ACN 108 042 593

# ANNUAL REPORT

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

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# CORPORATE INFORMATION

## ZIPTEL LIMITED

Trading on the Australian Securities Exchange with the code ASX:ZIP
ABN 41 108 042 593
www.ziptel.com.au

## DIRECTORS

Mr Josh Hunt (Independent Non-Executive Chairman)
Mr Umberto (Bert) Mondello (Non-Executive Director)
Mr Salvatore Vallelonga (Independent Non-Executive Director)

## COMPANY SECRETARY

Mr Derek Hall

## PRINCIPAL PLACE OF BUSINESS

Suite 3, 138 Main Street
Osborne Park, Western Australia 6017
T + 61 (0) 8 6380 2555

## REGISTERED OFFICE

Suite 3, 138 Main Street
Osborne Park, Western Australia 6017

## SOLICITORS

HopgoodGanim Lawyers
Level 27, Allendale Square, 77 St Georges Tce,
Perth, Western Australia 6005

## SHARE REGISTER

Security Transfer Registrars
770 Canning Highway,
Nedlands, Western Australia 6153
T +61 (0) 8 9315 2333

## AUDITOR

Criterion Audit Pty Ltd
1/437 Roberts Rd
Subiaco, Western Australia 6008

## 1. OUR APPROACH TO CORPORATE GOVERNANCE

### (A) FRAMEWORK AND APPROACH TO CORPORATE GOVERNANCE AND RESPONSIBILITY

The Board of ZipTel Limited ("the Company") is committed to maintaining the highest standards of corporate governance.

Corporate governance is about having a set of values that underpin the company's everyday activities - values that ensure fair dealing, transparency of actions, and protect the interests of stakeholders. The Board considers corporate governance forms part of a broader framework of corporate responsibility and regulatory oversight.

In pursuing its commitment to best practice governance standards, the Board will continue to:

- review and improve its governance practices; and
- monitor global developments in best practice corporate governance.

The Board is guided by the principles and practices that are in our stakeholders' best interests while ensuring full compliance with legal requirements.

### (B) COMPLIANCE WITH THE ASX CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS

The ASX Listing Rules require listed companies to include in their Annual Report a statement disclosing the extent to which they have followed the ASX Corporate Governance Principles and Recommendations in the reporting period.

In accordance with ASX Listing Rules 4.10.3 and 4.7.4, the Corporate Governance Statement is available for review on the Company's website (www.ziptel.com.au) and will be lodged together with an Appendix 4G with the ASX at the same time that this Annual Report is lodged with ASX.

The Appendix 4G will identify each recommendation that needs to be reported against by the Company and will provide shareholders with information as to where relevant disclosures can be found.

The Company's corporate governance policies and charters are available at the Company's website www.ziptel.com.au.

Listed companies must identify the recommendations that have not been followed and provide reasons for the company's decision. This Governance Statement describes ZipTel Limited's governance practices and notes where they do not comply with the ASX Corporate Governance Principles and Recommendations.

## 2. DATE OF THIS STATEMENT

This statement reflects our corporate governance policies and procedures as at 26 September 2018.

# DIRECTORS' REPORT

The Directors of ZipTel Limited (the "Company") submit herewith the annual report of the Company and its controlled entities (the "Group") for the financial year ended 30 June 2018. In order to comply with the provisions of the Corporations Act 2001, the Directors' Report as follows:

## DIRECTORS AND SENIOR MANAGEMENT

The Company Directors held office during the whole of the financial year and since the end of the financial year. The names and particulars of Directors and senior management of the Company at the end of the 2018 financial year are:

### JOSH HUNT
Non-Executive Chairman

Mr Josh Hunt has extensive experience in all aspects of mining and energy project acquisitions and disposals including drafting and negotiation of acquisition documents, conducting due diligence into resources assets and general mining legislation compliance throughout Australia. He also advises clients in connection with joint ventures, farm-in agreements, operating agreements and royalty agreements.

Josh has further advised on numerous IPOs and fundraisings and has a wide range of experience in many different types of acquisitions by both public and private companies.

In addition, Josh provides stock exchange and listing rule compliance advice, capital markets, corporate and strategic advice, general securities and commercial law advice.

Josh's experience extends internationally, where he has acted for a number of companies with operations in Africa, South East Asia, Mongolia, the United States, Canada, the United Kingdom and throughout South America.

Special responsibilities: Chairman of the Board, Member of the Nomination Committee

Other current directorships in listed entities: None

Other directorships in listed entities in the previous 3 years: None

### UMBERTO (BERT) MONDELLO
Non-Executive Director (from 1 March 2017 previously Executive Director / CEO)

Mr Bert Mondello is a Sales and Marketing executive with extensive industry knowledge in telecommunications.

Over the past 20 years, Mr Mondello has worked closely and partnered with a number international telcos all over the world and built one of the largest Vodafone business channels across Australia.

Mr Mondello is a Co-Founder of ZipTel Limited (ASX: ZIP), a publicly listed telecommunications technology business. As its previous CEO, Mr Mondello has been pivotal in challenging the status quo with innovation in new technologies across a myriad of telecommunications products and offerings with a predominant focus in the VoIP and international calling sectors.

Mr Mondello has led ZipTel in the execution of agreements with significant international corporations and the acquisition more than 15 million users globally across ZipTel's core platforms.

Special responsibilities: Member of the Nomination Committee

Other current directorships in listed entities: WestStar Industrial Limited, ServTech Global Holdings Limited, Emerge Gaming Limited

Other directorships in listed entities in the previous 3 years: None

### SALVATORE VALLELONGA
Non-Executive Director

Mr Sal Vallelonga is a co-founding Partner of Plexus Global Consultants and is a Chartered Accountant of some 18 years' standing who holds a Bachelor of Commerce degree.

Mr Vallelonga specialises in providing corporate advisory, business coaching, strategic planning, business optimisation, taxation, accounting and wealth creation solutions to its SME and emerging growth clients. He also excels in succession planning assisting his business clients, with transitioning their business to family members or preparing their business for sale. Mr Vallelonga is a non-executive director of many businesses, and serves on many community based boards and committees.

Special responsibilities: Member of the Nomination Committee, Report and Investigation Officer, Senior Independent Director

Other current directorships in listed entities: None

Other directorships in listed entities in the previous 3 years: None

### DEREK HALL
Company Secretary

Mr Hall is a Chartered Accountant, Fellow of the Financial Services Institute and Member of the Institute of Chartered Secretaries and Administrators.

### PREVIOUS DIRECTORS

Mr Keaton Wallace: Non-Executive Director (from 1 March 2017, resigned 8 September 2017), Executive Director (resigned effective 1 March 2017)

## DIRECTORS' MEETINGS

The following table sets out the number of Directors' meetings (including meetings of committees of Directors) held during the financial year and the number of meetings attended by each Director while they were a Director or committee member.

| | DIRECTORS' MEETINGS | |
|---|---|---|
| DIRECTORS | NO OF MEETINGS ELIGIBLE TO ATTEND | ATTENDED |
| Josh Hunt | 7 | 7 |
| Bert Mondello | 7 | 7 |
| Keaton Wallace (resigned 8 September 2017) | 2 | 2 |
| Salvatore Vallelonga | 7 | 7 |

## DIRECTORS' SHAREHOLDINGS

The following table sets out each Director's relevant interest in shares and options in shares of the Company as at the date of this report.

| DIRECTORS | FULLY PAID ORDINARY SHARES | OPTIONS |
|---|---|---|
| Josh Hunt | 1,486,516 | 267,472 |
| Bert Mondello | 16,629,167 | 2,575,833 |
| Salvatore Vallelonga | 1,360,437 | 272,069 |

## REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Information about the remuneration of Directors and senior management is set out in the Remuneration Report of this Directors' Report on pages 8 to 13.

## SHARE OPTIONS GRANTED TO DIRECTORS AND SENIOR MANAGEMENT

The Company maintains an option plan for senior management and executives, as approved by shareholders at an Annual General Meeting.

## REVIEW OF OPERATIONS AND PRINCIPAL ACTIVITIES

The Group's principal activities at the commencement of the financial year are outlined in the Chairman's report and listed below in Events Subsequent to Reporting Date.

## OPERATING RESULTS

The loss after tax of the Group for the financial year attributable to the members of ZipTel Limited was $282,282 (30 June 2017: loss $650,167).

## DIVIDENDS

No dividend has been declared by the Directors for this financial year.

## STATE OF AFFAIRS

In the opinion of the Directors there were no significant changes in the state of affairs of the Company and its controlled entities that occurred during the financial year under review not otherwise disclosed in this report or the accompanying financial report. Reference should be made to the subsequent events note for changes in the state of affairs after Reporting Date.

## INDEMNIFICATION OF OFFICERS AND AUDITORS

During the financial year, the Company paid a premium in respect of a contract insuring the Directors of the Company, the Company Secretary and all executive officers of the Company and of any related body corporate against a liability incurred as a Director, Secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium. The Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as an officer or auditor.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Disclosure of information regarding likely developments in the operations of the Group in future financial years has been made in part in the Chairman's Report at the beginning of this Annual Report. Any further such disclosure and the expected results of those operations are likely to result in unreasonable prejudice to the Group and have accordingly not been disclosed in this report.

## ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group's operations are not subject to any significant environmental regulations under the Commonwealth or State legislation. However, the Directors believe that the Group has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Group.

## EVENTS SUBSEQUENT TO REPORTING DATE

There were no matters or circumstances arising since the end of the reporting period that have significantly affected, or may significantly affect the operations of the Company and the results of those operations or the state of the affairs of the Company in the financial period subsequent to 30 June 2018.

## PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of a Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

## AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

Details of the amounts paid or payable to the auditor (2018: Criterion Audit Pty Ltd, 2017: BDO Audit (WA) Pty Ltd) for non-audit services provided during the year are set out below.

The Board of the Company has considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

During the year the following fees were paid or payable for non-audit services provided by the auditor of the Group, its related practices and non-related audit firms:

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| **AUDITOR OF THE COMPANY:** | | |
| - Tax compliance services | - | 42,673 |
| | - | 42,673 |

## REMUNERATION REPORT (AUDITED)

This Remuneration Report, which forms part of the Directors' Report, sets out information about the remuneration of ZipTel Limited's Directors and its senior management for the financial year ended 30 June 2018. The prescribed details for each person covered by this report are detailed below under the following headings:

- Director and senior management details
- Remuneration policy
- Remuneration of Non-Executive Directors
- Retirement Benefits
- Remuneration of Directors and senior management
- Relationship between company performance and shareholder wealth
- Remuneration of key management personnel
- Key terms of employment contracts
- Other statutory information.

## DIRECTOR AND SENIOR MANAGEMENT DETAILS

The following persons acted as Directors of the company during or since the end of the financial year:

| NAME | POSITION |
|---|---|
| Josh Hunt | Non-Executive Chairman |
| Bert Mondello | Non-Executive Director (from 1 March 2017 previously Executive Director / CEO) |
| Salvatore Vallelonga | Non-Executive Director |
| Keaton Wallace | Non-Executive Director (resigned 8 September 2017) |

## REMUNERATION POLICY

The Company's remuneration policy is based on the following principles:

- Provide competitive rewards to attract high quality executives;
- Provide an equity incentive for senior executives that will provide an incentive to executives to align their interests with those of the Company and its shareholders; and
- Ensure that rewards are referenced to relevant employment market conditions.

Remuneration packages contain the following key elements:

- Primary benefits – salary/fees; and
- Benefits, including the provision of motor vehicles and superannuation.

In accordance with best practice corporate governance, the structure of Non-Executive Directors and key management personnel remuneration is separate and distinct.

The Board seeks to set remuneration at a level which provides the Company with the ability to attract and retain directors of relevant experience and skill, whilst incurring costs which are acceptable to shareholders.

## REMUNERATION OF NON-EXECUTIVE DIRECTORS

The Company's Constitution provides that non-executive Directors may collectively be paid from an aggregate maximum fixed sum out of the funds of ZipTel Limited as remuneration for their services as Directors. The aggregate maximum fixed sum has been set at $250,000 per annum.

The Constitution and the Australian Securities Exchange Listing Rules specify that the aggregate remuneration amount can only be increased by the passing of an ordinary resolution of shareholders. Since the Company's establishment in March 2004, this fixed amount has not been increased.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board considers advice from external shareholders as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process. Each director is entitled to receive a fee for being a director of the Company.

The remuneration of non-executive directors for the year ended 30 June 2018 is detailed in the remuneration of key management personnel in Table 1 of this report.

## RETIREMENT BENEFITS

Consistent with the ASX Corporate Governance Rules which states that non-executive directors should not be provided with retirement benefits other than statutory superannuation, the Company does not provide retirement benefits to its Non-Executive Directors.

## REMUNERATION OF SENIOR MANAGEMENT AND EXECUTIVE DIRECTORS

The Company aims to reward senior management and executive directors with a level and mix of remuneration commensurate with their position and responsibilities within the Company. The objective of the remuneration policy is to:

- Reward senior management personnel and executive directors for Company and individual performance;
- Align the interests of the senior management personnel and executive directors with those of the shareholders; and
- Ensure that total remuneration is competitive by market standards.

In determining the level and make-up of senior management and executive directors' remuneration, the Board reviews reports detailing market levels of remuneration for comparable roles. Remuneration currently consists of fixed and variable elements which are dependent on the satisfaction of such performance conditions as may be imposed by the Board.

Senior Management and Executive Directors are compensated through a variety of components which include:

- Short term employee benefits;
- Post-employment benefits;
- Other long term benefits;
- Termination benefits; and
- Share-based payments.

The relative weighting of fixed and variable components for target performance is set according to the scope of the individual's role. The 'at-risk' component is linked to those roles in which market value provides reasons to provide some individuals with higher levels of remuneration, while also recognising the importance for providing shareholders with value.

To ensure that fixed remuneration for the Company's most senior executives remains competitive, it is reviewed annually based on performance and market data.

The Board may, from time to time, in its absolute discretion, make a written offer executives to apply for up to a specified number of Performance Rights.

Cash bonuses granted to executives are based on the respective performance of their regional business unit. Bonuses are paid out at various times during the year as determined by the Board.

## REMUNERATION CONSULTANTS

There have been no remuneration consultants used in the year.

## RELATIONSHIP BETWEEN COMPANY PERFORMANCE AND SHAREHOLDER WEALTH

The remuneration policy has been tailored to increase goal congruence between shareholders and Directors and key management personnel. Currently, this is facilitated through bonus schemes and the issue of options and performance rights to key management personnel to encourage the alignment of personal and shareholder interests. The Group believes this policy will be effective in increasing shareholder wealth.

As the Group is currently in the development phase, the Directors assess the performance of the Group with regard to the price of the Company's ordinary shares listed on the ASX and the market capitalisation of the Company rather than Group financial performance.

Directors and executives are issued Long Term Incentives ("LTIs") in the form of options and, in some cases, performance rights, to encourage the alignment of personal and shareholder interests.

Rights issued to Directors may be subject to market based price hurdles and vesting conditions and the exercise price of rights is set at a level that encourages the Directors to focus on share price appreciation. The Group believes this policy will be effective in increasing shareholder wealth. Key management personnel are also entitled to participate in the employee share and option arrangements.

Performance rights vest on the achievement of operational milestones, providing those directors holding performance shares an incentive to meet the operational milestones prior to the expiry date of the performance shares.

On the resignation of Directors any vested rights issued as remuneration are retained by the relevant party.

The Board may exercise discretion in relation to approving incentives such as rights. The policy is designed to reward key management personnel for performance that results in long-term growth in shareholder value.

In considering the Group's performance and benefits for shareholders' wealth, the Chairman has regard to the following indices in respect of the current financial year and the previous five financial years to June 2018:

| FINANCIAL YEAR ENDING 30 JUNE | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Revenue ($'000) | 26 | 215 | 762 | 498 | 570 |
| NPAT ($'000) | (282) | (650) | (14,010) | (5,688) | (2,445) |
| Share price at start of year | $0.019 | $0.155 | $0.77 | $0.20 | $0.001 |
| Share price at end of year | $0.015 | $0.019 | $0.155 | $0.77 | $0.20 |
| Dividend | - | - | - | - | - |
| Basic EPS (cents per share) | (0.19) | (0.75) | (17.21) | (8.21) | (8.81) |

## REMUNERATION OF KEY MANAGEMENT PERSONNEL

Table 1: Remuneration of the Non-Executive and Executive Directors of the Company for the year ended 30 June 2018.

| | SHORT TERM BENEFITS | | POST-EMPLOYMENT | | SHARE BASED PAYMENTS | TOTAL | PERFORMANCE RELATED | |
|---|---|---|---|---|---|---|---|---|
| 2018 DIRECTORS | SALARY & FEES ($) | NON-MONETARY ($) | SUPER-ANNUATION ($) | TERMINATION BENEFIT ($) | RIGHTS ($) | TOTAL ($) | FIXED REMUNERATION % | LTI % |
| **NON-EXECUTIVE DIRECTORS** | | | | | | | | |
| B.Mondello | 60,000 | - | - | - | - | 60,000 | 100 | - |
| K.Wallace | 8,000 | - | - | - | - | 8,000 | 100 | - |
| J.Hunt | 48,000 | - | - | - | - | 48,000 | 100 | - |
| S.Vallelonga | 48,000 | - | - | - | - | 48,000 | 100 | - |
| **TOTAL** | **164,000** | **-** | **-** | **-** | **-** | **164,000** | **100** | **-** |

Table 2: Remuneration of the Non-Executive and Executive Directors of the Company for the year ended 30 June 2017.

| | SHORT TERM BENEFITS | | POST-EMPLOYMENT | | SHARE BASED PAYMENTS | TOTAL | PERFORMANCE RELATED | |
|---|---|---|---|---|---|---|---|---|
| 2017 DIRECTORS | SALARY & FEES ($) | NON-MONETARY ($) | SUPER-ANNUATION ($) | TERMINATION BENEFIT ($) | RIGHTS ($) | TOTAL ($) | FIXED REMUNERATION % | LTI % |
| **EXECUTIVE DIRECTORS** | | | | | | | | |
| B.Mondello | 164,000 | - | 15,200 | 65,700 | - | 244,900 | 100 | - |
| K.Wallace | 164,000 | - | 15,200 | 65,700 | - | 244,900 | 100 | - |
| **NON-EXECUTIVE DIRECTORS** | | | | | | | | |
| J.Hunt | 42,667 | - | - | - | - | 42,667 | 100 | - |
| S.Vallelonga | 42,667 | - | - | - | - | 42,667 | 100 | - |
| **TOTAL** | **413,334** | **-** | **30,400** | **131,400** | **-** | **575,134** | **100** | **-** |

No options held by Directors and senior management were exercised during the current or previous financial year.

