

## SYNTONIC SEPTEMBER 2017 QUARTERLY REVIEW

Highlights during the quarter include:

- Syntonic recognized record quarterly operational revenue of A\$480,382 – the third consecutive quarter of increasing revenue
- Freeway technologies deployed on over 19 million U.S. smartphones with continued growth in Q2 from pre-installation on 10 new Android smartphones
- Freeway Overpass™, the first cross-carrier, paid and sponsored, subscription service launched on iPhone and Android smartphones in the U.S. with reach to over 140 million consumers
- First wave of Overpass marketing initiated with exclusive coverage in the highly influential *Variety* magazine, followed by 1.14 million views of Syntonic's *Life Without Freeway Overpass* video to drive customer awareness and acquisition
- Ongoing plans to expand the Freeway Overpass services to Latin America, Southeast Asia, and Africa
- End of quarter robust cash reserves of A\$3.74 million

**Seattle, United States – Syntonic Limited (“Syntonic” or “Company”)**, a mobile platform and services provider, is pleased to provide investors an update on the Company's activities for Q1 FY2018 along with the accompanying Appendix 4C.

Gary Greenbaum, CEO and Managing Director of Syntonic, commented:

*“The September quarter was our third consecutive quarter of increasing revenue, and we are highly pleased with the progress we've made to date. We have been working persistently on the commercialisation and enhancement of our various product offerings. This laser focus approach on growing the business has resulted in substantive advances of our Freeway service across 4 key performance metrics --revenue, product distribution, customer satisfaction, and customer acquisition costs. I'm proud to announce that we have had 9 straight months of increasing revenue, consumer satisfaction ratings, app downloads and usage.*

*In a relatively short period of time, we have received an encouraging reception of our Freeway Overpass service, which started generating revenue from the first day of launch. Our marketing efforts will continue to be focused on driving marketplace success of Overpass in the U.S. and beyond, and we expect revenue to continue ramping over the coming quarters”.*

### Major events occurred during the Quarter:

- i. Commercial launch of Freeway Overpass on the iPhone: With the recent availability of Overpass in the U.S. on the iPhone, the new service has achieved an addressable audience reach of over 140 million mobile consumers in the U.S. The Overpass service launch for iPhone also triggered the first wave of marketing activities to grow customer awareness and acquisition principally through direct paid media. Additionally, we realized the benefits of earned and owned media,

such as Freeway Overpass' exclusive feature in *Variety Magazine*, a highly respected online entertainment magazine with 17 million unique monthly visitors<sup>1</sup> and the Freeway "Life Without Freeway Overpass" video, viewed by nearly 40,000 people within 2 hours of the Overpass launch.

With only two weeks in the quarter to market the Overpass service, all key indicators – customer acquisition cost, registration rates, app engagement time, subscriber purchases and trials grew positively, with the expectation of ramping revenue in subsequent quarters.

