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Netlinkz

# APPENDIX 4C

MAR QTR 2021

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Commentary and Operational Update

**Netlinkz Ltd (ASX:NET) is pleased to provide an update on its activities for the quarter ended 31 March 2021 ("March Quarter"), together with its Appendix 4C.**

## Highlights

- Group revenues up 85% (Q3 FY21 over Q3 FY20) and 423% (YTD FY21 over YTD FY20)
- Signed a binding arrangement with Uni Systems Information Technology to offer VSN based network solutions to European enterprises
- Distribution agreement signed with Frame Communications, United Kingdom
- Asia continues to lead growth with China revenue up 89% (Q3 FY21 over Q3 FY20) and 471% (YTD FY21 over YTD FY20)
- Seasonality of revenue pointing to a stronger Q4. Growing proportion of recurring revenue.
- Cleaner capital structure with most convertible debt redeemed and cancellation of options proposed
- Appointment of Stephen Gibbs as Non-Executive Chairman

## Operational Overview

### European Development

The Company signed a binding agreement with Uni Systems Information Technology (Uni Systems) during the quarter to introduce Netlinkz ground-breaking technology to Europe. Uni Systems is a wholly owned subsidiary of the Quest Group which has operations in over 26 countries.

The parties have established an IoT Lab in Athens, Greece and Ubitech a European IOT network specialist has been introduced to accelerate Proof-Of-Concept (POC) projects and go to market.

The Uni Systems relationship will see Netlinkz cooperate in innovation initiatives and projects in Greece and Europe, including Public Sector digital transformation challenges, discovering and assessing digitalization opportunities and incubating integrated solutions for IoT, 5G and AI technologies and processes using Netlinkz IP.

The Company also signed a distribution agreement with Frame UK, during the quarter, with Netlinkz VSN being offered in a broadband bundle to medium and large corporates. Frame UK has an existing customer base and a strong background in Networking solutions which will extend Netlinkz's reach to the UK market.

## Asia

The China business continues to perform well, with sales up by 89% in Q3 FY21 vs. Q3 FY20. Q3 FY21 revenues for China at \$2.0m (Q2 FY21: \$3.8m) reflect the expected seasonal pattern given the Lunar New Year, which has a similar effect through South East Asia.

The business will see a growing proportion of recurring revenue (a business focus), primarily from VSN licensing and support as it moves forward and will continue to focus on margin improvement.

LNS International (LNS) is making good progress having submitted a number of large tenders, with key focus on Malaysia as outlined in the half year report.

Natsoft (India) is making steady progress with a growing pipeline and potential opportunities with a number of large corporates.

## VSN Product Update

Having completed the Microsoft Azure deployment successfully, the VSN now runs on all major cloud providers.



The Netlinkz R&D team is finalising AWS Graviton compatibility which has the potential to reduce client VSN-related cloud server costs by ~20%.

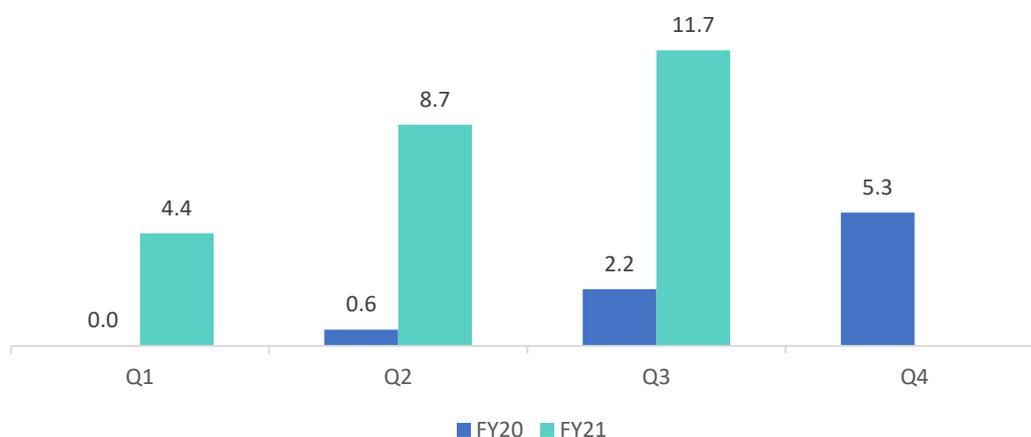
Strategic partner, ImageDeep, is experiencing accelerated growth using 4G/5G enabled VSN devices to secure thermal cameras, rather than having to wire into client networks. VSN avoids the risk and liability associated with potentially disrupting client networks.

