



Netlinkz

APPENDIX 4D
HALF YEAR INFORMATION GIVEN TO ASX
UNDER LISTING RULE 4.2A

Name of entity	NetLinkz Limited
ABN	55 141 509 426
Half year ended	31 December 2019
Previous corresponding period	31 December 2018

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	Percentage change Up or Down		Half-year ended 31 Dec 2019	Half-year ended 31 Dec 2018
		%		\$
Revenue from continuing activities	Up	78%	651,259	365,099
(Loss) from ordinary activities after tax attributable to members	Up	206%	(10,930,980)	(3,576,762)
(Loss) for the period attributable members	Up	206%	(10,930,980)	(3,576,762)
Dividends				
			Amount per Security	amount per security
Interim Dividend - Current reporting period			Nil	Nil
Record date for determining entitlements to dividends (if any)			Not applicable	
Date Dividend is payable			Not applicable	
Details of any dividend reinvestment plan in operation			Not applicable	
The last date for receipt of an election notice for participation in any dividend reinvestment plan			Not applicable	
Net Tangible Assets (NTA)				
			Half-year ended 31 Dec 2019	Half-year ended 31 Dec 2018
			\$	\$
Net Tangible Assets per security (before tax)			0.002 per share	(0.004) per share
Net Tangible Assets per security (after tax)			0.002 per share	(0.004) per share

REVIEW STATUS

This report is based on the half-year financial report which has been subject to independent review by the Auditors, BDO Audit (WA) Pty Ltd. All the documents comprise the information required by ASX Listing Rule 4.2A. The information should be read in conjunction with the 30 June 2019 Annual Financial Report.

The Auditor's Review Report is a modified report.

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Netlinkz

NETLINKZ LIMITED

A.C.N. 141 509 426

INTERIM FINANCIAL REPORT

HALF-YEAR ENDED 31 DECEMBER 2019

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DIRECTORS' REPORT

The Directors of NetLinkz Limited present their report on the Consolidated Entity consisting of NetLinkz Limited ("Company" or "NetLinkz") and the entities it controlled at the end of, or during, the half-year ended 31 December 2019 ("Consolidated Entity" or "Group").

Directors

The names of directors who held office during or since the end of the half year are:

- James Tsiolis (appointed on 11 November 2015)
- David O'Dowd (appointed on 15 November 2017, resigned on 27 November 2019)
- Ian Renwood (appointed on 21 October 2019)
- Grant Thomson (appointed on 1 November 2019)
- Michael Beck (appointed on 12 December 2019)
- Hualin Zhang (appointed on 28 February 2019)

Principal activities

NetLinkz Limited (NetLinkz or the Company) (ASX:NET) provides secure and efficient cloud solutions and is the world's only fully meshed peer-to-peer network provider. NetLinkz is the creator of the Virtual Invisible Network (VIN), a globally patented, award winning network technology that allows organisations to quickly connect sites, devices and staff over the internet through a unique network solution that is generally invisible. The VIN is an evolutionary step in virtual networking that can be used over any other type of established public or private network, including the Internet. The Company's technology makes Fortune-500 security commercially available for organisations of all sizes. NetLinkz has received numerous industry awards for its technology, including being a worldwide winner of the Global Security Challenge.

Review of operations

The net loss for the consolidated entity amounted to \$10,930,980 (31 December 2018: loss of \$3,576,762).

Significant change in the State of Affairs

Since our last statutory accounts, NetLinkz has made significant progress on a number of initiatives designed to provide a platform for growth and stability over the medium-to-long term.

The Company announced the transformational acquisition of Security Software International Pacific (SSI) and the establishment of Beijing iLinkAll Science and Technology Co. Ltd (iLinkAll), positively positioning NetLinkz to focus on sales and revenue generation across the markets in which it operates. The Company has secured funding to provide capital for the successful implementation of sales channels across Australia and China and continues to establish new opportunities for growth and innovation.

The completion of the SSI acquisition in early January 2020, provides a high-quality sales channel for the distribution of the Company's products to SSI's existing base of telecommunications, enterprise and



NetLinkz

Government customers in the Asia-pacific region. The founders of SSI have joined the NetLinkz advisory board and will continue to manage day-to-day operations at SSI, which continues to win new business following the completion of the acquisition.

The Company's majority (80%) shareholding in iLinkAll provides the required capital to build out distribution channels and generate sales of the VSN throughout China. NetLinkz will continue to fund the IoT Lab as the localisation of the technology and expertise is critical to the success of the product in China.

