



ASX Release

31 January 2018

Animoca Brands 4Q17 Report

Animoca Brands Corporation Limited (ASX:AB1) (the **Company** or **Animoca Brands**) has today released its Appendix 4C for the three-month period from 1 October 2017 to 31 December 2017 (**4Q17**).

Key points

- Sale of 318 mobile casual games (from a total portfolio of 524 mobile game apps) to iCandy Interactive (ASX:ICI) for up to \$8.0m
- Successful launch of *Crazy Defense Heroes* with over \$400,000 revenues generated in its first 14 days
- Acquisition of controlling stake in Fuel Powered for an upfront consideration of \$0.75m provides exposure to AI and blockchain gaming technology
- Signed exclusive licence and distribution agreement with Axiom Zen to publish *CryptoKitties* in China, as first direct move into blockchain/crypto gaming in Jan 2018
- Strategic entry into Artificial Intelligence and Machine Learning through a strategic investment in Zeroth.ai, for up to \$1.0m financed by a placement to sophisticated investors for \$0.6m
- Completed oversubscribed placement raising \$3.3m to institutional and sophisticated investors strengthening the company balance sheet and supporting growth

Financial Update

Revenues and expenses

During the quarter, the Company's operating expenditures were in line with the previous quarter following the restructuring plan implemented during the year and announced in July 2017. This led to a material improvement in net operating cash outflows from \$3.2m in the prior quarter to \$1.7m in 4Q17. Overall, net cash outflows from operating activities fell 58% quarter-on-quarter to \$0.8m.

The revenues of the company grew from \$1.2m to \$1.6m quarter-on-quarter in 4Q17. This increase did not materially impact receipts from customers due to payment terms, which were in line with management's expectations. Cash inflows from operating activities were \$0.9m.

Cash outlook

The Board and management of the Company continued to pursue partnership and divestment opportunities as outlined in the Company's investor update released via the ASX on 25 September 2017.

As consideration for the sale of 318 apps to ICI, the Company has received \$42k in 4Q17 and, subsequent to the end of 4Q17, in January 2018, the Company has received \$198k and will receive a further \$0.75m in cash plus \$4.0m worth of ICI fully paid ordinary shares upon completion (**Upfront Consideration**). Additionally, further deferred payments of up to \$3.0m in 2018 and 2019 subject to revenue hurdles, all payable in ICI fully paid ordinary shares (**Deferred Consideration**). The equity-based component of the Upfront and Deferred consideration will be issued to Animoca Brands at \$0.16 per ICI share.

In addition to the Upfront Consideration and Deferred Consideration, the Company is entitled to a proportion of the profit of the 318 apps sold for a period of 5 years, subject to the achievement of milestones, supporting further strategic alignment between the parties and providing potential upside with respect to the transfer of the portfolio of apps.

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The Company also invested \$0.25m and committed to further payments of up to \$0.75m into Zeroth.ai. The initial investment was fully funded by a successfully completed \$565k placement to sophisticated and institutional investors and a commitment from Board member and co-founder Yat Siu to subscribe for \$150k of shares subject to the necessary shareholder approvals.

The estimated total cash outflow for 1Q18 is \$3.6m, reflecting an increase of \$0.9m over the estimated cash outflow for 4Q17. The reason for this is primarily associated with the positive outlook for 1Q18 of the prospects of the recently launched title *Crazy Defense Heroes*, which, as it accrues incrementally more revenues, will incur more costs of sales in the way of platform fees and certain marketing expenses.

The Board is aware that the Company's cash reserves at the end of the 4Q17 quarter are limited relative to the Company's current operating expenses and growth opportunities.

Operational Update

After the execution of a non-exclusive brand and content licence agreement with Endemol Shine North America for the hit culinary franchise *MasterChef*, the Company has begun work on the first game based on the franchise. This deal demonstrates once more the attractiveness of Animoca Brands as a licensing partner to major brand owners.

Animoca Brands agreed to the sale to ICI of 318 mobile casual game apps out of its total 524 mobile game apps. The mobile casual games portfolio is one of the Company's three business segments and the sale allows the Company to concentrate its focus on the remaining segments. The Company will continue to work closely with ICI as a strategic shareholder to further optimise the portfolio of apps.

ICI's recently launched blockchain-based Nitro Marketplace has the potential to create a new audience for the games in the portfolio through a novel distribution and funding channel utilizing cryptocurrency.

Animoca Brands committed to invest in strategic partner Zeroth.ai, Asia's first AI and machine learning-focused accelerator. Zeroth.ai will co-locate with Animoca Brands, creating strong potential for operational and technical synergies. Animoca Brands will gain direct access to industry-leading AI and machine learning expertise.

