31 October 2019

Quarterly Activities Report & Appendix 4C

Quarter ended 30 September 2019

Melbourne, Australia, 31 October 2019 – Candy Club Holdings Limited (ASX: CLB, "**Candy Club**" or "**Company**") a leading premium confectionary business, is pleased to provide its quarterly activity report and Appendix 4C.

Highlights

- The **Company successfully raised A$3m in equity financing in Q3 '19** with another A$1.5m committed and to be funded subject to the Company obtaining shareholder approval for the associated issuance of equity to a related party of the Company at an EGM meeting planned for December '19, which is not reflected in the Company's Appendix 4C for Q3 '19
- Despite **significant challenges in Q3 '19 due to undercapitalization and slow seasonality during the summer months**, when a significant portion of the Company's product range cannot be shipped to smaller customers due to heat, the Company achieved **Q3 '19 revenues of A$1.3m and narrowed its EBITDA loss during the period to an all-time low of A$1.1m**, with further revenue gains and reductions in EBITDA loss expected in the coming quarter as it enters its busy season
- The Company has added several prominent US retailers who are making significant commitments for national distribution highlighted by **Spencer's Gifts (635 locations shipped in October '19) and Nordstrom Rack (250 locations to be shipped to in Q1 '20)**
- Most major cost centers experienced **decreases in cash outflows** in Q3 '19 vs. Q2 '19 including advertising (decrease of A$114k), staff (decrease of A$102k), and product manufacturing and operating costs (decrease of A$237k)
- Strong retail sell-through of Candy Club's products has driven **high B2B customer reorders rates, with existing customers accounting for 77% of all B2B revenue in Q3 '19** and 60% of all revenue YTD
- The Paper Store, Caesars Properties, Lick, online platform Faire and dozens of others are **driving consistent and scaling reorders** on a monthly basis as a result of strong retail sell through
- The B2B segment is **expected to deliver record revenue in October '19** of A$360,000 vs. A$160,000 in October '18
- The B2B business has acquired 1,433 retail customers representing over 3,000 locations since inception; in October '19 alone the Company will **add 224 new accounts** vs. 164 for the entire Q4 '18 period
- There is a robust pipeline of new customers rolling out test programs in Q4 '19 with well-known US retailers including Justice and Papyrus that, if successful represent the potential **to expand into a significant number of additional locations**
- **Automation equipment came on-line** in early October '19 and is expected to improve gross profit margins over the next several quarters and pay for itself in ~4 months
- The B2C segment **demonstrated strong KPI's in Q3 '19, highlighted** by cost per acquisition (CPA) at an all-time low of sub-US$20 YTD. In November '19, the B2C segment will launch national promotions with Verizon Wireless and The Today Show (NBC) and are expected to contribute incremental revenue in the period
- Two **experienced business leaders were added to the board** being James Baillieu and Andrew Clark
- Sufficient inventory on hand at A$3.6m in value
- Q4 '19 net **cash outflows from operations** are expected to be A$1m in Q4 '19 when you remove all legacy vendor payments from prior periods

Operating Results and Cash Outflows

Candy Club faced significant challenges in Q3 due to under-capitalization and the traditionally slow summer months, when shipping many of its candies to its smaller customers is difficult due to heat, who are unable to receive shipment via refrigerated trucks. While summer shipping is less problematic with CLB's larger customers who can receive their shipments via refrigerated trucks, in future years the Company intends to explore methods of shipping heat sensitive products to its smaller customers by using alternate solutions adopting various methods to deliver products at required temperatures.

Despite these challenges, the Company reported revenue of A$1.3m and a narrowing EBITDA loss of A$1.1m in the period. The A$1.1m EBITDA loss for Q3 '19 is significantly lower than the A$2.1m in net cash outflows reflected in the Q3 4C as that contains Accounts Payable catch up payments from prior periods and doesn't reflect revenue that the Company recognizes for Sales to its B2B customers it has not yet collected.

