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Netlinkz

APPENDIX 4C

JUN QTR 2020

Commentary and Operational Update

"Sales continue to increase in China as multi-national organisations purchase the VSN platform. Demand for VSN is now expanding rapidly outside of China."

James Tsiolis | Executive Chairman and CEO

Key Metrics

Adjusted Receipts
From Customers

195%

VS. Q3 FY20 (A\$1.6M*)

Guidance
Maintained

~A\$15M

CY2020 Receipts From Customers

Total Group Receipts
From Customers

A\$3.1M

JUNE QTR 2020

Netlinkz Ltd (ASX:NET) is pleased to provide an update on its activities and achievements for the quarter ended 30 June 2020 ("June Quarter"), together with its Appendix 4C.

Highlights

- A\$3.1m receipts from customers generated at a Group level – 195% of the adjusted March quarter result of \$1.6m*.
- China operations generated A\$2.6m (RMB 12.0m) in receipts from customers. Quarter on quarter growth was AUD +147% (RMB +168%) on an adjusted basis*.
- Contracts continue to be signed and sales in China are increasing despite COVID-19 and other restrictions. The Virtual Secure Network (VSN) is now becoming the core product for all sales in China.
- SSI Pacific Pty Limited (SSI) has generated steady receipts from customers of A\$0.5m.
- The Company expects receipts from customers for the year ending 31 December 2020 will remain unchanged at circa A\$15m.
- Consolidated cash balance of A\$4.0m (including AOFA Technology (Shanghai) Co. Ltd. (AOFA) and Beijing iLinkAll Software Engineering Co. Ltd. (iLinkAll)).
- VSN platform sales have commenced beyond China to now include Australia and the United States.

Management Commentary

Executive Chairman and CEO James Tsiolis said: "Netlinkz has delivered another quarter of solid growth, underpinned predominantly by demand for our VSN in China. Multinational corporations taking up the VSN is excellent validation of the technology, and over time, these customers are likely to deploy the VSN into other international markets in which they operate."

"We continue to invest in our technology to ensure Netlinkz maintains a market-leading position. iLinkAll is launching VSN version 2.0 next month and customer feedback to date has been most encouraging."

"Demand for security intelligence and monitoring solutions by government, telecommunication companies and corporations is healthy and we expect SSI's growth to keep tracking up."

* Receipts from customers of A\$2.19m in Q3 FY20 included A\$615,000 that was not banked in December 2019 Qtr. A\$1.575m was attributable to Q3 FY20.

Operational Overview

CHINA

Receipts from customers grew 168% quarter on quarter in RMB on an adjusted basis*.

iLinkAll is adding more resources to accelerate sales, including consulting engineers and senior implementation specialists.

The number of multi-national and national organisations testing the VSN in the Beijing IoT Lab, with the potential to move to production use, is increasing.

The first recurring revenue customers entered into contracts to use the VSN this quarter in addition to sales by JAST Limited to China Telecom customers, albeit at a low rate due to COVID-19.

In August 2020, iLinkAll is launching VSN version 2.0 built in the Beijing IoT Lab. The new version improves latency and adds more functionality, including more flexible administration and management of devices and networks.

Coinciding with the launch of VSN version 2.0, R&D expenditure is decreasing as the product matures and the development focus shifts to further improving latency and adding more customer and market-requested features.

Key points

- Sales in China continue to grow rapidly. Quarter on quarter receipts from customers have increased 168% in RMB and 147% in AUD on an adjusted basis*.
- Shanghai M-Soft Information Technology Co. Ltd. (**M-Soft**) and Pinnacle (Shanghai) Information Consulting Co. Ltd. (**Pinnacle**) continue to generate new business opportunities, which is reflected in increased sales.
- iLinkAll continues to work on the Chengdu water and sanitation projects for its VSN and Cloud product to be integrated into the water technology service providers' total solutions bringing in both project engineering revenue and product sales.
- Design and implementation continue to be the key source of sales revenue. We expect several projects to start recurring revenue in the September and December Quarters. The focus of the sales team is to engage with as many mid to large corporates in China as possible. A key trend emerging in sales is the securing of data transmission whilst not affecting (or improving) latency within cloud-based environments.
- R&D spend requirement reduced from \$330,000 per month to \$150,000 in June 2020, following payment of June quarter R&D by Australia. Total VSN R&D spend of \$150,000 per month will be funded by AOFA from September 2020.
- Patents and trademarks are currently being registered by Netlinkz for the VSN technology in China and the rest of the world, so Netlinkz can develop and deploy geographic specific VSN source code in other countries.

Receipts from customers



* Receipts from customers of A\$2.19m in Q3 FY20 included A\$615,000 that was not banked in December 2019 Qtr. A\$1.575m was attributable to Q3 FY20.