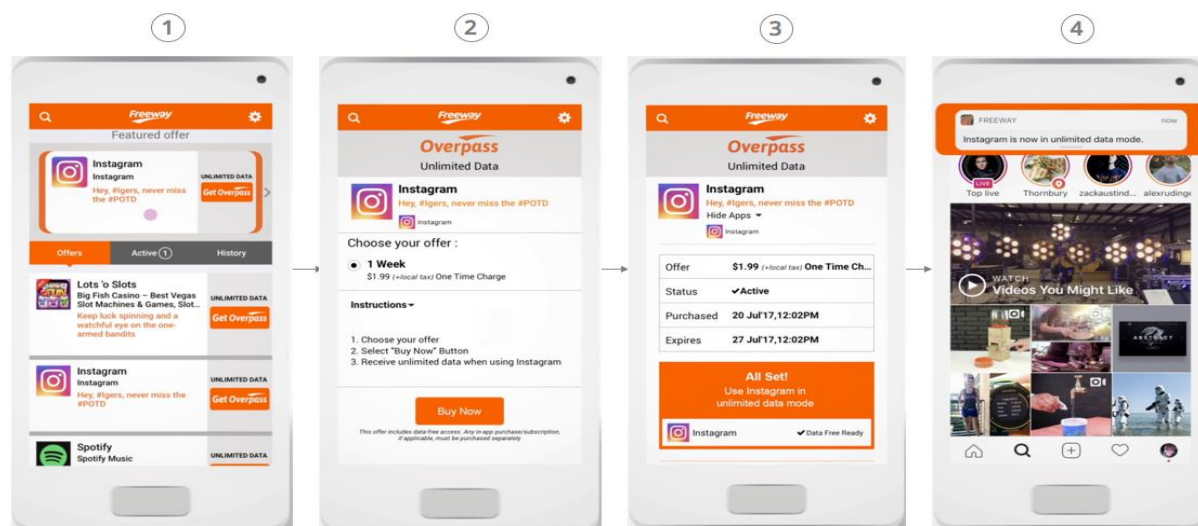


Figure 1 Syntonic Overpass User Experience on the iPhone

- ii. Large-scale deployment of Freeway technologies on U.S. smartphones: The September quarter was historic for the Company with the first massive scale-out of the Freeway SDK™ ("Software Development Kit) on over 19 million U.S. iPhone and Android smartphones. This deployment was driven through the SDK's inclusion in data-free apps which were either auto-upgraded or pre-installed on the smartphone. To note, not all of the SDK distribution was royalty bearing because of several factors: 1) required minimum mobile usage to trigger monthly royalties was not achieved, 2) conservative ramp-up of mobile operator data-free services throughout the quarter to assure scalability of their internal network operations, and 3) much of the deployment occurred late in the quarter.

This was also the first quarter for substantial network load delivered by the Syntonic Connected Services Platform. Over 3.8PB (petabytes) of network traffic was routed by the Syntonic services, the equivalent to the data of over 800,000 DVDs.

- iii. As announced subsequent to the quarter's end, Syntonic plans to further expand the Overpass service into new geographies in Latin America, Southeast Asia, and Africa



Figure 2: Data-free app supporting the Freeway SDK

<sup>1</sup> Source: BPA Worldwide, September 2011

with the assistance of regional value-add service providers that will assist in securing and managing local carrier relationships, customer service, and content provider acquisition.

- iv. Freeway by Syntonic® was nominated for the prestigious World Summit Award 2017 as the sole U.S. representative for best and most innovative digital solution.

