ASX ANNOUNCEMENT

SYNTONIC

Unlocking the Value of Mobile Data

June 2019 Quarterly Report

29 July 2019

USA:
Syntonic, Inc.
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ASX Code: SYT

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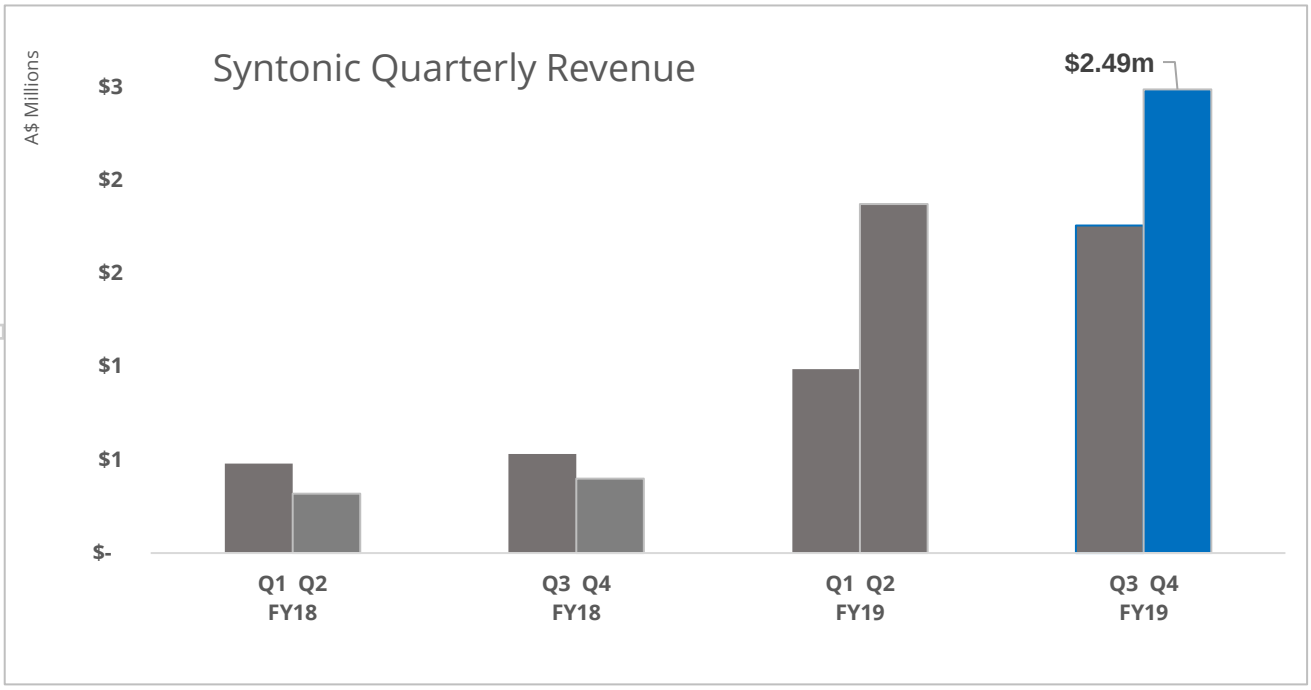
ASX ANNOUNCEMENT **29 July 2019**

Syntonic June 2019 Quarterly Review and Appendix 4C

Highlights:

- Unaudited revenue of $2.49 million, a 41% increase on Q3 FY19 ($1.76 million) and up 523% on the prior corresponding period (Q4 FY18 $0.40 million)
- Quarterly Active Users (QAU) grew to 10,025,965, a 33.7% increase on Q3 FY19 (7,497,279)
- Quarterly operating expenses[1] of $1.84 million, down 9.4% on Q3 FY19 ($2.04 million), closing the gap toward targeted cash flow breakeven in FY20
- Cash receipts of $0.72 million, down 19% on Q3 FY19 ($0.88 million) due to longer payment cycles from Brazilian carriers, though up 8.6% on the prior corresponding period (Q4 FY18 $0.66 million)
- Customer traction with Vodacom' s launch of a data-free version of the TurnUp Music service; new reseller agreement with AQN to deploy with Telkomsel Indonesia; and a partnership agreement with Opari Inc.



[1] Operating expenses exclude the cost of services expenses related to revenue sharing with mobile carriers, content providers, and ad agencies for services delivered by the Syntonic's Revenue Generation Platform™.