JAPAN

Netlinkz Japan K.K was established in April 2020 but did not commence trading until late June 2020. Led by Masamichi Tanaka, the Netlinkz Japan entity is focused on deploying the VSN to corporates across Japan.

In June 2020, Mr Tanaka established a number of partnerships for Netlinkz to roll out the VSN to Corporates (executed NDAs with multiple Japanese enterprises which are building/developing IoT devices and networks).

Receipts from customers are expected to commence by the end of the September 2020 quarter.

Key points

- 3 Japanese multinational corporates and 4 local Japanese organisations are currently testing the VSN.
- A Japanese IoT implementer is developing two solutions on the VSN platform to address COVID-19 logistics, data streaming and management.
- Visualisation dashboard for retail stores, which will be an indicator for customers to gauge customer numbers in stores – from storefront digital signage or an app.
- Securing a private video chat solution: increasingly organisations are concerned about employees using public apps for corporate conferencing and virtual meetings.

REST OF WORLD

Sales have commenced in the US and Australia. We expect this trend to increase as American, Asian and European corporates seek network security and improved latency at a cost-effective price.

The company is considering other regional hubs to establish IOT Labs and local source code as part of a broader distribution strategy.

AUSTRALIA

The Australian team is focused on organising and coordinating the establishment of the VSN in other markets around the world. The Netlinkz IoT Lab in Sydney is testing and integrating the VSN and VIN for the rest of the world.

SSI, which was acquired by the Company in January 2020, is performing in line with expectations. All customers of SSI have been retained.

As demand for national and cyber security continues to increase, Netlinkz expects a corresponding increase for SSI's services.

Key points

- SSI has contributed receipts from customers of A\$0.5m in the June quarter and continues to perform in line with expectations.
- There was a successful contract extension in the quarter.
- SSI has commenced introducing Netlinkz products to its channel partners and customers.
- As a result of pilots run during the quarter, Netlinkz secured its first corporate customer in Australia.

VSN PRODUCT UPDATE

iLinkAll is launching VSN version 2.0 in August 2020. The new version increases bandwidth, improves latency and adds more functionality, including more flexible administration and management of devices and networks.

R&D expenditure to be reduced as the result of product maturity, coinciding with the release of version 2.0.

The IoT Lab in Sydney has been testing and developing a new version of the VSN for the rest of the world. This will allow all global coordination and distribution to be managed from Australia.

Corporate Governance

TECHNOLOGY COMMITTEE

Established a technology committee to ensure a unified global approach to research and development whilst unequivocally ensuring that each region has its own independent source code.



Financial Commentary

Strong Cash Flow Growth in Quarter

RECEIPTS FROM CUSTOMERS IN THE QUARTER - A\$3.1M

ADJUSTED RECEIPTS FROM CUSTOMERS - 195% OF Q3 FY20 (A\$3.1M VS A\$1.6M*)

GUIDANCE MAINTAINED AT ~A\$15M RECEIPTS FROM CUSTOMERS FOR CY2020

* Receipts from customers of A\$2.19m in Q3 FY20 included A\$615,000 that was not banked in December 2019 Qtr. \$1.575m was attributable to Q3 FY20.

CASHFLOW NEXT QUARTER

The VSN version 2.0 to be released in August 2020 will be the key driver of increased sales.

The iLinkAll strategy continues to focus on positioning the VSN as the critical cloud-based infrastructure for large scale Public/Private Projects across China delivering cash flow from design and implementation and, recurring revenue from the VSN deployment.

SSI cash flows from recurring contracts are expected to exceed A\$1.4 million in Q1 FY21, consistent with the annual billing cycle.

Appendix 4C



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

Name of Entity: **Netlinkz Limited**

ABN: **55 141 509 426**

Quarter end ("current quarter"): **30 June 2020**

CONSOLIDATED STATEMENT OF CASH FLOWS ¹

	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	3,066	5,542
1.2 Payments for		
(a) research and development	(1,060)	(4,020)
(b) product manufacturing and operating costs	(2,516)	(3,073)
(c) advertising and marketing	(171)	(436)
(d) leased assets	(68)	(250)
(e) staff costs	(538)	(2,412)
(f) administration and corporate costs	(899)	(4,441)
1.3 Dividends received (see note 3)	—	—
1.4 Interest received	11	24
1.5 Interest and other costs of finance paid	(543)	(893)
1.6 Income taxes paid	38	115
1.7 Government grants and tax incentives	—	861
1.8 Other (provide details if material)	(3)	(1,119)
1.9 Net cash from / (used in) operating activities	(2,685)	(10,102)

