

ASX Announcement

PERTH JULY 31, 2019

4C COMMENTARY & OPERATIONAL UPDATE

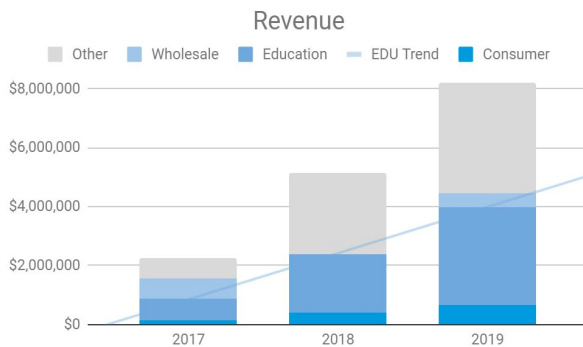
Family Zone Cyber Safety Ltd (ASX: FZO, Family Zone or the Company) is pleased to provide an update of its activities and achievements for the quarter ended 30 June 2019.

Sales highlights this quarter

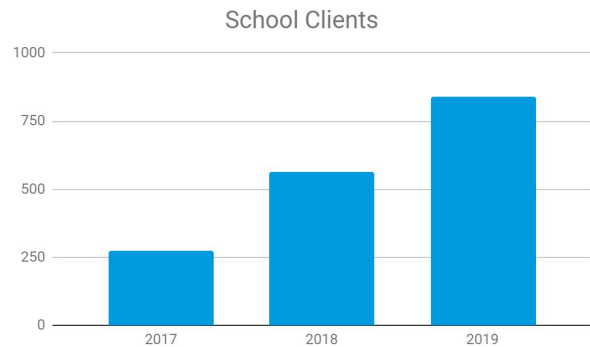
- Reached 839 school clients (up 16% from 725 last quarter)
- Reached 482K student licenses (up 18% from 409K last quarter)
- Signed \$1.2M of new contracts with schools (173% YoY growth)
- Reached 137K paying subscribers (up 45% from 95K last quarter)
- Reached 402 USA schools (up 51% from 266 last quarter)
- Surpassed \$1.1M of contracts signed with USA schools in 8 months
- Surpassed \$4.5M of contracts signed with schools for the financial year

Financial year highlights (unaudited)

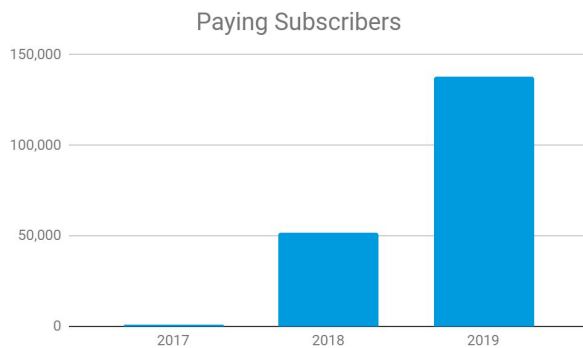
85% growth in Customer Revenue



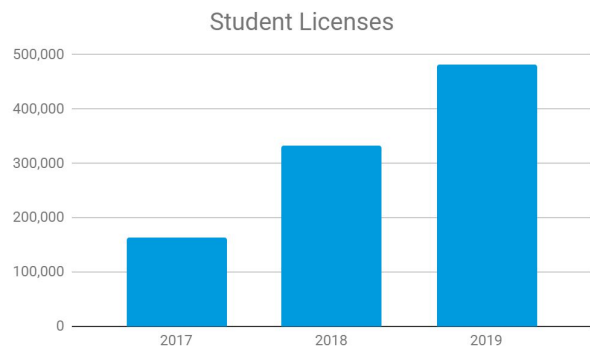
49% growth in School clients



167% growth in Paying Subscribers



45% growth in student licenses



OPERATIONAL COMMENTARY

Introduction

As communicated to the market in our March quarterly commentary, the Company's objectives for the June quarter were to:

1. Continue the strong growth being achieved in our education channel;
2. Invest in and support growth in our USA division;
3. Continue to run trials with Telkomsel as we move to launch Family Zone Insights;
4. Continue to focus resources on product & business scalability; and
5. Continue to tighten and control costs.

