other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on the Remuneration Report**

*Opinion on the Remuneration Report*

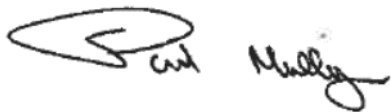
We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2017. In our opinion, the Remuneration Report of Family Zone Cyber Safety Limited, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

*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.

Pitcher Partners BA&A PTY LTD

PITCHER PARTNERS BA&A PTY LTD



PAUL MULLIGAN  
Executive Director  
Perth, 30 August 2017

## ASX ADDITIONAL INFORMATION

Additional information required by the ASX Listing Rules not disclosed elsewhere in this Annual Report is set out below.

### 1. Number of holders and voting rights of each class of equity securities

The issued capital of the Company as at 23 August 2017 includes the following securities:

| Equity Class                                     | Number of holders | Total on issue |
|--|-------------------|----------------|
| Fully paid ordinary shares                       | 821               | 98,129,262     |
| Unlisted Incentive Options (\$0.25, 20 May 2019) | 5                 | 4,000,000      |
| Unlisted Options (\$0.25, 29 Aug 2019)           | 59                | 10,093,750     |
| Unlisted Employee Options (\$0.33, 19 Sept 2019) | 25                | 4,574,393      |
| Unlisted Employee Options (\$0.30, 15 Dec 2019)  | 2                 | 6,000,000      |
| Performance Shares                               | 7                 | 31,499,997     |
| Broker Options (\$0.30, 5 May 2020)              | 1                 | 1,750,000      |

All issued fully paid ordinary shares (**Shares**) carry one vote per share. An Unlisted Option or Performance Share does not entitle the holder to vote on any resolution proposed at a general meeting of Shareholders.

### 2. Substantial holders in the Company

| Substantial Shareholder  | Number of Shares held | % of Total Shares |
|--------------------------|-----------------------|-------------------|
| Timothy Nominees Pty Ltd | 6,301,118             | 6.42%             |
| Gasmere Pty Ltd          | 6,808,888             | 6.94%             |

### 3. Distribution of equity securities as at 23 August 2017

#### a) Fully paid ordinary shares

| Holding Ranges          | Holders    | Total Shares      | % Total Shares |
|-------------------------|------------|-------------------|----------------|
| 1 - 1,000               | 14         | 5,901             | 0.01%          |
| 1,001 - 5,000           | 136        | 389,589           | 0.40%          |
| 5,001 - 10,000          | 102        | 886,577           | 0.90%          |
| 10,001 - 100,000        | 411        | 16,853,497        | 17.17%         |
| 100,001 - 9,999,999,999 | 148        | 79,993,698        | 81.52%         |
| <b>Totals</b>           | <b>811</b> | <b>98,129,262</b> | <b>100.00%</b> |

There were 12 holders with less than a marketable parcel of Shares based on the closing share price of \$0.50 on 23 August 2017.

**ASX ADDITIONAL INFORMATION (CONTINUED)**

## b) Unlisted Incentive Options (\$0.25, 20 May 2019)

| <b>Holding Ranges</b>   | <b>Holders</b> | <b>Total Incentive Options</b> | <b>% Total Incentive Options</b> |
|-------------------------|----------------|--------------------------------|----------------------------------|
| 1 - 1,000               | -              | -                              | -                                |
| 1,001 - 5,000           | -              | -                              | -                                |
| 5,001 - 10,000          | -              | -                              | -                                |
| 10,001 - 100,000        | -              | -                              | -                                |
| 100,001 - 9,999,999,999 | 5              | 4,000,000                      | 100.00%                          |
| <b>Totals</b>           | <b>5</b>       | <b>4,000,000</b>               | <b>100.00%</b>                   |

## c) Unlisted Options (\$0.25, 29 Aug 2019)

| <b>Holding Ranges</b>   | <b>Holders</b> | <b>Total Options</b> | <b>% Total Options</b> |
|-------------------------|----------------|----------------------|------------------------|
| 1 - 1,000               | -              | -                    | -                      |
| 1,001 - 5,000           | -              | -                    | -                      |
| 5,001 - 10,000          | 2              | 15,626               | 0.15%                  |
| 10,001 - 100,000        | 36             | 1,925,000            | 19.07%                 |
| 100,001 - 9,999,999,999 | 21             | 8,153,125            | 80.77%                 |
| <b>Totals</b>           | <b>59</b>      | <b>10,093,751</b>    | <b>100.00%</b>         |

## d) Employee Options (\$0.33, 19 Sept 2019)

| <b>Holding Ranges</b>   | <b>Holders</b> | <b>Total Employee Options</b> | <b>% Total Employee Options</b> |
|-------------------------|----------------|-------------------------------|---------------------------------|
| 1 - 1,000               | -              | -                             | -                               |
| 1,001 - 5,000           | -              | -                             | -                               |
| 5,001 - 10,000          | -              | -                             | -                               |
| 10,001 - 100,000        | 8              | 643,222                       | 14.06%                          |
| 100,001 - 9,999,999,999 | 17             | 3,931,171                     | 85.94%                          |
| <b>Totals</b>           | <b>25</b>      | <b>4,574,393</b>              | <b>100.00%</b>                  |

