

27 February 2013

Mr Nathan Bartrop
Senior Adviser, Listings Compliance
ASX Compliance Pty Limited
20 Bridge Street
Sydney NSW 2000

(By email)

Dear Nathan

Re: Letter to World Reach Limited dated 20 February 2013.

I refer to your letter of 20 February in which you asked World Reach Limited (the "Company") to respond to 5 questions following the release of the Company's Appendix 4C for the period ended 31 December 2012. You noted the following figures from December quarter:

1. Receipts from customers of \$2,254,000.
2. Net negative operating cash flows for the quarter of \$123,000.
3. Cash at end of quarter of -\$705,000.

Question 1 It is possible to conclude on the basis of the information provided that if the Company were to continue to expend cash at the rate for the quarter indicated by the Appendix 4C, taking into account future administration costs, the Company may not have sufficient cash to fund its activities. Is this the case, or are there other factors that should be taken into account in assessing the Company's position?

Answer to Q1

There are other factors that should be taken into account. The Company is an emerging development company and quarters like this are to be expected.

There is no doubt that the Company did not enjoy buoyant trading in December quarter 2012 and that this led to the above quoted figures. However the nature of our business is one that often sees variations in quarterly operating cash flows and overall changes in cash held. The last 6 quarters figures are as follows:

	Operating Cash Flow	Cash at Quarter End
Dec quarter 2012	-\$123,000	-\$705,000
Sep quarter 2012	\$105,000	-\$149,000
Jun quarter 2012	\$ 81,000	-\$254,000
Mar quarter 2012	-\$ 33,000	\$ 68,000
Dec quarter 2011	\$101,000	-\$281,000
Mar quarter 2011	-\$179,000	-\$159,000

The reasons for this variability (and in particular for December quarter) are:

- The Company designs, develops and manufactures satellite communications equipment. The development is generally costly and takes place several months or years in advance of releasing product to the market and generating cash revenue. A major project (as announced on 30 November 2012) was commenced during the quarter which generated no operating cash but used \$226,000 in cash funds. As announced to the market, this project is expected to generate \$3M in cash revenues beginning shortly after June 2013.
- The Company's sales are regularly dependent on customer projects or customer off-take requirements which are irregular in nature. In December quarter Telstra advised that off-take under the \$5M supply contract that is held by a subsidiary company, would be delayed from December quarter to March quarter 2013. Deliveries resumed in January 2013 with a sale of \$301,000 for the month, with a further \$2.4m to be delivered in monthly portions by 30 April 2013.
- The Company purchases components from China and the USA. These purchases are in economic quantities which lead to fluctuations in inventory and operating cash flows. A substantial portion of the March quarter Telstra supplies were held in inventory at 31 December 2012, absorbing working capital in the quarter but which will benefit operating cash flow in March quarter.
- The Company makes half yearly repayments of a loan which funded a previous major development project. In December quarter 2012 a repayment of US\$212,000 was made. The next repayment is not due until 31 March 2013 and these repayments are calculated purely as a percentage of sales of selected products.
- To fund working capital and in particular ongoing R&D activities, the Company regularly seeks additional capital investment. During December quarter the Company was in negotiations with several investors in regard to investing in the Company. One arrangement with an investor was near completion during December, the Company confident that the arrangement would proceed with only due diligence to be completed before the investment took place. The Company announced on 23 January 2013 the completion of the agreement to invest \$650,000 in the Company (which was subsequently received on 5 February 2013). With this knowledge the Company made a decision to continue R&D expenditure and purchasing of component supplies knowing that this would consume cash through to 31 December. This accounts for the unusual magnitude of negative cash at the end of the quarter.

Based on these five factors the Company believes that it is incorrect to conclude on the basis of the December quarter Appendix 4C figures that the Company may not have sufficient cash to fund its activities.

Question 2 Does the Company expect that in the future it will have negative operating cash flows similar to that reported in the Appendix 4C for the quarter and, if so, what steps has it taken to ensure that it has sufficient funds in order to continue its operations at that rate?

Answer to Q2

Based on current forecasts the Company does not expect to have lengthy periods of negative operating cash flows.

The Company's expectation for calendar year 2013 is for expanding revenues, evidenced by resumption of monthly deliveries to Telstra and the announcement on 12 February 2012 of a landmark distribution deal with MCN China with an initial order for \$1M in revenues in the next 4 months. MCN China was required to make a prepayment before the first delivery of \$406,000 which was received on 5 February 2013 and is required also to pre pay the second and successive deliveries. It is possible that March quarter 2013, as the level of trading expands, and depending on the timing of customer payments, may show a slightly negative operating cash flow but this should be more than offset by the capital investment of \$650,000 which was also received on 5 February. If the timing of payments means that March quarter shows as negative then this will benefit June quarter, which, despite expanded trading, is forecast to be cash positive.

To support this cash position the Company has existing bank facilities which include an overdraft of \$1M and additionally the Company is negotiating with other potential investors for further capital investment. These steps will ensure the Company has sufficient funds to continue its operations.

Question 3 What steps has the Company taken, or what steps does it propose to take, to enable it to continue to meet its business objectives?