## KEY TERMS OF EMPLOYMENT CONTRACTS

It is Group policy that service contracts for Senior Management and Executive Directors be entered into. A service contract with an executive Director or senior executive would provide for the payment of benefits where the contract is terminated by the entity or the individual. The Executive Directors and senior executives would also be entitled to receive on termination of employment their statutory entitlements of accrued annual and long service leave, together with any superannuation benefits.

At any time the service contract can be terminated either by the entity or the Executive Director or senior management member providing notice for a period of time in line with market practice at the time the terms are agreed. The Company may make a payment in lieu of notice for the same period of time, equal to 100% of base salary.

An Executive Director or senior executive would have no entitlement to termination payment in the event of removal for misconduct. Major provisions of the agreements existing at Reporting Date relating to executive remuneration are set out below.

Non-Executive Directors

- Term of agreement: in effect until terminated in accordance with the agreement.
- Contracted on annual fixed remuneration.
- Non-Executive Directors are not entitled to a retirement allowance.
- Total compensation for all Non-Executive Directors is not to exceed AUD$250,000 per year.

## OTHER STATUTORY INFORMATION

### TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

The Group acquired the following goods and services as follows.

| | **2018**<br>**$** | **2017**<br>**$** |
|---|---|---|
| Purchase from HopgoodGanim (an entity related to Josh Hunt) for legal services | 10,096 | 45,125 |
| Purchase from Plexus Global Consultants (an entity related to Salvatore Vallelonga) for accounting services | 7,139 | 1,320 |
| | 17,235 | 46,445 |

### OUTSTANDING BALANCES WITH RELATED PARTIES

| | **2018**<br>**$** | **2017**<br>**$** |
|---|---|---|
| HopgoodGanim | - | 49,157 |
| Plexus Global Consultants | - | 1,452 |
| | - | 50,609 |

Outstanding balances are unsecured and settlement occurs in cash.

### EQUITY HOLDINGS

The number of ordinary shares of the Company held, directly, indirectly or beneficially, by each Director and key management personnel, including their personally-related entities for the year ended 30 June 2018 is as follows:

| KEY MANAGEMENT PERSONNEL | HELD AT 30 JUNE 2017 | ON MARKET PURCHASES FY2018 | OTHER CHANGES | HELD AT 30 JUNE 2018 |
|---|---|---|---|---|
| J.Hunt | 951,572 | - | 534,944 [1] | 1,486,516 |
| B.Mondello | 11,477,500 | - | 5,151,667 [1] | 16,629,167 |
| K.Wallace | 10,376,000 | - | n/a[2] | n/a[2] |
| S.Vallelonga | 816,208 | - | 544,139 [1] | 1,360,347 |
| **TOTAL** | **23,621,280** | **-** | **6,230,750** | **19,476,030** |

Note 1: Participation in the rights issue capital raising which closed on 6 July 2017.
Note 2: Resigned as Director during period, reflected as nil balance at period end. Balance at resignation 16,293,667 fully paid ordinary shares.

### OPTIONS AND RIGHTS OVER EQUITY INSTRUMENTS

No options were granted as remuneration during the period. The number of options of the Company held, directly, indirectly or beneficially, by each Director and key management personnel, including their personally-related entities for the year ended 30 June 2018 is as follows:

| KEY MANAGEMENT PERSONNEL | HELD AT 30 JUNE 2017 | ON MARKET PURCHASES FY2018 | OTHER CHANGES | HELD AT 30 JUNE 2018 |
|---|---|---|---|---|
| J.Hunt | - | - | 267,472[1] | 267,472 |
| B.Mondello | - | - | 2,575,833[1] | 2,575,833 |
| K.Wallace | - | - | n/a[2] | n/a[2] |
| S.Vallelonga | - | - | 272,069[1] | 272,069 |
| **TOTAL** | **-** | **-** | **3,115,374** | **3,115,374** |

Note 1: Participation in the rights issue capital raising which closed on 6 July 2017.
Note 2: Resigned as Director during period, reflected as nil balance at period end. Balance at resignation 3,458,667 options.

### THIS IS THE END OF THE AUDITED REMUNERATION REPORT

This Directors’ Report is signed in accordance with a resolution of Directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors,

**Bert Mondello**
Non -Executive Director

26 September 2018

CRITERION AUDIT

Criterion Audit Pty Ltd

ABN 85 165 181 822

PO Box 2138 SUBIACO WA 6904

Suite 1 GF, 437 Roberts Road
SUBIACO WA 6008

Phone: 6380 2555 Fax: 9381 1122

To The Board of Directors

## Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

As lead audit director for the audit of the financial statements of Ziptel Limited and its controlled entities for the year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

Yours faithfully

**CHRIS WATTS CA**
**Director**

**CRITERION AUDIT PTY LTD**

DATED at PERTH this 26th day of September 2018

CHARTERED ACCOUNTANTS
AUSTRALIA • NEW ZEALAND

'Liability limited by a scheme approved under Professional Standards Legislation'

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# Independent Auditor's Report

# To the Members of Ziptel Limited

## Report on the Audit of the Financial Report

### Opinion

We have audited the accompanying financial report of Ziptel Limited ("the Company") and Controlled Entities ("the Consolidated Entity") , which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion:

a. the accompanying financial report of the Consolidated Entity is in accordance with the Corporations Act 2001, including:

   i. giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2018 and of its financial performance for the year then ended; and

   ii. complying with Australian Accounting Standards and the Corporations Regulations 2001;

b. The financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Consolidated Entity in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Going Concern**<br>The Company has a history of substantial comprehensive losses for the last number of years. The comprehensive loss for 2018 was $282,282, for 2017 the loss was $650,167 and for 2016 it was $14,009,805. | We assessed whether there was a material uncertainty that the ability of the Company to continue as a going concern for at least the next 12 months after the date of the audit report and concluded that no such material uncertainty exists. Our procedures included:<br>- Reviewing the company's budgets and cash flow forecasts;<br>- Assessing the assumptions within those budgets and forecasts;<br>- Enquiring of management regarding their intentions to increase / decrease operations;<br>- Assessing the company's ability to raise additional capital; and<br>- Enquiring of management regarding contingent liabilities. |

**Other Information**

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Directors' Responsibility for the Financial Report**

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state in accordance with Australian Accounting Standard *AASB 101 Presentation of Financial Statements*, that the financial report complies with International Financial Reporting Standards.

In preparing the financial report, the directors are responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

**Auditor's Responsibilities for the Audit of the Financial Report**

Our responsibility is to express an opinion on the financial report based on our audit. Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Consolidated Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Consolidated Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Consolidated Entity to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Consolidated Entity's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on the Remuneration Report

### Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of the Company, for the year ended 30 June 2018, complies with section 300A of the Corporations Act 2001.

### Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with s 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Criterion Audit

**CRITERION AUDIT PTY LTD**

**CHRIS WATTS CA**
**Director**

DATED at PERTH this 26th day of September 2018

# DIRECTORS' DECLARATION

The Directors declare that:

The financial statements and notes, as set out on pages 20 to 45 are in accordance with the Corporations Act 2001 including:

- In the Directors' opinion, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable:

- In the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001 and other mandatory professional reporting requirements, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Group and the Company;

- In the Directors' opinion, the financial statements and notes thereto are in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board as stated in note 1 to the financial statements; and

- The Directors have been given the declarations required by section 295A of the Corporations Act 2001 by the Chief Executive Officer and the Chief Financial Officer.

Signed in accordance with a resolution of the Directors made pursuant to s.295(5) of the Corporations Act 2001

**Bert Mondello**
Non -Executive Director

26 September 2018

# CONSOLIDATED STATEMENT OF
## PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME

### FOR THE YEAR ENDED 30 JUNE 2018

| | Notes | 2018 $ | 2017 $ |
|---|---|---|---|
| **Revenue** | | | |
| Sale of goods and services | 2 | 26,154 | 215,280 |
| Other income | 3 | 453,128 | 2,210,643 |
| | | | |
| **Expenses** | | | |
| Cost of sales | 4 | (29,991) | (307,482) |
| Other expenses from ordinary activities | | | |
| Administration | | (151,921) | (457,817) |
| Research and development | | (108,293) | (327,875) |
| Employee benefits | 4 | (209,285) | (877,800) |
| Marketing and distribution | 4 | (427) | (245,400) |
| Consulting | 4 | (165,400) | (205,924) |
| Depreciation and amortisation | 4 | (6,962) | (27,326) |
| Write off of software licenses | 11 | (61,062) | - |
| Occupancy | | - | (38,156) |
| Write off of inventories | 9 | (23,783) | - |
| Share-based payments | 19 | - | (581,892) |
| Finance costs | | (5,300) | (5,360) |
| Exchange gain | | 861 | (1,058) |
| **Total Expenses** | | **(761,563)** | **(3,076,090)** |
| | | | |
| Loss before income tax | | (282,282) | (650,167) |
| Income tax expense | 5 | - | - |
| **Loss after income tax for the year** | | **(282,282)** | **(650,167)** |
| | | | |
| Other comprehensive income | | - | - |
| **Total comprehensive loss for the year** | | (282,282) | (650,167) |
| | | | |
| Loss attributable to owners of the Company | | (282,282) | (650,167) |
| **Total comprehensive loss attributable to owners of the Company** | | **(282,282)** | **(650,167)** |
| | | | |
| Loss per share for the year attributable to the members of ZipTel Limited (cents per share) | 16 | (0.19) | (0.75) |