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Seattle, Washington – Syntonic Limited ("Syntonic" or "Company') (ASX:SYT), a leading US-based mobile services provider, is pleased to provide its Appendix 4C – Quarterly Cash Flow report for the three months ending 30 June 2019, along with a summary of its business progress during the quarter.

Syntonic CEO and Managing Director, Gary Greenbaum said:

"This last quarter the Company realised record unaudited revenue of $2.49 million to achieve a total of $7.08 million in unaudited revenue for FY19. Moreover, with disciplined management of our operating expenses, we have been able to reduce our operation expenses this quarter by over 9%, to get the Company closer to our target of cash flow breakeven in FY20.

"Syntonic has been particularly successful in Brazil with the mobile commerce component of our Revenue Generation Platform (RGP) deployed in the four main Brazilian carriers, allowing the Company to sell high margin subscription content direct to consumers. We see a great opportunity to build on this success by focusing more of our internal resources on growing our customer base of premium branded content providers and replicating this service in other markets where the Company already has an established presence such as Vietnam, Philippines and South Africa.

"While premium brand contracts will often require an upfront investment and/or a minimum financial guarantee from Syntonic, we expect to achieve shorter sales and deployment cycles through these higher margin business opportunities."

Financial Highlights

Syntonic generates revenue from RGP in two ways: (1) Direct-to-Carrier: revenue share-based licensing to mobile carriers based on the "app economy" businesses of mobile advertising, content services, and mCommerce and (2) Direct-to-Consumer: a revenue share with premium content providers and mobile carriers based on mobile content subscriptions transacted through the RGP. In addition, a single RGP carrier deployment can result in revenue from both of these models.

The Company's quarterly unaudited revenue grew strongly to reach $2.49 million. This represents a 523% increase on last year's corresponding quarter (Q4 FY18 $0.40 million), and a 41% increase on the previous quarterly period (Q3 FY19 $1.76 million).

Driving this revenue growth were new content offerings in Brazil, long-tail subscriptions achieved from previous quarter customer acquisition, enhanced efficiencies for demographic targeting using ad agencies, and growth in active users from our carrier customers.

A key tracking metric is the Quarterly Active Users (QAU) which measures the revenue bearing potential from active and/or activated Syntonic services, i.e. actively used applications, activated SDK's, and deployed white-labelled applications, as well as consumers using the Syntonic RGP for mobile purchases.

The QAU for Q4 FY19 grew to reach 10,025,965, representing a 33.7% increase over the previous quarter's QAU of 7,497,279 which is in alignment with the quarterly revenue.

Excluding the cost of services that include the carrier and content provider share of the transaction gross receipts, the June Quarter's operational expense were $1.84 million, down 9.4% from the previous quarter. Contributing to this decline was a 66% decrease in outsourced R&D staffing costs and a 26% decrease in advertising and marketing. Through prudent management of costs and allocation of working capital toward higher return on investment activities, the Company is targeting cash flow breakeven in FY20.

Despite record revenues, cash receipts for the quarter were down 19% on the previous quarter at $0.72 million. With more of the Company's revenue coming from premium content subscription sales, the Company has accepted longer carrier payment terms for use of their direct-carrier-billing services. This has produced a lag effect in cash receipts.

Syntonic entered Q1 FY20 with a cash balance of $1.40 million.

Operational Progress

During the quarter, Syntonic continued to grow its global footprint through the commercial launch of the RGP in South Africa on the Vodacom network; a reseller agreement in Indonesia with PT. Asia Quattro Net (AQN) for deployment on Telkomsel Indonesia; a broadening of Syntonic's business presence in Brazil with several new content offerings; and a new partnership agreement with Opari, Inc.

A summary of the Company's progress during the quarter is outlined below:

<u>Americas</u>

In Brazil, Syntonic has growing demand to leverage the mobile commerce features of the RGP for content providers that wish to reach and monetise consumers. Revenues are accelerating due to the onboarding of new content offers from the Abril Group, one of the largest and most influential content distributors in Latin America, and others. Subscription renewals are now achieving a significant component of the revenue. Moreover, margins are improving as recurring subscription revenue requires no additional customer acquisition expense.

Africa & Middle East

During the quarter Vodacom Group Limited (JSE: VOD, "Vodacom") deployed a data-free version of its TurnUp Music web and mobile application using the Syntonic RGP for sponsored data and data rewards. The launch of the service represented the first deployment of the Syntonic Sponsored Web™ technology and the first launch of Syntonic's technology on the Vodacom network.

The Company is in advanced discussions with Vodacom on several key "Digital Lifestyle" initiatives spanning games, music, and video services. Initial customisation work has been accepted by Vodacom for services deployments later in FY20.