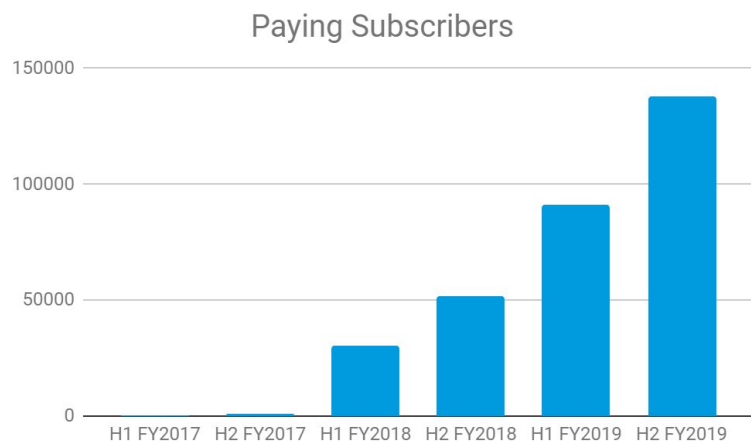
The Company is pleased to report positive results across all of these objectives.

Continued Strong Subscriber Growth

At the end of April, the Company announced it had passed through 100,000 paying accounts (subscribers), driven by growth across all channels.

A subsequent surge in subscriber sign-ups saw the Company pass through 130,000 paying accounts.

This was largely attributed to customer acquisition trials with Telkomsel in Indonesia.



The Company is working closely with several globally significant telco partners, and in particular with Telkomsel Indonesia, to launch Family Zone Insights.

Insights is a 'freemium' parental control tool designed to support mass market acquisition. The Company will make Insights available through all Family Zone channels this quarter.

Education Update

June Quarter Highlights

- Reached 839 school clients (up 16% from 725 last quarter)
- Reached 482K student licenses (up 18% from 409K last quarter)
- Signed \$1.2M of new contracts with schools (173% YoY growth)



- Reached 173K paying subscribers (up 45% from 95K last quarter)
- Reached 402 USA schools (up 51% from 266 last quarter)
- Surpassed \$1.1M of contracts signed with USA schools in 8 months
- Surpassed \$4.5M of contracts signed with schools for the financial year

Continuing Strong Year-on-Year Growth Trends

EDUCATION	FY2017	FY2018	FY2019	YoY FY18-19
Schools	275	563	839	47%
Students	162,525	327,103	482,176	47%
Revenue	\$706,875	\$1,997,482	\$3,358,962	68%
Ave / School	\$2,570	\$3,548	\$4,004	13%
Ave / Student	\$4.35	\$6.11	\$6.97	14%

School Clients & Student Licenses

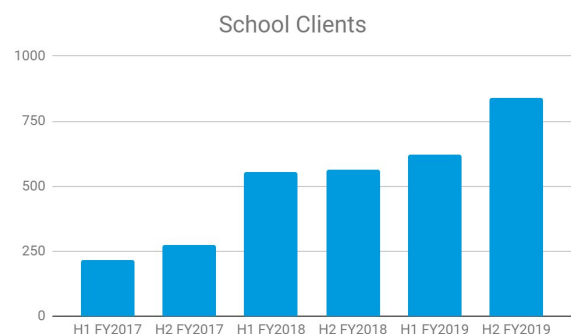
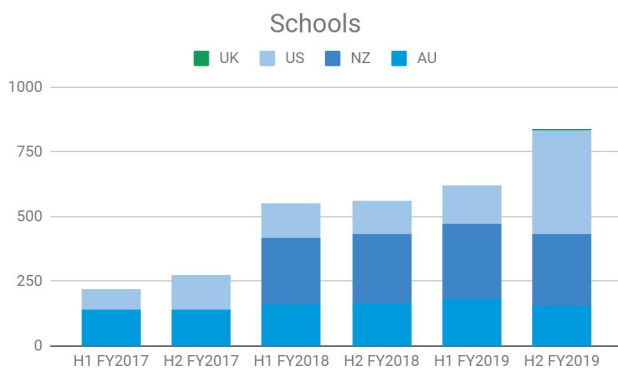
Despite the June quarter being the slowest seasonal sales period in education in Australia and New Zealand the Company achieved 173% YoY growth in the total value of contracts signed.

