



DROPSUITE LIMITED

ACN 008 021 118

INTERIM REPORT

FOR THE HALF YEAR ENDED 30 June 2017

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DROPSUITE LIMITED & ITS CONTROLLED ENTITIES

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Directors' Report

Your directors present their report on the Company, Dropsuite Limited, and its consolidated entities for the half-year ended 30 June 2017.

Directors Information

The following persons were directors of Dropsuite Limited during or since the end of the financial half year:

Theo Hnarakis – Non - Executive Chairman
Charif El Ansari – Managing Director
Bruce Tonkin – Non - Executive Director (Appointed 22 February 2017)
Alex Bajada – Non - Executive Director (Resigned 30 June 2017)

Company Secretary

Roland Berzins (Resigned 31 May 2017)
Zoran Grujic (Appointed 22 February 2017)

Principal activities

Dropsuite is a global cloud software platform enabling SMBs in over 100 countries to easily backup, recover and protect their important business information. Dropsuite's network of preferred reseller partners has a combined customer reach of millions of small and medium-sized businesses worldwide. Dropsuite's products include website and database backup, email backup and archiving, and file-based server backup.

Dropsuite partners with some of the biggest global names in the hosting and IT service provider market, including GoDaddy, the world's largest cloud platform dedicated to small, independent ventures with 17 million customers, and Ingram Micro, the world's largest distributor of computer and technology products with 200,000 resellers in 160 countries. Dropsuite was launched in 2012 and is headquartered in Singapore with a sales presence in the US, Europe, Japan, and Australia, and its registered office in Perth, Australia..

Key Highlights of 1H 2017

- Dropsuite continues strong revenue growth on the back of consistent growth in paid users and reseller partnerships.
- New and expanded partnerships, with notable mentions of Ingram Micro and Dreamscape Networks (Crazy Domains) (ASX:DN8)
- Board and management changes to facilitate growth, strategy and investor engagement.

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Results overview

	Half year 30 June 2017	Half year 30 June 2016
Net Revenue	1,124,869	512,661
Operating EBITDA	(1,104,247)	(714,477)
Operating NPAT	(1,252,687)	(715,756)
Operating Cash flow	(3,252,273)	(818,916)
Cash and cash equivalents	1,540,599	113,518

Financial and Business Highlight

The first six months has been fruitful for the business with a 119% increase in revenue compared to the same period last year. This is driven by the growth in reseller partnerships and inherently the paid user numbers which now sit at 174,000, a 96% increase since June 2016. Whilst the costs have increased to accommodate for the increase in headcount and administrative overhead, the monthly cash outflows are now reducing on a monthly basis, due to the increase in user and revenue numbers coupled with healthy Gross Margins (78%), and stable operating costs.

Product Update

Dropsuite's advanced end user experience, coupled with the products' robust performance (backup and restore anytime, any place) and scalability (ability to add users globally) are key factors in winning reseller partnerships around the world. The engineering team at Dropsuite has expanded the email backup and archiving feature-set, while making the product available in the North America, Australia, Singapore and the European Union.

In the second half of 2017, Dropsuite will expand the backup and restore capabilities around the Microsoft Office 365 suite of products beyond just email.

Partner Update

IT Service Providers continue to see the value of partnering with Dropsuite. 16 new partners from January 2017 until June 2017, (and more since then) shows that Dropsuite is continually looking to expand its reach through Managed Service Providers. Of notable mention are:

- Ingram Micro, global distributor and leader in technology solutions: Dropsuite's Email Backup and Archiving services now offered to managed service providers (MSPs), value added resellers (VARs) and IT consultants throughout North America via the Ingram Micro Cloud Marketplace.
- Dreamscape Networks (ASX: DN8), trading as Crazy Domains, leading Australian hosting and domain names provider with 1.5M customers: Dropsuite's flagship website backup product is now offered to Crazy Domains customers globally.

The Dropsuite business development team persists in expanding the sales pipeline and expects to launch several key partnerships in the second half of 2017.

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Board Changes

Several Board changes were announced during the period. Theo Hnarakis became Chairman of the Board, Dr Bruce Tonkin was appointed as an Independent Non Executive Director, and Zoran Grujic was hired as the Chief Financial Officer and Company Secretary. Also during the period, Alex Bajada and Roland Berzins resigned as Non-Executive Director and Company Secretary respectively, marking the end of any board/management representation from Excalibur Mining Corporation Ltd.

