

29 July 2016

ZipTel Quarterly Review – Q4 FY2016

Focus was targeting paying subscribers for Zipt 2.0, completing the SpeedTalk deployment and executing further enterprise agreements.

ACTIVITY HIGHLIGHTS

- The Company's focus during the quarter was:
 - Targeting and segmentation of users in a composite of **Tier 1 and Tier 2** countries;
 - Implementation of in-app features to enable the Company to execute its monetisation focussed **Consumer business strategy** for **Zipt 2.0**;
 - Working with our Enterprise Partner to deploy the **SpeedTalk** Enterprise Application; and
 - Progress further agreements per the **Enterprise business strategy** with **companies in key industries** which require **low bandwidth**, calling and messaging solutions i.e. maritime, airlines and remote communications providers.
- Milestone of over 10 million Zipt installs achieved early in the quarter - **9 months ahead of targets** set out in the original Zipt commercialisation strategy of November 2014.
- Zipt Research and Development ("R&D") tax incentive application was lodged and accepted by the Australian Taxation Office:
 - **A refund of \$1,102,383 was banked** on 9 May 2016;
 - For FY2016, **an R&D refund of circa \$2.6M** is expected, with the claim to be lodged early August 16
- Following receipt of the FY16 refund, ZipTel will have **~\$4M cash at bank** and with a low cash burn rate is well placed to meet its obligations and ramp up its business activities.
- With Zipt and SpeedTalk development completed, the Company will have more resources available to refine and iterate the respective offerings.

The Directors of ZipTel Limited ("**ZipTel**" or "the **Company**", ASX: ZIP) are pleased to report on the Company's performance for the quarter ended 30 June 2016.

COMPANY FINANCIAL OVERVIEW

During the June 2016 quarter, the Company banked total net cash receipts of ~\$112,000 (Q3 FY2016: \$142,000). ZipTel's focus in the Consumer segment was moving the business from a user acquisition focus to building a sustainable business model with the key metric of \$1 marketing spend to yield \$1 of receipts i.e. Net-net Return on Investment (ROI).

Metric	June Q4 FY2016	March Q3 FY2016	December Q2 FY2016	September Q1 FY2016
Marketing spend	183,000	294,000	579,000	788,000
Receipts	112,000	142,000	215,000	316,000
Receipts : Marketing	61%	48%	37%	40%
Paying subscribers*	3%	<1%	<1%	<1%

*all new users from 5 May 2016 are paying subscribers

An upward trend in return on investment from marketing has been established. With further efforts to optimise marketing campaigns, ROI metrics are improving day on day towards the net-net target.

By benchmarking campaigns against a 'Marketing verses Receipts' KPI, the short term goal of becoming cash flow positive is brought into sharp focus, both internally and for our marketing and advertising partners. Once a net-net return is established, the Zipt marketing budget will be ramped up and receipts will sustainably follow.

ZIPT OVERVIEW

Zipt 2.0

Zipt 2.0 went live on Android on 19 February 2016 and on iOS on 26 February 2016. The Global Brand Ambassador Campaign launched on 3 March 2016. Since launch, the Company has iterated and improved the application, particularly in the following areas:

Zipt Ambassador Portal:

- User experience and analytics revealed that a small percentage of Zipt users are entering the Ambassador Portal. Having users enter the Portal is crucial as many of the advertising placements are only active there.
- This presented a significant opportunity to improve Zipt user engagement rates.

Since Launch of Zipt 2.0	Android	iOS	Total
Average session length (seconds)	74	102	
Opened Discover Screen (as a percent of users)	14.2%	24.5%	15.6%
Ambassador photo or video opened (as a percent of Portal users)	37.7%	14.4%	25.4%
Users who 'liked' in-app content (as a percent of Portal users)	29.5%	42.2%	36.2%
Ads served / Portal user	3	4	

* User being a Zipt user

** Portal user being a Zipt user who enters the Ambassador Portal

- Users that do enter the Ambassador Portal show good session times, high engagement, retention and loyalty metrics and consequently driving in app ad revenue.
- Initiatives to bring more users into the Portal have had measurable success. Since 1 May, users entering the Portal have increased significantly, particularly on iOS. Overall the improvement was ~10% more users into the Portal.

Since 1 May	Android	iOS	Total
Average session length (seconds)	95	108	
Opened Discover Screen (as a percent of users)	24.4%	36.4%	26.9%
Ambassador photo or video opened (as a percent of Portal users)	36.8%	13.4%	23.3%
Users who 'liked' in-app content (as a percent of Portal users)	23.9%	20.6%	22.0%
Ads served / Portal user	3	4	

- Focus will be placed on rewarded activities within the app i.e. where users perform an action and are rewarded with Zipt credit e.g. Offerwall. Which drives revenue to the Company paid via ad networks rather than consumers.
- Rewards make Zipt even more accessible to its users in Tier 3 and emerging markets where the ability to buy Zipt Out credit may be limited.
- Rewards also allow these customers to be monetised as Zipt is paid by the advertisers who top up user accounts when they perform the rewarded activities.