The VSN can reach 100Gbps in core networks, 250x more throughput than some competitor solutions. The software-based nature of the VSN means that throughput is currently only capped by compute and network appliances/infrastructure and therefore throughput will continue to increase in line with network hardware.

# Corporate

## UNAUDITED FINANCIAL RESULTS

### NET Cumulative Revenue By Financial Year (\$m)



Revenues for the quarter were \$2.9m (Q3 FY20: \$1.6m). The seasonal impact of China revenue (Lunar New Year) in Q3 resulted in lower Group revenues over the prior quarter.

The unaudited loss before tax for the quarter was \$3.7m, however includes a one-off non-cash charge of \$1.5m for the cancellation of an advisor mandate.

Cash at the end of the quarter was \$3.1m with a further \$5m available in finance facilities. Cash receipts for the quarter were \$2.1m (YTD FY21: \$13.1m), a cumulative growth over the previous year.

Product manufacturing and operating expenses in the quarter reduced in part due to AoFa and iLinkAll's continued shift towards employing all engineering resources directly which is expected to result in margin improvement.

Staff cost growth reflects additional engineering capability added in AoFa and iLinkAll as the business continues to scale up its sales and delivery teams.

The Company redeemed convertible notes in the quarter for \$340k and repaid loans in the amount of \$150k.

## Current Revenue Seasonality

Current revenue seasonality is due to the timing of up-front design and implementation work from new clients and timing of the Lunar New Year (February-March) affecting most of South East Asia including Singapore, Malaysia and China. As the business builds on its steady client base, diversifies globally and focuses on generating recurring revenues (expected to rise to circa 50% in the next 3 years) a more consistent quarterly revenue split will result. The company expects strong y-o-y revenue growth to continue.

# Board and Management Changes

## ***Mr Stephen Gibbs***

The Company appointed Mr Stephen Gibbs as Non-Executive Chairman of Netlinkz Limited on 15 March 2021. Mr Gibbs is also the Non-Executive Chairman of ASX-listed Australian Ethical Investment Limited, which has \$5 billion in funds under management and 62,000 clients.

Mr Gibbs has over 30 years' experience as a Director and Chairman of many companies in industry and funds management, particularly those with a focus on ethical and responsible investing.

## ***Mr James Tsiolis***

Mr James Tsiolis continues as Managing Director and Chief Executive Officer of Netlinkz.

## ***Mr Guy Robertson***

Mr Guy Robertson was appointed Company Secretary on 15 March 2021. Mr Robertson has significant experience as a Company Secretary and CFO with ASX listed Companies and has held senior finance executive roles in the Jardine Matheson Group in Australia and Hong Kong in insurance, property and retail.

## **Other**

The Company paid directors \$181k during the quarter comprised of salaries and superannuation.

As outlined in an ASX announcement dated 9 March 2021, the Company is proposing to simplify its capital structure with the cancellation of up to 249 million options and rights to options for a consideration. The offer has been despatched to option holders/right to option holders, and will then be subject to shareholders approval at a meeting to be held towards the end of May 2021.

# 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 March 2021**

### CONSOLIDATED STATEMENT OF CASH FLOWS

|   | Current quarter<br>\$A'000 | Year to date<br>(9 months)<br>\$A'000 |
|---|----------------------------|---------------------------------------|
| <b>1 Cash flows from operating activities</b>             |                            |                                       |
| 1.1 Receipts from customers                               | 2,061                      | 13,139                                |
| 1.2 Payments for  |                            |                                       |
| (a) research and development                              | (81)                       | (848)                                 |
| (b) product manufacturing and operating costs             | (648)                      | (8,300)                               |
| (c) advertising and marketing                             | (28)                       | (169)                                 |
| (d) leased assets   | (37)                       | (64)                                  |
| (e) staff costs   | (1,812)                    | (4,247)                               |
| (f) administration and corporate costs                    | (1,164)                    | (5,888)                               |
| 1.3 Dividends received (see note 3)                       | -                          | -                                     |
| 1.4 Interest received                                     | 8                          | 48                                    |
| 1.5 Interest and other costs of finance paid              | (173)                      | (1,297)                               |
| 1.6 Income taxes paid                                     | (75)                       | (170)                                 |
| 1.7 Government grants and tax incentives                  | 572                        | 572                                   |
| 1.8 Other (provide details if material)                   | (4)                        | (20)                                  |
| <b>1.9 Net cash from / (used in) operating activities</b> | <b>(1,381)</b>             | <b>(7,244)</b>                        |

