

ASX AND MEDIA RELEASE

27 October 2016

ZipTel Quarterly Review – Q1 FY2017

ACTIVITY HIGHLIGHTS

- The Company's focus during the quarter was:
 - Moving the **ZipT Consumer Model** to a subscription fee basis offering competitive international calling bundles that yield recurring revenues;
 - Continuing to reduce marketing spend and concentrate on organic channels;
 - Successfully delivering a fully functioning satellite-optimised version of the Company's revolutionary **low-bandwidth call technology Enterprise Solution**;
 - Working to deploy the **SpeedTalk** Enterprise Application; and
 - Further Developing **Enterprise Opportunities** with **companies in key industries** which require **low bandwidth and satellite**, calling and messaging solutions i.e. agriculture, maritime, airlines and remote communications providers.
- ZipTel Research and Development ("R&D") tax incentive application for FY2016 was lodged and accepted by the Australian Taxation Office:
 - **A refund of \$1,365,027 was received for FY2016 domestic expenditure**;
 - A further claim of ~\$1.3M (for a total of \$2.6M) has been made for FY2016 international expenditure with receipt of this second tranche anticipated in the December quarter
- Following receipt of the second tranche of R&D credits, ZipTel will have **circa \$3M in cash** and a low cash-burn rate.

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 September 2016.

COMPANY FINANCIAL OVERVIEW

During the September 2016 quarter, the Company banked total net cash receipts of ~\$121,000 (Q4 FY2016: \$112,000). ZipTel's focus in the Consumer segment was continuing to move the business from a 'Freemium' model to a Premium model, targeted at both the cheap international calling and calling card markets.

Metric	September Q1 FY2017	June Q4 FY2016	March Q3 FY2016	December Q2 FY2016
Marketing spend	174,000	183,000	294,000	579,000
Receipts	121,000	112,000	142,000	215,000
Receipts : Marketing	69%	61%	48%	37%
Paying subscribers*	5%	3%	<1%	<1%

**all new users from 5 May 2016 are paying subscribers*

With more focus put on strategic marketing and optimising targeted campaigns, the Company is reducing its marketing spend but generating more revenue.

The Zipt Consumer Model is on target to achieve a \$1 marketing spend to yield \$1 of receipts i.e. Net-net Return on Investment (ROI).

The Company will continue to reduce its marketing spend; focusing on implementing bundles and subscriptions, better utilising organic growth channels and broadening its reach with the rollout of the Tizen platform.

OVERALL BUSINESS STRATEGY

As discussed in previous announcements, the Company has now executed two clear business strategies:

1. Business to Consumer "B2C" (Zipt)
2. Business to Business "B2B" (Enterprise Solutions)

With the majority of the development across both platforms completed, minimal investment will be required to further allow ZipTel to monetise the business across a range of industries (B2B) as well as continue targeting high value paying consumers (B2C) via our Zipt product.

ZIPT OVERVIEW (B2C)

Zipt Development

During the quarter, the Company continued to iterate and improve the core functionality of Zipt consumer and enterprise product offerings. The results of this are seen in the engineering milestones met by the satellite-optimised version of the Company's revolutionary low-bandwidth call technology Enterprise Solution. These advances feed into Zipt (as well as other Enterprise opportunities) and provide the Company further impetus to expand its Premium Model Zipt Consumer Strategy, which now targets high value paying users.