It was announced in late February 2020 that iLinkAll had been contracted to participate in a significant water supply and treatment infrastructure project in the Sichuan province of China. This milestone for the Company was the result of our focus and dedication to having a locally developed and focused product and iLinkAll's financial strength from NetLinkz funding.

Sales of the VIN and VSN Lite Products in China have increased to over 350,000 licences as at 31 December 2019. This will generate approximately \$250,000 per month, given currency fluctuations.

iLinkAll launched Version 1.0 of the Virtual Secure Network (VSN) on 12 December 2019 at the China Ministry of Industry and Technology "Cloud 500" Cloud Computing Ecosystem Summit, with commercial sales of the VSN commencing in January 2020.

As a result of these developments, NetLinkz revised its previously announced expected revenue for 1 January 2020 to 31 December 2020 up from \$10.1m to \$15.3m.

The Company also established a subsidiary in Tokyo (NetLinkz Japan KK) during 1H20 to operate and coordinate the Tokyo IoT lab and secure sales-channel partners in the highly attractive Japanese market.

Masamichi (Mas) Tanaka was appointed to the NetLinkz Advisory Board to spearhead the Company's push into the Japanese market. As previously released to the market, Mr Tanaka was most recently the Chief Strategy Officer at Uhuru, a Japanese IoT company partly owned by Softbank, as well as consulting to NEC, Mitsui and Salesforce.com. Mr Tanaka previously worked for Sony and continues to consult to NEC on the Tokyo Olympics 2020 preparation.

Joining Mr Tanaka on the Advisory Board are Samuel Py and Stephan Molle, founders of SSI who each have extensive careers in the IT industry.

To support the growth and vision of the Company, NetLinkz strengthened its Board in the six months to 31 December 2019, adding expertise in information technology and software, with the appointments of Grant Thomson and Ian Renwood as directors. The Board also announced that Michael Beck has replaced David O'Dowd as independent non-executive director and Chair of the Audit Committee.

Contributed equity increased by \$15,915,495 less capital raising costs of \$678,512 (from \$51,233,366 to \$66,470,350) as a result of issue of shares from placement and options exercised. Details of the changes in contributed equity are disclosed in note 7 to the financial statements.



Netlinkz

Auditor's Declaration

The lead auditor's independence declaration under section 307C of the *Corporations Act 2001* is set out on page 3 for the half year ended 31 December 2019.

This report is signed in accordance with a resolution of the Board of Directors.

James Tsiolis
Director
Sydney NSW

Dated this 28th day of February 2020

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DECLARATION OF INDEPENDENCE BY GLYN O'BRIEN TO THE DIRECTORS OF NETLINKZ LIMITED

As lead auditor for the review of Netlinkz Limited for the half-year ended 31 December 2019, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Netlinkz Limited and the entities it controlled during the period.



Glyn O'Brien

Director

BDO Audit (WA) Pty Ltd

Perth, 28 February 2020

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the half year ended 31 December 2019



Netlinkz

		Consolidated Half Year ended 31 December 2019	Consolidated Half Year ended 31 December 2018
		\$	\$
Income	Note		
Sales – Licensing Revenue	3	195,529	-
Consulting & Training Revenue	3	445,000	115,000
Rent		-	25,811
Interest		10,730	1,671
Grant		894,952	350,209
		<hr/> 1,546,211	<hr/> 492,691
Expenses			
Sales, Business Development, Marketing, Travel		1,438,513	682,023
Admin, Office, Corporate		2,593,352	749,383
Development & Commercialisation		2,638,190	568,070
Finance & restructuring costs	4	2,863,819	463,570
Share-based payment	8	3,881,248	1,112,586
Fair value Loss/Gain on debt settlement		(937,931)	493,821
		<hr/> 12,477,191	<hr/> 4,069,453
Loss before income tax		(10,930,980)	(3,576,762)
Income tax expense		-	-
Loss for the period		<hr/> <hr/> (10,930,980)	<hr/> <hr/> (3,576,762)
Other comprehensive income / loss:			
<i>Items that will be classified to profit or loss:</i>			
Exchange differences on translation of foreign operations		-	-
Other comprehensive loss for the period, net of income tax		<hr/> -	<hr/> -
Total comprehensive loss for the period		<hr/> <hr/> (10,930,980)	<hr/> <hr/> (3,576,762)
Loss attributable to members of the parent entity		(10,930,980)	(3,576,762)
Total comprehensive loss attributable to members of the parent		(10,930,980)	(3,576,762)
Earnings/(Loss) per share from continuing operations			
- basic earnings per share (cents)	9	(0.661)	(0.265)
- diluted earnings per share (cents)	9	(0.661)	(0.265)

The consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the attached notes to the consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019



Netlinkz

	Note	Consolidated Half Year ended 31 December 2019 \$	Consolidated Full Year ended 30 June 2019 \$
Current assets			
Cash and cash equivalents		6,202,709	2,399,243
Trade receivables		674,568	1,341,127
Prepayments and other receivables	5	11,315,833	2,587,000
Total current assets		18,193,110	6,327,370
Total assets			
		18,193,110	6,327,370
Current liabilities			
Trade and other payables		3,090,178	1,892,220
Employee benefits		-	-
Borrowings	6	11,696,585	7,021,106
Other		151,474	2,798,750
Total current liabilities		14,938,237	11,712,076
Net assets/(liabilities)		3,254,873	(5,384,706)
Equity			
Issued equity	7	66,470,350	51,233,366
Reserves		12,095,638	7,762,063
Accumulated losses		(75,311,115)	(64,380,135)
Total equity / (deficiency in equity)		3,254,873	(5,384,706)

The consolidated statement of financial position should be read in conjunction with the attached notes to the consolidated financial statements.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the half year ended 31 December 2019



Netlinkz

Consolidated		Issued capital	Reserves	Accumulated Losses	Total
		\$	\$	\$	\$
At 1 July 2018		34,462,142	4,856,700	(45,870,845)	(6,552,003)
Total comprehensive loss for the period		-	-	(3,576,762)	(3,576,762)
<i>Transactions with owners in their capacity as owners:</i>					
Share/ Option issue	7	3,796,550	720,480	-	4,517,030
Capital raising costs	7	(60,064)	-	-	(60,064)
Balance at 31 December 2018		38,198,628	5,577,180	(49,447,607)	(5,671,799)
At 1 July 2019		51,233,366	7,762,063	(64,380,135)	(5,384,706)
Total comprehensive loss for the period		-	-	(10,930,980)	(10,930,980)
<i>Transactions with owners in their capacity as owners:</i>					
Share/ Option issue	7	15,915,495	4,333,575	-	20,249,070
Capital raising costs	7	(678,511)	-	-	(678,511)
Balance at 31 December 2019		66,470,350	12,095,638	(75,311,115)	3,254,873

The consolidated statement of changes in equity should be read in conjunction with the attached notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the half year ended 31 December 2019



Netlinkz

	Consolidated Half Year ended 31 December 2019 \$	Consolidated Half Year ended 31 December 2018 \$
Cash flows from operating activities		
Receipts from customers	285,000	12,855
Payments to suppliers and employees	(6,879,380)	(2,636,417)
	(6,594,380)	(2,623,562)
Grants received	860,913	350,209
Interest received	10,730	1,671
Net cash (used in) operating activities	(5,722,737)	(2,271,682)
Cash flows from investing activities		
Disposal (Payments) for property, plant and equipment	-	-
Prepayments for Business acquisition and Investments	(8,413,049)	-
Payments for Intellectual Property	(12,029)	-
Refund of security deposits	-	60,000
Net cash (used in)/from investing activities	(8,425,078)	60,000
Cash flows from financing activities		
Proceeds from issue of shares	4,000,000	1,502,261
Proceeds from issue of convertible notes	7,603,975	-
Proceeds from exercise of share options	2,870,402	420,468
Share issue transaction costs	(590,000)	(60,064)
Proceeds from borrowings, net	3,400,000	342,287
Interest and other finance costs paid	(83,097)	-
Net cash provided by financing activities	17,201,281	2,204,952
Net change in cash and cash equivalents held	3,053,466	(6,730)
Cash and cash equivalents at beginning of financial period	3,149,243	46,431
Cash and cash equivalents at end of financial period	6,202,709	39,701

The consolidated statement of cash flows should be read in conjunction with the attached notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the half year ended 31 December 2019



Note 1. Basis of preparation

These general purpose financial statements for the interim half year reporting period ended 31 December 2019 have been prepared in accordance with requirements of the Corporations Act 2001 and Australian Accounting Standards including AASB 134: Interim Financial Reporting. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated below.