*The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.*

# CONSOLIDATED STATEMENT OF
## FINANCIAL POSITION

### AS AT 30 JUNE 2018

| | Notes | 2018<br>$ | 2017<br>$ |
|---|---|---|---|
| **Current Assets** | | | |
| Cash and bank balances | 7 | 1,643,149 | 1,156,120 |
| Trade and other receivables | 8 | 9,902 | 13,271 |
| Prepayments | | 16,762 | 29,804 |
| Inventories | 9 | - | 19,479 |
| **Total Current Assets** | | 1,669,813 | 1,218,674 |
| | | | |
| **Non-current Assets** | | | |
| Property, plant and equipment | 10 | - | - |
| Intangible assets | 11 | - | 68,024 |
| **Total Non-current Assets** | | - | 68,024 |
| | | | |
| **Total Assets** | | 1,669,813 | 1,286,698 |
| | | | |
| **Current Liabilities** | | | |
| Trade and other payables | 12 | 145,392 | 268,734 |
| Provision for advance billings | | - | 5,603 |
| Provisions | 13 | - | 275,316 |
| **Total Current Liabilities** | | 145,392 | 549,653 |
| | | | |
| **Total Liabilities** | | 145,392 | 549,653 |
| | | | |
| **Net Assets** | | 1,524,421 | 737,045 |
| | | | |
| **Equity** | | | |
| Issued capital | 14 | 14,052,249 | 12,982,591 |
| Reserves | 15 | - | 11,470,857 |
| Accumulated losses | | (12,527,828) | (23,716,403) |
| Capital and reserves attributable to owners of the Company | | 1,524,421 | 737,045 |
| | | | |
| **Total equity** | | 1,524,421 | 737,045 |

*The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.*

# CONSOLIDATED STATEMENT OF
## CHANGES IN EQUITY

**FOR THE YEAR ENDED 30 JUNE 2018**

| | | Attributable to Owners of the Company | | | |
|---|---|---|---|---|---|
| | **Notes** | **Issued Capital $** | **Options Reserve $** | **Accumulated Losses $** | **Total $** |
| **Balance at 30 June 2016** | | **12,402,899** | **11,468,657** | **(23,066,236)** | **805,320** |
| Loss for the year | | - | - | (650,167) | (650,167) |
| **Total comprehensive loss for the year** | | - | - | (650,167) | (650,167) |
| **Transactions with owners in their capacity as owners** | | | | | |
| Contribution of equity, net of transaction costs | 14 | - | - | - | - |
| Recognition of share-based payments | 19 | 579,692 | 2,200 | - | 581,892 |
| **Balance at 30 June 2017** | | **12,982,591** | **11,470,857** | **(23,716,403)** | **737,045** |
| Loss for the year | | - | - | (282,282) | (282,282) |
| **Total comprehensive loss for the year** | | - | - | **(282,282)** | **(282,282)** |
| **Transactions with owners in their capacity as owners** | | | | | |
| Contribution of equity, net of transaction costs | 14 | 1,069,658 | - | - | 1,069,658 |
| Transfer of expired options value | 15 | - | (11,470,857) | 11,470,857 | - |
| Recognition of share-based payments | 19 | - | - | - | - |
| **Balance at 30 June 2018** | | **14,052,249** | **-** | **(12,527,828)** | **1,524,421** |

*The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.*

# CONSOLIDATED STATEMENT OF CASH FLOWS

## FOR THE YEAR ENDED 30 JUNE 2018

| | Notes | 2018 $ | 2017 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 28,503 | 200,888 |
| Payments to suppliers and employees | | (1,065,121) | (2,588,377) |
| Other income | | 453,128 | 2,191,597 |
| Net cash used in operating activities | 18 | (583,490) | (195,892) |
| | | | |
| **Cash flows from investing activities** | | | |
| Net cash used in investing activities | | - | - |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | | 1,069,658 | - |
| Net cash provided by financing activities | | 1,069,658 | - |
| | | | |
| **Net increase / (decrease) in cash and cash equivalents** | | 486,168 | (195,892) |
| Cash and cash equivalents at the beginning of the year | | 1,156,120 | 1,353,070 |
| Effects of exchange rate changes | | 861 | (1,058) |
| Cash and cash equivalents at the end of the year | 7 | 1,643,149 | 1,156,120 |

*The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes*

### NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

### STATEMENT OF COMPLIANCE

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and complies with other legal requirements.

The financial statements comprise the consolidated financial statements of the Group. For the purposes of preparing the consolidated financial statements, the Group is a for-profit entity.

Australian Accounting Standards set out accounting policies that result in the presentation of reliable and relevant information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Company and the Group comply with International Financial Reporting Standards ('IFRS').

The consolidated financial statements were authorised for issue by the Directors on 26 September 2018. The Directors have the power to amend and reissue the consolidated financial statements.

### BASIS OF PREPARATION OF THE FINANCIAL REPORT

The financial report has been prepared on the basis of historical cost, except for certain financial instruments that are measured at fair values at the end of each reporting period, as disclosed in the accounting policies below. Historical cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of AASB 2.

### SIGNIFICANT ACCOUNTING POLICIES

#### (A). BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries) (referred to as 'the Group' in these financial statements). Control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary.

Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

## (B). SEGMENT REPORTING

An operating segment is identified as the component of the Group that is regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

## (C). REVENUE RECOGNITION

Revenue from sale of goods and service is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns and trade allowances.

The Group recognises revenue when the amount of revenue can be reliably measured, and it is probable that future economic benefits will flow to the entity. The Group bases its estimates on historical results and the type of transaction. Marketing analysis and accumulated experience is used to estimate and provide for the probability of the future economic benefits.

For advance billings to customers, provisions for unearned revenue are made for services which have not been rendered as at the end of the reporting period. Expenses directly attributable to the unearned revenue are deferred until the revenue is recognised.

Interest revenue is recognised using the effective interest rate method.

All revenue is stated net of the amount of goods and services tax (GST).

Government Grants Received

Grants received for research and development incentives are recognised as revenue in the period in which they are received, in accordance with IAS 20 “Government Grants”. The grants received in the current period are for R&D tax incentives for the 2017 financial year and fulfil all the necessary attached conditions.

## (D). INCOME TAX

The income tax expense for the period is the tax payable on the current period’s taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group’s current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences.

Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

### (E). IMPAIRMENT OF ASSETS

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**(F). CASH AND CASH EQUIVALENTS**

For the purpose of presentation in consolidated statement of cash flows, cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short term highly liquid investments with original maturities of three (3) months or less that are readily convertible to known amounts of cash and which are subject to significant risk of changes in value, and bank overdrafts.

**(G). TRADE AND OTHER RECEIVABLES**

Trade and other receivables are recognised initially at fair value and, other than those that meet the definition of equity instruments, are subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the debts. Loss events include financial difficulty or bankruptcy of the debtor, significant delay in payments and breaches of contracts. The impairment loss, measured as the difference between the debt's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate, is recognised in profit or loss. When the debt becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised in profit or loss.

**(H). INVENTORIES**

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

**(I). FINANCIAL ASSETS**

The Group classifies all of its financial assets as loans and receivables. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinate payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets.

Due to the short-term nature of the current receivables, their carrying amount is assumed to be the same as their fair value. For the non-current receivables, the fair values are also not significantly different to their carrying amounts.

**(J). PLANT AND EQUIPMENT**

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred

Depreciation on plant and equipment is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives.
The estimated useful lives for each class of assets are:

| PLANT AND EQUIPMENT | EXPECTED USEFUL LIVES | DEPRECIATION BASIS |
|---|---|---|
| Office furniture and equipment | 3-5 years | Straight line |
| Telecommunication equipment | 4 years | Straight line |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

### (K). INTANGIBLE ASSETS

Software and licenses are intangible assets. Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Costs capitalised include external direct costs of materials and service. Amortisation is calculated on a straight-line basis over periods generally ranging from 3 to 5 years or the authorised lives of licenses.

| CLASS OF INTANGIBLE ASSETS | EXPECTED USEFUL LIVES | AMORTISATION BASIS |
|---|---|---|
| Software and communication system | 4 years | Straight line |
| Licenses | 15 years | Straight line |

### (L). TRADE AND OTHER PAYABLES

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured, non-interest bearing and are paid on normal commercial terms. They are presented as current liabilities unless payment is not due within 12 months after the reporting period.

### (M). EMPLOYEE BENEFITS

Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, and annual leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The short-term employee benefit obligations are presented as payables.

Other long-term employee benefit obligations

The liabilities for long service leave and annual leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of government bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows.

Re-measurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

### (N). SHARE-BASED PAYMENTS

Equity-settled share-based payments in return for goods and services are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments.