Commercial Strategy

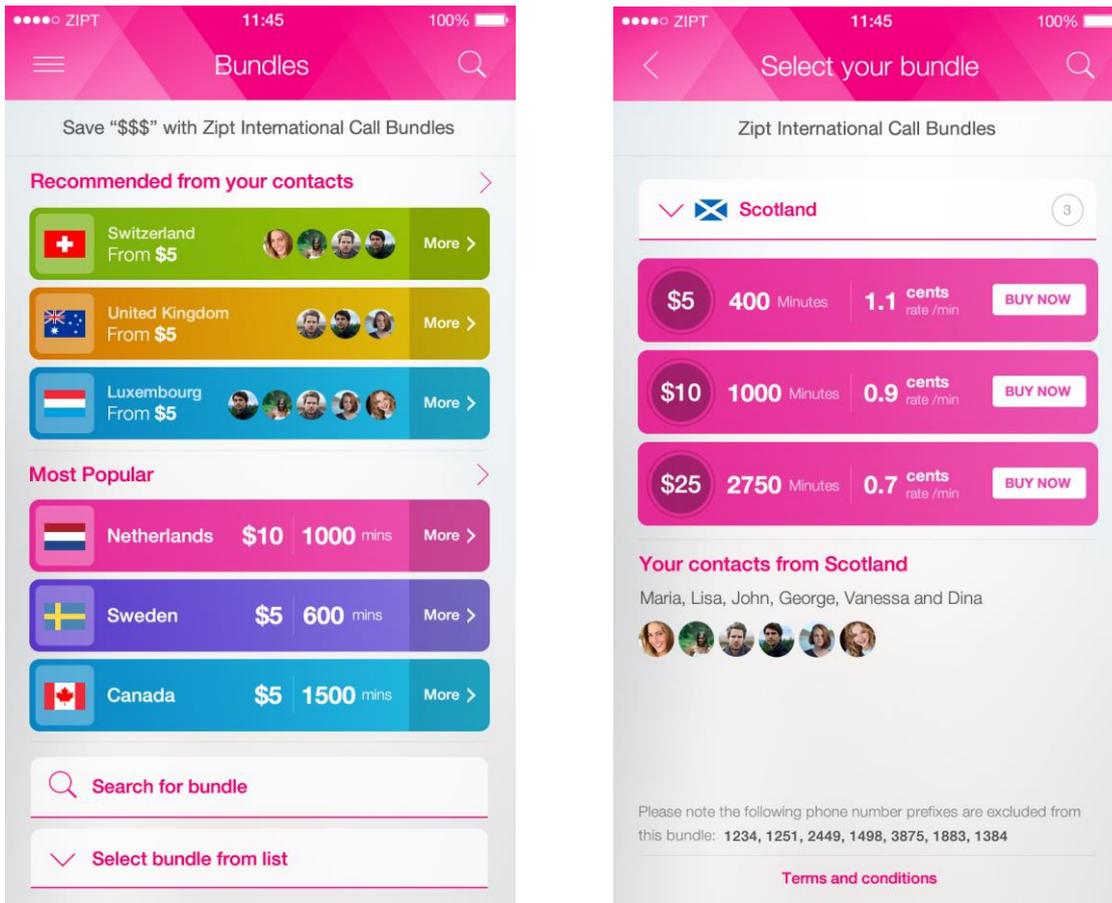
After a solid period of growing the user base, the Company is seeing encouraging signs commercialising these users through serving in-app marketing and well as introducing incentives for users to top up calling credits. The Company plans to continue to optimise this approach to maximise revenue from the existing user base in addition to acquiring new paying users.

In terms of paid users, Zipt has focused on transitioning the business from 'once off' payments to a sophisticated subscription model targeting the "premium market". The Company is looking to gain market share in the international calling and calling card markets currently dominated by brands such as RebTel, Lycamobile and Lebara.

These companies operate with lower volumes and higher ARPU's (Average Revenue Per User) than the mass user acquisition players. In comparison, Zipt's low bandwidth IP gives ZipTel a unique point of difference to grow market share in this lucrative segment without the need for a sim card.

Zipt is targeting this market using an extensive suite of cheap calling subscription bundles intended to cater for all user profiles and requirements.

