ASX/MEDIA ANNOUNCEMENT

ASX: YPB | 31 July 2018

# Review of Q1 2018 Activities

- **Q2 net operating cash burn falls 33% on Q1**
- **Very significant technology progress made in Q2**
- **Token Issue progressing to launch**
- **Early progress with new channel partners Australian Made and Namaste**

Anti-Counterfeit and Customer Engagement solutions provider YPB Group Ltd (ASX: YPB) presents a summary of activities for the quarter ended 31 June 2018.

The quarter saw an improvement in cash consumption with the net operating cash burn falling 33% from $1.8m in Q1 to $1.2m in Q2. Overall, the result was in line with expectations. Cash receipts were a little softer than expected due to a timing issue but cost control was strong. The non-cogs operating cost base remains close to the targeted $6.5m per annum.

The primary factor in the improved result was a 23% or $0.5m fall in gross operating cash costs driven by lower headcount in Q2 after settling restructuring payments in Q1, and one-off legal and accounting fees that occurred in Q1.

Lease costs rose due to rental deposits for a new Motif Micro laboratory in the US which will not recur in subsequent quarters. R&D cash spend fell due to completion of software build but is likely to rise with development of Motif Micro and blockchain. Reallocation of cash costs within the R&D budget will partially restrain the increase.

Cash receipts fell 15% in Q2 due to timing of invoicing that is now collectable in Q3. Accrued revenue in Q2 was essentially flat over Q1. That is, sales were stable in Q2 and the receipts fall reflects timing. The weaker cash receipts were more than offset by a $251,000 successful R&D tax credit claim from FY2016.

**Developments in Q2 2018**

Progress in concluding new client contracts was again frustrating in Q2 and lagged expectations due primarily to clients' internal processes. Nevertheless, sales and contract finalisation activity is at an all-time high and there is a high likelihood of on-boarding banner clients in Q3 and Q4.

Three highly significant corporate developments occurred in Q1:

1. **Technology**:
    a. **Motif Micro smartphone readability**. Rapid progress was made in Q2 on smartphone readability of high protection security marks using Motif Micro IP. This is a MAJOR leap in both technological capability and commercial appeal. Client interest in this product is very high as it will allow high security anti-counterfeit technology to be deployed in the mass market and facilitate

authentication as the trigger of direct customer-brand engagement. The ability to demonstrate smartphone readability of a high security authentication mark to clients and potential clients, due in August 2018, is expected to boost sales closure rates.

   b. **ProtectCode**. A new and unique, market leading, high security QR code was achieved in Q2 which is generation 1 of the Motif Micro ProtectCode development path. The serial unique identities generated by YPB Connect in the form of QR codes will be protected with a unique tracer material to preventing copying and faking. First shipments of ProtectCode are expected in Q3 2018.

   c. **Blockchain.** Mapping of the security upgrade to YPB Connect's digital identities with blockchain made solid progress.

2. **Token Issue to target US$30m in shareholder friendly funding**. Preparations for the YPB Token Issue (TI) were completed in Q2 with all relevant resources and materials completed. In late July 2018, a four month review by ASX and ASIC of the TI concluded and the board determined to proceed with the TI. If successful, the TI will create substantial value and financial strength by fully funding the company with zero dilution of shareholder interests. The Token Issue is expected to commence in August 2018. The TI will also facilitate the inclusion of blockchain in Connect and boost the commercial appeal of YPB's 360degree solution.

3. **Clients and partners**. As noted above, new client signings lagged expectations in Q2 but very significant progress was made in business development. As noted above, signings of significant clients are expected in Q3 and Q4. The most important business development in Q2 was partnering with the "Amazon of Cannabis" Namaste Technologies, a dynamic and rapidly growing producer-to-consumer hub for the global medicinal cannabis industry. The first client under this partnership, Chinese vaporizer manufacturer Kington, was signed within a month of the partnership's commencement. A range of novel marketing avenues will be pursued with Namaste the first being last week's launch of the *cannabis confirmed* initiative to drive product authenticity in the sector. https://www.cannabisconfirmed.com/

YPB Executive Chairman John Houston said: "The improved Q2 was satisfactory but we remain intent of rapidly achieving profitability. What isn't apparent yet in cashflows or the share price is the enormous impact I expect the technical advances made in Q2 to have on the company's future value. A smartphone readable authentication mark is the holy grail of anti-counterfeit and we will be taking generation 1 to a market hungry for this solution in H2 2018. In addition, I am very optimistic of a successful Token Issue which will directly and immediately create shareholder value. Finally, our work on sales culture, strategies, personnel and partners is having a real impact with the results to flow in H2 2018."