### (O). ISSUED CAPITAL

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### (P). LEASES

Lease payments for operating leases, where substantially all of the risks and benefits remain with the lessor, are charged as expenses on a straight-line basis over the life of the lease term.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

### (Q). GOODS AND SERVICES TAX (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the Statement of Financial Position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

### (R). PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

### (S). NEW AND REVISED ACCOUNTING STANDARDS

Standards affecting amounts reported and/or disclosures in the consolidated financial statements

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2018. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below:

| TITLE OF STANDARD | NATURE OF CHANGE | IMPACT | MANDATORY APPLICATION DATE/ DATE OF ADOPTION BY GROUP |
|---|---|---|---|
| AASB 9 Financial Instruments | AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities.<br><br>Since December 2013, it also sets out new rules for hedge accounting. | This standard is not expected to have a material impact on the Group's financial statements and disclosures.<br><br>The Company does not currently have any hedging arrangements in place. | Must be applied for financial years commencing on or after 1 January 2018.<br><br>Application date for the company will be 30 June 2019. |

| TITLE OF STANDARD | NATURE OF CHANGE | IMPACT | MANDATORY APPLICATION DATE/ DATE OF ADOPTION BY GROUP |
|---|---|---|---|
| AASB 15 (issued June 2014)<br>Revenue from contracts with customers | An entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.<br><br>Revenue will be recognised when control of goods or services is transferred, rather than on transfer of risks and rewards as is currently the case under IAS 18 Revenue. | The Group currently raises a provision approximating to unearned revenue at reporting dates.<br><br>This standard is not expected to have a material impact on the Group's financial statements and disclosures. | Must be applied for annual reporting periods beginning on or after 1 January 2018.<br><br>Application date for the company will be 30 June 2019. |
| AASB 16 Leases | AASB 16 eliminates the operating and finance lease classifications for lessees currently accounted for under AASB 117 Leases. | AASB 16 requires an entity to bring most leases onto its balance sheet in a similar way to how existing finance leases are treated under AASB 117. An entity will be required to recognise a lease liability and a right of use asset in its balance sheet for most leases.<br>There are some optional exemptions for leases with a period of 12 months or less and for low value leases.<br><br>The Group is still assessing the potential impact of the adoption of this standard. | Must be applied for annual reporting periods beginning on or after 1 January 2019.<br><br>Application date for the company will be 30 June 2020. |

### (T). CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The Directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

Impairment of Trade Receivables

The Group assesses at the end of each reporting period whether there is objective evidence regarding trade receivables and historical collections experience. Provisions are adjusted periodically to reflect the actual and anticipated experience.

Estimated Useful Lives of Intangible Assets

The Group reviews annually the estimated useful lives of its intangible assets based on factors such as business plans and strategies, expected level of usage and future technological developments.

It is possible that future results of operation could be materially affected by changes in these estimates brought about by changes in the factors mentioned above. A reduction in the estimated useful lives of the intangible assets would increase the recorded amortisation and decrease the carrying value of the intangible assets.

Unearned Revenue

Provisions for unearned revenue are made for services which have not been rendered as at the period-end. Management estimates provisions based on marketing analysis as well as historical information. This might suggest that actual unearned revenue amounts may differ from provisions made for the unearned revenue at the period-end. The assumptions made in relation to the current period are consistent with those in the prior year.

Taxation

Balances disclosed in the Financial Statements and the notes thereto related to taxation are based on the best estimates of the Directors. These estimates take into account both the financial performance and position of the Group as they pertain to current income taxation legislation, and the Directors' understanding thereof. No adjustment has been made for pending or future taxation legislation. The current income tax position represents the Directors' best estimate, pending an assessment by the Australian Taxation Office.

Share-based payments

The Company measures the cost of equity-settled share-based payment transactions with employees by reference to the fair value of the equity instruments at the grant date. The fair value is determined by using a valuation model, the basis of which is set out in note 19. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity. Share-based payment transactions with consultants are measured based on the fair value of services provided or where this cannot be determined, is valued by reference to the fair value of the equity instruments at the grant date.

## NOTE 2: REVENUE

The following is an analysis of the Group's revenue for the year.

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| - Revenue from sale of goods | 34,908 | 104,716 |
| - Revenue from sale of services | 78 | 121,138 |
| Discount and sales refund | (8,832) | (10,574) |
| **TOTAL REVENUE** | **26,154** | **215,280** |

## NOTE 3: OTHER INCOME

The following is an analysis of the Group's other income for the year.

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| **NON-OPERATING ACTIVITIES** | | |
| Interest | 23,198 | 14,258 |
| Government grants / Research and development tax credit | 429,944 | 2,174,096 |
| Debt forgiveness | - | 22,289 |
| **TOTAL OTHER INCOME** | **453,128** | **2,210,643** |

## NOTE 4: EXPENSES

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| **EXPENSES** | | |
| Cost of sales | 29,991 | 307,482 |
| **EMPLOYEE BENEFITS** | | |
| - Employee wages and salaries | 55,561 | 541,320 |
| - Employee benefits expense | 153,724 | 336,480 |
| **TOTAL EMPLOYEE BENEFITS** | **209,285** | **877,800** |
| - Marketing and distribution | 427 | 245,400 |
| - Consulting | 165,400 | 205,924 |
| **DEPRECIATION AND AMORTISATION** | | |
| - Depreciation of plant and equipment | - | 6,566 |
| - Amortisation of intangible assets | 6,962 | 20,760 |
| **TOTAL DEPRECIATION AND AMORTISATION** | **6,962** | **27,326** |
| **IMPAIRMENT EXPENSES** | | |
| - Write off of software licenses | 61,062 | - |
| - Write off of inventories | 23,783 | - |

## NOTE 5: INCOME TAX

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| **THE COMPONENTS OF TAX EXPENSE/(BENEFIT) COMPRISE:** | | |
| Current tax | - | - |
| Deferred tax | - | - |
| Adjustments for current tax of prior periods | - | - |
| **TOTAL INCOME TAX BENEFIT** | - | - |
| The prima facie tax on profit/(loss) is reconciled to the income tax as follows: | (282,282) | (650,167) |
| Prima facie tax payable on pre-tax accounting profit from operations at 27.5% (2017: 27.5%) | (77,628) | (178,796) |
| Add tax effect of: | | |
| - Other non-allowable items | (118,234) | (398,368) |
| - Deferred tax assets not brought to account | 193,166 | 577,164 |
| | - | - |
| Less tax effect of: | | |
| - Deductible capital raising costs | - | - |
| Income tax expense/(benefit) | - | - |

The tax rate used in the above reconciliation is the corporate tax rate of 27.5% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

## DEFERRED TAX BALANCES

Deferred tax assets/(liabilities) arise from the following:

| | $ |
|---|---|
| **Opening net deferred tax asset (liability) recognised** | - |
| *Adjusted for:* | |
| Prepayments | (4,610) |
| Intangible assets | (580) |
| Unrealised foreign exchange gain | (237) |
| Offset of deferred tax liability recognised | 5,427 |
| **Closing net deferred tax asset (liability) recognised** | - |

## UNRECOGNISED DEFERRED TAX ASSETS:

| | 2018 $ | 2017 $ |
|---|---|---|
| **DEFERRED TAX ASSETS NOT RECOGNISED AT REPORTING DATE:** | | |
| - Net carry forward income losses | 2,753,815 | 2,372,838 |
| - Net carry forward capital losses | - | - |
| - Other unrecognised net deferred tax assets | 66,922 | 143,740 |
| - Offset of deferred tax liabilities | (5,426) | - |
| | 2,815,311 | 2,516,578 |

# NOTE 6: AUDITOR'S REMUNERATION

| | 2018 $ | 2017 $ |
|---|---|---|
| **AUDITOR OF THE COMPANY:** | | |
| Criterion Audit Pty Ltd | | |
| - Auditing or reviewing the financial report | 26,895 | - |
| BDO Audit Pty Ltd | | |
| - Auditing or reviewing the financial report | - | 41,995 |
| - Tax compliance services | - | 42,673 |
| | 26,895 | 84,668 |

# NOTE 7: CASH AND CASH EQUIVALENTS

| | 2018 $ | 2017 $ |
|---|---|---|
| Cash and bank balances | 1,643,149 | 1,156,120 |

| | 2018 $ | 2017 $ |
|---|---|---|
| **RECONCILIATION TO CONSOLIDATED STATEMENT OF CASHFLOWS:** | | |
| Balances as above | 1,643,149 | 1,156,120 |
| Bank overdraft | - | - |
| **BALANCES PER STATEMENT OF CASHFLOWS** | 1,643,149 | 1,156,120 |

## NOTE 8: TRADE AND OTHER RECEIVABLES

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| **CURRENT** | | |
| Trade debtors | 75,555 | 74,675 |
| Less allowance for doubtful debts | (75,555) | (71,252) |
| Trade debtors, net | - | 3,423 |
| Goods and services tax recoverable | 9,902 | 9,848 |
| Other receivables | - | - |
| | 9,902 | 13,271 |
| **NON-CURRENT** | | |
| Other receivables | - | - |

The average credit period on sale of goods is approximately 90 days. The sale of services is collected in advance. No interest is charged on the trade receivables. Due to the short-term nature of the current receivables, their carrying amount is assumed to be the same as their fair value. For the non-current receivables, the fair values are also not significantly different to their carrying amounts. Before accepting any new customers, the Group internally assess the potential customer's credit quality and defines credit limits by customer. Limits to customers are reviewed periodically.

