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Netlinkz

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APPENDIX 4C

MAR QTR 2020

Commentary and Operational Update

"Netlinkz is earning revenue via the sale of its software and services. The China operation is building sales revenue in 2020"

James Tsiolis | Executive Chairman and CEO

Key Metrics

Adjusted Revenue

+250%

(A\$1.575M VS A\$615K*)

Guidance Maintained

A\$15.3m

CY 2020 REVENUE

Total Group Revenue

A\$2.19M

*Customer revenue of A\$2.19m banked in Q1 2020 included A\$615,000 that was not banked in the December 2019 Qtr. Revenue attributable to Q1 2020 \$1.575m.

NetLinkz Ltd (ASX:NET) is pleased to provide our quarterly Appendix 4C update of its activities and achievements for the March quarter, 2020.

Highlights

- A\$2.19m revenue generated at a Group level.
- China operation has generated A\$1.655m revenue.
- SSI has generated A\$535,000 revenue.
- Contracts continue to be signed and sales in China are increasing despite COVID 19 and the lockdown. VIN sales to the end of March are 437,000 licenses.
- A\$ 4.1m of funding transferred to Netlinkz China entities in February providing 18 months of working and investment capital.
- Projected revenue for year ending 31 December 2020 remains unchanged at A\$15.3m.
- Consolidated Cash Balance: A\$7.3m (including AOFA and iLinkAll).

Operational Commentary

CHINA

iLinkAll is defining the Internet of Things (IoT) as Internet of Everything (IoE)

In the age of IoE, iLinkAll positions its Virtual Secure Network (VSN) as an innovative product for companies who are looking for integrated cloud and networking solutions - a multiple integration network. iLinkAll's multi-converged network VSR1000 series gives its customers a better visualised operation platform and is more cost effective than the competition.

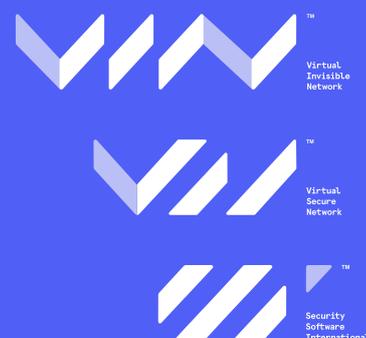
iLinkAll targets large corporations and infrastructure projects who need secure networking for their overseas branches and offices and cost-conscious SME companies who need the telecommuting tools in a secured network. iLinkAll has applied for the VSN patents and copyright in China as well as other countries.

CHINA *continued*

Key points

- In February the World Bank sponsored Water Treatment Project in Sichuan Province selected the VSN product to be the backbone of its IT infrastructure that includes a complete mesh network of monitoring IoT devices. This is iLinkAll's first major infrastructure project that will involve designing, implementing then generating a long-term revenue stream for the life of the project (25 years). Initial revenue (A\$460,000) was generated by providing VSN design services in the March quarter.
 - The VSN product has application for autonomous vehicles and presents a new vertical for the company. The VSN software is being applied to secure and enhance data and communications for autonomous vehicles and iLinkAll expects the developed software to be embedded in the autonomous vehicle sector in China in 2021.
 - Pinnacle and M Soft are generating sales (A\$140,000 for the quarter) through key strategic partnerships with network companies looking to incorporate the VSN software as part of a turnkey solution for edge networks which incorporates Virtual Secure Router(VSR). These partnerships will deliver long term recurring revenue for iLinkAll.
- iLinkAll's private cloud partnership with JD Cloud has generated its first client- a medical logistic company - Hangzhou Tanggu Technology Company. The VSN and VSR software will be enable Hangzhou Tanggu to have a secure logistics platform to deliver medical and healthcare supplies to pharmacies, retailers and hospitals. All medical data transmitted between the platform and its branches is secure as a result of the virtual software.
- iLinkAll engineers are collaborating with Cloud Services Providers to design and implement a secure remote services solution for the Beijing Municipal Bureau of Economics and Information Technology to enable people to work remotely from home. Post the COVID 19 lockdown many employees in Beijing and other cities in China have indicated a willingness to work remotely in exchange for reduced wages. Early signs are that approximately 20 per cent of the workforce across mainland China may decide to work remotely from home in the future.
 - Several international enterprises are in the iLinkAll Beijing IOT Lab testing the VSN software and it is anticipated further contracts will be negotiated and secured in the June quarter.
 - JAST Limited continues to make VIN sales in China - 67,000 VINs to the end of March 2020. This is at lower rate than the previous quarter because of the COVID 19 lockdown and the China Telecom Jiangsu sales offices being closed.