**ASX ADDITIONAL INFORMATION (CONTINUED)**
**4. Top 20 Shareholder as at 23 August 2017**

| <b>Position</b> | <b>Holder Name</b>  | <b>Holding</b>    | <b>% IC</b>    |
|-----------------|---|-------------------|----------------|
| 1               | GASMERE PTY LTD   | 6,808,888         | 6.94%          |
| 2               | TIMOTHY NOMINEES PTY LTD <TIMOTHY FAMILY A/C>                 | 6,301,118         | 6.42%          |
| 3               | CITICORP NOMINEES PTY LIMITED                                 | 3,241,385         | 3.30%          |
| 4               | MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED                | 2,810,345         | 2.86%          |
| 5               | BRISPOT NOMINEES PTY LTD <HOUSE HEAD NOMINEE A/C>             | 2,530,553         | 2.58%          |
| 6               | CHIDO TRADING PTY LTD   | 2,398,368         | 2.44%          |
| 7               | SISU INTERNATIONAL PTY LTD                                    | 2,302,000         | 2.35%          |
| 8               | TRIGGER ASSETS PTY LTD <THE TRIGGER INVESTMENT A/C>           | 2,211,309         | 2.25%          |
| 9               | HARRY HATCH   | 2,000,000         | 2.04%          |
| 10              | FRESHIE PTY LTD <THE SWAN FAMILY A/C>                         | 1,991,190         | 2.03%          |
| 11              | NOVALANE COM PTY LTD <THE ROBINSON FAMILY A/C>                | 1,898,018         | 1.93%          |
| 12              | MCCUSKER HOLDINGS PTY LTD                                     | 1,700,000         | 1.73%          |
| 13              | TR NOMINEES PTY LTD   | 1,500,000         | 1.53%          |
| 14              | FIDELIO INVESTMENTS PTE LTD                                   | 1,500,000         | 1.53%          |
| 15              | BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT<br>DRP> | 1,488,939         | 1.52%          |
| 16              | UBS NOMINEES PTY LTD  | 1,270,775         | 1.30%          |
| 17              | BROWN BRICKS PTY LTD  | 1,266,333         | 1.29%          |
| 18              | HAWTHORN GROVE INVESTMENTS PTY LTD                            | 1,166,667         | 1.19%          |
| 19              | WYMOND INVESTMENTS PTY LTD <DEE WHY SALES P/L SUPER<br>A/C>   | 1,100,000         | 1.12%          |
| 20              | AUST EXECUTOR TRUSTEES LTD <CYAN C3G FUND>                    | 1,000,000         | 1.02%          |
|                 | <b>Totals</b>   | <b>46,485,888</b> | <b>47.37%</b>  |
|                 | <b>Total Shares</b>   | <b>98,129,262</b> | <b>100.00%</b> |

**ASX ADDITIONAL INFORMATION (CONTINUED)**
**5. Restricted Securities**

The following securities as classified as restricted securities and are subject to escrow periods as outlined below

| <b>Security</b>                                     | <b>Escrowed to<br/>1 Feb 2018</b> | <b>Escrowed to<br/>29 Aug2017</b> | <b>Escrowed to<br/>28 Aug 2018</b> |
|---|-----------------------------------|-----------------------------------|------------------------------------|
| Shares  | 225,000                           |                                   | 13,233,637                         |
| Incentive Options (\$0.25, 20 May 2019)             |                                   | -                                 | 4,000,000                          |
| Attaching Options (\$0.25, 3 years from Quotation)  |                                   |                                   | -                                  |
| Prospectus Options (\$0.25, 3 years from Quotation) |                                   |                                   | 3,348,750                          |
| <b>Total Options</b>                                |                                   |                                   | <b>7,348,750</b>                   |
| Class A Performance Shares                          |                                   | 1,166,666                         | 9,333,334                          |
| Class B Performance Shares                          |                                   | 1,166,666                         | 9,333,333                          |
| Class C Performance Shares                          |                                   | 1,166,665                         | 9,333,333                          |
| <b>Total Performance Shares</b>                     |                                   | <b>3,499,997</b>                  | <b>28,000,000</b>                  |

**6. Unquoted Securities**

The names of the security holders holding more than 20% of an unlisted class of security are listed below:

**a) Unlisted Incentive Options (\$0.25, 20 May 2019)**

| <b>Holder Name</b>              | <b>Holding</b>   | <b>% Total Incentive<br/>Options</b> |
|---------------------------------|------------------|--------------------------------------|
| John Sims <The Sims Family A/C> | 1,500,000        | 37.50%                               |
| <b>Total Incentive Options</b>  | <b>4,000,000</b> | <b>100.00%</b>                       |

**b) Performance Shares**

| <b>Holder Name</b>                               | <b>Class A<br/>Performance<br/>Shares</b> | <b>Class B<br/>Performance<br/>Shares</b> | <b>Class C<br/>Performance<br/>Shares</b> | <b>Total<br/>Performance<br/>Shares</b> | <b>% of Total<br/>Performance<br/>Shares</b> |
|--|---|---|---|---|--|
| Timothy Nominees Pty Ltd<br><Timothy Family A/C> | 3,878,611                                 | 3,878,610                                 | 3,878,610                                 | 11,635,831                              | 41.56%                                       |
| Freshie Pty Ltd<br><The Swan Family A/C>         | 2,205,384                                 | 2,205,383                                 | 2,205,383                                 | 6,616,150                               | 23.63%                                       |
| <b>Total</b>                                     |   |   |   | <b>31,499,997</b>                       | <b>100.00%</b>                               |

**7. On-market buy back**

There is currently no on-market buyback program for any of the Company's listed securities.



Family Zone Cyber Safety Limited  
Annual Report 30 June 2017

## CORPORATE GOVERNANCE

The Company's corporate governance statement can be found at the following URL:

<https://cdn2.hubspot.net/hubfs/416543/docs/Corporate%20Governance%20Statement%20-Family%20Zone%2030%20June%202017.pdf?t=1504071949282>

The Board of Directors is responsible for the corporate governance of the Company. The Board guides and monitors the business and affairs of the Company on behalf of Shareholders by whom they are elected and to whom they are accountable.

This statement outlines the main corporate governance practises in place throughout the financial year, which comply with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations with 2014 Amendments 3<sup>rd</sup> edition unless otherwise stated.