

ASX ANNOUNCEMENT

31 January 2019

December Quarter Update

Investment Highlights

- Completed external strategic review concluding a focus on completing the enterprise solution and monetising its non-core businesses
- Successfully completed Mastercard's third-party processor testing
- Secured a cornerstone investment from Altor Capital to support the build of enterprise banking solution
- Restructured agreements and costs relating to mobile banking consumer business
- Post the quarter end, the Company monetised its equity investment in the Ivy Project for cash proceeds of US\$1.5 million

31 January 2019: U.S.-based fintech company Change Financial Limited (**ASX: CCA**) ("**Change Financial**" or "**the Company**"), is pleased to provide its quarterly business update.

Strategic Update

During the quarter the Company finalised a strategic review of its businesses and as part of that process retained management consultant experts in the payments and digital financial services industry, Edgar Dunn & Company, to undertake the review.

Following the strategic review, the board concluded that it would focus on the Company's processor business and look to monetise its non-core businesses, namely the mobile banking consumer business and its investment in the Ivy Project.

While there remains significant risk and cost to the completion of the enterprise processor business it offers a substantial opportunity given 1) the size of the addressable market and 2) the limited number of competitors. According to Edgar Dunn & Company, the market size in 2019 will be approximately \$50 billion, growing at a CAGR of over 60% per annum through to 2025.

Enterprise Processor Update

During the quarter, the Company successfully completed Mastercard's (NYSE:MA) third-party processor testing procedure and the Company's payments processing platform is now eligible for registration as a Mastercard third-party processor. There are currently less than 30 Mastercard-certified issuers in the US.

Once launched, the enterprise solution will provide turn-key services targeting more than 7,000 Federal Deposit Insurance Corporation (FDIC) banks, 5,500 credit unions and corporations in the US with innovative, cost-effective mobile banking services.

The Company looks forward to providing future updates on its progress in expanding the team with experienced staff and putting in place stronger strategic and commercial planning in order to extract value from the significant market opportunity.

CBKC Central Payments Division President Trent Sorbe: "We are pleased to recognize Change Financial's progress as they build their transaction processing infrastructure. We will register Change Financial as a third-party processor with Mastercard in the near future. This enterprise offering will enable Change to expand their product offering and customer base. We anticipate the processing platform's sophistication and flexibility combined with an innovative mobile application will attract additional companies who want to partner with Change Financial."

Divestment of non-core assets

The key outcomes of the strategic review, as previously disclosed, were that the Company should focus on completing its enterprise solution and seek opportunities to reduce costs and divest its non-core businesses, the mobile consumer banking business (ChimpChange) and the Ivy Project.

After the end of the December quarter, on 11 January 2019, the Company announced it had monetised its investment in the Ivy Project for cash proceeds of US\$1.5 million through the sale of its interests as well as a distribution of capital.

The terms of the sale agreement entered into by Change Financial results in the Company selling its 33% equity stake. In addition, but separate to the sale, the Company will receive a distribution of capital from Ivy Koin LLC.

The Company's divestment of the Ivy Project together with the capital distribution, represent a significant return on investment. In October 2017, Change Financial announced its seed investment into the Ivy Project for a 33% equity interest in the blockchain project.

As part of its initial investment, Change Financial also received 130,000,000 Ivy tokens. The Company will retain its direct holding of 130,000,000 Ivy tokens as part of the sale transaction.

The sale proceeds and capital distribution will provide the Company with further funding for the development of its enterprise solutions and payments processor business following the recapitalisation of the Company that was announced on 12 December 2018.

The sale is subject to conditions which are customary for a transaction of this size and nature. Completion of the sale and payment of the capital distribution is expected to be received in the second half of FY2019.

Successful Capital Raising

During the quarter, Change Financial secured new funding from Altor Capital for up to A\$4 million.

Altor Capital has initially invested A\$2 million by way of an initial term loan facility ('Loan') that will be replaced by an issue of convertible notes ("Notes") following shareholder approval at an EGM to be held on 12 February 2019.