¹ This unaudited quarterly cash flow report consolidates AOFA and iLinkAll cash flows on the basis that control was obtained by Netlinkz from February 2020. Netlinkz notes however, that the assessment of the timing upon which Netlinkz obtained control of AOFA and iLinkAll is preliminary, and remains subject to audit.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Current quarter \$A'000	Year to date (12 months) \$A'000
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	—	(8,560)
(b) businesses	—	(4,248)
(c) property, plant and equipment	(264)	(384)
(d) investments	—	(209)
(e) intellectual property	—	(18)
(f) other non-current assets	—	—
2.2 Proceeds from disposal of:	—	—
(a) entities	—	—
(b) businesses	—	—
(c) property, plant and equipment	—	—
(d) investments	—	—
(e) intellectual property	—	—
(f) other non-current assets	—	—
2.3 Cash flows from loans to other entities	(32)	(32)
2.4 Dividends received (see note 3)	—	—
2.5 Other (provide details if material) Payment in escrow – subject to SSI business meeting performance criteria	(286)	(2,326)
2.6 Net cash from / (used in) investing activities	(583)	(15,777)

	Current quarter \$A'000	Year to date (12 months) \$A'000
3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	—	14,905
3.2 Proceeds from issue of convertible debt securities	—	7,500
3.3 Proceeds from exercise of options	—	2,870
3.4 Transaction costs related to issue of equity securities or convertible debt securities	—	(1,931)
3.5 Proceeds from borrowings	5,217	8,617
3.6 Repayment of borrowings	(4,767)	(9,767)
3.7 Transaction costs related to loans and borrowings	—	(75)
3.8 Dividends paid	—	—
3.9 Other (provide details if material)	(75)	5,037
3.10 Net cash from / (used in) financing activities	375	27,156

CONSOLIDATED STATEMENT OF CASH FLOWS

4. Net increase / (decrease) in cash and cash equivalents for the period		Current quarter \$A'000	Year to date (12 months) \$A'000
4.1	Cash and cash equivalents at beginning of period	7,320	3,151
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,685)	(10,102)
4.3	Net cash from / (used in) operating activities (item 2.6 above)	(583)	(15,777)
4.4	Net cash from / (used in) operating activities (item 3.10 above)	375	27,156
4.5	Effect of movement in exchange rates on cash held	(462)	(462)
4.6	Cash and cash equivalents at end of period	3,966	3,966
5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts		Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	2,148	7,320
5.2	Call deposits	1,818	—
5.3	Bank overdrafts	—	—
5.4	Other (provide details)	—	—
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	3,966	7,320
6. Payments to related parties of the entity and their associates			Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1		202
6.2	Aggregate amount of payments to related parties and their associates included in item 2		—

Amount includes Executive Director fees of \$120,000 and Non-executive Director fees of \$82,000.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7. Financing facilities		
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities	8,323	5,421
7.2 Credit standby arrangements	—	—
7.3 Other (please specify)	29,247	6,440
7.4 Total financing facilities	37,569	11,861
7.5 Unused financing facilities available at quarter end		25,709
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		

In respect of 7.1 above, the Company currently has available unsecured, short term loans, with interest rates of up to 20%, and maturity dates of between 3-6 months, made available from private lenders, of which the Company has currently drawn down A\$5.421m.

In respect of 7.3 above, as announced by the Company on 24 December 2019, the Company is party to a share purchase and convertible securities agreement with each of CST Capital Pty Ltd & Lind Global Macro Fund LP (Funders) for up to \$30.75m, with the first convertible notes issued being secured against the assets of the Company (CN Facility). As at 30 June 2020, the Company has \$22.25m of this facility available for use over the next 18 months, in monthly tranches. However, as announced on 31 July 2020, the Company has agreed to refinance the CN Facility.

Refer to the ASX announcement dated 31 July 2020 for further details.

8. Estimated cash available for future operating activities \$A'000

8.1	Net cash from / (used in) operating activities (Item 1.9)	(2,685)
8.2	Cash and cash equivalents at quarter end (Item 4.6)	3,966
8.3	Unused finance facilities available at quarter end (Item 7.5)	25,709
8.4	Total available funding (Item 8.2 + Item 8.3)	29,832

8.5 Estimated quarters of funding available 11.1 (Item 8.4 divided by Item 8.1)

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

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

Answer: As at 30 June 2020, the Company had more than 2 quarters of available funding on the basis that it had the CN Facility in place. However, as noted at section 7.6 above, the Company agreed to refinance the CN Facility. Refer to the ASX announcement dated 31 July 2020 for further details.

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

Answer: Yes, refer to response at 1 above.

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

Answer: Yes, refer to response at 1 above.

COMPLIANCE STATEMENT



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

Date: 31.07.2020

Authorised by: The Board

Notes:

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 107: Statement of Cash Flows apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

See chapter 19 of the ASX Listing Rules for defined terms

Netlinkz provides secure and efficient cloud solutions and is the world's only fully meshed peer-to-peer network provider. The company's technology makes Fortune-500 security commercially available for organizations of all sizes. Netlinkz has received numerous industry awards for its technology, including being a worldwide winner of the Global Security Challenge.

To learn more about Netlinkz technology and the Company please visit www.netlinkz.com

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