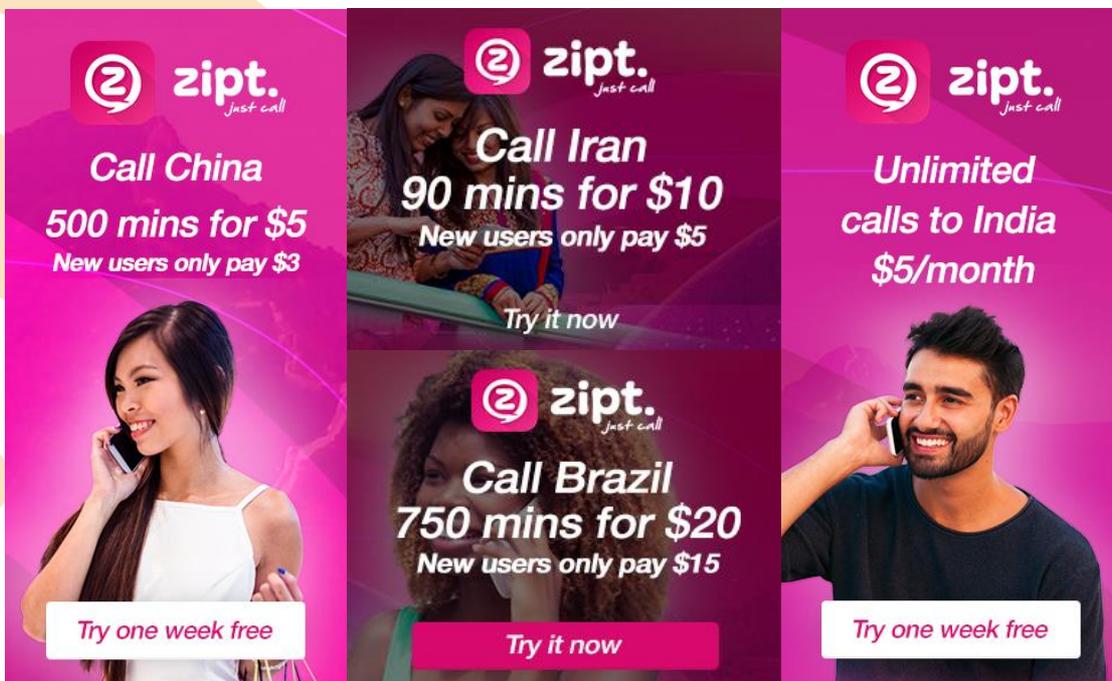
Figure: Bundle Screenshots from Zipt demonstrating a small sample of the subscription bundles available



Marketing efforts are focussed on users who regularly make cheap international calls and present the unique advantages of Zipt in this sector, specifically:

- Quality calls in low bandwidth with significantly lower data use;
- Full Suite Offering (Calls, Messages and Video)
- Free Calls, Messages and Video, Zipt to Zipt
- No SIM card required (versus Lycamobile and Lebara calling cards)
- Ability to Call landline and mobiles

Figure: Example advertising to target key Zipt regions with localised creative



Whilst the Zipt-Zipt free product will continue to be promoted globally as it increases its brand profile, the "Premium Market" subscription strategy will launch with a targeted approach using the invaluable data and insights collected by the Company to date.

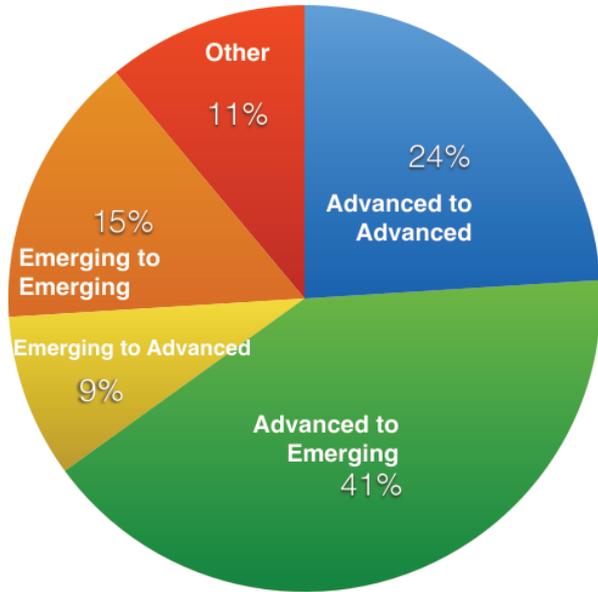
Target Markets

Zipt's consumer target markets are customers making international calls from areas with low quality connections e.g. emerging countries. Some 24% of global calling minutes sit in this target market i.e. calls made from emerging countries to emerging countries (~15%) and from emerging countries to advanced countries (~9%) and these percentages are growing.

