

31 January 2017

ZipTel Quarterly Review – Q2 FY2017

ACTIVITY HIGHLIGHTS

ZipTel Limited's ("ZipTel" or "the Company", ASX: ZIP) 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;
- Launching the first **Tizen version of Zipt**;
- Launching the Enterprise brand "**Zipt Systems**" and in particular "**ZIFI**": the Site-based, reliable VoIP and Messaging Platform;
- 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;
- The Company is reviewing its operational activities with the focus on minimising its cash outlay and relying on existing channels for growth;
- The Company is targeting a net 'whole of Company cash burn' of ~\$50,000-\$100,000 per month.

COMPANY FINANCIAL OVERVIEW

During the December 2016 quarter, the Company banked total net cash receipts of ~\$60,000 (Q1 FY2017: \$121,000). This result was achieved with effectively no marketing spend during the quarter. The Company will rely on organic channels going forward, in particular the Tizen platform.

| Financial headline | December Q2 FY2017 | September Q1 FY2017 | June Q4 FY2016 | March Q3 FY2016 |
|---------------------------|-----------------------|------------------------|-------------------|--------------------|
| Receipts | 60,000 | 121,000 | 112,000 | 142,000 |
| Research and development | (146,000) | (271,000) | (229,000) | (692,000) |
| Operating costs | (85,000) | (60,000) | * | * |
| Marketing | (6,000) | (174,000) | (183,000) | (294,000) |
| Staff costs | (190,000) | (219,000) | (225,000) | (211,000) |
| Admin and corporate costs | (333,000) | (296,000) | (346,000) | (619,000) |

* Reporting change for new ASX Appendix 4C

Since the end of the quarter, the Company has focussed on adopting a lean structure with a targeted whole of Company estimated cash burn of ~\$50,000 to \$100,000 per month. With all development activities materially complete, and significant reductions in operating costs from quarter on, this target is very achievable.

ZIPT OVERVIEW (B2C)

Zipt Development

During the quarter, the Company was focused on delivery of more calling bundle and subscription offerings for customers. The Company has expanded its bundle offering from covering 20 countries to now over 150 bundles covering 120 countries.

Upon delivery of subscription functionality, no further significant development works are planned, contributing to a substantial reduction in this expense line item going forward.

Organic Growth Channels

Over the quarter the Company paused its marketing initiatives, relying on organic channels. As announced on 20 July 2016, the Company was selected by Samsung to be ported to, and feature on, Samsung's Tizen Platform. On 28 December 2016, ZipTel announced that Zipt Tizen Version 1, was completed and launched on the Tizen store.

Since the launch of Zipt Tizen Version 1, more than 25,000 users have installed the application to date. Version 1 introduced Zipt's proprietary rich messaging platform with Version 2 shortly to follow with revenue generative full calling and video capabilities. Version 2 will again be delivered by Tizen developers, under the direction of Samsung, at no cost to ZipTel.

The Company will endeavour to grow its revenues and user base organically and focus on implementing bundles and subscriptions, without relying on marketing spend and broadening its reach across the Tizen platform (at no cost).

ENTERPRISE SOLUTIONS OVERVIEW (B2B)

Zipt Systems – Zifi

In November 2016, the Company launched the Zipt Systems Enterprise suite which included the Site-based, Reliable VOIP and Messaging Platform - Zifi. A significant part of the development is completed which will contribute to the substantial reduction in this expense line item going forward.

Zifi Agreements

Since launch of these products, the Company has sought to develop relationships with companies in key industries which require low bandwidth, calling and messaging solutions i.e. agriculture, maritime, airlines and remote communications providers.

On 28 November 2016, the Company announced the execution of a Memorandum of Understanding (MOU) with Australian grain farmer Glenvar to provide a rich communications and information sharing solution i.e. Zifi agriculture module, to users on the Glenvar Property in remote Western Australia. We will continue to explore similar opportunities which will allow us to enter into the agriculture sector and provide rich communications in remote areas.

On 19 December 2016, the Company announced the execution of a distribution agreement with Myanmar company Yandayar Trading Co. Ltd. This agreement gives ZipTel access to a significant distribution channel within a country that has communication infrastructure challenges which could be addressed with a Zifi solution.

CASH POSITION

During the December 2016 quarter, the Company's expenditure was ~\$761,000 – a \$261,000 or more than 25% reduction on the previous quarter (Q1 FY2017: ~\$1.02M).

The Company has no significant development plans in the next quarter while it implements its cost conscious focus. The lean structure will ensure the Company consolidates and improves its current business lines.

In the previous quarter, a Research and Development ("R&D") tax incentive application claim was lodged for FY2016 international expenditure. Further information was requested and has been submitted with receipt now anticipated during the second quarter.

OUTLOOK

ZipTel is reviewing its operations with the focus on maintaining and ultimately building its cash balance. The Company intends to deliver its subscription model as well as push for delivery of Version 2 of Zipt Tizen in the Consumer Segment.

The Company will look to develop its current Enterprise opportunities and deliver them mindful of the Company's current lean structure objectives.

-Ends-

For more information please contact:

ZipTel Limited

Bert Mondello

CEO

T: +61 8 6252 4224

W: www.ziptel.com.au

Keaton Wallace

Executive Director

T: +61 8 6252 4224

About ZipTel

ZipTel is an Australian owned and operated telecommunications business focused on providing international roaming and calling solutions to consumers and businesses, 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 for consumers and the Zipt Systems Enterprise suite for businesses.

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")

31 December 2016

| Consolidated statement of cash flows | Current quarter \$A'000 | Year to date (6 months) \$A'000 |
|---|------------------------------------|--|
| 1. Cash flows from operating activities | | |
| 1.1 Receipts from customers | 60 | 181 |
| 1.2 Payments for | | |
| (a) research and development | (146) | (417) |
| (b) product manufacturing and operating costs | (85) | (146) |
| (c) advertising and marketing | (6) | (180) |
| (d) leased assets | - | - |
| (e) staff costs | (190) | (409) |
| (f) administration and corporate costs | (334) | (631) |
| 1.3 Dividends received (see note 3) | - | - |
| 1.4 Interest received | 2 | 7 |
| 1.5 Interest and other costs of finance paid | - | - |
| 1.6 Income taxes paid | - | - |
| 1.7 Government grants and tax incentives | - | 1,365 |
| 1.8 Other (provide details if material) | - | - |
| 1.9 Net cash from / (used in) operating activities | (699) | (230) |

| | | |
|--|---|---|
| 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 (6 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 | 1,821 | 1,353 |
| 4.2 Net cash from / (used in) operating activities (item 1.9 above) | (699) | (230) |
| 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 (6 months) \$A'000 |
|---|--|------------------------------------|--|
| 4.5 | Effect of movement in exchange rates on cash held | - | (1) |
| 4.6 | Cash and cash equivalents at end of quarter | 1,122 | 1,122 |

| 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 | 1,122 | 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) | 1,122 | 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 |
|------------------------------------|
| 117 |
| - |

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 | (10) |
| 9.2 Product manufacturing and operating costs | (30) |
| 9.3 Advertising and marketing | - |
| 9.4 Leased assets | - |
| 9.5 Staff costs | (80) |
| 9.6 Administration and corporate costs | (100) |
| 9.7 Other (provide details if material) | - |
| 9.8 Total estimated cash outflows | (220) |

| 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: 31 January 2017
(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.