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| **AGEING OF PAST DUE BUT NOT IMPAIRED** | | |
| Over 120 days | - | 984 |
| **AGEING OF IMPAIRED TRADE RECEIVABLES** | | |
| Over 120 days | 75,555 | 71,252 |
| **MOVEMENT IN THE ALLOWANCE FOR DOUBTFUL DEBTS** | | |
| Balance at beginning of the year | 71,252 | 71,252 |
| Impairment losses recognised on receivables | 4,303 | - |
| Amounts written off during the year as uncollectible | - | - |
| Amounts recovered during the year | - | - |
| | 75,555 | 71,252 |

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated. Of the trade receivables balance at the end of the year, there are four (4) customers (2017: four (4) customers) who represent more than 5% of the total balance of trade receivables.

## NOTE 9: INVENTORIES

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Finished goods at net realisable value | - | 19,479 |

The Company assessed the value of its inventories and have adopted a conservative approach in writing off the value of its inventory recognising an impairment expense of $23,783.

## NOTE 10: PLANT AND EQUIPMENT

| | 2018 $ | | | 2017 $ | | |
|---|---|---|---|---|---|---|
| | Tele-communication equipment | Furniture & Office Equipment | Total | Tele-communication equipment | Furniture & Office Equipment | Total |
| Cost | - | - | - | 67,391 | 5,148 | 72,539 |
| Accumulated depreciation | - | - | - | (67,391) | (5,148) | (72,539) |
| Net book amount | - | - | - | - | - | - |
| Opening net book amount | - | - | - | 5,031 | 1,534 | 6,566 |
| Additions | - | - | - | - | - | - |
| Disposals | - | - | - | - | - | - |
| Depreciation charge | - | - | - | (5,031) | (1,534) | (6,566) |
| Closing net book amount | - | - | - | - | - | - |

## NOTE 11: INTANGIBLE ASSETS

| | 2018 $ | | | 2017 $ | | |
|---|---|---|---|---|---|---|
| | Software & Tele communication System | Licences | Total | Software & Tele communication System | Licences | Total |
| Cost | - | 105,000 | - | 113,000 | 141,072 | 254,072 |
| Write off | - | (61,062) | - | - | (36,072) | (36,072) |
| Accumulated amortisation | - | (43,938) | - | (113,000) | (36,976) | (149,976) |
| Net book amount | - | - | - | - | 68,024 | 68,024 |
| Opening net book amount | - | 68,024 | 68,024 | 12,023 | 112,833 | 124,856 |
| Write off | - | (61,062) | (61,062) | - | (36,072) | (36,072) |
| Additions | - | - | - | - | - | - |
| Amortisation charge | - | (6,962) | (6,962) | (12,023) | (8,737) | (20,760) |
| Closing net book amount | - | - | - | - | 68,024 | 68,024 |

The Group conducted an assessment of its software licenses and from that determined that the carrying value was impaired. An impairment expense of $61,062 was recognised to fully write down the software licenses.

## NOTE 12: TRADE AND OTHER PAYABLES

| | 2018 $ | 2017 $ |
|---|---|---|
| **CURRENT** | | |
| Trade payables | 103,310 | 182,539 |
| Sundry creditors and other statutory liabilities | 42,082 | 86,195 |
| | 145,392 | 268,734 |

Trade payables are unsecured and are usually paid within 30 – 60 days of recognition. The carrying amounts of trade and other payables are assumed to be the same as their fair values, due to their short-term nature.

### NOTE 13: PROVISIONS

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| **CURRENT** | | |
| Employee entitlements | - | 275,316 |
| Total provisions | - | 275,316 |

The Company had no direct employees as at 30 June 2018.

### NOTE 14: ISSUED CAPITAL

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Number of shares | $ | Number of shares | $ |
| Fully paid ordinary shares | 149,733,899 | 14,052,249 | 89,840,339 | 12,982,591 |

| **2018**<br>**FULLY PAID ORDINARY SHARES** | Number of shares | $ |
|---|---|---|
| Balance at 1 July 2017 | 89,840,339 | 12,982,591 |
| Issue of shares under Rights Issue | 59,893,560 | 1,069,658 |
| Balance at 30 June 2018 | 149,733,899 | 14,052,249 |

| **2017**<br>**FULLY PAID ORDINARY SHARES** | Number of shares | $ |
|---|---|---|
| Balance at 1 July 2016 | 83,791,854 | 12,402,899 |
| Issue of shares in return for service – Ambassadors | 2,000,000 | 359,916 |
| Issue of shares in return for service – Director related entities | 543,624 | 67,952 |
| Issue of shares in return for service – Employees/contractors | 3,504,861 | 151,824 |
| Balance at 30 June 2017 | 89,840,339 | 12,982,591 |

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one (1) vote, and upon a poll each share is entitled to one (1) vote, in proportion to the number of and amounts paid on the shares held.

During the prior year:

- 543,624 shares were granted to entities associated with Mr Josh Hunt and Mr Salvatore Vallelonga in lieu of professional legal and accounting services provided respectively. An expense of $67,952 was recognised in respect of this grant;
- 1,250,000 timed Ambassador performance rights were converted to Ordinary Fully Paid Shares and a corresponding expense of $209,916 was recognised based on the share price at grant date. There was also a separate grant to an Ambassador in return for services of 750,000 shares during the period and a corresponding expense of $150,000 was recognised based on the share price at grant date.
- A grant made to a contractor of 10,000 shares on 7 July 2016 was expensed in the prior year based on the value of the securities at the respective grant date.
- A share issue was made to an employee under the employee share plan of 425,000 shares and a corresponding expense of $51,000 was recognised based on the share price at grant date. On 1 May 2017, a share issue was made to employees under the employee share plan during the period of 1,062,885 shares and a corresponding expense of $30,824 was recognised based on the share price at grant date. In addition, on 1 May 2017 a share issue of 2,006,976 was made to contractors in return for services based on invoices rendered. A corresponding expense of $70,000 was recognised based on the share price at grant date. The total of these grants to employees and contractors was $151,824.

| | Number of Options | |
|---|---|---|
| | 2018 | 2017 |
| **MOVEMENTS IN OPTIONS** | | |
| Balance at the beginning of the financial year | - | 28,870,388 |
| Issue of options in return for service | - | 850,000 |
| Options exercised during the year | - | - |
| Issue of options under Rights Issue | 29,946,780 | - |
| Options lapsed during the year | - | (29,720,388) |
| **BALANCE AT THE END OF THE FINANCIAL YEAR** | 29,946,780 | - |

On 6 July 2017, the Company completed a non-renounceable pro rata rights issue to Shareholders on the basis of 2 New Shares for every 3 Shares held at an issue price of $0.02 per New Share, to raise $1,197,871 and 1 free New Option for every 2 New Shares subscribed for. Associated costs from the capital raising, including the underwriting fee totalled $128,213 resulting in a raising after costs of $1,069,658.

| | Number of Rights | |
|---|---|---|
| | 2018 | 2017 |
| **MOVEMENTS IN RIGHTS** | | |
| Balance at the beginning of the financial year | 1,250,000 | 7,000,000 |
| Issue of rights in return for service | - | - |
| Issue of rights in return for service (Ambassadors) | - | - |
| Rights vested and issued during the year | - | (1,250,000) |
| Rights waived during the year | - | (3,300,000) |
| Rights lapsed during the year | - | (1,200,000) |
| **BALANCE AT THE END OF THE FINANCIAL YEAR** | 1,250,000 | 1,250,000 |

All rights on issue convert to Ordinary Fully Paid Shares on a one for one basis following the achievement of performance milestones. No new rights were issued during the period and none were converted to Ordinary Fully Paid Shares.

## NOTE 15: RESERVES

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Option Reserve | - | 11,470,857 |
| **BALANCE AT THE BEGINNING OF THE FINANCIAL YEAR** | 11,470,857 | 11,468,657 |
| Options granted during the year | | |
| - Share-based payments | - | 2,200 |
| - Transfer to expired options value | (11,470,857) | - |
| Balance at the end of the financial year | - | 11,470,857 |

During the year, listed options on issue expired ‘out of the money’. The value attribute to these options was transferred from the Option Reserve to Accumulated Losses. During the prior year, an issue of listed options was made to an employee under the employee share plan of 200,000 listed options and a corresponding expense of $2,200 was recognised based on the option price at grant date.

## NOTE 16: LOSS PER SHARE

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| **RECONCILIATION OF LOSS USED IN CALCULATING LOSS PER SHARE:** | | |
| Loss attributable to owners of the Company | (282,282) | (650,167) |
| | **Number of Shares** | **Number of Shares** |
| Weighted average number of ordinary shares for the purposes of basic loss per share | 148,911,185 | 81,400,692 |

As the Company has made a loss for the year ended 30 June 2018, all options on issue are considered antidilutive and have not been included in the calculation of diluted earnings per share. These options could potentially dilute basic earnings per share in the future.

## NOTE 17: DIVIDENDS

No dividends were paid during the financial year. No recommendation for payment of dividends has been made.