The Subcontinent and the Middle East, where take-up of Zipt is shown to be strongest, offer major opportunities in terms of international calling minutes. For example, international calls originating from India total ~20 million minutes per annum and this value is ~12 million minutes per annum for Saudi Arabia.

Capturing part of this market should also provide some penetration into the advanced to emerging market which represents ~41% of international minutes.

Figure: Global Fixed Line and VoIP Calling Minutes, Originating Country to Call Destination Country



Source: DHL, Global Connectedness Index 2014

Organic Growth Channels

In order to further reduce the marketing spend within the Zipt Consumer Model, the Company is better utilising organic growth channels. Initiatives are in place and others are under development to improve the Company's web and search presence i.e. Search Engine Optimisation ("SEO") and App Store Optimisation ("ASO"). In the past, SEO and ASO have not been a focus. Although these techniques take time to build momentum, the Company is confident that it can leverage its existing user base and marketing relationships to gain traction in the target markets.

Tizen

As announced on 20 July 2016, the Company was selected by Samsung to be ported to, and feature on, Samsung's Tizen Platform. In this regard, ZipTel entered into an arrangement with leading Tizen developers, under the direction of Samsung, to develop and roll-out a Tizen version of Zipt, at no cost to ZipTel.

Tizen is Samsung's own smartphone operating system to rival Android and iOS. Tizen is increasingly in use in wearables and cameras and is becoming the standard operating system on a range of other products from smart TVs to refrigerators.

Tizen is currently operating on more than 5 million mobile handsets since its major launch last year. With upcoming handset launches, Tizen forecast this figure to increase to 15-20 million by the end of 2016 and to circa 100 Million devices by the end of 2017. The Zipt product will be showcased as a premium calling application, offering paid calling bundles across the platform to deliver a greater number of paying customers.

In terms of geography, Tizen handsets will be focused on the Asia-Pacific region (where 61% of the world's population or 4.2 billion people are situated) – an area not covered by Samsung's agreement with Google for Android.

This profile fits well with Zipt's emerging countries target markets.

Porting the proprietary low bandwidth Zipt technology to the Tizen Platform has presented some unique challenges to the Tizen developers. This, in tandem with the well documented issues which Samsung is currently experiencing, has meant delays in the launches of particular handsets as well as in development. The Zipt Technical Team are working together with the Tizen development team and have been assured by Samsung of a release during the December quarter.

Launch of Zipt (Tizen) will assist the Company's user acquisition strategy in the Subcontinent and South-East Asia at zero cost per install achieved. Zipt's clear competitive advantage in low bandwidth areas has resulted in the huge uptake in these regions and as a result, this opportunity with Samsung.

As 1 of only 2 communication applications in the current Tizen application pipeline, once launched, Zipt will operate with minimal competition and clear points of difference to the only other featured communications app on the platform, WhatsApp. Product spotlight opportunities will position Zipt alongside WhatsApp as a low-bandwidth, premium alternative, offering low cost calling, messaging and video functionality.

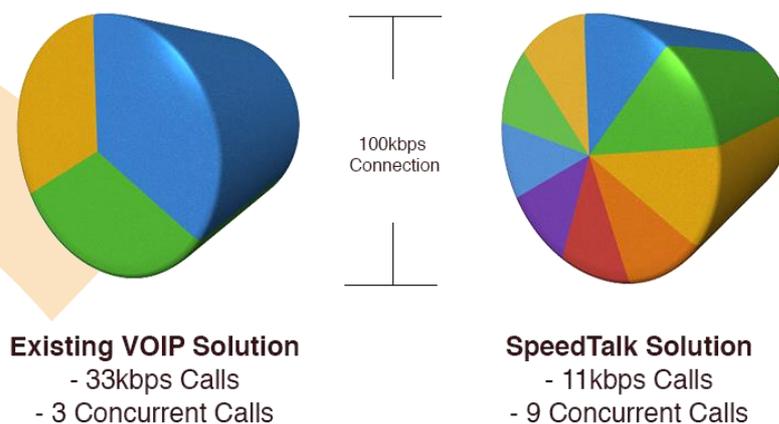
ENTERPRISE SOLUTIONS OVERVIEW (B2B)

Enterprise Satellite Solution and "SpeedTalk" Update

During the quarter, ZipTel's Technical Team successfully delivered a satellite-optimised version of the Company's revolutionary low-bandwidth call technology Enterprise Solution "SpeedTalk".

