

We connect.
Secure. Fast. Simple.



Netlinkz

APPENDIX 4C

DEC QTR 2019

Commentary & Operational Update

"2020 marks a new chapter for Netlinkz with a focus on Sales in China and Australia"

James Tsiolis | Executive Chairman and CEO

Key Metrics

Revenue Forecast 2020

↑ **50%**
\$15.3M UP FROM \$10.1M

Cash Balance

↑ **300%**
\$6.2M UP FROM \$2.05M

Operating Cash outflow

↓ **27%**
(\$2.4M) FROM (\$3.3M)

NetLinkz Ltd (ASX:NET) is pleased to provide our quarterly Appendix 4C update of its activities and achievements for the December quarter, 2019.

Highlights

- Secured an A\$30.75m facility, drew down A\$8m and raised A\$4m equity placement at \$0.13.
- A\$10.2m acquisition of SSI Pacific Pty Limited completed by January 8th. Consolidated A\$1.5m EBITDA annualised.
- Increased ownership of the China JV (iLinkAll) from 49% to 80%.
- Sales are underway in China with a total estimate of 350,000 licenses.
- NetLinkz* reported a cash balance of A\$6.203 million at 31 December 2019.
- Projected Revenue A\$15.3m for the year ended 31 December 2020.

Operational Commentary

CHINA

- NetLinkz signed the China JV agreement with iSoftStone on December 1, 2019.
- Estimated sales of licenses in China of 350,000 as at 31 December 2019. (China agent – JAST increased VIN sales from 40,000 to 60,000 for the quarter and license sales by iSoftStone are estimated at 290,000 for the quarter).
- Mr. Zen Wang, a senior iSoftStone executive, will join the board of the WFOE (Wholly Foreign Owned Entity) named "AOFA Technology (Shanghai) Co. Ltd". He will become the Managing Director of the WFOE. Mr. Wang will also be the President of iLinkAll. (see Attachment (A)). These appointments reflect Mr. Wang's contributions to the iSoftStone/NetLinkz relationship since its inception, together with his management of the China operations since early 2019, and his assistance in the formation of the China JV.
- Operational cash outflow included payments to the WFOE for the purchase of servers. These are needed for the establishment of the private cloud-based infrastructure (JD Cloud) required by the VSN platform. This is part of the iLinkAll rollout and forms part of key commercial arrangements between iLinkAll and JD Cloud, necessary to drive China-based VSN sales.

CHINA *continued*

- NetLinkz will be funding its 80% equity investment (RMB 8.0m or approximately AUD \$1.6m) in iLinkAll in January 2020. iSoftStone will be funding its 20% portion (RMB 2.0m) at the same time.
- With NetLinkz taking a majority stake in iLinkAll, the China JV will be consolidated with NetLinkz's operations and all iLinkAll financial activity will be reported as part of NetLinkz's end-of-year financial reporting.
- An ESOP will be established for iLinkAll Staff to align iLinkAll employee goals with that of the company.

The Company has continued to invest heavily in the Beijing IoT Lab. The Lab has 53 employees and iLinkAll has established a customer support centre in Shandong, China to provide 24/7 customer support for the Chinese market.