Outlook

Post the quarter, the Company launched *Crazy Defense Heroes* for iOS on 8 January 2018 in Asian territories. The game generated over \$469,000 in revenue in its first two weeks with about 402,000 downloads. The Company plans to launch *Crazy Defense Heroes* in the rest of the world later in the year and has begun development on a version for Android devices.

The Company has entered into a binding term sheet to acquire 60% of Fuel Powered for an upfront consideration of \$0.75m. Fuel Powered is a US-based developer of blockchain based gaming services and provider of a cloud based features-as-a-service platform that maximises bottom-line results for game publishers through artificial intelligence and machine learning. Clients of Fuel Powered include SEGA Publishing Europe Limited and Axiom Zen, the publisher of *CryptoKitties*.

The Company also entered into an exclusive licensing and distribution agreement with Axiom Zen to publish *CryptoKitties* in China. *CryptoKitties* is the first major video game based on blockchain technology. *CryptoKitties* allows players to adopt, raise, and trade virtual cats, and represents one of the earliest attempts to deploy blockchain technology for recreational purposes.

The Company's investment in the AI accelerator Zeroth.ai, the acquisition of a controlling stake in Fuel Powered, and the partnership with Axiom Zen represent the Company's strategic advances in the AI,

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blockchain and crypto gaming sectors, leading to opportunities for the development of new products utilising Animoca Brands' existing intellectual properties, brand relationships, licensed IPs and the strategic partnership with Mattel, Inc.

In order to address its growth opportunities and operational needs, in January 2018, the Company raised a total of ~\$3.3m through an oversubscribed placement to sophisticated investors, and also received a commitment from Board member and co-founder Yat Siu to subscribe for \$100k of shares subject to the necessary shareholder approvals.

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About Animoca Brands

Animoca Brands (ASX: AB1) publishes globally a broad portfolio of mobile games and subscription products including several games and e-books based on popular intellectual properties such as Garfield, Thomas & Friends™, Ever After High and Doraemon. Animoca Brands is based in Hong Kong. For more information visit www.animocabrands.com or get updates by following Animoca Brands on [Facebook](#), [Twitter](#) or [Google +](#).

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Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Name of entity

Animoca Brands Corporation Limited

ABN

29 122 921 813

Quarter ended ("current quarter")

31 December 2017

Consolidated statement of cash flows	Current quarter	Year to date (12 months)
	\$A'000	\$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	934	6,361
1.2 Payments for		
(a) research and development	(386)	(516)
(b) product manufacturing and operating costs	(270)	(718)
(c) advertising and marketing	(159)	(2,019)
(d) leased assets	-	-
(e) staff costs	(910)	(5,403)
(f) administration and corporate costs	(17)	(3,829)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	(1)	5
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	(1,619)
1.9 Net cash from / (used in) operating activities	(809)	(7,738)

2. Cash flows from investing activities

2.1 Payments to acquire:

(a) property, plant and equipment

(2)

(2)

(b) businesses (see item 10)

(8)

125

Consolidated statement of cash flows	Current quarter	Year to date (12 months)
	\$A'000	\$A'000
(c) investments	(3)	(161)
(d) intellectual property	-	-
(e) other non-current assets	-	(7)
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	51	1,708
(e) 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)	-	-
2.6 Net cash from / (used in) investing activities	38	1,663

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	565	5,773
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	-	(343)
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	565	5,430

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Consolidated statement of cash flows		Current quarter	Year to date (12 months)
		\$A'000	\$A'000
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of quarter/year to date	868	1,527
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(809)	(7,737)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	38	1,663
4.4	Net cash from / (used in) financing activities (item 3.10 above)	565	5,430
4.5	Effect of movement in exchange rates on cash held	26	(195)
4.6	Cash and cash equivalents at end of quarter	688	688

5.	Reconciliation of cash and cash equivalents	Current quarter	Previous quarter
	at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	\$A'000	\$A'000
5.1	Bank balances	535	719
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (Share Investments)	153	149
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	688	868

6.	Payments to directors of the entity and their associates	Current quarter
		\$A'000
6.1	Aggregate amount of payments to these parties included in item 1.2	-
6.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3	Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

7. Payments to related entities of the entity and their associates	Current quarter \$A'000
7.1 Aggregate amount of payments to these parties included in item 1.2	-
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	(342)
9.2 Product manufacturing and operating costs	(791)
9.3 Advertising and marketing	(647)
9.4 Leased assets	-
9.5 Staff costs	(1,164)
9.6 Administration and corporate costs	(614)
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	(3,558)

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10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	-	-
10.2 Place of incorporation or registration	-	-
10.3 Consideration for acquisition or disposal	-	-
10.4 Total net assets	-	-
10.5 Nature of business	-	-

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.

Sign here:
(Director/Company secretary)

Date:31 January 2018.....

Print name:DR NIGEL FINCH.....

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly 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 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.

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