Significant Events since Balance Sheet Date

No other matters have arisen since 30 June 2017 that have significantly affected, or may significantly affect the Group's operations in future financial years, the results of those operations in future financial years, or the Group's state of affairs in future financial years.

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 6.

This report is made in accordance with a resolution of directors.

A handwritten signature in black ink, appearing to be 'TH', with a long horizontal line extending to the right.

Theo Hnarakis

Chairman

Dated this 28th of August 2017.



Greenwich & Co

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Auditor's Independence Declaration

To those charged with the governance of Dropsuite Limited

As auditor for the review of Dropsuite Limited for the half-year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

- (i) no contraventions of the independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

Greenwich & Co Audit Pty Ltd
Greenwich & Co Audit Pty Ltd

Andrew May
Audit Director

28 August 2017
Perth

DROPSUITE LIMITED & ITS CONTROLLED ENTITIES

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Consolidated Statement of Profit or Loss and Other Comprehensive Income for the Half Year ended 30 June 2017

	30 June 2017 \$	30 June 2016 \$
REVENUE FROM CONTINUING OPERATIONS		
Sales Revenue	1,122,841	502,894
Other Income	2,027	9,767
	<u>1,124,868</u>	<u>512,661</u>
EXPENSES FROM CONTINUING OPERATIONS		
Hosting Fees	(250,709)	(170,274)
Advertising and marketing expenses	(115,469)	(75,852)
Conference and exhibition expenses	(72,646)	(59,865)
Professional fees	(220,609)	(163,761)
Employee and director expenses	(1,142,626)	(534,466)
Depreciation and amortisation	(142,371)	(1,279)
Office expenses	(199,091)	(64,168)
Other expenses from ordinary activities	(234,034)	(158,752)
NET LOSS BEFORE INCOME TAX	(1,252,687)	(715,756)
Income tax expense	<u>-</u>	<u>-</u>
NET LOSS FOR THE PERIOD	(1,252,687)	(715,756)
Other comprehensive income that may be reclassified to profit or loss		
– Exchange differences on translation of foreign subsidiaries	<u>56,373</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	(1,196,314)	(715,756)
Earnings per share		
Basic and diluted earnings per share – cents per share	(0.32)	(3.64)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

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Consolidated Statement of Financial Position as at 30 June 2017

	Note	30 June 2017	31 December 2016
		\$	\$
Current assets			
Cash and cash equivalents		1,540,599	5,338,507
Trade and other receivables		500,309	322,407
Other assets		89,418	96,472
Total current assets		2,130,326	5,757,386
Non current assets			
Property, plant and equipment		17,881	9,108
Intangible assets	5	1,243,108	1,142,632
Investment		8,353	9,135
Total non-current assets		1,269,342	1,160,875
Total assets		3,399,668	6,918,261
Current liabilities			
Trade and other payables		585,381	2,611,823
Deferred Income		44,821	45,542
Borrowings		-	295,116
Total current liabilities		630,202	2,952,481
Total liabilities		630,202	2,952,481
Net assets		2,769,466	3,965,780
Shareholders' equity			
Contributed equity	6	16,640,291	16,640,291
Reserves		48,425	(7,949)
(Accumulated losses)		(13,919,250)	(12,666,562)
Total shareholders' equity		2,769,466	3,965,780

The above statement of financial position should be read in conjunction with the accompanying notes.

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Consolidated Statement of Changes in Equity for the Half Year ended 30 June 2017

Consolidated Entity	Issued Capital	Share based payment reserve	Foreign exchange reserve	Accumulated losses	Non-controlling interest	Total
	\$	\$	\$	\$	\$	\$
Balance as at 1 January 2017	16,640,291	-	(7,949)	(12,666,562)	-	3,965,780
Loss for the period	-	-	-	(1,252,687)	-	(1,252,687)
Other comprehensive income	-	-	56,373	-	-	56,373
Total comprehensive income / (loss)	-	-	56,373	(1,252,687)	-	(1,196,314)
Balance as at 30 June 2017	16,640,291	-	48,424	(13,919,249)	-	2,769,466
Balance as at 1 January 2016	3,890,229	2,131,257	-	(5,448,116)	122,488	695,858
Loss for the period	-	-	-	(715,756)	-	(715,756)
Total comprehensive income / (loss)	-	-	-	(715,756)	-	(715,756)
Conversion of bonds	2,195,900	(2,124,134)	-	-	-	71,766
Conversion of options	9	(9)	-	-	-	-
Acquisition of Keygo Pte Ltd	141,437	-	-	-	(122,488)	18,949
Other share issues	139,454	-	-	-	-	139,454
Total transactions with owners and other transfers	2,476,800	(2,124,143)	-	-	(122,488)	230,169
Balance as at 30 June 2016	6,367,029	7,114	-	(6,163,872)	-	210,271