Financial Instruments

Convertible Notes

The initial fair value of the liability portion of the convertible notes was recognised within borrowings at the issue date. The liability is subsequently recognised at fair value through profit or loss (FVTPL) until extinguished on conversion or maturity of the convertible notes. The remainder of the proceeds is allocated to the conversion option and recognised in shareholders' equity, net of income tax, and not subsequently remeasured.

Financial Liabilities

Financial liabilities at (FVTPL) –classification, subsequent measurement and gains and losses

A financial liability is classified as a FVTPL if it is a derivative or it is designated as FVTPL on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. The Group also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid is recognised in profit or loss.

Collateral Shares

Collateral shares are shares in the Company that are held by the Company's convertible notes holders as security for the purpose of the agreed funding facilities. These shares are treated as treasury shares until they are fully paid for.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the half year ended 31 December 2019



Significant judgements and estimates

Significant judgement is applied by management and directors when determining the fair value of the carrying amounts of trade and other receivables. This is based on the expected future cash flows that will flow into the Group.

New and amended standards adopted by the entity

A number of new or amended standards including AASB 16 Leases became applicable for the current reporting period, however, the Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards. There may be some changes to the disclosures in the 30 June 2020 annual report as a consequence of these amendments.

AASB 16 Leases

The Group has adopted AASB 16 Leases with a date of initial application of 1 July 2019. There is no material impact as a result of adoption of AASB 16.

AASB 16 eliminates the operating and finance lease classifications for lessees currently accounted for under AASB 117 Leases. It instead requires an entity to bring most leases onto its statement of financial position in a similar way to how existing finance leases are treated under AASB 117. An entity will be required to recognise a lease liability and a right of use asset in its statement of financial position for most leases.

Impact of standards issued but not yet applied by the entity

The 30 June 2019 annual report disclosed that Netlinkz Group anticipated no material impacts (amounts recognised and/or disclosed) arising from initial application of those standards issued but not yet applied at that date. Please refer to Note 2 for assessment as at 31 December 2019.

Note 2. Going Concern

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

As disclosed in the financial statements, the Group incurred a loss of \$10,930,980 had net cash outflows from operating activities of \$5,722,737. These conditions indicate the existence of a material uncertainty that may cast a significant doubt about the group's ability to continue as a going concern.

The directors believe that there are reasonable grounds to believe that the Group will continue as going concern, after considering the following factors:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the half year ended 31 December 2019



- The Board has continued to improve its balance sheet by issuing equity to raise working capital and the repayment of any debt and, in some cases, agreeing or seeking agreement with creditors for the conversion of part or all their debt to equity;
- The directors regularly monitor the Group's cash position and, on an on-going basis, consider a number of strategic initiatives to ensure that adequate funding continues to be available;
- Cost cutting measures have been undertaken during the period and post 31 December 2019;
- The Group expects to increase revenues during calendar year 2020 from its patented technology solutions and its partnering sales strategy;
- The China Joint Venture, now complete and focused on large infrastructure project sales has started to win significant contracts announcing that the iLinkAll VSN will be an integral part of a World Bank sponsored water treatment initiative in Sichuan province.
- The large-scale infrastructure projects whilst requiring significant on-premise development with the client will produce long-term royalty payments out to 25 years as part of PPP financing structures.
- The Beijing Municipality has also selected the iLinkAll VSN product as suitable for its fight against the coronavirus as it recognises the integral requirement of remote office work on a fully secure system. This significant announcement was made to the market post 31 December 2019.
- NetLinkz secured and announced to market a share purchase and convertible securities agreement with each of CST Capital Pty Ltd & Lind Global Macro Fund LP for up to AUD\$30.75m. AUD22.75m of this facility is available over the next 24 months in monthly tranches.
- The three-year AUD\$29m Committed Funding Agreement with GEM Global Yield Fund LLC SCS and GEM (Global Emerging Markets) Investment America LLC is still available to the Company.
- The Directors have successfully raised equity and debt capital, and will be possible in the future if further equity raisings are required to provide funding for the Group's activities; and
- The Group retains the ability, if required, to wholly or in part dispose of its intellectual property.

Should the Group not be able to continue as a going concern, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements. 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 CONSOLIDATED FINANCIAL STATEMENTS

for the half year ended 31 December 2019



Note 3. Operating Segments

The Company has identified its operating segments based on the internal reports that are reviewed and used by the board of directors in assessing performance and determining the allocation of resources. The reportable segment is represented by the primary statements forming this financial report.

In the following table, revenue is disaggregated by primary geographical market, major products/service lines and timing of Revenue recognition.