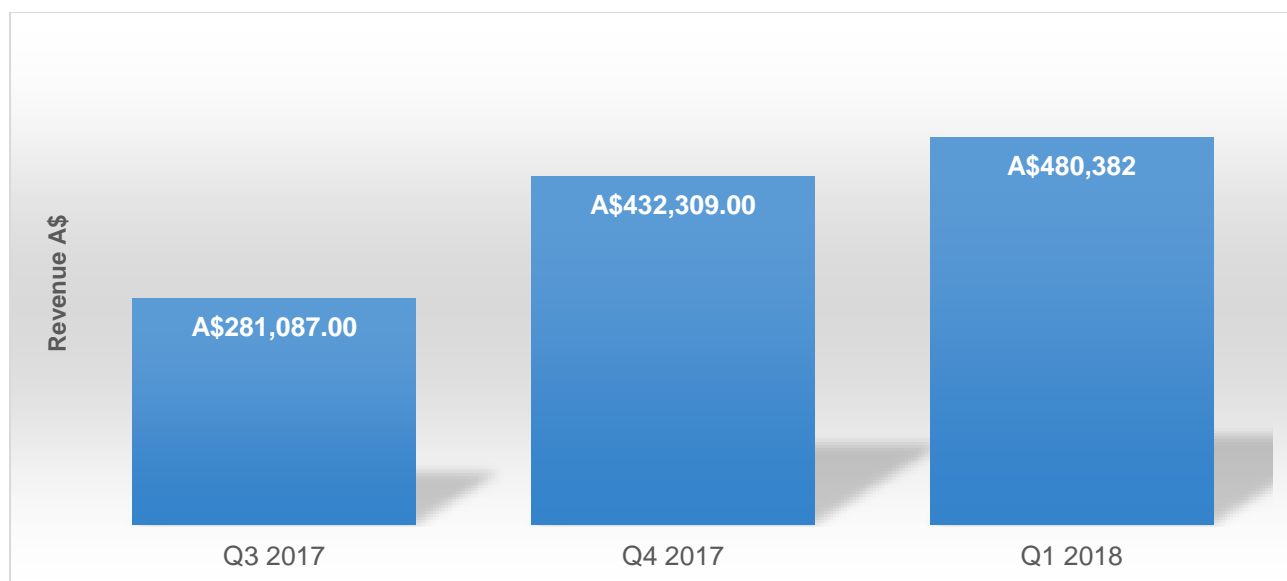
## Operational Summary

With three consecutive quarters of revenue growth, Syntonic has continued to demonstrate steady recurring revenue growth.

For Q1 FY2018, Syntonic recognized revenue of A\$480,382. Cash receipts were A\$313,428. The difference between recognized revenue and cash receipts is due to the 30 to 60 day delay in receiving payment on Q1 invoices delivered to the customer. The balance of the cash payable to Syntonic will be received during the current quarter.

At the end of the quarter, the Company maintained a cash position of A\$3,742,932 and continues to remain debt free.

## Revenue Generation



Syntonic's revenue was mainly generated through licensing royalties associated with the use of the Syntonic platform technologies, i.e. Syntonic's Connected Services Platform ("CSP") and the Freeway SDK, and by Freeway's sponsored and subscription consumer services. Syntonic realized month-by-month growth in app royalties and hosting fees with most of the deployment occurring late in the quarter, consistent with the carrier's conservative roll-out approach.

Given the size of Syntonic's largest licensee, Verizon Wireless, i.e. 100+ million eligible subscribers, and other tier-1 carriers in Syntonic's sales pipeline, the Company anticipates continued revenue growth from its high-margin, recurring revenue infrastructure licensing business.

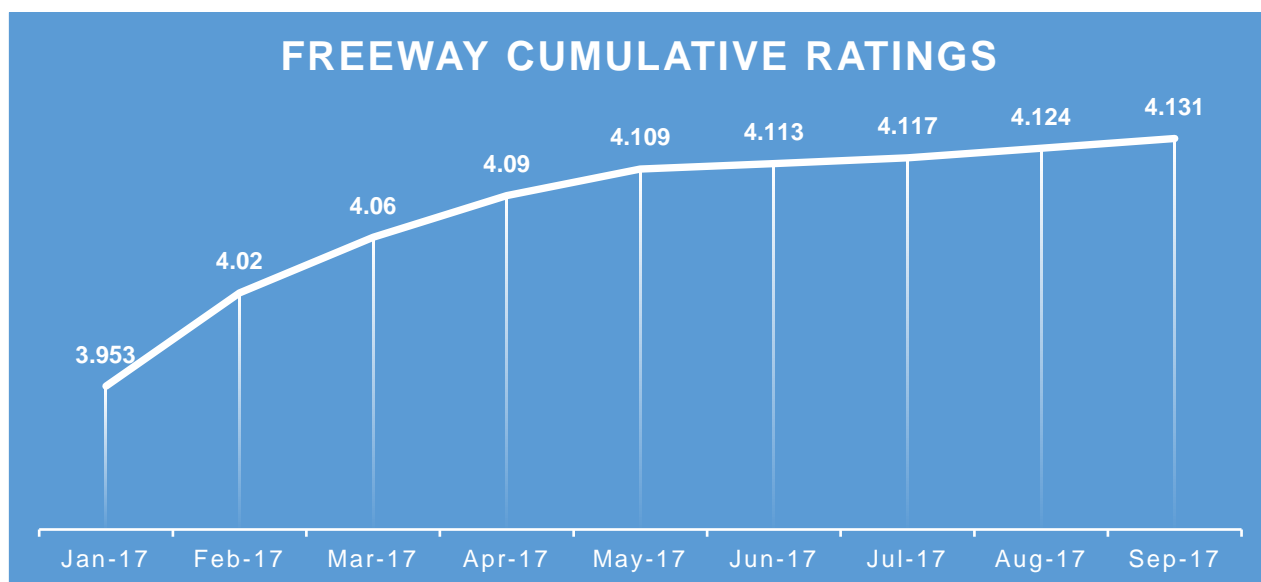
With the Overpass commercial launch occurring in the last two weeks of the September quarter, the service only marginally contributed to overall reported revenue for the quarter; however, key indicators suggest ramping revenues in upcoming quarters.