ZroNet continues to progress its plans to commercially launch a white-labelled version of the Syntonic RGP service, branded *Zronet,* on the three largest mobile carriers in Ghana, MTN Ghana, Vodafone Ghana and AirtelTigo. ZroNet has onboarded brands currently in pre-launch testing including several banks, a ride-hailing app, a major device manufacturer, and a sports betting service.

Syntonic is advancing its discussions with Vodafone Qatar for the deployment of a Syntonic RGP powered white-labelled content subscription service on the Vodafone Qatar network.

Asia

mobifoneGO is a white-labelled version of the Syntonic RGP licensed to Mobifone Telecommunications Corporation ("MobiFone"). MobiFone received a government certificate to accept consumer payments via *MobifoneGO* on 18 April 2019. The service, the first deployment of Syntonic's mobile commerce solution outside of Brazil, provides subscription-based content plans with unlimited mobile data, e.g. the Chat plan includes unlimited access to Whatsapp, SKYPE, VIBER, and Zalo for a fixed fee.

Caption from MobileFone's website (translated), promoting the mobifoneGo service

MobiFone has taken a measured approach to marketing the new service as it continues to optimise and refine its pricing model. Currently, the service has a 71.6% subscription renewal rate which is significantly higher than the 30-day average mobile app retention rate of 5.5%[2].

Syntonic is working with its Vietnamese reseller partner, Thang Long Event Limited, on three initiatives to enhance operations in Vietnam: (1) extending Mobifone's use of the Syntonic RGP

[2] AppsFlyer, June 2019

to include mobile advertising services, (2) allowing the Company to sell premium content offers directly to consumers, and (3) expanding the RGP license to the other major Vietnam carriers.

RoamFree promotion in Ninoy Aquino International Airport, Manilla, Philippines

During the quarter, Smart Communications Inc. ("Smart" PSE:TEL, NYSE:PHI), a leading wireless provider in the Philippines, continued to promote *RoamFree,* powered by the Syntonic International Roaming Service™. Customer acquisition has been limited for the *RoamFree* services as Syntonic continues to negotiate with Smart for additional functionality to incorporate into *RoamFree.*

Given the strategic success of the RGP within Smart, Syntonic is now in discussions to integrate additional RGP services in the Smart network that includes use of the Syntonic captive portal and mCommerce services using the Syntonic direct-carrier-billing platform.

During the quarter, Syntonic signed a reseller agreement with AQN, an accomplished solutions integrator servicing all of the major Indonesian carriers, to promote, market and resell Syntonic technologies. The initial project will focus on the integration of specific RGP technologies into a Telkomsel Indonesia consumer application to enable it to provide data-free access for its 193 million mobile subscribers.[3]

Europe

In Europe, Syntonic's Turkish reseller partner, AKTAY A.S. ("AKTAY"), is continuing its endeavours to secure key industry leaders including several banks, local municipalities and entertainment companies to launch data-free versions of their applications, supported by Syntonic's technologies.

Global

Syntonic signed a new partnership agreement with Opari Inc., following its spin-out from Tata Communications Inc. As a standalone business, Opari is solely focused on digital commerce and the online economy which it addresses via its digital commerce platform, *opari,* that connects service providers to the online economy. Syntonic is currently in discussions with Opari to expand the scope of the white-labelled Syntonic RGP license for the *opari* platform to include digital commerce.

[3] Telkomsel Annual Report 2017

Corporate Highlights

Financing

In April 2019, Syntonic completed financing via a Placement and convertible note component, raising a total of A$5.38 million (before costs)[4]. The capital raise consisted of a $1.84 million Placement and a Convertible Note facility with Obsidian Global Partners LLC to provide up to $3.54 million.

The funds raised via the Placement and issue of the Convertible Notes have provided Syntonic with working capital to accelerate the Company's growth to capture, manage, and support its pipeline of potential customers and will be utilised for the expansion of the Company's sales and support team and general working capital expenditure.

Tela Viva Móvel 2019

Syntonic CEO, Dr. Gary Greenbaum, was invited to present at Tela Viva Móvel 2019, one of Brazil's most popular and influential conferences focused on the mobile industry, addressing an executive audience that represented the major Brazilian mobile carriers and content providers. The event proved successful, providing access to several potential content customers and expanding the Company's opportunities with the Brazil mobile carriers.

