

ASX ANNOUNCEMENT

29 JANUARY 2021

Q2 FY21 BUSINESS UPDATE

Key highlights:

- **The Company is continuing to implement its “Survive and Thrive” strategy which is based on the following key elements:**
 1. Generate professional services revenue for stability
 2. Position the business to exploit accelerated macro trends
 3. Return to Network growth based on market conditions
- **During the quarter the Company’s FY20 R&D Tax Rebate of \$573k was processed and funds received as outlined in ASX announcement “FY20 R&D Tax Rebate Received” – 30 December 2020.**
- **Net cash from operating activities for the quarter was \$158k compared to (\$108k) for the prior quarter due to receipt of FY20 R&D tax rebate as detailed above.**
- **The Company has paid down a number of outstanding debts while still increasing Total Funding Available to \$402k from \$369k in the previous quarter.**
- **The Company has continued to investment in Research and Development to extend the capabilities of the Rewardle Platform with new features and services planned for launch in coming months.**

Commenting on the Company's activities during the Q2 FY21, Rewardle founder and Executive Chairman, Ruwan Weerasooriya, said:

“As planned, receipt of our FY20 R&D rebate during the quarter provides us with runway to implement our “Survive and Thrive” strategy.”

“We believe the drop in our Q2 cash receipts relates to seasonality that the Company traditionally experiences in December and January and we expect this to pick up during February and March as local businesses return to their normal trading routines. We’re also planning on launching new features and services in the months ahead that are expected to contribute to growing new and existing revenue streams.”

“In the meantime, we have focussed on our strategy of developing fee for service opportunities and have successfully developed a pipeline of work and opportunities that support our aim of achieving cash break even operations before the end of the JobKeep program.”

“As always, we’re continuing to focus on balancing short term cash flow with long term growth opportunities.”

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Quarterly Cash Flow Commentary

Cash receipts from customers for Q2 FY21 were \$70k, a decrease of \$47k or 40% from \$117k for the previous quarter. The decrease in cash receipts is reflective of a seasonal slow down in merchant services business development activity during December and January, the Company expects activity to pick up during February and March as local businesses return to their regular routines.

During Q2 FY21 government grants and tax incentives of \$670k were received relating to COVID-19 support and the Company's FY20 R&D tax rebate. This was an increase of \$528k or 372% compared to \$142k the previous quarter.

Outgoing cash payments for Q2 FY21 were \$582k, an increase of \$215k or 58% from \$367k for the previous quarter. A summary of this movement is outlined below:

- Product manufacturing and operating costs were \$238k, an increase of \$87k or 58% from \$151k during the prior quarter. The increase was largely due to timing of payments associated with regular recurring operating expenses and do not represent an underlying increase in operating costs.
- Advertising and marketing costs were \$2k, a decrease of \$3k or 60% from \$5k during the previous quarter, which is reflective of the reduced business development activity during the period.
- Staff costs were \$295k, an increase of \$133k or 82% from \$162k during the previous quarter. The increase was largely due to timing of payments for PAYG, Superannuation and payout of long service leave to a departing staff member and does not represent an increase in underlying staff costs.
- Administration costs of \$26k decreased \$23k or 47% from \$49k during the prior period. This is due to timing of payments and does not represent an underlying decrease in administration costs.
- Interest and other costs of finance paid of \$21k relates to interest due on payout of the Company's R&D loan that was repaid during the quarter.
- Government grants and tax incentives of \$670k increased \$528k or 372% from \$142k due to receipt of the Company's FY20 R&D Tax Rebate in addition to COVID-19 related support.
- Proceeds from borrowings of \$303k increased by \$210k or 226% from \$93k as the Company used the favourable terms of Director loan facilities to pay down accrued debts and for working capital.
- Repayment of borrowings of \$125k was incurred during the quarter as the Company repaid its R&D loan with Radium Capital.

Net cash from operating activities for Q2 FY21 was \$158k, compared to (\$108k) for the previous quarter.

Cash at the end of Q1 FY21 was \$402k, an increase of \$33k from \$369k at the end of the previous quarter.

While fluctuations in operating cash flow are to be expected, management is confident that through the execution of its survive and thrive strategy the business can achieve cash flow break even operations before the end of JobKeeper support.

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Operations update – Progress of “Survive and Thrive” strategy

During the quarter the Company continued implementing its “Survive and Thrive” strategy to navigate the business through the uncertain and challenging times ahead.

As previously outlined, the strategy is based on ensuring that the Company can preserve its team, intellectual property and operating capability until business development conditions improve and is based on the following key components:

1. Generate professional services revenue for stability
2. Position the business to exploit accelerated macro trends
3. Return to Network growth based on market conditions

1. Generate professional services revenue for stability

The Company has been working with its existing strategic partners, a range of existing Merchant partners, new Commercial Partners and other organisations interested in accessing the Company's expertise to develop a pipeline of fee for services project opportunities.

These cover areas such as strategy, management consulting, software development, e-commerce implementation, marketing, sales and customer support. Cash flow from these professional services opportunities will bolster short term cash flow as JobKeeper support is phased out over coming months.

2. Position the business to exploit accelerated macro trends

The Company has continued to invest in research and development to extend the capabilities of the Rewardle Platform to enhance its proposition for merchants, members and brand partners.

This work is positioning the business to take advantage of trends that have been accelerated by the COVID-19 pandemic, in particular, the increased digitisation of local businesses.

New features and services with respect to this component of the strategy are expected to launch and contribute incremental revenue in coming months.

3. Return to Network growth based on market conditions

While network growth opportunities have emerged as COVID-19 has come under control, the seasonality that the Company traditionally experiences in December and January slowed down business development activity during the quarter.

This is expect to pick up during February and March as local businesses return to their normal trading routines and the Company is also planning on launching new features and services in the months ahead that will contribute to growing existing revenue streams without increasing operating costs.

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Working capital management

As previously announced, to support the Company's working capital requirements as the COVID-19 response strategy is implemented, Executive Chairman, Mr Ruwan Weerasooriyas extended the unsecured, interest free, working capital loan of up to \$500,000 to \$1m during the quarter. The loan is repayable at the Company's discretion when it has capacity.

While the Company continues to operate in challenging conditions, management is confident that it will have sufficient working capital to meet its budget objectives for FY21 and beyond based upon:

- Ongoing reduction and management of operating costs
- Generation of technology licensing and professional services income
- Access to State and Federal Government COVID-19 support packages
- Development of corporate partnership opportunities
- Receipt of FY20 R&D rebate
- Access to R&D financing for FY21 activities
- Access to Director loan
- Improvements trading conditions and sales performance across Merchant Services and Brand Partnership revenue streams

The Board is regularly reviewing operating budgets and strategy taking into consideration a variety of commercial and corporate scenarios and opportunities.

This ASX announcement has been approved for release by Executive Chairman, Ruwan Weerasooriya.

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About Rewardle Holdings Limited

Rewardle connects millions of Members with thousands of local businesses across Australia.

The Rewardle Platform is a marketing and payments platform that combines membership, points, rewards, payments and social media into a single cloud based platform powered by Big Data analysis.

Rewardle is positioned to be a leading player as the worlds of social media, marketing, mobile and payments converge to transform how we connect, share and transact.

The Company is led by an experienced entrepreneurial team with a successful background in Internet and media businesses.

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