Pleasingly, over 43% of contracts signed in the quarter were through the Company’s USA sales team which has now signed contracted revenue in excess of \$1.1M in 8 months.



The Total Contracts Signed chart (right) shows the Company’s significant YoY growth. Further the chart highlights how the clear seasonal nature of sales in FY2018 is changing as the Company expands into USA.

The Company’s footprint now extends to 839 schools, 482,000 licensed student users and more than 220 school clients actively promoting Family Zone to parents.





USA sales continued to accelerate. The Company now services more than 400 schools in the large and attractive USA market, which has become Family Zone's biggest contributor to growth.

The Company is targeting 1 million student licenses by the end of FY20, expected to be driven primarily through US growth.

Product Launch: SpotShield

During the quarter, the Company announced SpotShield, an innovative product targeted at managing "Hot Spotting" in schools.

Hot Spotting is one of the key IT challenges in today's schools as it permits students to readily bypass school filters and risk school duty of care.

Family Zone SpotShield puts schools back in control by ensuring all devices at school and during school time are subject to a school's Acceptable Use Policy. School policy applies whether the device is connected to school Wi-Fi, cellular networks or any 3rd party Wi-Fi services.

Key features include:

- Applies school policy when Hot Spotting
- Works in both 1:1 and BYOD environments
- Works with any existing firewall
- Requires no parental involvement
- Sophisticated anti-tampering protections and alerts.

The Company is pleased to announce that SpotShield is now live in a number of Australian schools, with roll-outs continuing this quarter.

Partnership: Google for Education

In June, the Company announced its appointment as a Technology Partner of Google for Education. As a Google for Education Partner, Family Zone provides products which complement, enhance and extend the functionality of Google for Education products.

In this program, Family Zone will develop integrations to better support digital responsibility and drive collaborative learning and student engagement. Through deeper integration between Family Zone's Education Solutions and Google's G Suite for Education and Chromebook platforms, Family Zone will be able to offer schools greater visibility and control over security, streamlined student and class administration and most importantly the ability to drive effective digital citizenship programs in both BYOD and 1:1 environments to teach students how to stay safe on the web.

Consumer Update

Family Zone's direct to consumer business operates in Australia only. With a fixed marketing spend oriented to 'back-to-school' periods, the channel is growing consistently as our brand and reputation builds and offering develops.



Year on year growth

CONSUMER	FY2017	FY2018	FY2019	YoY FY18-19
Subscribers	1,010	4,487	9,274	107%
Revenue	\$147,221	\$404,328	\$635,026	57%

Partnership: Noel Leeming

In June, Family Zone announced it had signed an agreement for Noel Leeming to retail Family Zone's Cyber Safe mobile, the FZONE. Noel Leeming is New Zealand's leading consumer electronics retailer with 77 stores. FZONE will be sold in store and online.

The selection of the FZONE to be the first child-friendly device in Noel Leeming's product range is a significant milestone and further validates the product fit and complex challenges Family Zone seeks to solve in the tech savvy New Zealand market.

Wholesale Update

June Quarter Highlights

- Continued trials with Telkomsel added in excess of 60K paying subscribers

Year on year growth

WHOLESALE	FY2017	FY2018	FY2019	YoY FY18-19
Subscribers	211	8,368	71,580	755%
Revenue			\$360,769	

As previously announced, the Company and its Asian telco partners recently agreed to move to an "Insights-led" acquisition strategy and deprecate promotion of our traditional parental control product. Insights is currently in beta trials and is expected to launch in the current quarter.

Ahead of Insights' official launch, the Company is pleased to report continuing strong acquisition of paying subscribers through ongoing trials with Telkomsel. The number of Wholesale paying subscribers recently passed through 71,000, representing 139% growth in three months and representing capture of nearly 0.5% of the addressable market.