## CONSOLIDATED STATEMENT OF CASH FLOWS



| 2 Cash flows from investing activities                    | Current<br>quarter<br>\$A'000 | Year to date<br>(9 months)<br>\$A'000 |
|---|-------------------------------|---------------------------------------|
| 2.1 Payments to acquire or for:                           |                               |                                       |
| (a) entities  | -                             | -                                     |
| (b) businesses  | -                             | -                                     |
| (c) property, plant and equipment                         | -                             | (7)                                   |
| (d) investments   | -                             | -                                     |
| (e) intellectual property                                 | -                             | -                                     |
| (f) other non-current assets                              | -                             | -                                     |
| 2.2 Proceeds from disposal of:                            | -                             | -                                     |
| (a) entities  | -                             | -                                     |
| (b) businesses  | -                             | -                                     |
| (c) property, plant and equipment                         | -                             | -                                     |
| (d) investments   | -                             | 2,683                                 |
| (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)                   | -                             | 22                                    |
| <b>2.6 Net cash from / (used in) investing activities</b> | <b>-</b>                      | <b>2,698</b>                          |

Note: The amount at item 2.2 (d) reflects the net cash inflow from low-risk at-call financial products which do not meet the technical definition of cash and cash equivalents under AASB107 Statement of Cash Flows.

| 3 Cash flows from financing activities  | Current<br>quarter<br>\$A'000 | Year to date<br>(9 months)<br>\$A'000 |
|---|-------------------------------|---------------------------------------|
| 3.1 Proceeds from issues of equity securities<br>(excluding convertible debt securities)    | -                             | 8,668                                 |
| 3.2 Proceeds from issue of convertible debt securities                                      | -                             | 4,995                                 |
| 3.3 Proceeds from exercise of options   | -                             | 733                                   |
| 3.4 Transaction costs related to issues of equity securities or convertible debt securities | (47)                          | (380)                                 |
| 3.5 Proceeds from borrowings  | -                             | 11,250                                |
| 3.6 Repayment of borrowings   | (150)                         | (6,790)                               |
| 3.7 Transaction costs related to loans and borrowings                                       | -                             | (196)                                 |
| 3.8 Dividends paid  | -                             | -                                     |
| 3.9 Other (provide details if material)   | (339)                         | (12,061)                              |
| <b>3.10 Net cash from / (used in) financing activities</b>                                  | <b>(536)</b>                  | <b>6,219</b>                          |

In respect of 3.9 above, the current quarter amount includes the cash redemption of 340,277 convertible notes with a face value of \$340,277.

## CONSOLIDATED STATEMENT OF CASH FLOWS

| <b>4 Net increase / (decrease) in cash and cash equivalents for the period</b> | <b>Current quarter<br/>\$A'000</b> | <b>Year to date<br/>(9 months)<br/>\$A'000</b> |
|--|------------------------------------|--|
| 4.1 Cash and cash equivalents at beginning of period                           | 4,980                              | 1,440  |
| 4.2 Net cash from / (used in) operating activities (item 1.9 above)            | (1,381)                            | (7,244)  |
| 4.3 Net cash from / (used in) investing activities (item 2.6 above)            | -                                  | 2,698  |
| 4.4 Net cash from / (used in) financing activities (item 3.10 above)           | (536)                              | 6,219  |
| 4.5 Effect of movement in exchange rates on cash held                          | (8)                                | (58)   |
| <b>4.6 Cash and cash equivalents at end of period</b>                          | <b>3,055</b>                       | <b>3,055</b>                                   |

| <b>5 Reconciliation of cash and cash equivalents</b><br>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<br/>\$A'000</b> | <b>Previous quarter<br/>\$A'000</b> |
|---|------------------------------------|-------------------------------------|
| 5.1 Bank balances   | 3,055                              | 4,980                               |
| 5.2 Call deposits   | -                                  | -                                   |
| 5.3 Bank overdrafts   | -                                  | -                                   |
| 5.4 Other (provide details)   | -                                  | -                                   |
| <b>5.5 Cash and cash equivalents at end of quarter</b>  | <b>3,055</b>                       | <b>4,980</b>                        |

| <b>6 Payments to related parties of the entity and their associat</b>                       | <b>Current quarter<br/>\$A'000</b> |
|---|------------------------------------|
| 6.1 Aggregate amount of payments to related parties and their associates included in item 1 | 181                                |
| 6.2 Aggregate amount of payments to related parties and their associates included in item 2 | -                                  |

Note: Amount includes salaries, superannuation and directors' fees.