The Zipt based Enterprise Solution has undergone significant improvement and development and in external testing conducted during the quarter, demonstrated its capability to deliver a calling and messaging solution in satellite environments, using significantly lower bandwidth than existing solutions.

Bandwidth Utilisation Comparison



The testing, conducted using a commercial satellite, shows the Zipt platform carries clear voice calls at 1/3 of the bandwidth of the current industry gold standard, *Mitel Network Corporation's ("Mitel") Fixed Line satellite voice solution*.

The Enterprise Solution will allow satellite service providers to support increased concurrent call volumes of up to 3 times the current calling solution i.e. existing data connections will be 3 times more efficient.

Customers will be able to better utilise their satellite bandwidth and support greater numbers of on-site calling facilities, while giving satellite service providers an equivalent increase in revenue, compared to existing connections.

SpeedTalk Brief

The key requirements for the SpeedTalk product were as follows:

- Simple to install, IP ("Internet Protocol") based mobile application to deliver Voice & Data traffic
- Low Bandwidth (<10kbps) due to costs of satellite carriage
- Ability for End-User to Top-Up accounts on a pre-paid platform

In order to best cater for future requirements, SpeedTalk was developed using the Zipt 2.0 Platform. Zipt 2.0 incorporated many new features paired with new architecture, which significantly increased operating capacity over the original Zipt 1.0 platform.

Adapting the Zipt 2.0 architecture to SpeedCast's satellite environment required ZipTel's Technical Team to incorporate new buffering and network protocols to streamline and optimise data delivery even further than the 2G and Wi-Fi networks which the product was developed for. In the satellite environment, greater packet loss and greater latency introduced new challenges that had to be overcome in order to ensure call quality and user experience benchmarks were met.

On-site testing on the SpeedCast network (which replicated customer conditions) was conducted with pleasing results. Where SpeedCast's existing Mitel VoIP ("Voice Over Internet Protocol") product operates at 30-40kbps, SpeedTalk was able to deliver the same calls using 8-10kbps i.e. using 1/3 of the bandwidth consumed by current satellite VoIP solutions. The results of the testing (with binary Pass/Fail outcomes) are as follows:

Test Case 1 – Usage Scenarios over standard contended Satellite link		
TC1	DESCRIPTION OF TEST	RESULT
1.1	SpeedTalk voice call with no other traffic	☑ Pass
1.2	2 or more concurrent SpeedTalk voice calls	☑ Pass
1.3	SpeedTalk voice call whilst browsing Internet and file download/upload	☑ Pass
1.4	SpeedTalk voice call alongside Skype and Viber calls	☑ Pass
1.5	2 or more concurrent SpeedTalk voice call with 2 or more concurrent Internet browsing sessions and file download/upload	☑ Pass
Test Case 2 – Configuration applied to Satellite link (different variables applied separately and in combination, to each Test Case 1 scenario)		
TC2	DESCRIPTION OF TEST	RESULT
2.1	Standard Internet Connection	☑ Pass
2.2	Prioritisation / QoS on SpeedTalk packets	☑ Pass
2.3	Varying data throughputs	☑ Pass
2.4	Applying Acceleration	☑ Pass

Test Case 3 – Connectivity to ZipTel (Singapore / Sydney) (different variables applied separately and in combination, to each Test Case 1 scenario)		
TC3	DESCRIPTION OF TEST	RESULT
3.1	Standard Internet Path	☑ Pass
3.2	IP-VPN Tunnel	☑ Pass
3.3	Fibre Backhaul	☑ Pass
3.4	Local Application Server	☑ Pass
Test Case 4 – Other Parameters		
TC4	DESCRIPTION OF TEST	RESULT
4.1	Max Connections / Concurrent Users	☑ Pass
4.2	Ease of configuration / set up (on sat link and device)	☑ Pass
4.3	Remote Management	☑ Pass
4.4	Vendor Support	☑ Pass

On completion of this testing, the value proposition of Enterprise Solution was evident. The Company will provide updates on future commercial outcomes stemming from this milestone in due course.