## Product Distribution

During the September quarter, the Freeway services reflected the largest distribution growth in company history with over 19 million U.S. smartphones supporting the Freeway service. The majority of this distribution resulted from integration of the Freeway SDK into its data-free apps available on the app store and natively pre-installed on two Android smartphones. Syntonic expects strong growth of the Freeway services in the current quarter including from the pre-installation on 10 new Android smartphones.

The Freeway app distribution grew by 14.6% with the largest growth in the U.S. market generated by the Freeway Overpass offering. Overpass downloads accounted for 33% of the overall worldwide Freeway app installation. Outside of the U.S., the most significant region for app installations was in Mexico where downloads increased by 29.6%. Paid marketing was used to grow customer acquisition in Mexico in anticipation of Freeway Overpass' expansion into Latin America.

## Customer Satisfaction



Syntonic remains committed to continuously improving the consumer experience of the company's products with customer satisfaction as a key tracked metric that is also highly correlated to increasing customer engagement, retention, and referrals. The Company is proud to report that the Freeway cumulative Android consumer ratings have continued to increase for 12 consecutive months, reaching a new high of 4.131 (out of 5.0) at quarter's end. This continued growth in customer ratings is noteworthy because increasing a cumulate score gets increasingly difficult as the customer base grows and 2) only 37% of Android apps receive a rating above 4.0 [source: [www.appbrain.com/stats/android-app-ratings](http://www.appbrain.com/stats/android-app-ratings)].

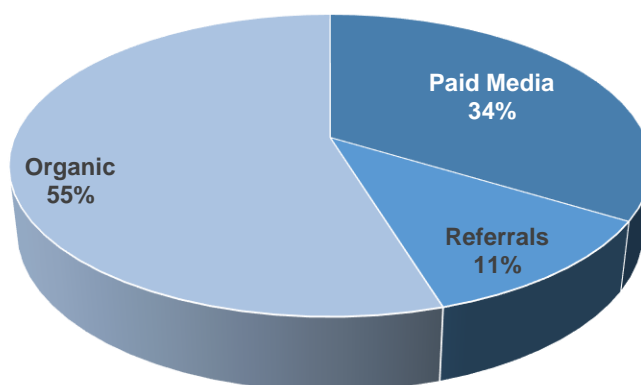
The Company issued 5 product updates during the quarter for its Freeway for Android app and 2 for its iPhone app. These updates provided new functionality and enhancements to the user experience consistent with Syntonic's commitment to its customer-first core value.

Measures taken to remove suspicious activities have largely eliminated product compromises experienced in previous quarters, and the Company has instituted formal internal policies to quickly address future suspicious activities in a timely manner.

## User Acquisition Costs

The initial wave of marketing for Freeway Overpass was focused on paid advertising campaigns to drive qualified mobile subscribers through the Overpass funnel: download, installation, registration, and purchase. Paid marketing campaigns consumed the majority of the Company's budgeted marketing expense; however, Freeway's customer acquisition costs are still well below industry norms. Moving forward, the marketing strategy is to shift investment to owned and earned media, such as company owned content, social engagement and press reviews, to achieve on-going cost-effective returns on marketing investments.