## CONSOLIDATED STATEMENT OF CASH FLOWS

| 7 Financing facilities  | Total facility<br>amount at<br>quarter end<br>\$A'000 | Amount<br>drawn at<br>quarter end<br>\$A'000 |
|---|---|--|
| 7.1 Loan facilities   | 5,183   | 183  |
| 7.2 Credit standby arrangements                                 | -   | -  |
| 7.3 Other   | 4,177   | 4,177  |
| <b>7.4 Total financing facilities</b>                           | <b>9,360</b>  | <b>4,360</b>                                 |
| <b>7.5 Unused financing facilities available at quarter end</b> |   | <b>5,000</b>                                 |

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.

In respect of 7.1 above, the facilities are comprised of:

- (a) a \$183,154 unsecured loan with an interest rate of 8% and no fixed maturity date, where the lender is Charlie Gargett; and
- (b) a \$5,000,000 revolving loan facility (of which \$nil is drawn at 31 March 2021) for an unsecured loan with an interest rate of 15% per annum, where the lender is Akuna Finance Pty Ltd.

In respect of 7.3 above, the facilities are comprised of:

- (a) a \$1,000,000, unsecured loan with an interest rate of 20% per annum and a maturity date of 1 May 2021, where the lender is Trevor Douglas Nairn as trustee for the T D Nairn Trust. Following the end of the quarter, a revised maturity date of 31 May 2021 was agreed;
- (b) \$2,250,000 in unsecured short term loans with an interest rate of 20% per annum, where the lenders are as follows:
  - i. Anathema Pty Ltd <The Anathema Trust> in respect of \$200,000, with a maturity date of 14 December 2021;
  - ii. Grant Edwards Pty Ltd <Edwards Family A/C> in respect of \$1,000,000, with a maturity date of 15 June 2021;
  - iii. Mrs Joy Elaine Hordern in respect of \$400,000 with a maturity date of 14 December 2021;
  - iv. Mr Anthony Phillip Hordern in respect of \$500,000 with a maturity date of 15 December 2021;
  - v. Mrs Rong Xie in respect of \$50,000 with a maturity date of 15 December 2021; and
  - vi. Mr Peter Karas in respect of \$100,000 with a maturity date of 14 June 2021,

as announced by the Company on 17 December 2020; and

- (c) 926,545 unsecured convertible notes with a face value of \$926,545, where the holders are as follows:
  - i. Atlantic Capital Holdings Pty Ltd <Atlantic Capital A/C> in respect of 846,298 convertibles notes each with a maturity date of 24 September 2021, for which interest of 9% of the face value was paid on subscription; and
  - ii. Chinchinchee Nominees Pty Ltd in respect of 80,247 convertible notes, each with a maturity date of 24 September 2021, for which interest of 9% of the face value was paid on subscription.

## 8 Estimated cash available for future operating activities

|  | \$A'000    |
|--|------------|
| 8.1 Net cash from/(used in) operating activities (Item 1.9)  | (1,381)    |
| 8.2 Cash and cash equivalents at quarter end (Item 4.6)  | 3,055      |
| 8.3 Unused finance facilities available at quarter end (Item 7.5)  | 5,000      |
| 8.4 Total available funding (Item 8.2 + Item 8.3)  | 8,055      |
| <b>8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)</b>  | <b>5.8</b> |
| 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?<br>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?<br>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?<br>Answer: N/A  |            |

## COMPLIANCE STATEMENT

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- 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: 21.4.2021

Authorised 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.

See chapter 19 of the ASX Listing Rules for defined terms

The Netlinkz VSN provides a physical and virtual secure 'Network as a Service' for enterprises of all sizes. Focused on cloud-first, security, scalability and simplicity, allowing our customers to concentrate on business growth, team collaboration, and global sharing of critical data.

The VSN technology makes Fortune-500 security commercially available for organizations of all sizes. Numerous industry awards received 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](http://www.netlinkz.com)

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## Contacts

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