

23 August 2017

## ASX ANNOUNCEMENT

### NETLINKZ RE-LISTING FUNDRAISING

NetLinkz Limited (ASX:NET) (**Company** or **NetLinkz**) advises that it has now completed all matters pertaining to the reasons for its voluntary suspension which it requested on 12 December 2016. NetLinkz provides the following summary of the matters completed and announced during the suspension period.

#### CORPORATE RESTRUCTURE

With the restructure substantially complete, the NetLinkz Board believes the Company is now geared towards scaling revenue globally, in a cost effective manner and that its financial condition is now such as to justify the continued quotation of its securities on ASX.

The Company has also added to its leadership team by appointing to the Board ex-Cisco and Cable & Wireless Executive, Mr Darren Patterson.

In line with a low cost licensing strategy, NetLinkz has finalised a corporate restructure aimed at reducing costs and streamlining business operations. To this end, the Company has closed its Perth and US offices and centralised and consolidated its operations to Sydney, with product development and deployment resources being contracted to a leading software company in the United States.

#### BUSINESS STRATEGY

NetLinkz is implementing a 'go to market' strategy aimed at leveraging its platform through re-sellers and channel partners, such as telecommunications firms and large IT service providers, as well as targeting the SME market and Internet of Things.

The Company is finalising direct reseller agreements between global partners in the US and UK. The Company continues to develop and invest in its partnership with China Telecom. NetLinkz expects to make an announcement with regards to the progress of this partnership shortly.

#### FUNDRAISING

On 6 June 2017, NetLinkz announced an equity subscription arrangement with QMAC Capital International Partners LP (**QMAC**) pursuant to which QMAC agreed to subscribe for fully paid NetLinkz ordinary shares ("**Shares**") in 2 tranches, the second of which was subject to shareholder approval. The issue of the Tranche 1 Shares was partially completed when NetLinkz and QMAC agreed to cancel the equity subscription and restructure the arrangements into a secured 3 year debt facility, which will be provided to NetLinkz by a special purpose finance trust established by QMAC (**Lender Trust**)(**Facility**). The Shares which were issued as part of the Tranche 1 subscription are subject to voluntary escrow until the earlier of the date which is 12 months after the date of issue of the Tranche 1 subscription Shares or the date on which the Company issues a prospectus covering such Shares in accordance with the requirements of section 713 of the *Corporations Act 2001* (Cth) (**Corporations Act**).

The restructure of the arrangements with QMAC was agreed to manage the dilutionary effects of the capital raising with NetLinkz forming the view that a secured debt facility provided a better commercial outcome for all shareholders.

The Facility will be a USD3.7m, 3 year debt facility which will be secured over the assets of NetLinkz and its subsidiaries, NetLinkz Technology Pty Limited and NetLinkz Global Pty Limited (**Group**). The Facility will carry interest at 8% payable on maturity (being the date which is 3 years after the provision of the Facility to the Company).

In consideration of arranging the provision of the Facility, QMAC is to receive options over NetLinkz Shares (**Options**) equivalent to 50% principal of the amount advanced to the Company under the Facility. These Options will be granted to QMAC at the time of provision of the Facility to NetLinkz by the Lender Trust. Each Option will have an exercise price of AUD\$0.02 and will be immediately exercisable and will expire on loan maturity. The Options provide QMAC with an upside value sharing device and also provide additional funding of USD1.85m to NetLinkz if the Options are exercised at any time prior to maturity of the Facility.

A further USD3.8M is to be advanced to NetLinkz under the Facility on the same terms as set out above (including with respect to the issue of Options to QMAC)(eg. 50% of such further principal advanced)), subject to shareholder approval being received in relation to the issue of further Options to QMAC in respect of this additional funding. This second tranche of Options will provide additional funding of USD1.9m to NetLinkz if the Options are exercised at any time prior to maturity of the Facility.

The Shares issued on exercise of any Options granted to QMAC will be subject to voluntary escrow until the earlier of the date which is 12 months after the date of issue of the Shares or the date on which the Company issues a prospectus covering such Shares in accordance with the requirements of section 713 of the *Corporations Act 2001* (Cth) (**Corporations Act**).