## NOTE 18: RECONCILIATION OF LOSS AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Loss after income tax | (282,282) | (650,167) |
| **NON CASH ITEMS** | | |
| Depreciation and amortisation expenses | 6,962 | 27,326 |
| Write-off inventories | 23,783 | - |
| Write-off software licenses | 61,062 | - |
| Share-based payment expenses | - | 581,892 |
| Provision for employee entitlements | - | 171,879 |
| Provision for impairment of receivables | 4,303 | - |
| Loss on disposal of plant and equipment | - | - |
| Exchange differences | (861) | 1,058 |
| *(Decrease) / Increase in working capital* | | |
| Change in other current assets | 35,890 | 99,979 |
| Change in other liabilities | (432,347) | (427,859) |
| Net cash outflow from operating activities | (583,490) | (195,892) |

## NOTE 19: SHARE-BASED PAYMENTS

There were no share-based payments during the period. During the prior year, the directors waived the grant of 3,300,000 Performance Rights which were subject to non-market conditions which had been met. No further Performance Rights have been granted during the period. In the prior period, employees and consultants were granted shares to the value of $221,976 and Zipt Ambassadors were granted shares to the value of $359,916 for total share-based payments of $581,892. Of this, $579,692 was recognised in Issued Capital as grants of shares while the $2,200 expense related to the option grant was reflected in the Reserves account as outlined in Note 15. When these options expired in the current period, this value was transferred to Accumulated Losses.

## NOTE 20: KEY MANAGEMENT PERSONNEL COMPENSATION

The aggregate compensation made to Directors of the Company and the Group is set out below:

| | 2018 $ | 2017 $ |
|---|---|---|
| Short term benefits | 164,000 | 413,334 |
| Post-employment benefits | - | 161,800 |
| Share-based payments | - | - |
| | 164,000 | 575,134 |

Detailed remuneration disclosures are provided in the Remuneration Report.

## NOTE 21: RELATED PARTY TRANSACTIONS

The consolidated financial statements include the financial statements of ZipTel Limited and the subsidiaries listed in the following table:

| Name | Country of Incorporation | Principal Activities | % Equity Interest 2018 | % Equity Interest 2017 |
|---|---|---|---|---|
| AussieSim Pty Ltd | Australia | Telecommunication | 100% | 100% |
| Zipt Pty Ltd | Australia | Telecommunication | 100% | 100% |
| Zipt IP Pty Ltd | Australia | Telecommunication | 100% | 100% |
| Roam Like Home Pty Ltd | Australia | Telecommunication | 100% | 100% |

ZipTel Limited is the ultimate legal Australian parent entity and ultimate legal parent of the Group.

## TRANSACTIONS WITH RELATED PARTIES

### (1) TRANSACTIONS WITH RELATED PARTIES

The Group acquired the following goods and services as follows.

| | 2018 $ | 2017 $ |
|---|---|---|
| Purchase from HopgoodGanim (an entity related to Josh Hunt) for legal services | 10,096 | 45,125 |
| Purchase from Plexus Global Consultants (an entity related to Salvatore Vallelonga) for accounting services | 7,139 | 1,320 |
| | 17,235 | 46,445 |

All transactions were made on normal commercial terms and conditions and at market rates.

### (2) OUTSTANDING BALANCES WITH RELATED PARTIES

| | 2018 $ | 2017 $ |
|---|---|---|
| HopgoodGanim | - | 49,157 |
| Plexus Global Consultants | - | 1,452 |
| | - | 50,609 |

All the outstanding balances with related parties are included in trade and other payables in note 12.

## NOTE 22: CAPITAL AND LEASING COMMITMENTS

The Group does not have any current operating lease commitments.

## NOTE 23: SEGMENT REPORTING

### (1) DESCRIPTION OF SEGMENTS

The Group's executive directors examine the Group's performance from a core communications products perspective and have identified two reportable segments of its business, being prepaid travel sim card services (AussieSim) and mobile based VoIP communication services (Zipt).

### (2) SEGMENT REVENUE AND RESULTS

| | SEGMENT REVENUE | | SEGMENT PROFIT | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| **CONTINUING OPERATIONS** | $ | $ | $ | $ |
| AussieSim | 26,076 | 94,142 | 2,341 | 37,607 |
| Zipt | 78 | 121,138 | (6,179) | (129,809) |
| Unallocated sales discount and refund | - | - | (8,832) | (10,574) |
| | 26,154 | 215,280 | (12,670) | (102,776) |
| Other income | 453,128 | 2,210,643 | 453,128 | 2,210,643 |
| Corporate and administration | - | - | (710,478) | (2,725,348) |
| Depreciation and amortisation | - | - | (6,962) | (27,326) |
| Finance Costs | - | - | (5,300) | (5,360) |
| **PROFIT / (LOSS) BEFORE INCOME TAX** | 479,282 | 2,425,923 | (282,282) | (650,167) |

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current year (2017: nil).

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 1. Segment profit represents the profit before tax earned by each segment without allocation of central corporate and administration costs, employee benefits, depreciation and amortisation, and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

### (3) SEGMENT ASSETS AND LIABILITIES

| | 2018 | 2017 |
|---|---|---|
| **SEGMENT ASSETS** | $ | $ |
| AussieSim | 10,832 | 99,903 |
| Zipt | 22,632 | 37,475 |
| Total segment assets | 33,464 | 137,378 |
| Cash and corporate assets | 1,636,349 | 1,149,320 |
| **TOTAL ASSETS** | 1,669,813 | 1,286,698 |
| **SEGMENT LIABILITIES** | | |
| AussieSim | - | 2,893 |
| Zipt | 16,200 | 546,760 |
| Total segment liabilities | 16,200 | 549,653 |
| Cash and corporate liabilities | 129,192 | - |
| **TOTAL LIABILITIES** | 145,392 | 549,653 |

For the purposes of monitoring segment performance and allocating resources between segments:

(i) all assets are allocated to reportable segments other than cash, GST receivables, office equipment, and certain other receivables. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments; and

(j) all liabilities are allocated to reportable segments other than bank overdraft, borrowings, and corporate creditors. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

### (4) INFORMATION ABOUT MAJOR CUSTOMERS

The Group has no external customers that represent more than 10% of total Group revenue. ZipTel Limited is not reliant on any of its major customers.

## NOTE 24: RISK MANAGEMENT

### (A) CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern whilst maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes cash and cash equivalents disclosed in note 7, and equity attributable to the equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 14 and 15.

Operating cash flows are used to maintain and expand the Group's operational assets, as well as to make the routine outflows of tax and repayment of maturing payables and debt.

In order to achieve this objective, the Group seeks to maintain a gearing ratio that balances risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, either through new share issues, or the reduction of debt, the Group considers not only its short-term position but also its long-term operational and strategic objectives.

### (B) FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group does not use any derivative financial instruments to hedge risk exposures.

The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and other price risks, and aging analysis for credit risk. Risk management is carried out by the Board as a whole.

The Group holds the following financial instruments:

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| **FINANCIAL ASSETS - CURRENT** | | |
| Cash and cash equivalents | 1,643,149 | 1,156,120 |
| Trade and other receivables | 9,902 | 13,271 |
| | 1,653,051 | 1,169,391 |
| **FINANCIAL LIABILITIES - CURRENT** | | |
| Trade and other payables | 145,392 | 268,734 |
| | 145,392 | 268,734 |

**(C) Market Risk**

(i) Foreign Exchange Risk

The Group had US dollar bank accounts at 30 June 2018 with a total balance of A$22,615 (2017: A$21,753). The Group has entered into service agreements which were valued in US dollars and UK pound sterling. No financial instruments have been entered into to manage this risk.

The table below summarises the impact of +/– 10% strengthening/weakening of the USD against the AUD on the Group post tax profit for the year and equity. The analysis is based on a 10% strengthening/weakening of the USD against the AUD at reporting date with all other factors remaining equal.

| | **Post tax profit** $ | **Equity** $ |
|---|---|---|
| **2018** | | |
| Impact of a 10% strengthening of the USD on net loss | (2,822) | (2,823) |
| Impact of a 10% weakening of the USD on net loss | 2,822 | 2,823 |
| **2017** | | |
| Impact of a 10% strengthening of the USD on net loss | (2,175) | (2,175) |
| Impact of a 10% weakening of the USD on net loss | 2,175 | 2,175 |

(ii) Cash flow and fair value interest rate risk

Cash and cash equivalents bear interest at floating rates based on the bank prime rate, and as such, are subject to interest rate cash flow risk resulting from market fluctuations in interest rates. The Group has cash balances in bank accounts and short term deposits. Due to the short-term nature of these financial instruments, the Group believes that risks related to interest rates are not significant to the Group at this time.

**(D) Credit Risk Management**

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the financial loss from defaults. The Group uses publicly available financial information and its own trading record to rate its major customers.

The Group's exposure and credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover will be purchased. At the date of reporting, the Group has not acquired any credit guarantee insurance cover on any customer as no such risks have been identified.

The Group does not have any significant credit risk exposure to any single counterparty or any Group of counterparties having similar characteristics. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted.