Having successfully completed a capital raise of A$4.5m, including A$1.5m which is subject to the Company obtaining shareholder approval for the associated issue of securities to a related party of the Company at an EGM planned for December '19 and not yet reflected on the Balance Sheet or in the Company's Appendix 4C for Q3 '19, the Company is now well positioned to increase focus on driving topline B2B revenue growth and narrowing its EBITDA loss further. With the '19 holiday season already commenced, total revenue is expected to exceed A$650,000 for the month of October '19 alone.

The Company reduced operating cash outflows in Q3 '19 by A$300k compared to the prior quarter despite an inventory build-up of A$850k required to support expanded demand in the B2B business during 2H 2019. The decrease in outflows was driven largely by reduction of salary expense, operating costs and other one-off costs the Company expensed earlier in 2019.

Candy Club would have seen further reductions of cash outflows in Q3 had it not been for negotiated discounted payments it made to its legacy vendors. The Balance Sheet saw a reduction of its Accounts Payables for legacy vendors of over A$700k for a cost of only A$128k (18%) through negotiated payment plans. In total, we expect to bring outstanding Accounts Payable down by A$1.9m for total cash outflows of just over A$1.2m in the 2H of 2019.

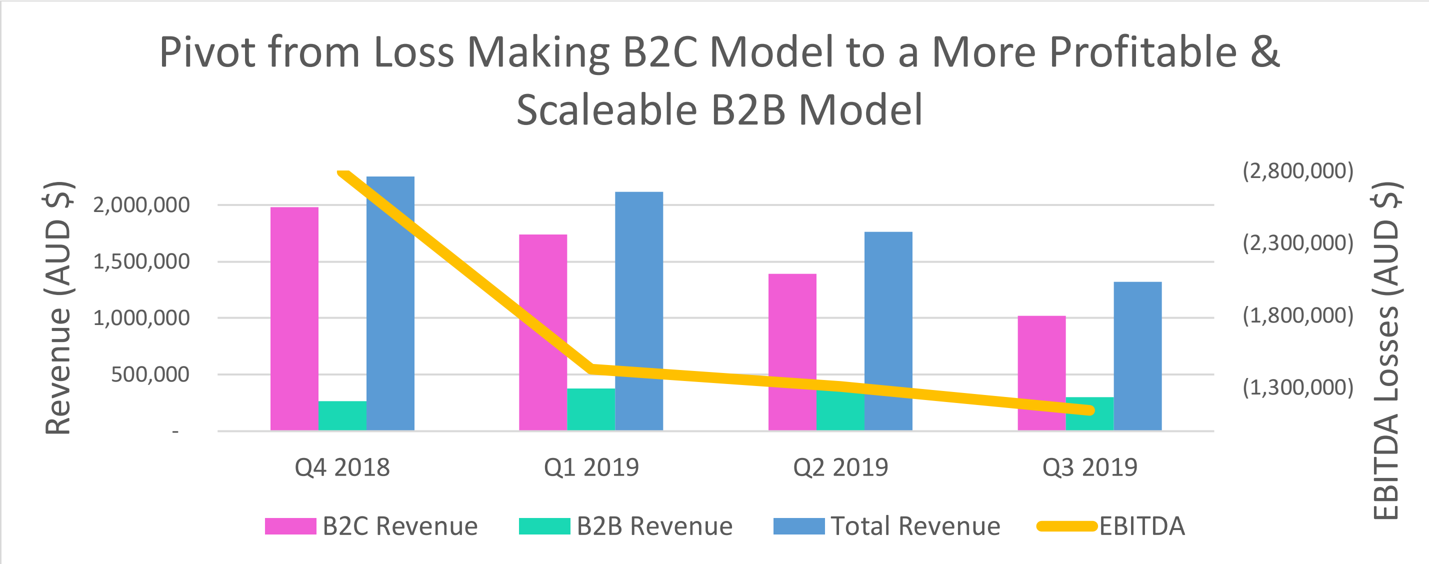
C-level management, including the Company's CEO, COO and CFO continue to take voluntary salary cuts, in exchange for equity in the Company, as they are committed to conserving the Company's cash, expediting the timeline to achieve profitability and remain fully aligned with all stakeholders in the business.

