

27th January 2017

Report to shareholders for the Quarter Ended 31st December 2016

iSignthis Ltd (iSignthis or the Company) (ASX : ISX) is pleased to provide the following business update and Appendix 4C for the quarter ended 31st December 2016.

Operating Summary	Dec Qtr	Sept Qtr	FY17 YTD
Cash Receipts	\$0.02m	\$0.25m	\$0.27m
Net Operating Cashflow	(\$1.34m)	(\$1.17m)	(\$2.5m)
Cash at Bank	\$6.4m	\$7.76m	\$6.4m

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

Highlights include:

- Significant steps achieved towards completion of integration and operational readiness for our major accounts including XM.com, Leverate, IronFX and Valutrades. **Ready for transactional flow, delivery of services and driving revenue in 3QFY17 as per previous announcements.**
- ISX systems have now been further hardened, tested at scale, certified and are ready for operations. **Following launch of XM.com, the Company will focus on launching its other contracted customers** as soon as reasonably possible thereafter in order to start driving services and corresponding revenues.
- Announced the commencement of the iSignthis 'key controller' digital KYC service with global payments expert **Ixaris**. The service enables the verification of natural persons who are the merchant's key controllers (including Ultimate Beneficial Owners (UBO's), directors, officers, and other key stakeholders. Service is live and transacting as of the quarter ending 31 December 2016. We expect this to be an area of modest growth as the EU moves towards verification of key controllers of companies seeking merchant acquiring or card issue services.
- Successfully completed direct customer agreements for delivery of the iSignthis digital KYC service to:
 - **Leverate** – further scale being built with the addition of Cyprus based Forex and CFD broker Leverate Financial Services Ltd. Our intention and focus in 2016 was acquiring as much of this targeted (regulated) industry as possible. We continue to make good progress in this goal.
 - **IronFX** - a global leader in Online Trading (forex, spot metals, futures, shares) with retail and institutional customers from over 180 countries in Europe, Asia, the Middle East, Africa and Latin America. Integration with IronFX is underway with revenues expected in the March 2017 quarter.
 - **Valutrades** – Agreed to provide our full range of Payidentity services to UK FCA regulated Valutrades. A large volume broker that will benefit from faster

customer on-boarding, enhanced customer due diligence and regulatory compliance.

- The payment processing and identity verification volumes being processed across the Bitcoin industry grew rapidly late in the Dec quarter. With the new agreement between **Coinify** and **Blockchain.info**, the iSignthis digital KYC service is now open to a much broader customer base trading and dealing in virtual currencies. As of late January, we estimate the agreement is still operating at less than 10% of potential capacity as regulatory, jurisdictional and risk issues unrelated to ISX are dealt with by Coinify and Blockchain.

We note that the proposed executive amendment of the 4th AML Directive (4AMLD) *amendment* of June 2016, which intends to include bitcoin operators as 4AMLD regulated entities by June 2017, has yet to be voted on by the EU parliament.

1.0 BUSINESS UPDATE

The previous quarterly report for the period ending 30 September 2016 detailed cash receipts from customers of \$250,000. The receipts reported comprised mainly the early stage fees of the larger newly acquired customers (integration fees and upfront licensing fees). The focus on the quarter ending 31 December 2016 has therefore been about the completion of integrations and the ultimate delivery of services to those customers. As expected we have seen a reduction in direct customer receipts for the current quarter with early stage transactional processing billings occurring later in the December quarter and funds not as yet received.

Due to the operational startup cycle, cash receipts early in a new customers relationship has been lumpy, up until the final recurring "Transaction" processing stage, as set out below;

Sales → Contract signing → Invoicing for commencement and integration → Integration → Transaction Flow and Billing

As we commence operations, customer/merchant Integration will be incorporated as part of our operational cycle, and will not be isolated events as it has been during the operational startup phase. As with any production cycle, there is an initial startup phase, a processing lag, then ongoing recurring operations.

The past quarter has continued our focus on building scale and delivery. We continue to deliver on our objective of creating as many opportunities within the regulated markets as possible. We have seen tremendous success in the FX market primarily out of Cyprus and the UK. Further agreements have been completed and we continue to follow up on the many opportunities that exist within our sales pipeline.