Outlook

During the quarter, Syntonic reported strong business growth as measured by record revenue generation. During the course of the past 6 months, the Company has seen greater revenue, higher margins, and faster deployment cycles in the Brazil business, selling premium content using its carrier integrated RGP.

The Company leadership team and Board have agreed that to maximise the return on capital, the Company, starting in FY20, will increase its internal focus on growing the content monetisation component of the RGP in Brazil and to replicate it to other Syntonic markets, specifically in Southeast Asia, India, Africa, and Latin America.

Moving forward, targeting cash flow breakeven in FY20, the Company will shift its focus from top line revenue growth towards higher margins and customer lifetime value with its product offerings. To accommodate premium content upfront payments and minimum financial guarantees associated with content licensing and as a result of a budget analysis completed at

[4] Refer to ASX announcement dated 3 April 2019 and prospectus dated 9 April 2019 for further details

the end of Q4 FY19, the Company advises that its target for anticipated cash flow breakeven has shifted one quarter to Q4 FY20.

About Syntonic

Syntonic Ltd (SYT.ASX) is a Seattle based software company which provides easy-to-deploy mobile services for telecommunication carriers to generate more revenue from mobile data and to participate in the app economy. Syntonic has created the world's leading mobile Revenue Generation Platform spanning mobile advertising, content monetisation, mobile commerce, and expense management for enterprise mobility. Syntonic's carrier-grade service has been designed with high availability, scalability and 100% revenue assurance in mind. The Syntonic platform has been deployed and validated on the world's largest networks.

To learn more about Syntonic, visit www.syntonic.com.

For further enquiries, please contact:

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+Rule 4.7B

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

Syntonic Limited

ABN	**Quarter ended ("current quarter")**
68 123 867 765	30 June 2019

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date (12 months) $A'000**
1.	**Cash flows from operating activities**		
1.1	Receipts from customers	716	3,312
1.2	Payments for		
	(a) research and development	(252)	(1,663)
	(b) product manufacturing and operating costs	(1,137)	(2,937)
	(c) advertising and marketing	(39)	(141)
	(d) leased assets	-	-
	(e) staff costs	(1,005)	(3,402)
	(f) administration and corporate costs	(549)	(1,478)
1.3	Dividends received	-	-
1.4	Interest received	1	9
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	-	-
1.8	Other (acquisition related)	-	(443)
1.9	**Net cash from / (used in) operating activities**	**(2,265)**	**(6,743)**

2.	**Cash flows from investing activities**		
2.1	Payments to acquire:		
	(a) property, plant and equipment	-	(22)
	(b) businesses (see item 10)	-	-
	(c) investments	-	-

Consolidated statement of cash flows		Current quarter $A'000	Year to date (12 months) $A'000
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment	-	-
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(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):	-	-
	- Payment to acquire Brazilian mobile commerce business unit	-	(962)
2.6	**Net cash from / (used in) investing activities**	**-**	**(984)**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of shares	1,843	2,954
3.2	Proceeds from issue of convertible notes	1,395	1,395
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	(210)	(265)
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**	**3,028**	**4,084**

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	**600**	**5,015**
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,265)	(6,743)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	(984)

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date (12 months) $A'000**
4.4	Net cash from / (used in) financing activities (item 3.10 above)	3,028	4,084
4.5	Effect of movement in exchange rates on cash held	36	27
4.6	**Cash and cash equivalents at end of quarter**	**1,399**	**1,399**

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	1,399	600(1)
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (AmEx deposit)	-	-(1)
5.5	**Cash and cash equivalents at end of quarter (should equal item 4.6 above)**	**1,399**	**600**

(1) $71,000 has been reallocated from "other" to "bank balances" to better reflect the position as at 31 March 2019. This has no impact on the closing total cash and cash equivalents balance.

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	149
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

Payments include executive directors' wages and associated payroll expenses

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	252
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

Software engineering services provided by Adroit Business Solutions Inc, a company associated with Mr Agarwal.

8.	**Financing facilities available** *Add notes as necessary for an understanding of the position*	**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.

Not applicable.

9.	**Estimated cash outflows for next quarter**	**$A'000**
9.1	Research and development	(380)
9.2	Product manufacturing and operating costs	(730)
9.3	Advertising and marketing	(30)
9.4	Leased assets	-
9.5	Staff costs	(850)
9.6	Administration and corporate costs	(340)
9.7	Other	(140)
9.8	**Total estimated cash outflows**	**(2,470)**

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.

[lodged electronically without signature]

Sign here: ..... Date: 29 July 2019
(~~Director/~~Company secretary)

Print name: Edward Meagher

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.