

28 October 2016

### Report to shareholders for the Quarter Ended 30<sup>th</sup> September 2016

iSignthis Ltd (iSignthis or the Company) (ASX : ISX) is pleased to provide the following business update and Appendix 4C for the quarter ended 30<sup>th</sup> September 2016.

Operating Summary	Sept Qtr	June Qtr	FY17 YTD
Cash Receipts	\$0.25m	\$0.02m	\$0.249m
Net Operating Cashflow	(\$1.17m)	(\$1.092m)	(\$1.172m)
Cash at Bank	\$7.76m	\$8.96m	\$7.764m

*\* All figures are in Australian dollars (A\$)*

Highlights include:

- An increase in customer receipts with \$0.249m received in the quarter. The receipts are a combination of integration fees, upfront licensing fees and transactional processing charges from integrated customers.
- Successfully completed direct customer agreements for delivery of the iSignthis digital KYC service to:
  - **XM.Com** - a significant international investment firm providing foreign exchange broking services. Founded in 2009 it has grown its customer base to over 500,000. Revenue from the processing of transactions for XM is expected in the December quarter, as outlined in the business update below.
  - **FXNet.com** – a global Forex broker offering trading services to clients in over 100 countries.
  - **Ixaris** – a global payments platform providing merchant customers with payment solutions. Processing of transactions for Ixaris is underway and will begin to contribute to group revenue in the December quarter.
- Executed an agreement to provide full card acquiring and settlement services in Australia and New Zealand by way of an agreement with **National Australia Bank (ASX : NAB)** – further expanding the services being offered to Merchant customers. Integration with NAB should be completed in the December quarter.

## 1.0 BUSINESS UPDATE

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The recent quarter has involved further business progression with focus on a number of key areas;

The iSignthis sales team continues to build a strong pipeline of opportunities.

Operating as Australia's only ASX listed RegTech (Regulatory Technology) company coupled with FinTech payment processing capability, enables us to offer an end to end payment services solution combined with the unique selling proposition of automating AML/CTF KYC and transaction monitoring to provide a basis for regulatory compliance.

The Company has grown its technical and operating resources in Australia and Cyprus during the past quarter. The integration and deployment of services to direct merchant customers has been a priority and we continue to progress towards building scale through customers such as XM.com, Ixaris, FXNet.com and Coinify.

The central integrations during the past quarter have revolved around XM.com and Ixaris. Due to the size and transactional volume of XM.com the integration is more involved and complex than with smaller direct merchants. XM.com uses a large number of acquiring institutions and payment gateways in order to process a large volume of transactions and to mitigate any potential downtime and risk. We have therefore completed direct connections with payment gateways Eximbay, Meikopay, Payment Bills Service and acquirers including Powercash21 & Barclays. A further six gateways are required to be integrated prior to the XM service being fully live. Progressive services are likely to be commenced over coming weeks based upon connection completions.

These connections establish a commercial framework and technical network that may be reused by iSignthis in order to process transactions on behalf of future clients. Unlike 'apps', the payment industry is heavily influenced by legacy systems, that date back in some cases to the 1990's and early 2000's. Given the critical nature of FinTech, and the regulatory and certification requirements, development work is over a longer cycle than 'apps'.

iSignthis has also recently announced the integration to Ixaris and in short course expects to 'go live', whereby iSignthis assists Ixaris in identifying merchant stakeholders. These stakeholders include Ultimate Beneficial Owners and directors, such that Ixaris meet various compliance requirements with regards to their merchant clients. This creates a further product and revenue stream for iSignthis as we continue to expand the network of opportunities. We move another step forward in becoming a 'one stop shop' for AML regulated business' in their requirements to i) receive and process payments, ii) manage risk and fraud, iii) comply with AML/CTF regulations in being able to identify their customers and iv) monitor and report transactions.

The announcement of the *payment facilitation* agreement with National Australia Bank (ASX : NAB) was a major achievement for an early stage Company, as it allows paydentity to be linked to a major bank.

The integration to NAB allows the Company to act as a *payment facilitator*, whereby we;

- share with NAB the merchant fee charged to merchants, where merchant fee is calculated as a % of each sale/ transaction on credit and debit cards
- process BPAY batch payments to credit and debit cards for a fixed fee, charged to the merchant
- process direct debits (as a service), for a fixed fee, charged to the merchant
- paydentity is available to NAB merchants processed thorough ISXPAY

The integration with NAB has progressed well and we expect to begin transaction testing in the coming weeks, and is on target to be finalised by end of December to an operational state that can support merchant transaction processing.

A number of prospective customers have already been identified for the *payment facilitation* service, and we are confident that we will be writing strong business for this service during 2017.

Shareholders should be aware of the difficulty and effort required to contract with major financial institutions in order to gain access (as an impediment to competition). The Company is proud of its achievement to have overcome the difficulties usually associated with forming a partnership between a startup and a major financial institution, in addition to the skill and time then required to integrate a complex service such as iSignthis to a major bank such as the NAB.

Testing and certification is rigorous and takes several weeks as a minimum, due to the criticality of the service to consumers and regulatory overlays.

The above software development work being undertaken by the company enables us to further expand the product range of services available to our merchant customers and we are actively promoting our patented services via *Paydentity* along with traditional payment services of a payment gateway and acquirer.

## 2.0 CORPORATE

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### 2.1 CASH POSITION

At the end of the Quarter, the consolidated group cash balance was \$7.76 million. The cash usage for the quarter being within our projected usage for business growth, development, marketing and service deployment.

## 3.0 OUTLOOK

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iSignthis continues to focus on delivering multiple services into its existing service customers and securing additional business development opportunities.