For further information please contact;

Mr. John Houston
Executive Chairman
YPB Group Limited
T: +61 458 701 088
E: john.houston@ypbsystems.com

Mr. Gerard Eakin
Director
YPB Group Limited
T: +61 427 011 596
E: eakin@manifestcapital.com

About YPB:

YPB Group Ltd (ASX:YPB) lives by three words - certainty of authenticity. We deliver on this through our experience in creating revolutionary, patented anti-counterfeit and customer engagement solutions. Solutions that detect and prove certainty of authenticity and connect brands directly to their customers, empowering them to engage one-on-one.

In an evolving marketplace and with the rapid growth of cross border commerce, our expertise presently focuses on the rapidly growing markets of Australia, South East Asia and China.

www.ypbsystems.com

*Rule 4.7B*

# 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**

| | |
|---|---|
| YPB Group Limited | |
| **ABN** | **Quarter ended ("current quarter")** |
| 68 108 649 421 | June 2018 |

| 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 | 467 | 1,014 |
| 1.2 | Payments for | | |
| | (a) research and development | (27) | (147) |
| | (b) product manufacturing and operating costs | (208) | (426) |
| | (c) advertising and marketing | (23) | (23) |
| | (d) leased assets | (120) | (168) |
| | (e) staff costs | (1,121) | (2,545) |
| | (f) administration and corporate costs | (510) | (1,183) |
| 1.3 | Dividends received (see note 3) | 0 | 0 |
| 1.4 | Interest received | 5 | 12 |
| 1.5 | Interest and other costs of finance paid | 0 | (33) |
| 1.6 | Income taxes paid | 0 | 0 |
| 1.7 | Government grants and tax incentives | 251 | 341 |
| 1.8 | Other (provide details if material) | 65 | 114 |
| **1.9** | **Net cash from / (used in) operating activities** | **(1,221)** | **(3,044)** |

| | | | |
|---|---|---|---|
| **2.** | **Cash flows from investing activities** | | |
| 2.1 | Payments to acquire: | | |
| | (a) property, plant and equipment | (23) | (23) |
| | (b) businesses (see item 10) | | (1,444) |
| | (c) investments | | |

| Consolidated statement of cash flows | | Current quarter $A'000 | Year to date (6 months) $A'000 |
|---|---|---|---|
| | (d) intellectual property | | |
| | (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** | **(23)** | **(1,467)** |

| | | | |
|---|---|---|---|
| **3.** | **Cash flows from financing activities** | | |
| 3.1 | Proceeds from issues of shares | | 5,745 |
| 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 | (27) | (203) |
| 3.5 | Proceeds from borrowings | | |
| 3.6 | Repayment of borrowings | (323) | (1,528) |
| 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** | **(350)** | **4,014** |

| | | | |
|---|---|---|---|
| **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 | 1,976 | 860 |
| 4.2 | Net cash from / (used in) operating activities (item 1.9 above) | (1,221) | (3,044) |

| **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) | (23) | (1,467) |
| 4.4 | Net cash from / (used in) financing activities (item 3.10 above) | (350) | 4,014 |
| 4.5 | Effect of movement in exchange rates on cash held | (5) | 14 |
| **4.6** | **Cash and cash equivalents at end of quarter** | 377 | 377 |

| **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 | 377 | 1,976 |
| 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)** | **377** | **1,976** |

| **6.** | **Payments to directors of the entity and their associates** | **Current quarter $A'000** |
|---|---|---|
| 6.1 | Aggregate amount of payments to these parties included in item 1.2 | 130 |
| 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

| 7. | **Payments to related entities of the entity and their associates** | **Current quarter $A'000** |
|---|---|---|
| 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

| 8. | **Financing facilities available** *Add notes as necessary for an understanding of the position* | **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.

| 9. | **Estimated cash outflows for next quarter** | **$A'000** |
|---|---|---|
| 9.1 | Research and development | (50) |
| 9.2 | Product manufacturing and operating costs | (150) |
| 9.3 | Advertising and marketing | (25) |
| 9.4 | Leased assets | (60) |
| 9.5 | Staff costs | (1,100) |
| 9.6 | Administration and corporate costs | (350) |
| 9.7 | Other (provide details if material) | |
| **9.8** | **Total estimated cash outflows** | **1735** |

| **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 | | |

## 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 July 2018
(Company secretary)

Print name: ROBERT WHITTON

**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.