

5 September 2018

AVA receives confirmation of Letter of Intent for a major military project

Ava Risk Group Limited (**ASX: AVA**) announced today that a data network security solution developed by its Technology Division has been selected to protect one of the world's largest closed user group data networks for the exclusive use of more than one million military personnel.

- A Letter of Intent to manufacture FFT network security technology, under licence, has been issued to Ava Group's in-country manufacturing partner, SFO Technologies Private Limited (SFO).
- The value of the licence fee is estimated at to be between US\$10.5m and US\$11.1m (A\$14.4m and A\$15.2m) and expected to be delivered over a 15 month period.
- While the final value and timing of licence fee revenue to Ava Group are dependent upon final cost of goods and delivery schedules, it is anticipated that approximately US\$5.84m (A\$8m) revenue will be generated in FY2019 with the remaining revenue expected in FY2020. The LOI estimates that SFO will receive the formal purchase order by the end of September 2018.
- Given the licence fee nature of the project and no working capital requirement, the project is expected to be highly profitable. Moreover, it's expected that the project win should lead to further opportunities in the secure data network market.
- In addition, there is expected to be additional revenue after the initial 3 year warranty period from a subsequent 7 year spares and maintenance contract, which will be quantified at a later date.

Following an extensive tender process, this award underlines the quality and competitiveness of Ava Group's data network security solution and its superior ability to locate interference and intrusions on a highly secure data network.

Of importance to the end user, was the implementation of a solution that included ease of deployment and a unique level of enhanced security provided by its real-time early warning of unauthorised access, with no impact on data throughput. This not only improves network efficiency, but also reduces the cost of deployment compared to traditional solutions.

Ava Group Chief Executive, Chris Fergus said that:

"With cybersecurity breaches a seemingly daily occurrence, we are presented with a significant opportunity to expand the application of our intrusion detection technology to the protection of sensitive data network cables. Our Ava Group intrusion detection solutions have previously been selected to protect sensitive military, government and utility data networks in the United States, Australia, and the Middle East, providing advance warning of attempted breaches and enables asset owners to quickly take preventative action. This project win not only introduces a new major customer to Ava Group, but also provides us with another opportunity to demonstrate the breadth of our risk management solutions into adjacent markets and is further supported by the recent launch of our Cybersecurity Centre of Excellence."

For the purposes of this project, Ava Group has licenced the manufacturing of its FFT technology to SFO, a major in-country manufacturing partner. This manufacturing partner will take on all of the manufacturing cost (and associated working capital) and delivery risk under the award. The manufacturing partner will pay Ava Group a licence fee for each system supplied for the project, generating estimated revenue of between US\$10.5m and US\$11.1m (A\$14.4m and A\$15.2m).

Ava Group Chairman, David Cronin said "the selection of Ava Group's FFT technology to protect a large scale telecommunications network is reflective of the growing threat to the worlds data. Government, military and commercial end users are increasingly becoming aware of the potential for illegal tapping, and physical disruption, of their sensitive data. With an increasing suite of products and risk management services, Ava is at the forefront of this large and growing market segment. This deployment is an important milestone for the Company, showing a clear return for shareholders on the investment we have made in increasing our geographic and market segment reach".

*This announcement should be read in conjunction with the further information that is contained in Appendix A.

Ava Group will provide further updates as more information is provided or when the assumptions underlying this announcement materially change.

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About the Ava Group

The Ava Group is a market leader in the provision of risk management services and technologies, trusted by some of the most security conscious commercial, industrial, military and government clients in the world.

The Group features a range of complementary solutions including intrusion detection for perimeters, pipelines and data networks, biometric and card access control as well as the secure international logistics and storage of high value assets. Through decades of innovation, the Ava Group continues to build upon a comprehensive portfolio of premium services and technologies for the most complex and demanding markets.

Our business truly serves a global market, with our knowledgeable team spread across six continents, providing market and industry expertise directly to customers. With thousands of sites protected, the Ava Group is proven to deliver first class services and technologies that surpass the expectations of our partners and end users.