The above statement of changes in equity should be read in conjunction with the accompanying notes.

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Consolidated Statement of Cash Flows for the Half Year ended 30 June 2017

	Note	30 June 2017 \$	30 June 2016 \$
CASH FLOW FROM OPERATING ACTIVITIES			
Cashflow received from sales		965,625	387,234
Other income		2,028	9,954
Payments to suppliers and employees *		(4,212,552)	(1,216,104)
Interest paid		(7,374)	-
Net cash used in operating activities		(3,252,273)	(818,916)
CASH FLOW FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		(15,861)	(8,813)
Payment for development costs		(234,660)	(379,232)
Net cash used in investing activities		(250,521)	(388,045)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from capital raising		-	126,599
Proceeds from issue of Convertible Notes		-	432,100
Repayment of borrowings		(295,114)	-
Proceeds from borrowings		-	747,573
Net cash provided by financing activities		(295,114)	1,306,272
NET (DECREASE) / INCREASE IN CASH HELD		(3,797,908)	99,311
Cash and cash equivalent at beginning of financial period		5,338,507	16,373
Effects of changes in exchange rates		-	-
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		1,540,599	115,684

* The payments for the half-year to 30 June 2017 include one off transactions for loans, listing fees, broker payments and other costs related to the reverse acquisition and listing of Dropsuite on the ASX, as described in the most recent annual financial report.

The above statement of cash flows should be read in conjunction with the accompanying notes.

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Notes to the Financial Statements for the Half Year ended 30 June 2017

Note 1—Basis of Preparation of Half-Year Report

These general purpose financial statements for the half-year reporting period ended 30 June 2017 have been prepared in accordance with the requirements of AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, it is recommended that this report is read in conjunction with the annual report for the year ended 31 December 2016, together with any public announcements made during the following half year in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

These financial statements were authorised for issue by the board of directors on 28 August 2017.

Accounting Policies

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements.

The Group has considered the implications of new or amended Accounting Standards, but determined that their application to the financial statements is either not relevant or not material.

Estimates

When preparing the interim financial statements, management undertakes a number of judgments, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgments, estimates and assumptions made by management, and will seldom equal the estimated results.

The judgments, estimates and assumptions applied in the interim financial statements, including the key sources of estimation uncertainty were the same as those applied in the Group's last annual financial statements for the year ended 31 December 2016.

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Notes to the Financial Statements for the Half Year ended 30 June 2017

Note 1—Basis of Preparation of Half-Year Report (cont)

Going concern basis

The financial report has been prepared on the going concern basis, which contemplated the continuity of normal business activity and the realisation of assets and settlement of liabilities in the normal course of business.

The Group has incurred a net loss after tax for the half-year ended 30 June 2017 of \$1,252,687 (2016: loss of \$715,756) and has experienced net cash outflows from operating activities of \$3,252,273 (2016: \$818,916). As at 30 June 2017, the Group has a net current asset surplus of \$1,500,124 (31 December 2016: \$2,804,905).

The directors have considered the funding and operational status of the business in arriving at their assessment of going concern and believe that the going concern basis of preparation is appropriate, based upon the following:

- The ability of the Company to obtain funding through various sources, including debt and equity issues which are currently being investigated by management; and
- The ability to further vary cash flow depending upon the achievement of certain milestones within the business plan.

Note 2—Profit from Ordinary Activities

All revenue and expense items that are relevant in explaining the financial performance for the half-year have been included in the statement of profit or loss and other comprehensive income.

Note 3—Dividends

No dividends have been declared or paid during the period.

Note 4—Segment Reporting

Based on the information used for internal reporting purposes by the chief operating decision maker (being the Board), the Group operated in one reportable segment during the half-year ended 30 June 2017, being the provision of backup services.