Candy Club has successfully installed automation equipment at its warehouse in early October '19. As the focus continues to be on margin expansion and cost containment, Candy Club expects capacity increases of up to 4x and margin improvements of 10% over the next two fiscal quarters. This will further help reduce the Company's cash outflows.

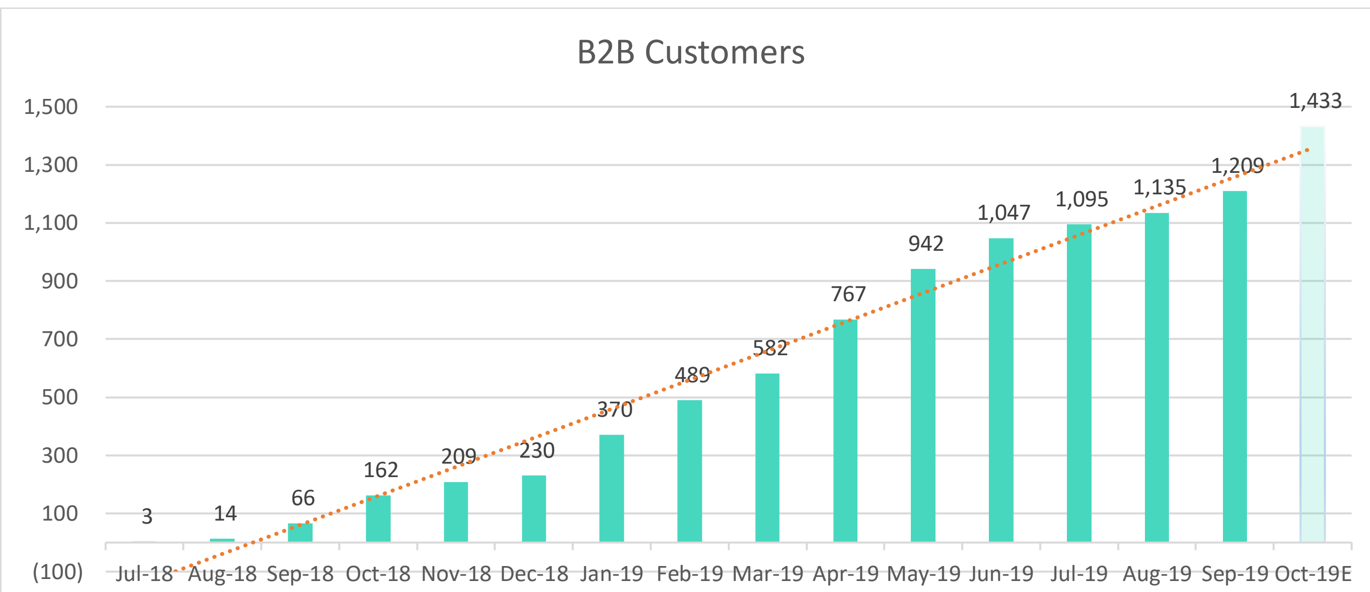
Candy Club recently executed a non-binding term sheet with an asset-based lender that will allow it to borrow additional working capital and grow in the future as its inventory and accounts receivables balances increase.

Wholesale Division (B2B)

- The Company is on track to achieve its stated goal to pivot from a B2C only business in favor of emphasizing a more balanced business with a B2B (wholesale) segment and an efficiently run B2C segment, while bringing overall EBITDA losses down over the last several quarters. As we enter the holiday season, the B2B segment is expected to continue to scale and exceed our B2C segment for the first time in October '19, with B2B revenue on track to achieve sales of A$360,000 vs. A$160,000 in October '18.



The B2B segments growth is being driven by the addition of new customers at a fast pace, including 224 in October '19 alone, representing a 19% increase in just one month and strong re-orders from existing customers, driving 77% of Q3 '19 revenue and 60% of total revenue YTD, due to strong retail sell-through.



Furthermore, with the automation equipment now in place for its assembly processes, B2B margins are trending upwards and with no marketing spend required post shipment. This represents an extremely large opportunity for the business given our existing 1,433 retail partners (which are growing daily), as we head into 2020.