Freeway (non-US) Customer Acquisition Channels



Non-paid marketing strategies have been used for expanding the Freeway service in Indonesia, India, and Malaysia. As illustrated above, nearly two-thirds of the Freeway downloads outside of the U.S. resulted from non-paid media channels such as referrals and app store search. These proven and cost-effective marketing channels are being phased into Overpass marketing to reduce the costs for qualified customer acquisition and paid-subscriber conversion.

## **Corporate**

The start of the fiscal year was the first quarter of Syntonic's new Board in operation with the election of Mr. Steve Elfman to the role Non-Executive Chairman, replacing Mr. Ian Middlemas who stepped down as part of a planned succession strategy, and the appointment of Mr. Nigel Hennessy as Non-Executive Director. Both are recognized and proven industry leaders that will assist in taking Syntonic to the next level of business growth.

During the period, Syntonic hosted a Q&A Investor Webinar session for the investment community with the CEO and Co-Founder Gary Greenbaum and the CTO and Co-Founder Rahul Agarwal. This was an opportunity to present the latest developments on the Company's progress and to address questions from shareholders.

In accordance with ASX Listing Rule 6.1 confirmation previously given to the Company, Syntonic provides the following disclosure for the September 2017 quarter:

- i. There are 166,666,666 Performance Shares on issue that shall convert upon Freeway by Syntonic® (including the white-label version of the product sold by partners) having an Addressable Audience of 150,000,000 mobile subscribers within a period of 18 months from 8 July 2016; and
- ii. There are 166,666,668 Performance Shares on issue that shall convert upon the Company entering into revenue generating agreements with respect to Syntonic DataFlex® (including the white-label version of the product sold by partners) with 50 businesses within a period of 24 months from 8 July 2016,

It is noted that 166,666,666 Performance Shares converted to ordinary shares during the March 2017 quarter upon achievement by the Company of its first milestone as disclosed in the Prospectus dated 13 May 2016. No further milestones were achieved during the September 2017 quarter and therefore no Performance Shares were converted to ordinary shares. The remaining Performance Shares will lapse if the milestones are not achieved within two years, being 8 July 2018.

### **About Syntonic**

Syntonic (SYT.ASX) is a Seattle based software company which has developed two mobile technology services: Freeway by Syntonic®, which allows consumers unlimited mobile access to content and applications, supported by subscription and sponsorship; and Syntonic DataFlex®, which enables businesses to manage split billing expenses for employees when using their personal mobile phones for work. Founded in 2013, Syntonic has developed worldwide strategic partnerships with leaders in the mobile ecosystem.

To learn more about Syntonic, visit [www.syntonic.com](http://www.syntonic.com).

For further enquiries, please contact:

**Gary Greenbaum**  
**CEO and Managing Director, Syntonic**  
E: [ir@syntonic.com](mailto:ir@syntonic.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**

Syntonic Limited

**ABN**

68 123 867 765

**Quarter ended ("current quarter")**

30 September 2017

| <b>Consolidated statement of cash flows</b>               | <b>Current quarter<br/>\$A'000</b> | <b>Year to date<br/>(3 months)<br/>\$A'000</b> |
|---|------------------------------------|--|
| <b>1. Cash flows from operating activities</b>            |                                    |  |
| 1.1 Receipts from customers                               | 313                                | 313  |
| 1.2 Payments for  |                                    |  |
| (a) research and development                              | (419)                              | (419)  |
| (b) product manufacturing and operating costs             | -                                  | -  |
| (c) advertising and marketing                             | (433)                              | (433)  |
| (d) leased assets   | -                                  | -  |
| (e) staff costs   | (497)                              | (497)  |
| (f) administration and corporate costs                    | (141)                              | (141)  |
| 1.3 Dividends received (see note 3)                       | -                                  | -  |
| 1.4 Interest received                                     | 19                                 | 19   |
| 1.5 Interest and other costs of finance paid              | (1)                                | (1)  |
| 1.6 Income taxes paid                                     | -                                  | -  |
| 1.7 Government grants and tax incentives                  | -                                  | -  |
| 1.8 Other (provide details if material)                   | -                                  | -  |
| <b>1.9 Net cash from / (used in) operating activities</b> | <b>(1,158)</b>                     | <b>(1,158)</b>                                 |