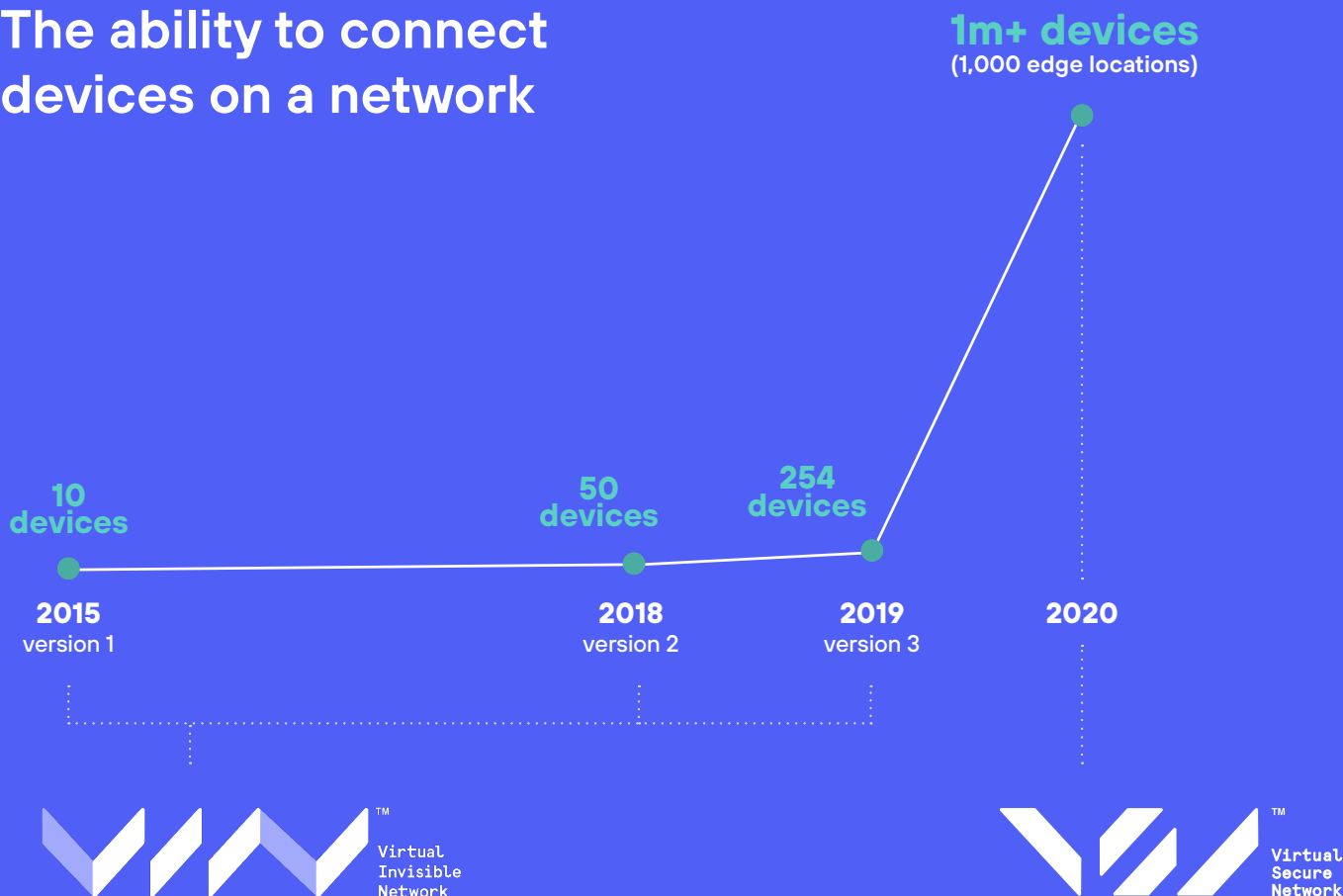
The VSN development schedule has been accelerated to meet demand generated from pilots that iLinkAll is undertaking with a select group of existing iSoftStone customers.

Phase 1 of the VSN product allows a customer to establish a secure virtual network by deploying two or more intelligent edge devices known as the VSR (Virtual Security Router) in the customer's data centres, public cloud instances, head office and other locations. Five versions of the VSR are under development, including a virtual version for cloud-based deployments.

The VSN provides central management through the VSM (Virtual Security Manager), a web-based console that provides a dashboard with traffic statistics and network health metrics, together with device control functions and network monitoring capabilities.

The VSN product's receipt of the 'Outstanding Cloud Migration Solution' award at the Cloud 500 Summit and its successful performance during pilots with iSoftStone enterprise customers demonstrate that the product is market ready. Also, customer onboarding will begin in February 2020.

The ability to connect devices on a network



JAPAN

The Company has established an operating subsidiary in Tokyo (NetLinkz Japan KK) to run the Tokyo IoT lab and secure sales-channel partners in the Japanese market.

Masamichi (Mas) Tanaka was appointed to the NetLinkz Advisory Board to spearhead the Company's push into the Japan market. As previously released to the market, Mas was most recently Chief Strategy Officer at Uhuru, a Japanese IoT company partly owned by Softbank, NEC, Mitsui and Salesforce.com, among others. Mas previously worked for Sony and consults to NEC on the Tokyo Olympics 2020 preparation.

The Company is in advanced discussions to appoint a local Japan partner to localise NetLinkz source code for the Japanese market.

AUSTRALIA

The completion of the SSI acquisition has opened a high-quality sales channel for the distribution of the Company's products to an existing base of Telecommunications, Enterprise and Government customers operating across the Asia-Pacific region.

SSI's principals have agreed to new employment contracts with NetLinkz (containing key milestones) to ensure continued sales growth and the bundling of VIN to their existing customer base.

In October 2019, NetLinkz announced the commencement of its Australian rollout of the VIN, with Omega Dev Group and DIAS as the first pilot customers of the Sydney IoT lab.