Sales Revenue



JAPAN

Netlinkz expects to execute its first collaborative partnership in Japan in the June Quarter.

AUSTRALIA

Key points

- The acquisition of SSI was completed in early January and has contributed cash revenue of A\$535,000 in the quarter.
- SSI has commenced introducing Netlinkz technology products to its channel partners and customers and, expect to be able to commence testing and pilots with some of its telecommunication customers by July 2020.
- KPMG issued an Assurance Report (ASAE 3150) on the integrity of the VIN software which concluded the VIN software solution provided a secure and hack-proof solution for a software defined network of devices.

NetLinkz continues to expand its VIN pilot program in Australia. In addition to the ongoing pilots with Omega Development Group, Defence Industry Advisory Services and Onyx Projects - a further three pilots were commenced where the VIN product;

- » is to provide a secure access protection layer to major oil and gas operators for their managed technology solutions.
- » is being used to provide a secure virtual network to monitor remote asset operation and management services for critical renewable energy assets.
- » is providing secure file collaboration for a defence technology development consortium spread across Australia. The consortium is now using the VIN to secure their access to a dedicated, highly secure file collaboration service.
- The pilot programs continue to provide the company with invaluable insights into the almost limitless applications of the VIN and VSN to security issues faced across a diverse set of industries and user cases. The pilot programs are expected to move into commercialisation in the June and September quarters.

VSN PRODUCT UPDATE

Netlinkz continues to fund iSoftStone engineers in the Beijing IoT Lab to develop the latest version of the VSN Product. iSoftStone expects this version of the VSN product to be completed by June 2020.

Once the Beijing IoT Lab delivers this version of the VSN product, by end of the June Quarter, all future development costs of the VSN product will shift to iLinkAll which will reduce Netlinkz's R&D expenditure (Current Quarter A\$976k) by at least 30%.

Corporate Governance

APPOINTMENTS

Bruce Rathie | Independent Non-Executive Director

Bruce is a professional Non-Executive Director of nearly 20 years having completed successful prior careers in law and finance. He holds degrees in law (LLB), commerce (B. Commerce) and business (MBA Geneva). He is particularly strong in governance being a Fellow of the AICD and holding its Diploma Company Director, a Fellow of Australian Institute of Managers & Leaders and a Fellow of the Governance Institute and holding its Diploma Company Secretarial Practice (Governance).

APPOINTMENTS *continued*

Samuel Py | CEO Australia and New Zealand

Samuel was previously CEO of SSI Pacific and has a diverse career background, advanced business management studies with Bachelor in Marketing, a business Degree and an MBA with major in Political sciences and International business.

He has extensive telecommunication regulatory experience spanning 14 years across the world.

- Working for or in collaboration with solution vendors (Lawful Interception, Data Retention, Monitoring Centre) in Asia, South America, USA, EMEA.
- Director of the Board of the Communication Alliance Groups advising government on telecommunication policies in Australia.
- Lectured regional governments & carriers on TNM architecture and standards deployment.
- Consulted to carriers on LI and DR deployment (RFQ writing, design review).

ADVISORY BOARD APPOINTMENTS

Jan Renwood joins the Advisory Board having resigned from the Board of Directors.

BOARD CHANGES

Bruce Rathie replaces Michael Beck who has resigned from the Board.

Bruce will Chair the Audit and Risk Committee.

Financial Commentary

Strong Revenue Growth in Quarter

STRONG REVENUE GROWTH IN THE QUARTER - A\$2.19m **REVENUE +250% (A\$1.575M VS A\$615K*)** **REVENUE GUIDANCE MAINTAINED AT A\$15.3m FOR CY 2020**

*Customer revenue of A\$2.19m banked in Q1 2020 included A\$615,000 that was not banked in the December 2019 Qtr. Revenue attributable to Q1 2020 \$1,575m.