The reportable segment financial information is therefore the same as the consolidated statement of financial position and the consolidated statement of profit or loss and other comprehensive income.

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Notes to the Financial Statements for the Half Year ended 30 June 2017

Note 5: Intangible Assets

	30 June 2017	31 December 2016
	\$	\$
Software Development – at cost	1,576,497	1,341,837
Less: accumulated amortisation	(333,389)	(199,205)
	<u>1,243,108</u>	<u>1,142,632</u>

Note 6— Contributed Equity

(a) Share Capital

	Note	30 June 2017	31 December 2016
		\$	\$
Fully paid Ordinary Shares: 400,206,001 (31 December 2016: 386,022,667)		<u>16,640,291</u>	<u>16,640,291</u>

	Half year to 30 June 2017	Half year to 30 June 2017
	\$	Number of shares
31 December 2016	16,640,291	386,022,667
Conversion of Performance Shares	-	14,183,334
30 June 2017	<u>16,640,291</u>	<u>400,206,001</u>

On 22 June 2017, Class D Performance Rights converted to ordinary shares upon achievement of milestone condition.

Note 7 —Contingent Liabilities

There are no contingent liabilities or contingent assets as at the date of this half yearly report.

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Notes to the Financial Statements for the Half Year ended 30 June 2017

Note 8 – Fair Value Measurement

a) Valuation techniques

The Group selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value. The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset or liability being measured. The valuation techniques selected by the Group are consistent with one or more of the following valuation approaches:

- Market approach: valuation techniques that use prices and other relevant information generated by market transactions for identical or similar assets or liabilities.
- Income approach: valuation techniques that convert estimated future cash flows or income and expenses into a single discounted present value.
- Cost approach: valuation techniques that reflect the current replacement cost of an asset at its current service capacity.

Each valuation technique requires inputs that reflect the assumptions that buyers and sellers would use when pricing the asset or liability, including assumptions about risks. When selecting a valuation technique, the Group gives priority to those techniques that maximise the use of observable inputs and minimise the use of unobservable inputs. Inputs that are developed using market data (such as publicly available information on actual transactions) and reflect the assumptions that buyers and sellers would generally use when pricing the asset or liability are considered observable, whereas inputs for which market data is not available and therefore are developed using the best information available about such assumptions are considered unobservable.

The following notes (b) and (c) provide the fair values of the Group's assets and liabilities measured and recognised on a recurring basis after initial recognition and their categorisation within the fair value hierarchy:

b) Financial Instruments

The fair values of the group's financial assets and financial liabilities equate to the carrying values at the respective reporting dates of 30 June 2017.

c) Fair value hierarchy

The fair values of financial assets and financial liabilities at balance date equate to their carrying values. All financial assets and liabilities are categorised as Level 3 hierarchy assets and liabilities except for cash, which is Level 1. The deferred consideration financial liabilities are deemed level 3 as it is based on the exchanged contracts at the time of acquisition.

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Notes to the Financial Statements for the Half Year ended 30 June 2017

Note 9—Events Occurring after the Balance Sheet Date

The directors are not aware of any significant events occurring after the balance sheet date as at the date of this half yearly report.

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Directors' Declaration

In the directors' opinion:

- (a) The financial statements and notes set out on pages 7 to 15 are in accordance with:
 - (i) Accounting Standard AASB 134 Interim Financial Reporting, other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance, for the half-year ended on that date; and
- (b) there are reasonable grounds to believe that Dropsuite Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of directors.

A handwritten signature in black ink, appearing to read 'Theo Hnarakis', with a long horizontal line extending to the right.

Theo Hnarakis

Director

Dated this 28th day of August 2017

Independent Auditor's Review Report

To the members of Dropsuite Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Dropsuite Limited, which comprises the statement of financial position as at 30 June 2017, the statement of profit or loss and other comprehensive income, statement of changes in equity and the statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 30 June 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*. As the auditor of Dropsuite Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Dropsuite Limited is not in accordance with the *Corporations Act 2001* including:

- (i) giving a true and fair view of the Dropsuite Limited's financial position as at 30 June 2017 and of its performance for the half-year ended on that date; and
- (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*

Greenwich & Co Audit Pty Ltd
Greenwich & Co Audit Pty Ltd

AM
Andrew May
Audit Director

28 August 2017
Perth