The recent surge of telco-led sign-ups bodes well for the launch of Family Zone Insights.

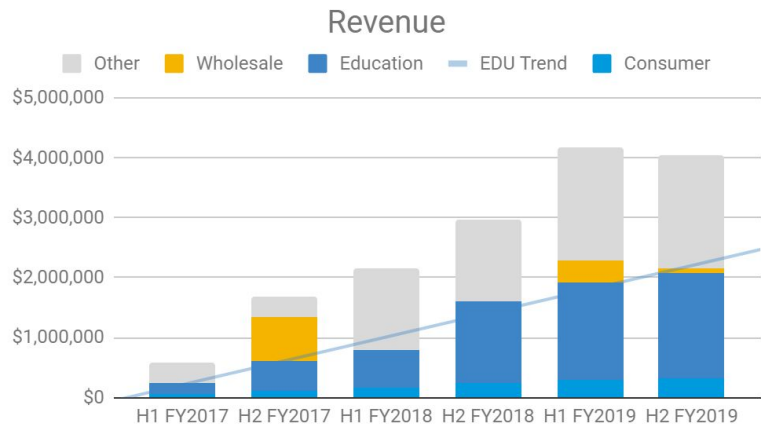
FINANCIAL COMMENTARY

Continued Revenue Growth

Revenue continues to grow strongly with education the largest contributor to growth.

Our direct consumer business continues to grow whilst revenue from our wholesale business is irregular pending the official launches with our key telco partners.

Note: "Other" income includes Research & Development Tax grants, export grants and interest.



Summary Cashflow Statement

To provide additional clarity on Family Zone's use of funds, this summary cash flow statement provides a breakdown more aligned to the Company's business model.

It highlights the impact of irregular working capital demands relating to hardware purchases for our education division (servers) and inventory (Family Zone boxes and phones).

It is to be highlighted that in the March quarter cash outflows from hardware purchases were \$664k whilst in June cash outflows from hardware purchases were \$84k.

FAMILY ZONE CYBER SAFETY LTD	Mar Qtr	Jun Qtr
Summary Cashflow Statement	Total (\$000)	Total (\$000)
Receipts from Customers	\$1,754	\$1,053
Tax Incentives & Grants	\$675	\$728
Product manufacturing and operating costs	(\$326)	(\$358)
Advertising and marketing	(\$217)	(\$205)
Staff costs	(\$2,593)	(\$1,923)
Administration and corporate costs	(\$899)	(\$1,009)
Interest received	\$2	\$4
Hardware purchases - PP&E	(\$220)	(\$84)
Hardware purchases - Inventory	(\$444)	\$0
Cash movements exc Capital	(\$2,268)	(\$1,794)
Capital Movements	\$343	\$5,218
Forex movements	\$0	\$15
Cash movements for the quarter	(\$1,925)	\$3,438
Opening Cash	\$3,595	\$1,670
Closing Cash	\$1,670	\$5,108

Notes to Summary Cashflow Statement: This Summary Cashflow Statement re-allocates entries in the Appendix 4C report. Specifically this report reverses allocations of Staff & Product costs to R&D. Furthermore Product costs associated with the purchase of inventory (for Family Zone Boxes and Phones) and services (for school deployments) have been re-allocated into their own line items.

Strongly improving cashflows

The Company's inflows continue to grow strongly within seasonal cycles. In the second half of FY2019 the Company collected in excess of \$4.2M from customers, grants and other sources.

Collections in the June quarter were lower than expected due in the main to the late invoicing of USA schools. As a consequence at 30 June 2019 the Company debtors book reached \$1.25M with satisfactory collections being achieved in July.