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

| Consolidated statement of cash flows |   | Current quarter<br>\$A'000 | Year to date<br>(3 months)<br>\$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):                  |                            |                                       |
|                                      | (a) cash acquired on reverse acquisition              | -                          | -                                     |
|                                      | (b) transaction costs of reverse acquisition          | -                          | -                                     |
| <b>2.6</b>                           | <b>Net cash from / (used in) investing activities</b> | -                          | -                                     |

|             |   |   |   |
|-------------|---|---|---|
| <b>3.</b>   | <b>Cash flows from financing activities</b>                                 |   |   |
| 3.1         | Proceeds from issues of shares  | - | - |
| 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  | - | - |
| 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)   | - | - |
| <b>3.10</b> | <b>Net cash from / (used in) financing activities</b>                       | - | - |

|           |  |         |         |
|-----------|--|---------|---------|
| <b>4.</b> | <b>Net increase / (decrease) in cash and cash equivalents for the period</b> |         |         |
| 4.1       | Cash and cash equivalents at beginning of quarter/year to date               | 4,910   | 4,910   |
| 4.2       | Net cash from / (used in) operating activities (item 1.9 above)              | (1,158) | (1,158) |
| 4.3       | Net cash from / (used in) investing activities (item 2.6 above)              | -       | -       |



| Consolidated statement of cash flows |  | Current quarter<br>\$A'000 | Year to date<br>(3 months)<br>\$A'000 |
|--------------------------------------|--|----------------------------|---------------------------------------|
| 4.4                                  | Net cash from / (used in) financing activities (item 3.10 above) | -                          | -                                     |
| 4.5                                  | Effect of movement in exchange rates on cash held                | (9)                        | (9)                                   |
| 4.6                                  | <b>Cash and cash equivalents at end of quarter</b>               | <b>3,743</b>               | <b>3,743</b>                          |

| 5.  | Reconciliation of cash and cash equivalents<br>at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts | Current quarter<br>\$A'000 | Previous quarter<br>\$A'000 |
|-----|--|----------------------------|-----------------------------|
| 5.1 | Bank balances  | 3,679                      | 4,910                       |
| 5.2 | Call deposits  | -                          | -                           |
| 5.3 | Bank overdrafts  | -                          | -                           |
| 5.4 | Other (AmEx deposit)   | 64                         | -                           |
| 5.5 | <b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>   | <b>3,743</b>               | <b>4,910</b>                |

**6. Payments to directors of the entity and their associates**

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 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

Current quarter  
\$A'000

532

-

Payments include executive directors' wages, associated payroll expenses, and provision of software engineering services.

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

- 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

Current quarter  
\$A'000

-

-

Not applicable.

| 8. <b>Financing facilities available</b><br><i>Add notes as necessary for an understanding of the position</i>   | Total facility amount<br>at quarter end<br>\$A'000 | Amount drawn at<br>quarter end<br>\$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. <b>Estimated cash outflows for next quarter</b> | \$A'000        |
|--|----------------|
| 9.1 Research and development                       | (400)          |
| 9.2 Product manufacturing and operating costs      | -              |
| 9.3 Advertising and marketing                      | (400)          |
| 9.4 Leased assets                                  | -              |
| 9.5 Staff costs                                    | (450)          |
| 9.6 Administration and corporate costs             | (150)          |
| 9.7 Other (provide details if material)            | -              |
| <b>9.8 Total estimated cash outflows</b>           | <b>(1,400)</b> |

| 10. <b>Acquisitions and disposals of business entities<br/>(items 2.1(b) and 2.2(b) above)</b> | 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.

Sign here:  .....  
(Director/Company secretary)

Date: 25 October 2017

Print name: Kate Sainty

### **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.