Group is not exposed to any credit risk on derivative financial instruments as the Group has not acquired any and does not use them in the course of its normal operations.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained:

### (E) Liquidity Risk Management

The carrying amount of the Group's financial liabilities represents the maximum liquidity risk. The Group's maximum exposure to liquidity risk at the reporting date was:

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| **FINANCIAL LIABILITIES - CURRENT** | | |
| Trade and other payables | 145,392 | 268,734 |
| | 145,392 | 268,734 |

The following table discloses the contractual maturity analysis at the reporting date:

| | 6-12 months<br>$ | 1 year or less<br>$ | Over 1 to 5 years<br>$ | More than 5 years<br>$ | Total<br>$ |
|---|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | | |
| Cash and cash equivalents | 1,643,149 | - | - | - | 1,643,149 |
| Trade and other receivables | 9,902 | - | - | - | 9,902 |
| | 1,653,051 | - | - | - | 1,653,051 |
| **FINANCIAL LIABILITIES** | | | | | |
| Trade and other payables | 145,392 | - | - | - | 145,392 |
| | 145,392 | - | - | - | 145,392 |

### (F) Fair Value of Financial Instruments

The Group determines the fair values of financial assets and liabilities in accordance with accounting policies as disclosed in Note 1 to the financial statements.

The Directors consider that the carrying amount of financial assets and financial liabilities in the financial statements approximates their fair values. Fair value is based on a Level 2 hierarchy for loans and borrowings based on market rates for similar assets and liabilities.

The Group does not hold any derivatives, financial assets for trading, nor available for sale financial assets at the reporting date.

## NOTE 25: PARENT ENTITY INFORMATION

The following information relates to the parent entity; ZipTel Ltd. The information presented here has been prepared using consistent accounting policies as presented in note 1.

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Current Assets | 1,647,696 | 755,828 |
| Non-current Assets | - | - |
| **TOTAL ASSETS** | 1,647,696 | 755,828 |
| Current Liabilities | 130,713 | 529,470 |
| Non-current Liabilities | - | - |
| **TOTAL LIABILITIES** | 130,713 | 529,470 |
| Contributed equity | 14,052,250 | 12,982,591 |
| Reserves | - | 11,470,857 |
| Accumulated Losses | (12,535,267) | (24,227,090) |
| **TOTAL EQUITY** | 1,516,983 | 226,358 |
| Revenue for the year | - | 30,019 |
| **TOTAL COMPREHENSIVE PROFIT (LOSS) FOR THE YEAR** | (32,699) | 228,326 |

## NOTE 26: CONTINGENCIES

There were no contingencies as at 30 June 2018.

## NOTE 27: SUBSEQUENT EVENTS

There were no matters or circumstances arising since the end of the reporting period that have significantly affected or may significantly affect the operations of the Company and the results of those operations or the state of the affairs of the Company in the financial period subsequent to 30 June 2018.

## NOTE 28: COMPANY DETAILS

The registered office and the principal place of business are:

- Suite 3, 138 Main Street Osborne Park WA 6017

# ADDITIONAL ASX INFORMATION

## NUMBER OF HOLDINGS OF EQUITY SECURITIES AS AT 31 JULY 2018

The fully paid issued capital of the Company consisted of 149,733,899 ordinary fully paid shares held by 1,611 shareholders. Each share entitles the holder to one vote.

There are 29,946,780 options over ordinary shares with an exercise price of $0.05 and an expiry date of 6 July 2020 held by 134 option holders.

Options do not carry a right to vote.

## DISTRIBUTION OF HOLDERS OF EQUITY SECURITIES AT 31 JULY 2018

| SPREAD OF HOLDINGS | HOLDERS | SECURITIES | % OF ISSUED CAPITAL |
|---:|---:|---:|---:|
| 1 -1,000 | 459 | 129,671 | 0.09% |
| 1,001 -5,000 | 324 | 868,681 | 0.58% |
| 5,001 -10,000 | 156 | 1,279,391 | 0.85% |
| 10,001 -100,000 | 466 | 17,132,853 | 11.44% |
| 100,001 -9,999,999 | 206 | 130,323,303 | 87.04% |
| **TOTAL** | **1,611** | **149,733,899** | **100.00%** |

| UNMARKETABLE PARCELS | MINIMUM PARCEL SIZE | HOLDERS | UNITS |
|---:|---:|---:|---:|
| **Minimum $500 parcel at $0.016 per unit** | 31,250 | 1,204 | 7,419,197 |

## SUBSTANTIAL SHAREHOLDERS AS AT 31 JULY 2018

The names of substantial shareholders the Company is aware of from the register, or who have notified the Company in accordance with Section 671B of the Corporations Act are

| SUBSTANTIAL SHAREHOLDER | NUMBER OF SHARES | % HELD |
|---|---:|---:|
| Mr Umberto Mondello and Associated Entities | 16,629,167 | 11.11% |
| Mr Keaton Wallace and Associated Entities | 13,545,197 | 9.05% |

## TWENTY LARGEST SHAREHOLDERS OF QUOTED EQUITY SECURITIES

### TOP 20 HOLDERS OF ORDINARY FULLY PAID SHARES AT 31 JULY 2018

| RANK | SHAREHOLDER | DESIGNATION | UNITS | % OF ISSUED CAPITAL |
|---|---|---|---|---|
| 1 | KW INV HLDGS PL | WALLACE FAM A/C | 12,070,833 | 8.13% |
| 2 | UCM HLDGS LTD | | 8,307,500 | 5.59% |
| 3 | INDOMAIN ENTPS PL | U C MONDELLO FAM A | 7,351,667 | 4.95% |
| 4 | UPSKY EQUITY PL | UPSKY INV A/C | 5,727,000 | 3.86% |
| 5 | HSBC CUSTODY NOM AUST LTD | | 3,804,805 | 2.56% |
| 6 | ANUSIC THOMAS LUKE | | 2,826,874 | 1.90% |
| 7 | SAPPER BINYOMIN LEVI | | 2,500,000 | 1.68% |
| 8 | GAILFORCE MARKETING & PR | HALE AGENCY S/F A/ | 2,131,818 | 1.44% |
| 9 | LOCCISANO VINCENT JASON | | 2,101,098 | 1.42% |
| 10 | TRADITIONAL SEC PL | LPR FAM A/C | 2,000,000 | 1.35% |
| 11 | RAVEN INV HLDGS PL | RAVEN INV A/C | 1,900,644 | 1.28% |
| 12 | WAWRZYNIUK WALDEMAR + L | L & W S/F A/C | 1,750,000 | 1.18% |
| 13 | BIERI ANDREAS | | 1,559,659 | 1.05% |
| 14 | SAWIRES MEDHAT | | 1,500,000 | 1.01% |
| 15 | O'BRIEN MARK P + L M M | | 1,500,000 | 1.01% |
| 16 | WALLACE KEATON PAUL | | 1,486,864 | 1.00% |
| 17 | TYRRHENIAN HLDGS PL | TYRRHENIAN A/C | 1,454,762 | 0.99% |
| 18 | JOB PAUL RICHARD | | 1,400,000 | 0.94% |
| 19 | NYG PL | JNH LAW FUND A/C | 1,337,360 | 0.90% |
| 20 | CROSSBAY PL | | 1,300,000 | 0.88% |

## TWENTY LARGEST OPTIONHOLDERS OF QUOTED EQUITY SECURITIES

### TOP 20 HOLDERS OF OPTIONS AT 31 JULY 2018

| RANK | OPTIONHOLDER | DESIGNATION | UNITS | % OF ISSUED CAPITAL |
|---|---|---|---|---|
| 1 | UPSKY EQUITY PL | UPSKY INV A/C | 3,207,275 | 10.71% |
| 2 | KW INV HLDGS PL | WALLACE FAM A/C | 2,414,167 | 8.06% |
| 3 | INDOMAIN ENTPS PL | U C MONDELLO FAM A | 2,175,833 | 7.27% |
| 4 | HART ANNA CARINA + PAUL | HART FAM S/F A/C | 2,081,268 | 6.95% |
| 5 | SUNDARAMOORTHY ARJUNAN | | 1,800,000 | 6.01% |
| 6 | RE ERIC JOSEPH | | 1,375,930 | 4.59% |
| 7 | TYRRHENIAN HLDGS PL | TYRRHENIAN A/C | 1,280,929 | 4.28% |
| 8 | RAVEN INV HLDGS PL | RAVEN INV A/C | 1,250,000 | 4.17% |
| 9 | TRAN QUY THIEN BAO | | 1,175,777 | 3.93% |
| 10 | WALLACE KEATON PAUL | | 1,029,500 | 3.44% |
| 11 | JOB PAUL RICHARD | | 1,000,000 | 3.34% |
| 12 | DAY ANGELA MARGARET | | 1,000,000 | 3.34% |
| 13 | BASA ROZALIA | | 800,000 | 2.67% |
| 14 | ANNA CARINA PL | ANNA CARINA FAM A/ | 758,810 | 2.53% |
| 15 | KLOISER-JONES JEREMY S | | 741,271 | 2.48% |
| 16 | PADRE PIO PL | | 500,000 | 1.67% |
| 17 | ON TIME TAXIS PL | | 500,000 | 1.67% |
| 18 | HENRY DEREK | | 500,000 | 1.67% |
| 19 | JOMOT PL | | 500,000 | 1.67% |
| 20 | MONDELLO SAMUEL | | 450,000 | 1.50% |