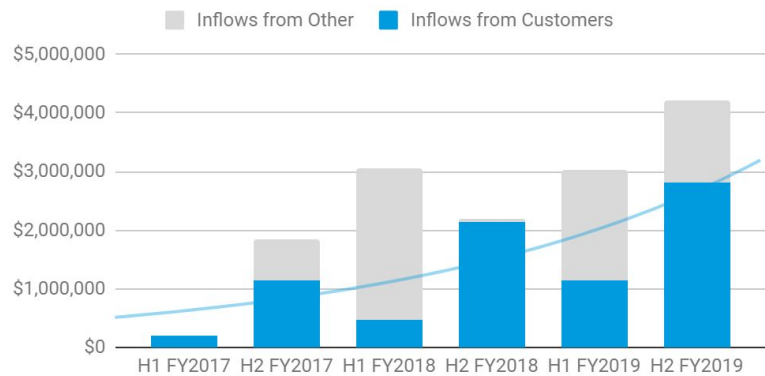
The Company continues to drive down costs and improve efficiency. The Company's target to achieve circa \$4M of annualised savings by 31 December 2019 is progressing and is expected to be achieved.

With building revenue and tight cost control the Company's cash flows are improving.

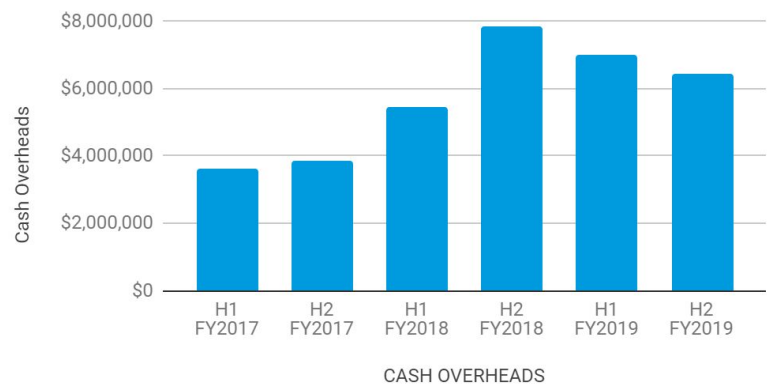
The chart of Cash Inflows and Cash Overheads (pictured above right) and Cash Flows (pictured right) highlight this improvement.

Whilst expenditure and revenues are expected to be affected by timing issues and sales cycles in the coming quarters, clearly significant advances are being made to move the Company towards cash flow breakeven.

Cash Inflows



Cash Overheads



Cash Income and Cash Costs (normalised)

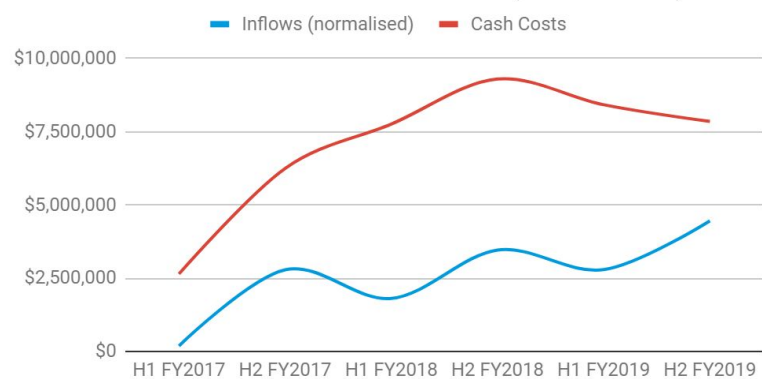


Chart notes: For costs these 'cash-based' charts remove share based compensation and leave provisions from costs. For revenues these 'cash-based' charts smooth (normalise) tax incentives and grant income over the year in which it was booked.



Cashflow forecast

The Company's Appendix 4C includes a forecast of expected expenditure for the September quarter. The Company expects staffing costs to continue to fall slightly whilst working capital requirements are expected to increase from last quarter due mostly to expected investment in hardware to support USA sales and the rollout of Check Point into our Australian school clients.

Overall the Company expects nett cash burn for the September quarter to be roughly in line with the June quarter. Cash burn is then expected to fall markedly with invoicing of contracts signed in the key seasonal sales quarters of September for USA and December for Australia & New Zealand.

Funding

As reported last quarter, in April, the Company completed a placement of 35,483,872 new shares at \$0.155 per share to raise \$5.5 million (before costs). The Company was supported in the placement by several existing institutional investors and welcomed a range of new institutional and sophisticated investors from Australia, Asia and the USA.