NetLinkz subsequently announced the expansion of its Australian VIN with Onyx Projects, based in Perth, Western Australia. This pilot of the VIN will provide remote access to key business services for numerous Onyx staff operating at multiple locations across Western Australia.

NetLinkz has invited members of the Grant Thornton, Australia, to NetLinkz's Sydney IoT Lab where NetLinkz introduced its product to Grant Thornton and demonstrated various applications of the VIN technology. NetLinkz has since provided Grant Thornton with technical materials about the product, such as whitepapers and fact sheets, together with user guides and installation instructions. NetLinkz has also given Grant Thornton access to its software for the purposes of evaluation.

Corporate Governance

ADVISORY BOARD APPOINTMENTS

During this quarter, NetLinkz appointed Masamichi (Mas) Tanaka as an Advisory Board Member. Mas is one of Japan's leading Technology experts, having built a 25-year career with global technology companies such as Sony and Microsoft.

Samuel Py and Stephan Molle (SSI) were appointed to the Advisory Board as Technical Advisors. Both have extensive careers in the IT Industry involving both hardware and software sales. Their customers and industry relationships will be invaluable to NetLinkz as the Company brings the VIN and VSN products into the global market.

BOARD CHANGES

During the quarter, Ian Renwood, Grant Thomson and Michael Beck were appointed as non-executive directors. All three have extensive experience in their chosen fields.

Michael and Ian have successful careers in financial services.

Ian is also a technology expert and Michael's forty-year career includes senior roles at The Reserve Bank and Macquarie Bank. Michael will chair the Audit and Compliance committee.

Grant has a software technology background, having worked at IBM and Salesforce.com in Australia and NZ. Grant will chair the Technology Sub-committee.

These new additions to the board are proving to be invaluable to NetLinkz as it rolls out its products globally.

Also during the quarter, independent director, David O'Dowd, resigned from the Board to concentrate on his law practice.

Financial Commentary

Strong Revenue Growth Projection

REVENUE GUIDANCE \$15.3M FOR JAN/DEC 2020 (+50% ON PREV. FORECAST)

NetLinkz executives, in conjunction with the Company's advisors, have developed a revenue forecast model for the business to provide forward guidance on anticipated revenue in both China and the Australia/NZ markets.

Revenues include the anticipated sales from:

- The rollout of the VIN product by China reseller, JAST
- Sales from iLinkAll (the China JV)
- Australian sales, including those of SSL.

Guidance has not been provided for the Japanese market as the Tokyo IoT lab and business in Japan is in the early stages of being established. Revenue forecasts will be updated on a quarterly basis or upon the signing of major contracts.

CASHFLOW NEXT QUARTER

The Company expects the expenditure to be in line with the December 2019 quarter, with next quarter's projected expenditure to include a continuation of the R&D spend to support the further development and enhancement of the Company's products and intellectual property.

There will be continued costs to fund the China JV and its "Go to Market" strategy. This strategy includes an expansion of the cloud-based infrastructure necessary to provide a high-capacity backbone for the VSN rollout. The costs associated with this capital expenditure will be offset by the new iLinkAll revenue stream, which will eventually become self-funding.



NetLinkz

NetLinkz provides secure and efficient cloud solutions and is the world's only fully meshed peer-to-peer network provider. The company's technology makes Fortune-500 security commercially available for organizations of all sizes. NetLinkz has received numerous industry awards for its technology, including being a worldwide winner of the Global Security Challenge.

To learn more about Netlinkz technology and the Company please visit www.netlinkz.com

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Advisory Board Appointment

Mr. Zhengxiong Wang (Zen) – CV

ISOFTSTONE INFORMATION TECHNOLOGY (GROUP) CO. LTD.

BEIJING CTO/VP OF THE DIGITAL TRANSFORMATION GROUP

(2009 TO PRESENT)

Zen joined iSoftStone in 2009 and has managed the company's various business units with responsibilities for developing the company's new businesses and client relationship management.

As a senior corporate executive, he personally manages a business unit of key client and large account for the past three years. Leading his team, he had satisfactorily delivered close to 100 million revenue (RMB) with 20 million net profits in 2019, for which he and his team were granted the company's Excellence in Lean Management Award.

In his early years at iSoftStone he was recognised for his outstanding leadership and business performance on various occasions. For his demonstrated exceptional leadership, he was nominated as Best Leader of the Year by iSoftStone Group in 2011-2012.