Contact

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About SFO Technologies

SFO Technologies, is the flagship company of NeST Group, incorporated in 1990, and provides Original Design Manufacturer (ODM) and Original Equipment Manufacturing (OEM) to diverse industries such as Aerospace & Defence, Communications, Energy & Industrial, Healthcare and Transportation.

The group has development centres, factories and front-end offices in over 32 global locations, across the USA, Canada, Europe, Middle East, South East Asia, Japan, Australia, and India.

SFO has provided various types of ODM and OEM services and solutions to a host of customers – ranging from suppliers to Indian Government defence contracts, Fortune 500 companies to SMBs (Small & Medium Business).

Appendix A:

1. Forward Looking Statements

Information in this release is for general information purposes only. Certain statements in this document regarding the Company's financial position, business strategy and objectives, contain forward-looking statements (rather than being based on historical or current facts) and as such, are not able to be verified.

All forward-looking statements are based on the current views of the Company's management as well as reasonable assumptions made by, and information currently available to the Company's management. Forward-looking statements are inherently uncertain and must be read accordingly. There can be no assurance that some or all of the underlying assumptions will prove to be valid. If assumptions are invalid this is likely to have an impact on the accuracy of the statement itself.

All data presented in this document reflects the current views of the Company with respect to future events. Forward-looking statements are subject to a variety of risks, uncertainties and assumptions relating to the operations, results of operations, growth strategy and liquidity of the Company. Forward looking statements are also subject to external matters outside the control of the Company.

To the maximum extent permitted by law, the Company, its officers, employees and agents do not assume any obligation to release any updates or revisions to the information (including any forward looking statements) in this presentation to reflect any change to expectations or assumptions; and disclaim all responsibility and liability for any loss arising from reliance on this presentation or its content.

2. Summary of Original Equipment Manufacturer and Value Added Reseller Agreement (SFO Agreement) between Ava Group and SFO

The SFO Agreement sets out the rights of the parties to jointly bid Ava Group's FFT Secure Link technology, and associated software solutions (the **FFT Hardware** and **FFT Software**) by leveraging SFO's local Indian manufacturing, operational and technology capabilities for the purpose of an Indian Ministry of Defence tender (**MOD Tender**).

The agreement is governed by the laws of Victoria, Australia.

Under the agreement, Ava Group appoints SFO as a value added reseller of the FFT Hardware and FFT Software for the purpose of the MOD Tender.

(a) License

Under the agreement, Ava Group grants SFO the following rights:

- An exclusive license to manufacture the FFT Hardware for the marketing, promotion and sale of goods and services pursuant to the MOD Tender or any related tender (the **Purpose**);
- The right to brand the FFT Hardware and FFT Software and any bundled product (being a combination of **FFT Hardware** and **FFT Software**) with SFO branding;
- The right to use Ava Group's FFT Secure Link trademark within the agreed branding;
- An exclusive license to distribute the FFT Software for the Purpose, within India, but only when bundled with FFT hardware;

- An exclusive license to distribute any spare or replacement parts for the FFT Hardware or FFT Software within India;
- The right to reproduce, abridge, condense or translate all or portions of the Ava Group FFT user documentation in accordance with the agreement; and
- The right to distribute the Ava Group FFT user documentation solely in conjunction with the distribution of a bundled product.

Ava Group's rights to distribute any of its products anywhere within India is not limited and it may also appoint any other third party to distribute Ava Group products within India, (except for supply under the MOD Tender).

SFO also has incidental rights under the agreement to use executable code for the purposes of reproducing copies of the FFT Software or for providing support as required by the agreement, and Ava Group will provide SFO with licence keys to unlock the FFT Software.

(b) Term

The term of the agreement is the entire period of contractual obligations under the MOD Tender.

(c) Sub-licensing

Under the agreement SFO is prohibited from giving any other reseller or dealer the right to manufacture or distribute the FFT Hardware or FFT Software, or any bundled product, unless Ava Group gives written consent. Ava Group can withhold its consent at its discretion.