Net proceeds of the capital raising are being used to accelerate growth, to build on the rapid progress being made in USA education and to underpin the Company's commitment to achieving cashflow break even early in CY 2020.

In May, Managing Director Tim Levy exercised 300,000 Options at an exercise price of \$0.25 per Option, representing a 79% premium to the closing share price on 14 May 2019. The exercise of these Options represents a \$75,000 investment in the Company by Mr Levy, illustrating his commitment to Family Zone and providing a strong endorsement by the Managing Director for the prospects and outlook of the Company.

The Company's cash balance at 30 June 2019 was \$5.1 million.

About Family Zone

Family Zone is an ASX-listed technology company focused on cyber safety. Meeting a growing demand to keep kids safe online and manage digital lifestyles, Family Zone has developed a unique and innovative cloud-based solution which combines Australian innovation with leading global technology.

To learn more about the Family Zone platform and the Company please visit www.familyzone.com.

Contacts

For more information, please contact:

Tim Levy
Managing Director
timl@familyzone.com
+61 413 563 333

Tim Allerton
City Public Relations
media@familyzone.com
+61 412 715 707

Tim Dohrmann
Investor Relations
tim@nwrcommunications.com.au
+61 468 420 846

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

Family Zone Cyber Safety Limited

ABN

33 167 509 177

Quarter ended ("current quarter")

30 June 2019

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	1,053	3,948
1.2 Payments for		
(a) research and development ¹	(873)	(2,911)
(b) product manufacturing and operating costs ¹	(185)	(2,199)
(c) advertising and marketing	(205)	(989)
(d) leased assets	-	-
(e) staff costs ¹	(1,223)	(6,009)
(f) administration and corporate costs	(1,009)	(3,732)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	4	7
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	1,883
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(2,438)	(10,002)

Note 1: R&D expenditure includes an allocation of staff and product manufacturing and operating costs associated with R&D activities.

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(84)	(518)
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
	(d) intellectual property	-	(75)
	(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)	-	-
2.6	Net cash from / (used in) investing activities	(84)	(593)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	5,223	12,164
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	10	10
3.4	Transaction costs related to issues of shares, convertible notes or options	(15)	(295)
3.5	Proceeds from borrowings	728	1,402
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)	-	-
3.10	Net cash from / (used in) financing activities	5,946	13,281

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	1,670	2,461
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,438)	(10,002)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(84)	(593)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	5,946	13,281

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	15	(38)
4.6	Cash and cash equivalents at end of quarter	5,108	5,108

Note 2: Closing cash for the March 2019 quarter included \$343K proceeds from borrowing received but not cleared until 1 April 2019; this has been adjusted as a June quarter cash inflow.

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 \$A'000	Previous quarter \$A'000
5.1	Bank balances	5,108	1,670
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)	5,108	1,670

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 3.6
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Current quarter \$A'000
(60)
-

Crispin Swan salary and Director superannuation payments

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
(17)
-

Company secretarial and financial management services

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	1,402	1,402
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.		

Key Facility Terms:

- Counterparty: Innovation Structured Finance Co LLC facilitated by Radium Capital
- Amount: 80% of the expected R&D tax offset resulting from each period's eligible R&D expenditures, with principal and interest repaid from the actual tax offsets at the end of the financial year.
- Maturity Date: 30/9/2019
- Interest Rate: 15% per annum
- Security: Secured against the R&D refund receivable from the ATO
- Conditions: R&D expenditure has to be reviewed by R&D Tax Consultants
- Purpose of Loan as per agreement: Wholly or predominantly for research and development expenditures.

9. Estimated cash outflows for next quarter*	\$A'000
9.1 Research and development	917
9.2 Product manufacturing and operating costs	185
9.3 Advertising and marketing	200
9.4 Leased assets	-
9.5 Staff costs	1,400
9.6 Administration and corporate costs	1,284
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows*	3,986

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	-	-

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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:  Date:31/07/2019.....
(Company secretary)

Print name: Emma Wates.....

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.