	Half Year ended 31 December 2019 VIN Sales \$	Half Year ended 31 December 2019 Consulting & Training \$
Primary Geographical markets		
China	195,529	445,000
	<u>195,529</u>	<u>445,000</u>
Timing of revenue Recognition		
Products transferred at point in time	-	-
Products and Services Transferred over time	195,529	445,000
	<u>195,529</u>	<u>445,000</u>

	Half Year ended 31 December 2018 VIN Sales	Half Year ended 31 December 2018 Consulting & Training
Primary Geographical markets		
China	-	115,000
	<u>-</u>	<u>115,000</u>
Timing of revenue Recognition		
Products transferred at point in time	-	-
Products and Services Transferred over time	-	115,000
	<u>-</u>	<u>115,000</u>

Note 4. Finance costs

	Half Year ended 31 December 2019 \$	Half Year ended 31 December 2018 \$
Legal costs relating to pay out of previous debt facilities restructuring	30,320	-
Finance costs relating to pay out of previous debt facilities and funding	2,584,293	86,859
Interest & other costs	248,408	185,294
Foreign exchange difference	798	191,417
	<u>2,863,819</u>	<u>463,570</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the half year ended 31 December 2019



Netlinkz

Note 5. Prepayments and other receivables

	Half Year ended 31 December 2019	Full Year ended 30 June 2019
	\$	\$
Other receivables ¹	2,587,000	2,587,000
Security Deposit ²	21,313	21,313
Prepayments	338,668	284,814
Deposit for acquisition of SSI Pacific Pty Ltd ³	8,160,000	-
Investment in Cello Pty Ltd	100,000	-
Receivables from iSoftStone Joint Venture	108,852	-
	11,315,833	2,893,127

¹ The consideration paid on 9 May 2019 as part of a commercial transaction which is yet to finalise. The terms of the transaction are commercially sensitive, the details will be released to the market on completion of the transaction. The directors believe that the amounts are recoverable upon the completion of the transaction.

² The security deposit is in relation to City office Lease at 50 Stanley Street, Sydney.

³ Netlinkz entered into an agreement on 23 October 2019 to acquire Security Software International (SSI) Pacific Pty Ltd. The payment of AUD8.16m represented 80% of the acquisition price. The balance of AUD\$2.04m was paid to an escrow account on 9 January 2020 to facilitate representing the completion of the acquisition. Refer to Note 11.

Note 6. Borrowings

	Half Year ended 31 December 2019	Full Year ended 30 June 2019
	\$	\$
Loans- current ¹	5,602,477	7,021,106
Convertible notes – financial liabilities at FVTPL ²	6,094,108	-
	11,696,585	7,021,106

¹ Akuna Loan of \$1,812,435; Charlie Gargett Loan - \$165,873; Anthony Gooch - \$197,470; AIRE loan - \$26,698 & Maurice Westweller - \$3,400,001.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the half year ended 31 December 2019



² The Company has secured (and announced to market on 24 Dec 2019) a share purchase & Convertible securities agreement with each of CST Capital Pty Ltd and 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. A total of \$7,500,000 of convertible notes have been issued to CST Investment Fund and Lind Global Macro Fund, LP with a face Value of \$3,750,000 each. The convertible notes terminate after 16 months from issue date. Each Convertible Note is secured against the assets of the Company. The holders of the convertible notes may elect to redeem the convertible notes at their discretion subject to certain restrictions. As part of issuing the convertible notes, 10,000,000 options were issued at no cost (refer to note 7(ii)) and 19,300,000 collateral shares were issued as security for the convertible notes. (refer to note 7(i)).

	Note	\$
Face value of the convertible notes issued		7,500,000
Less finance costs		(750,000)
Convertible notes – financial liabilities at FVTPL	6	<u>(6,094,109)</u>
Equity component in relation to options issued	8	<u>655,892</u>

The convertible notes will be classified as a financial liability at FVTPL and it is anticipated the fair value of the liability will increase to \$7,500,000 over the term of the facility.