Other sectors will soon become part of our focus. We are confident of further progress in sectors such as gaming and wagering and will announce further opportunities once they crystalize.

We continue to maintain cost discipline as a balance between development, integration, sales and capability.

Partner Integration update

NAB Ltd (ASX : NAB) : We have continued to integrate the ISXPay gateway and iSignthis Paydentity service within the NAB's transact settlement and acquiring network. Integration has progressed well, and ISX will be in a position to offer high availability, redundant pathway, payment processing, authorisation and funds clearing within 3QFY17. Pre-sales to interested merchants has already commenced.

Credorax : iSignthis has partnered and concluded integration with Credorax, Malta's largest card settlement /acquiring institution. iSignthis will benefit from a share in acquiring revenues derived by Credorax from the merchant, whilst iSignthis shall retain all of it's gateway and Paydentity service fees. The parties have partnered to offer a seamless identity, processing, acquiring and settlement service to compliment each others strengths
<https://www.credorax.com> .

2.0 CORPORATE

2.1 CASH POSITION

At the end of the Quarter, the consolidated group cash balance was \$6.4 million. The cash usage for the quarter being within our projected usage for business growth, development, marketing and service deployment.

3.0 OUTLOOK

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:

- Operational recurring revenues to commence from previously announced and contracted merchant customers.
- Opening up additional accounts for full operation and transaction flow. With major integrations completed or nearing completion, we can begin working with direct merchants on the delivery of our services allowing them faster customer on-boarding, secure payment processing and fraud mitigation.
- Business development – attendance and presentation to key industries at dedicated conferences and events. This includes;
 - ICE London
 - iFX Hong Kong
 - ACAMS Limassol

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.

Acquiring bank = (also called acquirers, processing banks or merchant banks) are financial institutions, members of Visa and MasterCard, that contract with merchants to enable them to accept debit and credit card payments for their products and services. They can also, and mostly do, contract with third parties to provide some of these services

Cardholder = authorised user of credit or debit card

Card issuer = financial institutions that are members of a Credit Card Association, which issue payment cards on behalf of the Credit Card Associations, and contract with their cardholders for the terms of the repayment of transactions.

Credit Card Associations = member-owned association of banks that govern the issuing of Visa, MasterCard, JCB, AMEX, Diners, Discover and China UnionPay cards and the acquiring of transactions from those cards. Both organisations have developed payment systems to facilitate the processing of transactions between member banks.

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.

Merchant = is a business that has contracted with an acquiring bank or Payment Facilitator to accept card payments

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.

Payment Facilitator = is an organisation that has contracted with an acquiring bank to provide merchants with card payment processing services on behalf of an acquirer. Payment processors must be registered with Visa and MasterCard and must identify on all of their marketing materials, including their websites, the name of the bank partner.

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**.

Service provider = any third party that provides a service used in the card payment transaction process: point-of-sale terminals, payment gateways, web hosting, SSL certificates, shopping carts etc.

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/breaches¹, social media.

¹ <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")

31 DECEMBER 2016

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	19	269
1.2 Payments for		
(a) research and development	(100)	(199)
(b) product manufacturing and operating costs	(4)	(114)
(c) advertising and marketing	-	(25)
(d) leased assets	-	-
(e) staff costs	(713)	(1,426)
(f) administration and corporate costs	(583)	(1,104)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	39	86
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)	-	-
1.9 Net cash from / (used in) operating activities	(1,342)	(2,513)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(3)	(14)
(b) businesses (see item 10)	-	-
(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	(3)	(14)

3. Cash flows from financing activities		
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)	-	-
3.10 Net cash from / (used in) financing activities	-	-

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	7,764	8,957
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(1,342)	(2,513)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(3)	(14)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	(9)	(20)
4.6	Cash and cash equivalents at end of quarter	6,410	6,410

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	1,963	5,547
5.2	Call deposits	4,447	2,217
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)	6,410	7,764

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

Current quarter \$A'000
101
-

Payments to directors and director related entities during the December 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

Current quarter \$A'000
-
-

Nil

8. Financing facilities available <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. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	100
9.2 Product manufacturing and operating costs	10
9.3 Advertising and marketing	10
9.4 Leased assets	-
9.5 Staff costs	710
9.6 Administration and corporate costs	600
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	1,430

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:
(Company secretary)

Date: 27 January 2017

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.