Answer to Q3

While developing a major new product for release after June 2013, the Company continues to pursue key initiatives for expansion in Asia, particularly Japan and China. The Company is working closely with MCN China in order to secure a second major order and to further expansion into the Chinese market.

Question 4 Can the Company confirm that it is in compliance with the listing rules, and in particular, listing rule 3.1?

Answer to Q4

The Company is in compliance with listing rules and in particular listing rule 3.1.

Senior management and Directors are well aware of the requirement for continuous disclosure and throughout the period in question (December quarter 2012) regularly reviewed the Company's position in regard to market disclosure. The Company took into account factors including:

- Any previously issued statement that may have led investors to form an expectation of the Company's performance.
- The context of the last 6 quarters of trading and cash flow prior to 31 December 2012.
- The Company's detailed future forecasts for the 12 months beginning 1 January 2013.
- The progress of negotiations with investors for new capital investment in the Company, in particular the investor who entered an agreement on 23 January for \$650,000 in convertible notes.
- The progress of negotiations which culminated in the \$1M order from MCN China.

In all these circumstances the Company weighed up the duty of keeping investors informed with timely and accurate information but not based on premature responses or probable outcomes. The Company believes that the cash and profit results for the 3 month and the 6 month periods to 31 December 2012 are in keeping with the likely and reasonable market expectations of an informed investor.

Question 5 Please comment on the Company's compliance with listing rule 12.2, with reference to the matters discussed in the note to the rule.

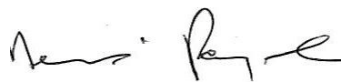
Listing rule 12.2 states "An entity's financial condition (including operating results) must, in the ASX's opinion, be adequate to warrant continued quotation of its securities and of its continued listing.

Note: Composition of its balance sheet, relative size of liabilities to assets and access to funds are some of the indicators of an entity's financial condition."

Answer to Q5

As mentioned above, there is no doubt the quarter to 31 December 2012 was not a good one for the Company in terms of cash outflow or trading results. However through this period, as also explained above, the Company was progressing negotiations for substantial trading improvements and for new capital investments. The Company has prepared detailed forecasts which show marked improvement in profitable monthly trading for the second half of financial year 2012/13. These improvements combined with some expected additional capital investment, will produce a vastly improved balance sheet by 30 June 2013. On this basis the Company believes that the financial circumstances of the Company have been and will continue to be adequate to warrant continued quotation of its securities and of its continued listing. Additionally the Company anticipates further operational success in the first half of financial year 2013/14.

Yours faithfully



Dennis Payne
Company Secretary



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20 February 2013

Mr Dennis Payne
Company Secretary
World Reach Limited
5/8 Anzed Court
Mulgrave VIC 3170

By Email

Dear Dennis,

World Reach Limited (the "Company")

I refer to the Company's Quarterly Report in the form of Appendix 4C for the period ended 31 December 2012, released to ASX Limited ("ASX") on 31 January 2013 (the "Appendix 4C").

ASX notes that the Company has reported the following.

1. Receipts from customers of \$2,254,000.
2. Net negative operating cash flows for the quarter of \$123,000.
3. Cash at end of quarter of -\$705,000.

In light of the information contained in the Appendix 4C please respond to each of the following questions.

1. It is possible to conclude on the basis of the information provided that if the Company were to continue to expend cash at the rate for the quarter indicated by the Appendix 4C, taking into account future administration costs, the Company may not have sufficient cash to fund its activities. Is this the case, or are there other factors that should be taken into account in assessing the Company's position?
2. Does the Company expect that in the future it will have negative operating cash flows similar to that reported in the Appendix 4C for the quarter and, if so, what steps has it taken to ensure that it has sufficient funds in order to continue its operations at that rate?
3. What steps has the Company taken, or what steps does it propose to take, to enable it to continue to meet its business objectives?
4. Can the Company confirm that it is in compliance with the listing rules, and in particular, listing rule 3.1?
5. Please comment on the Company's compliance with listing rule 12.2, with reference to the matters discussed in the note to the rule.

Listing rule 3.1

Listing rule 3.1 requires an entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities. The exceptions to this requirement are set out in the rule.

In responding to this letter you should consult listing rule 3.1 and the guidance note titled "Continuous disclosure: listing rule 3.1".

If the information requested by this letter is information required to be given to ASX under listing rule 3.1 your obligation is to disclose the information immediately.

Your responsibility under listing rule 3.1 is not confined to, or necessarily satisfied by, answering the questions set out in this letter.

This letter and your response may be released to the market. If you have any concerns about your response being released, please contact me immediately. Your response should be sent to me by email or on **facsimile number (02) 9241 7620**. It should not be sent to the Market Announcements Office.

Unless the information is required immediately under listing rule 3.1, a response is requested as soon as possible and, in any event, not later than close of business **5p.m. A.E.D.T. on Monday, 25 February 2013**.

If you are unable to respond by the time requested you should consider a request for a trading halt in the Company's securities.

If you have any queries, please do not hesitate to contact me.

Yours sincerely,

[Sent electronically without signature]

Nathan Bartrop
Senior Adviser, Listings Compliance