Note 7. Equity - issued capital

(i) Ordinary Shares

	Ordinary Shares	\$
Opening Balance 1 July 2018	1,233,665,563	34,462,142
Issues of shares from exercise of options	102,592,916	1,888,418
Issues of shares from share placement	48,460,031	1,502,261
Issues of shares for services and settlement of debts	166,903,165	5,867,422
Less: Capital raising costs	-	(93,179)
Balance at 30 June 2019	<u>1,551,621,675</u>	<u>51,233,366</u>

	Ordinary Shares	\$
Opening Balance 1 July 2019	1,551,621,675	51,233,366
Issues of shares from exercise of options	72,848,108	2,869,514
Issues of shares from share placement	30,769,231	4,000,000
Issues of shares for services and settlement of debts	147,264,779	9,045,980
Issue of Collateral Shares ¹	19,300,000	-
Less: Capital raising costs	-	(678,512)
Balance at 31 December 2019	<u>1,821,803,793</u>	<u>66,470,349</u>
Less Collateral Shares issued ¹	<u>(19,300,000)</u>	<u>-</u>
	<u>1,802,503,793</u>	<u>66,470,349</u>

¹ These collateral shares were issued as part of the convertible notes. These shares are treated as treasury shares until the shares are fully paid for. Refer to note 1 and note 6.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the half year ended 31 December 2019



Netlinkz

(ii) Options

	Options
Balance 1 July 2018	305,772,293
Option issued for services provided	25,000,000
Debt Facility - GEM	83,800,000
Option exercised for cash	(102,592,916)
Options Lapsed	(10,000,000)
Balance as at 30 June 2019	<u>301,979,377</u>
Balance 1 July 2019	301,979,377
Option issued in relation to the convertible notes ¹	10,000,000
Option exercised for cash	(72,848,108)
Option exercised per Agreement ²	(31,000,000)
Balance as at 31 December 2019	<u>208,131,269</u>

¹ The options are issued in relation to the convertible notes and form part of the equity component of the fair value of the financial instruments. Refer to note 6 for the details of the convertible notes.

² 31,000,000 of options were issued and exercised to GEM Facility as part of an agreement for removing exclusivity clause in the original agreement.

Note 8. Share/Option Based Payments

	Half Year ended 31 December 2019	Half Year ended 31 December 2018
	\$	\$
Share/Option based payables	3,881,248	1,112,586
	<u>3,881,248</u>	<u>1,112,586</u>

New Share based payments for the period

- (1) As per Appendix 3B released on 16 Dec 2019, 1,153,846 shares were issued at \$0.13 with a value of \$150,000 to James Preketes as part of the Employee Incentive Scheme.
- (2) As per Appendix 3B released on 16 Dec 2019, 250,000 shares were issued at \$0.16 with a value of \$40,000 to Allen Cao as part of the Employee Incentive Scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the half year ended 31 December 2019



- (3) As part of Masamichi Tanaka's condition of service he is entitled to receive unlisted options. He can subscribe for 7,500,000 ordinary fully paid shares at an exercise price of \$0.16 per share. Mr Tanaka is entitled to 2,500,000 ordinary fully paid shares and a further 2,500,000 ordinary fully paid shares at both 18 months and 36 months as long as he continues as an Advisor. This was recorded at 31 December 2019 for a value of \$240,685.

The valuation model inputs used in the Black-Scholes model to determine the fair value at the deemed grant date, are as follows:

Grant date	Expiry date	Underlying Share price	Exercise price	Expected volatility	Risk-free rate	Number of options	Fair value per option at grant date
10-Dec-19	10-Dec-22	\$0.155	\$0.16	95%	0.73%	7,500,000	\$0.091

- (4) As part of Ian Renwood's condition of service, he is entitled to receive unlisted options. He can subscribe for 10,000,000 ordinary fully paid shares at an exercise price of \$0.15 per share with a fair value of \$945,806. As there is a service condition attached to the vesting of these options being 2 years of continued service as a Director, only part of this value was recorded at 31 December 2019 of \$128,267.

The valuation model inputs used in the Black-Scholes model to determine the fair value at the deemed grant date, are as follows:

Grant date	Expiry date	Underlying Share price	Exercise price	Expected volatility	Risk-free rate	Number of options	Fair value per option at grant date
23-Sep-19	23-Sep-21	\$0.175	\$0.15	95%	0.76%	7,500,000	\$0.0945

- (5) As part of Grant Thomson's condition of service, he is entitled to receive unlisted options. He can subscribe for 10,000,000 ordinary fully paid shares with half at an exercise price of \$0.25 and the other half at \$0.40 per share with a fair value of \$452,900.

As there is a service condition attached to the vesting of these options being 2 years of continued service as a Director, only part of this value was recorded at 31 December 2019 of \$37,225.