- The next Zipt build (scheduled for release early August) has a new and improved Discover interface which allows users to easily enter the Ambassador portal upon swiping the Discover section. The ease of access to the Discover Portal with the recent improvements made are expected to show significant improvements on user engagement.
- On headline numbers, this initiative could result in a ~30% increase in Ambassador Portal users. This will be done in tandem with a refresh of the Ambassador Portal interface and the commencement of new Ambassador competitions.

Advertising Sources:

- Since launch, advert types and placements have been tested for best return versus maintaining a quality user experience.
- Advertising placement and sources continue to be optimised within Zipt.
- Revenue projections of the contribution from increased Portal traffic have been prepared.
- The implementation of advertising placements ensures that all new users are effectively paying subscribers.

Back-end Upgrades and Analytics:

Further notable changes to the Platform include:

- Integration of leading attribution and analytics packages to assist the Company to:
 - better track and work with user acquisition partners to optimise the performance of its user acquisition campaigns;
 - implement re-engagement strategies to monetise current users; and
 - monitor session times, user habits and in-app events to identify issues and trends.
- Integration of an upgraded payments system which will streamline fund flows from the app, remove the need for a merchant facility and strengthen fraud protections.

Zipt White Label "SpeedTalk"

On 3 December 2015, the Company announced an Enterprise Agreement with leading global satellite communications service provider SpeedCast International Limited ("SpeedCast", ASX: SDA) to white label the Zipt application and provide a calling and messaging solution to remote satellite locations and sea vessels under the product name "SpeedTalk".

Since identifying the unique network conditions present under SpeedCast's satellite environment, ZipTel's development and quality assurance teams have been actively working to further enhance compatibility and capability in this environment. Testing of satellite optimised version of the Company's revolutionary low-bandwidth call technology has yielded significantly improved call quality whilst further reducing bandwidth usage.

ZipTel is working closely with SpeedCast to confirm testing results and schedule the pilot program and subsequent public release of the application. This marks a significant achievement for the Company in terms of the market potential that the satellite optimised technology delivers and also the successful completion of ZipTel's first white-labelled enterprise solution. The latest testing results demonstrate excellent call quality at an average of 7.1kbps on the satellite network.

ZIPT STRATEGY

Mass User Acquisition Strategy

The Company's initial target was to acquire 10 million users in 18 months and build on Monthly Active Users (MAU). Due to take up in regions such as the Indian Subcontinent, the Middle East, South East Asia and Latin America, **10 million installs was achieved 9 months early, along with peak MAUs of ~4M.**

The branding and market penetration achieved with the Company's mass user acquisition strategy has opened up significant opportunities for Zipt. As a direct result of the strategy, subsequent to quarter end, the Company announced that Zipt has been chosen by Samsung to be featured on the emerging Tizen mobile operating system. Zipt's presence in these markets meant that it was chosen ahead of the many other communications applications. The opportunity with Tizen is significant and executed with nil cost per install i.e. all installs on the Tizen platform will be organic. As a result, the Tizen agreement will be instrumental in Zipt yielding a positive ROI within a short timeframe.

With the initial mass user acquisition objectives met, the focus for Zipt is now firmly on monetisation. ZipTel's Strategy for Q3 & Q4 CY2016 is the implementation of two comprehensive user campaigns for Zipt, with separate and distinct KPIs. Firstly, a monetisation campaign will target paying users in Tier 1 and Tier 2 countries. Secondly, a subscriber growth campaign will acquire users in Tier 2 and Tier 3 countries with a low cost model that will effectively build and continue to scale the Zipt user base.

Zipt Advertising Revenue Projection

Advertising monetisation features incorporated into Zipt to supplement the core Zipt Out top up revenues have been tested across the various geographies and revenue projections have been prepared. Based on 100,000 Android and iOS daily active users in Tier 1 and Tier 2 countries, Zipt is projected to generate ~USD\$800 (~AUD\$1,050) per day in advertising revenue. This equates to USD\$0.004 in advertising revenue per user per day.