Strategic Capital Management Limited (**SCM**) has provided liquidity and support services to NetLinkz, including arranging the establishment of the Facility (see further details below in relation to that support). QMAC will provide a USD3.7M unsecured loan facility to the Lender Trust to enable it to enter into a loan and subscription agreement with NetLinkz (and subsequent loan tranches will also be made through this facility). The Lender Trust will accept transfer of the 38,875,000 Shares already issued as part of the initial Tranche 1 subscription by QMAC and will receive an additional 35,285,000 Options from NetLinkz from its available Listing Rule 7.1 placement capacity. The Lender Trust will also use part of its loan from QMAC to subscribe for approximately 42,500,000 further NetLinkz Shares to enable it to issue options to QMAC (**warrants**) on behalf of its noteholders to meet the 50% principal coverage requirement. These Shares will be issued as soon as practicable after financial close.

The Shares (together with any Shares issued on exercise of any Options granted to QMAC) will be subject to voluntary escrow until the earlier of the date which is 12 months after the date of issue of the relevant Shares or the date on which the Company issues a prospectus covering such Shares in accordance with the requirements of section 713 of the *Corporations Act*.

The Facility provides NetLinkz with access to debt funding to complete the restructure of the balance sheet and meet marketing, development and product roll-out costs with a clear 3 year runway without debt amortisation or interest requirements enabling cash flow to be freed up to grow the business. The Facility does not contain any financial ratios or covenants. . The Facility is repayable in full at the end of the 3 year term. This Facility, together with the SCM Facility referred to below, enables the Company's debt maturity profile to be extended and transitions a number of current liabilities into non-current liabilities.

The parties have entered into finance documents, including all assets security to be granted by the Group companies in favour of QMAC Capital Security LLC as security trustee (**Security Trust**). The security trust structure enables other secured financings to be effected on an efficient basis, including the SCM refinancing referred to below.

The funds raised under the Facility will be used to continue NetLinkz's future operations and business objectives, to pay outstanding creditors and borrowings, and for general working capital purposes.

The Directors unanimously support the QMAC fundraising.

### **SCM LIQUIDITY SUPPORT**

SCM in its own right and as responsible entity of the SCM Absolute Return International Equity Trust (**ARIE Trust**) has provided liquidity support and arranger services to NetLinkz. This has involved SCM, ARIE Trust and related entities of those parties providing financial accommodation, operational and managerial support. The arrangements between SCM and NetLinkz are still being finalised and any related party aspects requiring shareholder approval will be disclosed for approval by the shareholders at the Company's upcoming general meeting.

### **BALANCE SHEET RESTRUCTURE**

ARIE Trust has acquired certain debts owed by NetLinkz to third parties and acquired matured and outstanding convertible notes. It proposes to provide a facility to extend the maturity profile of the acquired debt and subject to shareholder approval, convert the convertible notes (details of these arrangements follow).

An unaudited pro-forma balance sheet is attached to show the combined effect of the QMAC fundraising, SCM Facility and proposed debt conversions on NetLinkz's financial position following completion of the fund raising and balance sheet restructure as at 30 September 2017.

#### **Convertible Notes**

ARIE Trust has acquired certain convertible notes issued by NetLinkz which are due to be repaid, with a face value of \$250,000 (see Annual Financial Report announcement 3 October 2016). SCM has notified the Company that it has agreed to exercise its rights to convert the convertible notes into Shares, conditional upon the passing by shareholders of resolutions approving the issue of Shares to the ARIE Trust at the Company's forthcoming general meeting, in accordance with the terms of the convertible note.

Under the terms of the convertible notes, Shares are to be issued at a 10% discount to 5 day VWAP. The ARIE Trust has agreed a conversion price of \$0.014 per Share, based on NetLinkz's Share price in the period prior to its voluntary suspension.