The valuation model inputs used in the Black-Scholes model to determine the fair value at the deemed grant date, are as follows:

Grant date	Expiry date	Underlying Share price	Exercise price	Expected volatility	Risk-free rate	Number of options	Fair value per option at grant date
01-Nov-19	01-Nov-21	\$0.145	\$0.25	95%	0.81%	5,000,000	\$0.053
01-Nov-19	01-Nov-21	\$0.145	\$0.40	95%	0.81%	5,000,000	\$0.037

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the half year ended 31 December 2019



- (6) As part of Michael Beck's condition of service, he is entitled to receive unlisted options. He can subscribe for 10,000,000 ordinary fully paid shares with half at an exercise price of \$0.25 and the other half at \$0.40 per share with a fair value of \$507,361. As there is a service condition attached to the vesting of these options being 2 years of continued service as a Director, only part of this value was recorded at 31 December 2019 of \$14,595.

The valuation model inputs used in the Black-Scholes model to determine the fair value at the deemed grant date, are as follows:

Grant date	Expiry date	Underlying Share price	Exercise price	Expected volatility	Risk-free rate	Number of options	Fair value per option at grant date
10-Dec-19	09-Dec-21	\$0.155	\$0.25	95%	0.73%	5,000,000	\$0.059
10-Dec-19	09-Dec-21	\$0.155	\$0.40	95%	0.73%	5,000,000	\$0.042

- (7) As part of the mandate signed by Netlinkz on 18/11/19 Everblu Capital, a third-party advisory firm is entitled two lots of 20,000,000 options at an exercise price of \$0.20 & \$0.25 per share respectively and is also entitled 1 option for every \$4 raised and 1,000,000 ordinary fully paid shares at \$0.16

Grant date	Expiry date	Underlying Share price	Exercise price	Expected volatility	Risk-free rate	Number of options	Fair value per option at grant date
18-Nov-19	17-Nov-22	\$0.160	\$0.20	95%	0.75%	20,000,000	\$0.088
18-Nov-19	17-Nov-22	\$0.160	\$0.25	95%	0.75%	20,000,000	\$0.080
10-Dec-19	09-Dec-22	\$0.155	\$0.31	95%	0.75%	1,000,000	\$0.069
30-Dec-19	29-Dec-22	\$0.120	\$0.24	95%	0.75%	937,500	\$0.054
31-Dec-19	30-Dec-22	\$0.125	\$0.25	95%	0.75%	937,500	\$0.056
31-Dec-19	30-Dec-22	\$0.125	\$0.25	95%	0.75%	312,500	\$0.056

- (8) As part of the issuance of the convertible notes, a total of 10,000,000 options at an exercise price of \$0.20 per share were issued on 24 December 2019 with an expiry date of 24 December 2022. Refer to Note 6 and Note 7.

Grant date	Expiry date	Underlying Share price	Exercise price	Expected volatility	Risk-free rate	Number of options	Fair value per option at grant date
24-Dec-19	23-Dec-22	\$0.13	\$0.20	95%	0.88%	10,000,000	\$0.065

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the half year ended 31 December 2019



Netlinkz

Note 9. Earnings per share

	Half Year ended 31 December 2019	Half Year ended 31 December 2018
	\$	\$
(Loss) used in the earnings per share calculation	(10,930,980)	(3,576,762)
Weighted average number of ordinary shares	1,671,903,832	1,347,506,192
Loss per share (cents)	(0.661)	(0.265)

Note 10. Related party

A number of directors of the Company, or their director-related entities, held positions in other entities during the financial year that result in them having control or significant influence over the financial or operating policies of those entities.

The terms and conditions of the transactions with directors and their director related entities were no more favorable to the directors and their director related entities than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis.

The aggregate amounts recognized during the half year (excluding re-imburement of expenses incurred on behalf of the Company) relating to directors and their director-related entities were as follows:

Debt Facilities:

For the period ending 31 December 2019, Mr James Tsiolis provided a personal guarantee on a debt of \$3,400,001 payable to Mr Maurice Westerweller.

Director fees and remuneration:

Ian Renwood (appointed as non-director on 21 Oct 2019), Grant Thomson (appointed as non-executive director on 1 Nov 2019), Michael Beck (appointed as non-executive director on 12 Dec 2019) and David O'Dowd (resigned on 27 November 2019) and were directors during the period ended 31 December 2019. Their remuneration is set at \$90,000 each per annum plus Grant Thomson is paid an additional \$30,000 per annum as he chairs the Technology Committee (\$30,000) and Michael Beck is paid an additional \$54,000 as he chairs the audit and risk committee. In addition, they are entitled to 10 million share options exercisable at various prices during the period of their directorship. See Note 8 above. The issuance of these options is subjected to shareholders' approval.