Offerwall	Platform	DAU	Engagement Rate	Unique Users	Impressions/ User	Impressions	eCPM	Daily Revenue	Monthly Revenue	
		100,000	8%	8,000	1.00	8,000	\$ 20	\$ 160	\$ 4,800	
		100,000	8%	8,000	1.00	8,000	\$ 25	\$ 200	\$ 6,000	
								Daily	Monthly	
								Total	\$ 360	\$ 10,800

Rewarded Video	Platform	DAU	Engagement Rate	Unique Users	Impressions/ User	Impressions	eCPM	Daily Revenue	Monthly Revenue	
		100,000	10%	10,000	1.00	10,000	\$ 5	\$ 50	\$ 1,500	
		100,000	10%	10,000	1.00	10,000	\$ 6	\$ 60	\$ 1,800	
								Daily	Monthly	
								Total	\$ 110	\$ 3,300

Interstitial	Platform	DAU	Engagement Rate	Unique Users	Impressions/ User	Impressions	eCPM	Daily Revenue	Monthly Revenue	
		100,000	70%	70,000	2.00	140,000	\$ 1.25	\$ 175	\$ 5,250	
		100,000	70%	70,000	2.00	140,000	\$ 1.25	\$ 175	\$ 5,250	
								Daily	Monthly	
								Total	\$ 350	\$ 10,500

	Daily	Monthly
Total Revenue From All Sources	\$ 820	\$ 24,600

With this exercise completed, the Company is ready to begin targeted marketing campaigns across the Tier 1 and Tier 2 countries to bolster its existing largely Tier 3 user base and global organic growth.

ZipTel's short term goal is a net-net return on marketing spend. This trend has already been established and will be built out sustainably day on day. This process will be hastened by the Samsung Tizen agreement which will deliver quality users at no cost per install and supplemented by advertising and top up revenue

Overall Company Progress Snapshot

Since ZipTel completed its reverse takeover and \$5.0M capital raising in July 2014, it subsequently raised an additional \$5.0M in November 2014 for a total of \$10.0M in funding.

Since this time, ZipTel has:

- built out the Zipt 2.0 application and accumulated >10 million Zipt users;
- signed a commercial enterprise agreement with SpeedCast and built the SpeedTalk application;
- signed agreements with Global Brand Ambassadors to promote Zipt (and built out a world first in-app Ambassador Portal); and
- positioned Zipt to be chosen by Samsung to be featured on the Tizen operating system.

Of spending to date, \$8.3M is directly attributable to research and development. The Company has been extremely prudent in the application of its funds, with less than \$1.0M spent outside of the Company's core R&D activities. Upon receipt of the FY2016 R&D Tax credit, the Company will effectively have ~\$4.0M with its core products developed.

CASH POSITION

During the June 2016 quarter, the Company's expenditure including marketing was ~\$979,000 - a substantial reduction over the last quarter (Q3 FY2016: \$1,815,000).

The Company's monthly cash burn is budgeted to be ~\$130k/month. Due to some costs carrying over from the previous period, cash burn in the June quarter was ~\$150k/month, a marked improvement over Q3 FY2016 of \$226k/month.

In early August, ZipTel will file its Research and Development Tax Incentive Claim with respect to R&D eligible expenses of ~\$5.8M. Upon receipt of an expected refund of circa \$2.6M, the Company will have ~\$4.0M cash at bank. Due to the nature of ZipTel's operations, a significant portion of the Company's expenses will be credited back to the Company through this scheme on an ongoing basis.

Once the initial target of matching \$1 of marketing spend to \$1 of receipts is achieved, the Company will look to ramp up its marketing activities and use scale to deliver a positive ROI.

OUTLOOK

Over the past quarter, ZipTel has worked towards building a sustainable consumer business model for Zipt which is approaching cash flow positive position. Once this is achieved, ZipTel will look to ramp up its marketing activities with its user acquisition partners.

ZipTel has introduced messaging in its marketing materials that is consistent with the monetisation focus. Zipt marketing now has less emphasis on the free calling/messaging aspects of the app and more on the low international calling/messaging rates available and low bandwidth capabilities.

ZipTel will continue to work with SpeedCast to deploy the SpeedTalk application. Ultimately SpeedTalk will allow SpeedCast to further penetrate the remote workplace communications market and accelerate the fastest growing segment of their business.

ZipTel will also work with Samsung and their Tizen developers to increase the use and take-up of Tizen handsets, upon which Zipt will be a featured application. This product spotlight opportunity positions Zipt alongside WhatsApp as a low-bandwidth premium alternative offering low cost calling, messaging and video functionality.

ZipTel will leverage the deployment of SpeedTalk and the Tizen berth to push for further deals in the Enterprise segment.

-Ends-

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About ZipTel

ZipTel is an Australian owned and operated telecommunications business focused on providing international roaming and calling solutions to the consumer, using state of the art technologies developed and wholly owned by ZipTel Limited. ZipTel listed on the ASX in July 2014 with its core focus the Zipt mobile based communications application.