In addition, the Company and Altor Capital may agree for Altor Capital to subscribe for an additional A\$2 million of Notes. Further details on the Altor Capital Loan and Notes can be found in the notice materials for the EGM sent to shareholders on 14 January 2019.

Altor Capital is an alternative asset manager that has been a long-term supporter of the Company and was a major shareholder prior to the Company's IPO.

The Company is also currently undertaking an entitlement offer to existing shareholders which closes on 13 February 2019. Further details about the entitlement offer can be found in the Offer Booklet dispatched to shareholders on 21 January 2019.

Changes to the Board

During the quarter, the Company announced a number of key board changes.

Harley Dalton and Ben Harrison, key principles of Altor Capital, were appointed Directors of the Company while founder and former managing director, Ash Shilkin resigned from the board.

Altor Capital have been assisting the Company during the December quarter and following completion of due diligence made the decision to invest in the Company. Ben Harrison was formerly a director of the Company.

The board thanks Mr Shilkin who had a huge impact on shaping the vision for the Company, successfully launched ChimpChange mobile banking, and commenced the development of the Company's debit card processing business.

Cash Flow

Cash at the end of the December 2018 quarter was US\$446,000. All financial figures in the following Appendix 4C are denominated in US dollars, unless stated otherwise.

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About Change Financial

Change Financial Limited (ASX: CCA) is a US-focused fintech company revolutionising the way traditional currencies and digital assets flow between consumers, businesses and financial institutions through its range of innovative, globally scalable payments services. Change Financial's solutions include a registered Mastercard enterprise processor and an award-winning consumer digital banking platform.

To learn more, please visit: www.changefinancial.com

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

Change Financial Limited

ABN

34 150 762 351

Quarter ended ("current quarter")

31 December 2018

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (6 months) \$US'000
1. Cash flows from operating activities		
1.1 Receipts from customers	160	324
1.2 Payments for		
(a) staff costs	(554)	(1,290)
(b) advertising and marketing	(56)	(170)
(c) other	(1,309)	(2,379)
1.3 Dividends received (see note 3)		
1.4 Interest received	1	3
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)		
1.9 Net cash from / (used in) operating activities	(1,758)	(3,512)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) software	(32)	(50)
(b) payment for investment		
(c) physical non-current assets	0	(2)
2.2 Proceeds from disposal of:		
(a) property, plant and equipment		
(b) businesses (see item 10)		
(c) investments		

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (6 months) \$US'000
(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)		
2.6 Net cash from / (used in) investing activities	(32)	(52)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	2,429
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		
3.5 Proceeds from borrowings	275	275
3.6 Repayment of borrowings		
3.7 Transaction costs related to loans and borrowings		
3.8 Dividends paid		
3.9 Other -payment for Ivy Option	(250)	(250)
3.10 Net cash from / (used in) financing activities	25	2,454

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	2,228	1,666
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(1,758)	(3,512)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(32)	(52)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	25	2,454
4.5 Effect of movement in exchange rates on cash held	(17)	(110)
4.6 Cash and cash equivalents at end of quarter	446	446

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 \$US'000	Previous quarter \$US'000
5.1 Bank balances	446	2,228
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)	446	2,228

6. Payments to directors of the entity and their associates

- | | Current quarter
\$US'000 |
|--|-----------------------------|
| 6.1 Aggregate amount of payments to these parties included in item 1.2 | 201 |
| 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 | |

Item 6.1 comprises payments to the Directors including remuneration paid to the Executive Chair.

7. Payments to related entities of the entity and their associates

- | | Current quarter
\$US'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 \$US'000	Amount drawn at quarter end \$US'000
8.1 Loan facilities	1,420	1,065
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.		

Item 8.1 is a secured facility provided by Altor Capital at an interest rate of 10% per annum. Further details are set out in the ASX announcements of 12 December 2019.

9. Estimated cash outflows for next quarter	\$US'000
9.1 Research and development	
9.2 Product manufacturing and operating costs	
9.3 Advertising and marketing	-
9.4 Leased assets	
9.5 Staff costs	(430)
9.6 Administration and corporate costs	(507)
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	(937)

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

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

By Order of the Board
Gillian Nairn
Company Secretary
31 January 2019

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.