James Tsiolis Chairman/ CEO fee is set at \$720,000 per annum plus agreed insurance costs of up to \$40,000pa.

Note 11: Contingent Liabilities

There have been no changes in contingent liabilities since the end of the previous annual reporting period, 30 June 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the half year ended 31 December 2019



Note 12: Events subsequent to reporting date

On 9 January 2019, NetLinkz made the final deferred consideration payment of \$2,040,000 to the shareholders of SSI Pacific in completion of the share acquisition of this entity.

As per Appendix 2A released on 15 January 2020, 2,000,000 options were exercised at \$0.045 with a value of \$90,000.

As per Appendix 2A released on 23 January 2020, 12,016,625 shares were issued at \$0.11 with a value of \$1,321,718 in satisfaction of the capital raise invoices raised by Everblu Capital.

As per Appendix 2A released on 23 January 2020, 115,385 shares were issued at \$0.13 with a value of \$15,000 in satisfaction of the Research fee invoices raised by Everblu Research

As per Appendix 2A released on 23 January 2020, 13,888,890 shares were issued at \$0.09 with a value of \$1,250,000 in satisfaction of the first Tranche amount received from CST and Lind.

On 23 January 2019, Netlinkz funded its 80% equity investment in the Joint Venture entity, iLinkAll of RMB 8.0m or approximately AUD\$1.6m.

As per Appendix 2A released on 31 January 2020, 188,890 options were exercised at \$0.045 with a value of \$8,500.

On 3 February 2020, Netlinkz announced KPMG had a positive assurance report which was carried out in accordance with Australian Standard on Assurance Engagements ASAE 3150 Assurance Engagements on Controls issued by the AUASB.

As per Appendix 3G released on 11 February 2020, issued 2,604,279 options exercisable at \$0.045 with an expiry of 31 October 2020 to Goonet in satisfaction of an agreement.

On 14 February 2020, Netlinkz announced the VSN product was selected by Beijing Municipal Bureau of Economics and Information Technology as a Government approved product in the fight against the coronavirus.

As per Appendix 2A released on 18 February 2020, 74,404,192 shares were issued at \$0.025 with a value of \$1,860,105 in satisfaction of Akuna Loan as agreed in the AGM.

On 20 February 2020, Netlinkz announced iLinkAll signs agreement for the implementation and supply of its VSN software to Jiajiang Qingyi Water Plant and Water supply Construction Project in the Sichuan Province.

On 20 February 2020, Netlinkz issued 86,107,387 fully paid shares at \$0.065 per placement share and 1,125,000 options exercisable at \$0.13 on or before 18 February 2023 in relation to the \$4,500,000 equity placement announced on the 14 February 2020.

On 27 February 2020, Netlinkz announced that the iLinkAll signs RMB 1m contract with Pinnacle (Shanghai) Information Consultation Ltd to act as agent for VSN. Intelligent network security product.

DIRECTORS' DECLARATION



Netlinkz

The directors of the Company declare that:

1. The Financial Statements and Notes, as set out on pages 4 to 19 are in accordance with the *Corporations Act 2001*, including:
 - a) giving a true and fair view of the Consolidated entity's financial position as at 31 December 2019 and of its performance for the half year ended on that date; and
 - b) complying with Accounting Standard AASB 134 "Interim Financial Reporting".
2. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

James Tsiolis
Director

Sydney NSW

Dated this 28th day of February 2020

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Netlinkz Limited

Report on the Half-Year Financial Report

Qualified Conclusion

We have reviewed the half-year financial report of Netlinkz Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, with the exception of the matter described in the *Basis for qualified conclusion* section, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2019 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Basis for qualified conclusion

As disclosed in Note 5 to the financial report, the Directors state that the other receivables of \$2,587,000 will be recoverable as part of a commercial transaction which is yet to finalise. We were unable to perform sufficient appropriate review procedures to confirm the recoverability of this amount. Therefore, we were unable to obtain sufficient appropriate audit evidence about the carrying value of the other receivable as at 31 December 2019. Consequently, we were unable to determine whether any adjustments to the carrying value of the other receivables in the consolidated statement of financial position is necessary for the period ended 31 December 2019.

Emphasis of matter - Material uncertainty relating to going concern

We draw attention to Note 2 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.

Directors' responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

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Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2019 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO Audit (WA) Pty Ltd

BDO


Glyn O'Brien

Director

Perth, 28 February 2020

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