A video outlining Zip 2.0 is available at the following link: <http://zipt.com/z2preview>.

About Zipt

Zipt is a mobile-based international communication App that enables consumers to send SMSs and make international calls for free between users. The App can also call any landline or mobile at some of the world's lowest call rates. Zipt delivers crystal clear sound quality in lower bandwidth data environments and allows consumers to retain their existing phone number, service provider and SIM card, with no lock-in contracts. Zipt does not require a SIM card and can be installed on any smartphone or tablet on compatible platforms. Zipt uses less data than similar products already available on the market, and can be used over Wi-Fi or any mobile network. For more information visit www.zipt.com.

Appendix 4C

Quarterly report for entities admitted on the basis of commitments

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10

Name of entity

ZIPTTEL LIMITED

ABN

41 108 042 593

Quarter ended ("current quarter")

30 June 2016

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter (June 2016) \$A'000	Year to date (12 months) \$A'000
1.1 Receipts from customers	112	785
1.2 Payments for		
(a) staff costs	(225)	(758)
(b) advertising and marketing	(183)	(1,844)
(c) research and development	(229)	(1,889)
(d) leased assets	-	-
(e) other working capital	(346)	(2,666)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	7	67
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other – Research and development tax credit	1,102	1,102
Net operating cash flows	238	(5,202)

+ See chapter 19 for defined terms.

Appendix 4C
Quarterly report for entities
admitted on the basis of commitments

	Current quarter (June 2016) \$A'000	Year to date (12 months) \$A'000	
1.8	Net operating cash flows (carried forward)	238	(5,202)
	Cash flows related to investing activities		
1.9	Payment for acquisition of:		
	(a) businesses (item 5)	-	-
	(b) equity investments	-	-
	(c) intellectual property	-	-
	(d) physical non-current assets	-	-
	(e) other non-current assets	-	-
1.10	Proceeds from disposal of:		
	(a) businesses (item 5)	-	-
	(b) equity investments	-	-
	(c) intellectual property	-	-
	(d) physical non-current assets	-	-
	(e) other non-current assets	-	-
1.11	Loans to other entities	-	-
1.12	Loans repaid by other entities	-	-
1.13	Other (provide details if material)	-	-
	Net investing cash flows	-	-
1.14	Total operating and investing cash flows	238	(5,202)
	Cash flows related to financing activities		
1.15	Proceeds from issues of shares, options, etc.	3	274
1.16	Proceeds from sale of forfeited shares	-	-
1.17	Proceeds from borrowings	-	-
1.18	Repayment of borrowings	-	-
1.19	Dividends paid	-	-
1.20	Other (Capital raising costs)	-	-
	Net financing cash flows	3	274
	Net increase (decrease) in cash held	241	(4,928)
1.21	Cash at beginning of quarter/year to date	1,111	6,278
1.22	Exchange rate adjustments to item 1.20	1	3
1.23	Cash at end of quarter	1,353	1,353

+ See chapter 19 for defined terms.

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.24	Aggregate amount of payments to the parties included in item 1.2	109
1.25	Aggregate amount of loans to the parties included in item 1.11	-

1.26 Explanation necessary for an understanding of the transactions

Directors' fees and salaries paid to executive and non-executive directors.

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

N/A

2.2 Details of outlays made by other entities to establish or increase their share in businesses in which the reporting entity has an interest

N/A

Financing facilities available

Add notes as necessary for an understanding of the position.

		Amount available \$A'000	Amount used \$A'000
3.1	Loan facilities	-	-
3.2	Credit standby arrangements	-	-

+ See chapter 19 for defined terms.

Appendix 4C
Quarterly report for entities
admitted on the basis of commitments

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
4.1 Cash on hand and at bank	1,353	1,111
4.2 Deposits at call	-	-
4.3 Bank overdraft	-	-
4.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.23)	1,353	1,111

Acquisitions and disposals of business entities

	Acquisitions (Item 1.9(a))	Disposals (Item 1.10(a))
5.1 Name of entity		
5.2 Place of incorporation or registration		
5.3 Consideration for acquisition or disposal		
5.4 Total net assets		
5.5 Nature of business		

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act (except to the extent that information is not required because of note 2) or other standards acceptable to ASX.
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:  Date: 29/07/2016
 (Director/Company secretary) Date:

Print name: Derek Hall
 Print name:

+ See chapter 19 for defined terms.

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
2. The definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report except for any additional disclosure requirements requested by AASB 107 that are not already itemised in this report.
3. **Accounting Standards.** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

+ See chapter 19 for defined terms.