The Directors unanimously support the debt to equity conversion and will be recommending to shareholders that they vote in favor of the resolution to approve the issue of Shares

#### **ARIE Trust Debt acquisition and refinancing**

ARIE Trust has acquired \$875,000 of the long term debt of the Company (see Annual Financial Report announcement 3 October 2016) and has agreed to refinance the debt on terms equivalent to the QMAC Facility, that is, a 3 year secured term facility, with interest at 8% payable on maturity (which will be the date which is 3 years after the entry into the secured term facility) and 50% principal Option coverage at an exercise price of AUD\$0.02 (conditional upon the passing by shareholders of a resolution approving the issue at the forthcoming general meeting)(**SCM Facility**). ARIE Trust will become a beneficiary of the

security held under the terms of the Security Trust. The issue of the Options to the ARIE Trust will be subject to shareholder approval at the forthcoming general meeting.

The result of the strategic decisions noted above, the balance sheet restructuring, liquidity support and debt facilities is that the Company will have sufficient working capital for immediate needs and with the extension to its debt maturity profile, be provided with the breathing space to enable revenue generation to meet future liabilities.

## **GENERAL MEETING**

A Notice of General Meeting seeking shareholder approval for, among other things, the issue of the Shares and Options to SCM and the ARIE Trust respectively is being prepared and the Company, in due course, will provide shareholders with further details. The shareholder meeting will also seek approval on matters concerning the Company's restructuring, and proposed conversion of certain of the debt on issue in the Company to equity.

## **RELISTING**

NetLinkz is not aware of any information which should have been delivered to ASX under ASX Listing Rule 3.1, including in respect of its financial condition which has not already been disclosed to the market.

**\*\*\*ENDS\*\*\***

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### **About NetLinkz Limited**

NetLinkz provides secure and efficient cloud network 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.

## Pro-Forma Statement of Financial Position (unaudited)

	Note	30 Jun 2017	QMAC	Notes, Debt & Loan (Facility)	Pro-forma
<b>Current assets</b>					
Cash and cash equivalents	1	33,903		5,837,237	5,871,140
Trade and other receivables		3,357			3,357
<b>Total current assets</b>		<u>37,260</u>			<u>5,874,497</u>
<b>Non-current assets</b>					
Property, plant & equipment		1,633			1,633
Other		49,209			49,209
<b>Total non-current assets</b>		<u>50,842</u>			<u>50,842</u>
<b>Total assets</b>		<b>88,102</b>			<b>5,925,339</b>
<b>Current liabilities</b>					
Trade and other payables	3	4,251,955	(650,000)	(1,475,977)	2,125,978
Borrowings	2, 3	810,003		(810,003)	-
<b>Total current liabilities</b>		<u>5,061,958</u>			<u>2,125,978</u>
<b>Non-current liabilities</b>					
Borrowings	2, 3	1,194,384			10,284,166
- repayments				(336,218)	
- tranche 1 (USD\$3.7m)				4,650,000	
- tranche 2 (USD\$3.8m)				4,776,000	
<b>Total non-current liabilities</b>		<u>1,194,384</u>			<u>10,284,166</u>
<b>Total liabilities</b>		<b>6,256,342</b>			<b>12,410,144</b>
<b>Net assets</b>		<u><b>(6,168,240)</b></u>			<u><b>(6,484,805)</b></u>
<b>Equity</b>					
Issued capital	2	24,171,664	650,000	262,397	25,084,061
Reserves		1,340,954			1,340,954
Retained profits		(31,680,858)		(1,228,962)	(32,909,820)
<b>Total equity</b>		<u><b>(6,168,240)</b></u>			<u><b>(6,484,805)</b></u>

1. Details on the application of monies from the QMAC placement can be found in NetLinkz's announcement of 6 June 2017. The placement has been terminated and these payments will now be treated as an advance under the loan facility.
2. The agreed conversions to equity will be subject to shareholder approval at the General Meeting.
3. NetLinkz continues to discuss with other creditors to seek their agreement to convert all or part of their debt into equity. The terms of any agreement to convert any debt into equity will be announced as soon as completed. We are expecting some related party creditors/lenders (at a minimum of 30%) to convert to equity.
4. Includes forecast revenue and expenses to 30 September 2017 (and assumes QMAC Tranche 2 funding will occur). Assumed exchange rates are USD/AUD 1: 0.7957 and AUD/RMB1:5.4.