Validation of the technology has also opened up Enterprise Solution opportunities in industries such as aerospace, agriculture and maritime. In this regard, the Company invested research and development time during the quarter to build out additional Enterprise Models.

In addition to the work undertaken and demonstrated to optimise connectivity over Satellite, a range of limited connectivity environments such as in the agricultural and resources industries that would benefit from modern communications have been identified. To support these newly identified markets, development of a stand-alone service module that will be deployed to sites with limited internet connectivity to facilitate Zipt's rich communications over a local area network commenced during the quarter. Thanks to the modular nature of Zipt's server infrastructure and complete ownership / control over its components, Zipt is uniquely positioned to deploy these on-site solutions with minimal development costs. The Company will provide updates in this regard in due course.

CASH POSITION

During the September 2016 quarter, the Company's expenditure including marketing was ~\$1.02M – consistent with the last quarter (Q4 FY2016: \$983,000).

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 September quarter was slightly higher than budgeted at ~\$150k/month. The Company also incurred costs building out Enterprise Models during the period, resulting in a minor uplift in development expenses during the quarter.

During the quarter, ZipTel lodged its Research and Development Tax Incentive Claim with respect to R&D eligible expenses of ~\$5.8M. The first tranche of \$1,365,027 of the total expected refund of circa \$2.6M has been received in relation to domestic R&D eligible expenses. The Company anticipates it will receive the second tranche of ~\$1.3M, relating to international R&D eligible expenses, within the December quarter.

With this receipt, the Company would have ~\$3.0M cash at bank. Due to the nature of ZipTel's operations, a significant portion of the Company's future 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

ZipTel continues to work towards its Net-net Return on Investment goals in the Consumer Segment. The subscription model will be widely rolled out over the current quarter, in tandem with efforts in the organic growth channels, in particular the Tizen opportunity with Samsung.

In the Enterprise Segment, meeting the "proof-of-concept" engineering milestone of delivering the satellite optimised version of the Company's revolutionary low-bandwidth call technology Enterprise Solution opens up significant opportunities across multiple industries. These opportunities will likely form the basis of major news items for the Company over next 2 quarters.

-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.io/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.io.

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

ZIPTTEL LIMITED

ABN

41 108 042 593

Quarter ended ("current quarter")

30 September 2016

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	121	121
1.2 Payments for		
(a) research and development	(271)	(271)
(b) product manufacturing and operating costs	(61)	(61)
(c) advertising and marketing	(174)	(174)
(d) leased assets	-	-
(e) staff costs	(219)	(219)
(f) administration and corporate costs	(297)	(297)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	5	5
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	1,365	1,365
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	469	469
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	-	-
2.6 Net cash from / (used in) investing activities	-	-

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	-
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	-	-
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	-	-

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of quarter/year to date	1,353	1,353
4.2 Net cash from / (used in) operating activities (item 1.9 above)	469	469
4.3 Net cash from / (used in) investing activities (item 2.6 above)	-	-
4.4 Net cash from / (used in) financing activities (item 3.10 above)	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	(1)	(1)
4.6	Cash and cash equivalents at end of quarter	1,821	1,821

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	1,821	1,821
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	1,821	1,821

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Current quarter \$A'000
122
-

Directors' fees and salaries paid to executive and non-executive directors. All payments are on normal commercial terms.

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

Current quarter \$A'000
-
-

n/a

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

n/a

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	(100)
9.2 Product manufacturing and operating costs	(100)
9.3 Advertising and marketing	(100)
9.4 Leased assets	-
9.5 Staff costs	(200)
9.6 Administration and corporate costs	(200)
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	(700)

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	-	-
10.2 Place of incorporation or registration	-	-
10.3 Consideration for acquisition or disposal	-	-
10.4 Total net assets	-	-
10.5 Nature of business	-	-

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:  Date: 27 October 2016

(Company secretary)

Print name: Derek Hall
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Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.