The Company's outlook for the coming quarter includes:

- Finalising Core integrations and further progressing platform development.  
  
Completing current customer integrations and moving to a progressive 'go live' position with all existing customers.
- Commencing sales cycle for Paydentity in conjunction with the NAB *payment facilitation* service.
- Finalising negotiations already underway.

## Glossary

**AML** = Anti Money Laundering, usually refers to a regulatory regime that banks, brokers, exchanges, credit providers etc. need to comply with. AML requires KYC.

**CTF** = Counter Terrorism Funding, often paired with AML as AML/CTF.

**Dynamic Data** = one-time data related to an e-Payment transaction, that is current and used as an input at the time of **KYC** check. Unlike **Historic Data**, Dynamic data is only applicable and accessible via the person to whom it relates, and can only be compiled with the KYC target person's active involvement.

**e-KYC** = electronic or digital KYC. The process of customer identification remotely via the internet, rather than face-to-face / manual processes.

**e-Wallet** – a means of storing or processing funds via your mobile, laptop, tablet etc. to more than one merchant or other person.

**Enhanced Due Diligence (EDD)** for Higher-Risk Customers. Customers that pose higher money laundering or terrorist financing risks present increased exposure to merchants; **due diligence** policies, procedures, and processes should be **enhanced** as a result.

**EOI** = Evidence of Identity, which forms the basis of **KYC**.

**KYC** = **Know Your Customer**, a mandatory customer identification process that banks and AML regulated entities must perform prior to offering a consumer service in order to comply with AML law or regulation.

**Payidentity** = the convergence of payments and identity, incorporating payment instrument verification and customer identification, in order to remotely link an electronic payment with a persons identity, usually for the purpose of satisfying Anti Money Laundering (AML) or Anti-Fraud, or both requirements.

**PCI** = Payment Card Industry, comprising Visa, Mastercard, American Express, Diners, Discover, China Union Pay. PCI sets the global standards required for security and interconnectivity of banks & processors to merchants via its data security standard (DSS). Level / Tier 1 is the highest standard possible.

**Secret** = Information which can only be known by or in the possession of (e.g. one-time passcode or cryptographic key) the authorised users. This information is transmitted by iSignthis securely within standard payment messages, and used as the basis of challenge / response knowledge based authentication **EOI**. The Secret is comprised of **Dynamic Data**.

**SCA** = Strong Customer Authentication, a means whereby two factor authentication (2FA) is linked to a persons KYC identity and a specific payment instrument (e.g. card or eWallet), and the 2FA is used to authenticate remote payment transactions executed on the payment instrument.

**Static Data (aka Historic Data)** = data that may have been secret at a historic point in time. E.g. What is or was presumed to be non-public data related to a **KYC** target person, including their credit history report, the person's mother's maiden name, the persons full name, their drivers licence number etc. It may predate the **KYC** process by years, months or days, and may be discernable to parties other than who it relates by way of data hacks/breaches<sup>1</sup>, social media.

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<sup>1</sup> <http://www.informationisbeautiful.net/visualizations/worlds-biggest-data-breaches-hacks/>

## 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**

ISIGNTHIS LTD

**ABN**

93 075 419 715

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

30 SEPTEMBER 2016

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (3 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	249	249
1.2 Payments for		
(a) research and development	(99)	(99)
(b) product manufacturing and operating costs	(111)	(111)
(c) advertising and marketing	(25)	(25)
(d) leased assets	-	-
(e) staff costs	(713)	(713)
(f) administration and corporate costs	(520)	(520)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	47	47
1.5 Interest and other costs of finance paid	-	-
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>(1,172)</b>	<b>(1,172)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment	(10)	(10)
(b) businesses (see item 10)	-	-
(c) investments	-	-

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (3 months) \$A'000</b>
(d) intellectual property	-	-
(e) other non-current assets	-	-
<b>2.2 Proceeds from disposal of:</b>		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
<b>2.3 Cash flows from loans to other entities</b>	-	-
<b>2.4 Dividends received (see note 3)</b>	-	-
<b>2.5 Other (provide details if material)</b>	-	-
<b>2.6 Net cash from / (used in) investing activities</b>	<b>(10)</b>	<b>(10)</b>

<b>3. 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 Net cash from / (used in) financing activities</b>	<b>-</b>	<b>-</b>

<b>4. 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	8,957	8,957
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(1,172)	(1,172)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(10)	(10)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	-	-

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (3 months) \$A'000</b>
4.5	Effect of movement in exchange rates on cash held	(11)	(11)
<b>4.6</b>	<b>Cash and cash equivalents at end of quarter</b>	<b>7,764</b>	<b>7,764</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1	Bank balances	5,547	1,910
5.2	Call deposits	2,217	7,047
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>7,764</b>	<b>8,957</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

<b>Current quarter \$A'000</b>
92
-

Payments to directors and director related entities during the September 2016 quarter.

**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

<b>Current quarter \$A'000</b>
-
-

Nil



8. <b>Financing facilities available</b> <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	-	-
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.		

Nil

9. <b>Estimated cash outflows for next quarter</b>	\$A'000
9.1 Research and development	100
9.2 Product manufacturing and operating costs	60
9.3 Advertising and marketing	20
9.4 Leased assets	-
9.5 Staff costs	700
9.6 Administration and corporate costs	450
9.7 Other (provide details if material)	-
<b>9.8 Total estimated cash outflows</b>	<b>1,330</b>

10. <b>Acquisitions and disposals of business entities (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: .....  
(Company secretary)

Date: 28 October 2016

Print name: Todd Richards

**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.