Guidance has not been provided for the Japanese market as the Tokyo IoT lab and business in Japan is in the early stages of being established. Revenue forecasts will be updated on a quarterly basis or upon the signing of major contracts.

PRIOR TO ISOFTSTONE (20-YEAR CAREER BASED IN BOSTON MA.)

STATE STREET CORPORATION (14 YEARS)

VICE PRESIDENT OF STATE STREET BANK

BOARD MEMBER OF STATE STREET GLOBAL CENTER COMMITTEE

For his fourteen years' service at State Street Corp, Zen had delivered innovative information technology solutions and services to the Bank's various business units.

Most importantly, he had contributed significantly to the successful launch and operation of State Street Bank Offshore Delivery Center, Hangzhou, China.

Zen previously worked for IBM and Ward Scientific.

Zen graduated from Huazhong (Central China) University of Science and Technology in 1984, Wuhan, and obtained his MS degree from University of Rochester, NY in 1988.

Membership: Member of Smart Transportation and Smart City Committee, Zhongguancun High-Tech Enterprises Association, Beijing, China.

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

NetLinkz Limited

ABN

55 141 509 426

Quarter ended ("current quarter")

31 December 2019

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6.months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	-	285
1.2 Payments for		
(a) research and development	(798)	(1,984)
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	(58)	(147)
(d) leased assets	(29)	(29)
(e) staff costs	(600)	(1,157)
(f) administration and corporate costs	(1,201)	(2,231)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	11	11
1.5 Interest and other costs of finance paid	(185)	(187)
1.6 Income taxes paid	(70)	(146)
1.7 Government grants and tax incentives	861	861
1.8 Other (provide details if material)	-	-
- Office costs	(13)	(118)
- Travel costs	(343)	(931)
1.9 Net cash from / (used in) operating activities	(2,425)	(5,773)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	(8,160)	(8,160)
(b) businesses	-	-
(c) property, plant and equipment	(30)	(44)
(d) investments	(209)	(209)

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6.months) \$A'000
(e) intellectual property	(8)	(12)
(f) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	-
(d) investments	-	-
(e) intellectual property	-	-
(f) 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	(8,407)	(8,425)

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	5,250	10,250
3.2 Proceeds from issue of convertible debt securities	7,500	7,500
3.3 Proceeds from exercise of options	155	2,870
3.4 Transaction costs related to issues of equity securities or convertible debt securities	(1,366)	(1,736)
3.5 Proceeds from borrowings	3,400	3,400
3.6 Repayment of borrowings	-	(5,000)
3.7 Transaction costs related to loans and borrowings	-	(75)
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	45	41
3.10 Net cash from / (used in) financing activities	14,984	17,250

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	2,051	3,151
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(2,425)	(5,773)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6.months) \$A'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(8,407)	(8,425)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	14,984	17,250
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	6,203	6,203

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	6,203	1,301
5.2	Call deposits		750
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)	6,203	2,051

6. Payments to related parties of the entity and their associates

- | | Current quarter
\$A'000 |
|---|------------------------------------|
| 6.1 Aggregate amount of payments to related parties and their associates included in item 1 | 321 |
| 6.2 Aggregate amount of payments to related parties and their associates included in item 2 | |

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

7. Financing facilities

Note: the term "facility" includes all forms of financing arrangements available to the entity.

Add notes as necessary for an understanding of the sources of finance available to the entity.

	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	3,400	3,400
7.2 Credit standby arrangements	29,000	3,471
7.3 Other (Shares Purchase & Convertible Securities Agreement)	30,750	8,000
7.4 Total financing facilities	63,150	14,871

7.5 **Unused financing facilities available at quarter end** 48,279

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

An unsecured loan for \$3.4m at 15% for 6 months from a private lender has been sourced and fully drawn in the quarter.

Netlinkz has not drawn down on the existing GEM Global three year \$29m facility this quarter.

The Company has secured (& announced to Market 24 Dec 2019) a share purchase & convertible securities agreement with each of CST Capital Pty Ltd & Lind Global Macro Fund LP for up to \$30.75m. \$22.75m of this facility is available over the next 24 months in monthly tranches. Each first Convertible Note is secured against the assets of the Company

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	(2,425)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	6,203
8.3 Unused finance facilities available at quarter end (Item 7.5)	48,279
8.4 Total available funding (Item 8.2 + Item 8.3)	54,482
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	22.5

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: N/A

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: N/A

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: N/A

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.

Date: 31 January 2020

Authorised by: By the Board

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow 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 cash flow 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.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.