(d) Specific obligations of Ava Group

Ava Group must:

- Provide SFO with reasonable required support to enable SFO to respond to the technical aspects of the MOD Tender;
- Provide all reasonably required training required for SFO to successfully manufacture, test, install and integrate FFT Software with SFO software, or to commission and support the FFT Hardware or any bundled product;
- Provide reasonable technical support; and
- Provide, free of cost, support to SFO to identify alternative suppliers for any obsolete parts recommended by Ava Group.

(e) Intellectual Property

Each party retains their existing intellectual property rights and specifically, Ava Group retains all intellectual property rights in the FFT Hardware, FFT Software and any bundled product. Further, any intellectual property rights that arise during the integration process are the sole property of Ava Group.

(f) Termination

- Events of termination include:
- Either party defaulting on any of its obligations under the agreement;
- Either party becoming insolvent;

- Either party ceasing to carry on business;
- Either party may terminate the agreement without cause on the expiry date of the existing Term.

(g) Non-Compete

During the term of the agreement and for not less than 12 months after the agreement, SFO (or any of its affiliates) must not distribute or develop any product that is substantially competitive with the FFT Hardware, FFT Software or any bundled product.

Further, SFO must not during the term of the agreement and for not less than 18 months after the agreement distribute or develop a product that is similar with the products of Ava Group (not limited to those the subject of the agreement) or supply or offer to supply any other product except for the FFT hardware, software and bundled product, to any party for the purpose of supply under the MOD Tender.

(h) Liability and indemnities

Express, implied or statutory warranties or expressly excluded with respect to the condition, quality, quantity, merchantability, fitness or suitability of the FFT Software, the FFT Hardware or any bundled product or the SFO software.

3. Risk Factors and important investment considerations

There are a number of risks, some specific to Ava Group and some of a general nature, which may either individually or in combination materially and adversely affect the future operating and financial performance of Ava Group, its investment returns and the value of the shares. Many of these risks are outside the control of Ava Group.

Below are the material risks Ava Group has identified that are specific to the terms within the SFO Agreement that relate to the matters disclosed in this announcement:

Letter of Intent (LOI)

Under the terms of the LOI, a formal Purchase Order (PO) is expected to be released by the end of September 2018. This date may vary. Final delivery clearance is subject to successful completion of factory acceptance test/consignee inspection at factory. Final quantity may vary at the time of the PO release.

Cost of Goods Sold (COGS)

Under the terms of the SFO Agreement, SFO is responsible for placing direct orders on Ava Group's nominated suppliers and for all COGS, along with other manufacturing costs. Under the terms of the SFO Agreement, the parties will share any positive or negative movement in the ratio of 50% Ava Group, 50% SFO. i.e. if COGS decreased by 10% Ava Group would receive 5% of the benefit as an increased licence fee. Conversely, if COGS rose by 10% Ava Group's licencing fee would reduce by 5%.

Delay of delivery schedule

Based on the current delivery schedule, Ava Group believe that approximately 53% of revenue will occur in FY2019 and the balance in FY2020. There are significant risks associated with potential delays that are outside of the control of Ava Group. Based on our experience, there is a high degree of risk that large projects, such as the one that is subject of this announcement, could be delayed. Ava Group will update the market if changes to its assumptions are warranted.

Exchange rates

Ava Group operates internationally and in several currencies. Accordingly, fluctuations in prevailing exchange rates affect Ava Group's profitability and financial position.

Under the SFO Agreement, Ava Group will be paid in US dollars. Ava Group's financial statements are prepared and presented in Australian dollars, and any appreciation in the Australian dollar against the US dollar will adversely impact its financial performance and position under the SFO Agreement. A rate of 1 AUD to 0.73 USD has been used when preparing the forecasts contained in this announcement.

Revenue Recognition

Under the terms of the SFO Agreement, Ava Group revenue will be recognised when the payment obligation arises, being upon each supply of product from SFO (ex-works).

Payment Terms

The payment terms under the LOI are 70% at 120 days, 20% at 180 days and 10% at 365 days. Ava Group is currently negotiating with SFO appropriate mechanisms for progress payments.