Keith Cohn, CEO of Candy Club said, "The B2B segment is performing even better than we had expected at this early stage. With only two full-time salespeople we are acquiring new customers at a high rate and existing customers continue to reorder month after month due to strong retail sell-through. Given strong retailer and consumer acceptance, we are well positioned to scale in 2020 as we grow the salesforce from 2 to 10 dedicated sales people over the next few quarters."

Direct-to-Consumer Division (B2C)

The Company's B2C segment continues to be operated for maximum efficiency with the cost per acquisition coming in below USD $20 during Q3 '19. This business is now cash flow positive after all direct costs associated with running the business. In November, marketing tie-ins with Verizon Wireless and The Today Show (NBC) are both expected to deliver incremental revenue in Q4 2019.

James Bailleu, Chairman of Candy Club said, "The Company is poised for substantial growth. Given the size of the addressable market and the performance achieved thus far, the sky is truly the limit with this business. The Board and Management team are working closely on several strategic initiatives to make certain that we are well poised to take advantage of the opportunity to build a valuable business that can handle the growth over the coming quarters and years".

<u>About Candy Club</u>

Candy Club is a leading specialty market confectionary company which operates a wholesale business and a direct-to-consumer subscription business in the USA. Founded in 2015 by serial entrepreneur Keith Cohn, the Company is executing an omni-channel strategy with a vision to become the world's leading specialty market confectionary company. The Company is headquartered in Los Angeles, CA, United States.

+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

CANDY CLUB HOLDINGS LIMITED

ACN	**Quarter ended ("current quarter")**
629 598 778	30 SEPTEMBER 2019

Consolidated statement of cash flows			**Current quarter $A'000**	**Year to date (9 months) $A'000**
1.	**Cash flows from operating activities**			
1.1	Receipts from customers		1,199	4,678
1.2	Payments for			
	(a)	research and development	(44)	(119)
	(b)	product manufacturing and operating costs	(1,472)	(5,935)
	(c)	advertising and marketing	(312)	(1,252)
	(d)	leased assets	(118)	(225)
	(e)	staff costs	(663)	(2,415)
	(f)	administration and corporate costs	(665)	(1,877)
1.3	Dividends received (see note 3)			
1.4	Interest received			
1.5	Interest and other costs of finance paid		(62)	(227)
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**		**(2,137)**	**(7,372)**

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date (9 months) $A'000**
2.	**Cash flows from investing activities**		
2.1	Payments to acquire:		
	(a) property, plant and equipment		(69)
	(b) businesses (see item 10)		
	(c) investments		
	(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**	**-**	**(69)**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of shares	2,267	7,291
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	(57)	(423)
3.5	Proceeds from borrowings	2,001	4,144
3.6	Repayment of borrowings	(236)	(1,696)
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**	**3,975**	**9,316**

Consolidated statement of cash flows		Current quarter $A'000	Year to date (9 months) $A'000
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	18	12
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,137)	(7,372)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	(69)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	3,975	9,316
4.5	Effect of movement in exchange rates on cash held	(10)	(41)
4.6	**Cash and cash equivalents at end of quarter**	**1,846**	**1,846**

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	316	18
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (provide details)	1,530	
5.5	**Cash and cash equivalents at end of quarter (should equal item 4.6 above)**	**1,846**	**18**

Other funds were held in escrow account and released on 2 October.

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	87
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

Relates to salaries and other employment related costs

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	822	822
8.3	Other (please specify)		
8.4	Revolving Line of Credit - 12 Months - Annual Interest Rate - Prime + 5% - Total drawn as of 6/30/19 - $554,991 USD		

9.	Estimated cash outflows for next quarter	$A'000
9.1	Research and development	42
9.2	Product manufacturing and operating costs	1,800
9.3	Advertising and marketing	350
9.4	Leased assets	35
9.5	Staff costs	660
9.6	Administration and corporate costs	700
9.7	Other (provide details if material)	115
9.8	**Total estimated cash outflows**	**3,702**

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		

There have been no acquisitions or disposals during the current quarter.

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 October 2019
Company secretary

Print name: Justyn Stedwell

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.