Revenue forecasts will continue to be updated on a quarterly basis or upon the signing of major contracts.

CASHFLOW NEXT QUARTER

The Company expects its monthly expenditure to be reduced from April 2020 with salary and Director Fees reductions of 50% for the next six months.

Research and Development expenditure will begin to decrease (30%) from June as product development matures.

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 both revenue from design and implementation and a long term revenue stream from the VSN deployment on a mesh network of devices.

Revenue will begin to fund the company's operational activity as sales increase.

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"): **31 Mar 2020**

CONSOLIDATED STATEMENT OF CASH FLOWS

	Current quarter \$A'000	Year to date (9 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	2,191	2,476
1.2 Payments for		
(a) research and development	(976)	(2,960)
(b) product manufacturing and operating costs	(556)	(556)
(c) advertising and marketing	(118)	(265)
(d) leased assets	(152)	(181)
(e) staff costs	(709)	(1,866)
(f) administration and corporate costs	(1,322)	(3,553)
1.3 Dividends received (see note 3)	–	–
1.4 Interest received	2	13
1.5 Interest and other costs of finance paid	(162)	(349)
1.6 Income taxes paid	223	77
1.7 Government grants and tax incentives	–	861
1.8 Other (provide details if material)	(66)	(1,115)
1.9 Net cash from / (used in) operating activities	(1,645)	(7,418)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Current quarter \$A'000	Year to date (9 months) \$A'000
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	(400)	(8,560)
(b) businesses	(4,248)	(4,248)
Funding of AOFA(WOFE)		
(c) property, plant and equipment	(74)	(118)
(d) investments	–	(209)
(e) intellectual property	(6)	(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	–	–
2.4 Dividends received (see note 3)	–	–
2.5 Other (provide details if material)	(2,040)	(2,040)
Payment in escrow - subject to SSI business meeting performance criteria		
2.6 Net cash from / (used in) investing activities	(6,769)	(15,194)
3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	4,655	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 issues of equity securities or convertible debt securities	(195)	(1,931)
3.5 Proceeds from borrowings	–	3,400
3.6 Repayment of borrowings	–	(5,000)
3.7 Transaction costs related to loans and borrowings	–	(75)
3.8 Dividends paid	–	–
3.9 Other (provide details if material)	4,190	4,231
3.10 Net cash from / (used in) financing activities	8,650	25,900

CONSOLIDATED STATEMENT OF CASH FLOWS

4. Net increase / (decrease) in cash and cash equivalents for the period	Current quarter \$A'000	Year to date (9 months) \$A'000
4.1 Cash and cash equivalents at beginning of period	7,084	4,032
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(1,645)	(7,418)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(6,769)	(15,194)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	8,650	25,900
4.5 Effect of movement in exchange rates on cash held	-	-
4.6 Cash and cash equivalents at end of period	7,320	7,320
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	7,320	7,084
5.2 Call deposits	-	-
5.3 Bank overdrafts	-	-
5.4 Other (provide details)	-	-
5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)	7,320	7,084
6. Payments to related parties of the entity and their associates		Current quarter \$A'000
6.1 Aggregate amount of payments to related parties and their associates included in item 1		-
6.2 Aggregate amount of payments to related parties and their associates included in item 2		-

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

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	3,400	3,400
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	30,750	8,000
7.4 Total financing facilities	34,150	11,400
7.4 Unused financing facilities available at quarter end		22,750

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.

The Company has secured (announced to Market 24 Dec 2019) a share purchase and convertible securities agreement with each of CST Capital Pty Ltd & Lind Global Macro Fund LP for up to \$30.75m. \$22.75m of this facility is available over the next 24 months in monthly tranches. Each first Convertible Note is secured against the assets of the Company.

An unsecured loan for A\$3.4m at 15% for 6 months is from a private lender.

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	(1,645)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	7,320
8.3 Unused finance facilities available at quarter end (Item 7.5)	22,750
8.4 Total available funding (Item 8.2 + Item 8.3)	30,070
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	18.3

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: N/A
- Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?
Answer: N/A
- Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?
Answer: N/A

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: 23.04.2020

Authorised by: 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.

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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