pieNETWORKS Limited

and its controlled entities

31 December 2010 condensed consolidated interim financial report

ABN 27 078 661 444

Contents

pieNETWORKS Limited and its controlled entities
DIRECTORS' REPORT

The directors present their report together with the condensed consolidated financial report for the half-year ended 31 December 2010 and the review report thereon.

Directors
The directors of the company at any time during or since the end of the half-year are:

Name	Period of directorship
Non-executive	
Peter Abery (Chairperson)	Director since 2007 – appointed Chairman 10 August 2010
Peter Gunzburg	Director since 2002
Craig Ferrier	Director since 2003
Bill Zikou	Director since 10 August 2010
Executive	
Campbell Smith Managing Director	Director since 1997 – appointed Managing Director 1999

Review of operations

Financial
The operating loss after income tax for the half-year ended 31 December 2010 was $1,834,792 (2009: $1,179,680).

The increase in operating loss is attributable to increased expenditure on the development and commercialisation of the Company's 2nd generation Hotspot Webphone product.

On 9th July 2010, the Company completed the second tranche of a $3 million placement to an institutional investor to raise $1,000,000 at $0.02 per share. Capital raising costs related to this placement were $50,000.

On 17th February 2011, the Company announced a 1 for 8 fully underwritten non-renounceable entitlement issue to raise $2.15 million to fund further market and product development and ongoing production of the Company's Hotspot Webphone.

Operational
The half-year ended 31 December 2010 saw a continued focus on the development and commercialisation of our 2nd Generation Hotspot Webphone. The Wifi Hotspot Webphone is a Voice over Internet Protocol ('VoIP') payphone, internet access terminal, Wifi hot spot and digital product terminal (e.g. phone ringtones, mobile phone 'top ups', music downloads, digital photograph uploads, bill payment, internet banking etc) - like an ATM for telecommunications.

During the half year, the Company began the deployment of a 50 unit Hotspot Webphone network under an agreement with Telstra. The agreement is for a four month assessment of the Hotspot Webphone's application in Australian market. Subject to the success of the market assessment, it is anticipated that the Group and Telstra will negotiate the terms for a large scale deployment of pieNetworks Hotspot Webphones.

The Company has also applied its efforts to building relationships within the telecommunications, media and other industry sectors. The Company has continued to invest substantially in product and market development, and in cultivating business relationships with potential partners, sales channels and customers for the Company's suite of products, particularly the Hotspot Webphone. The Company has also applied its efforts to building relationships within the telecommunications, media and other industry sectors.

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

The lead auditor's independence declaration is set out on page 21 and forms part of the directors' report for the half-year ended 31 December 2010.

Dated at Perth this 25th day of February 2011.

Signed in accordance with a resolution of the directors:

Campbell Smith
Managing Director

pieNETWORKS Limited and its controlled entities Condensed consolidated interim statement of comprehensive income

For the six months ended 31 December 2010

In AUD	31 Dec 2010	31 Dec 2009
Revenue from sale of goods	45,592	83,427
Revenue from rendering services	251,342	295,950
Cost of goods sold	(39,612)	(28,717)
Gross profit	257,322	350,660
Other revenues from ordinary activities	722	26,408
Service revenue expenses	(426,556)	(279,873)
Sales and marketing expenses	(268,181)	(267,947)
Research and development expenses	(670,283)	(507,781)
Administrative and corporate expenses	(714,805)	(489,417)
Other expenses from ordinary activities	(4,831)	(7,360)
Results from operating activities	(1,826,612)	(1,175,310)
Finance income	54,558	8,869
Finance expenses	(62,738)	(13,239)
Net finance expense	(8,180)	(4,370)
Loss before income tax	(1,834,792)	(1,179,680)
Income tax benefit	-	-
Loss after income tax attributable to Owners of the Company	(1,834,792)	(1,179,680)
Other comprehensive income:		
Foreign currency translation differences for foreign operations	22,155	-
Total comprehensive loss attributable to Owners of the Company	(1,812,637)	(1,179,680)
Earnings per share for loss attributable to the ordinary equity holders of the Company		
Basic loss per share (Cents)	0.22	0.20
Diluted loss per share (Cents)	0.22	0.20

The condensed consolidated interim statement of comprehensive income is to be read in conjunction with the condensed notes to the interim financial statements set out on pages 10 to 17.

pieNETWORKS Limited and its controlled entities Condensed consolidated interim statement of financial position

As at 31 December 2010

In AUD	*Note*	**31 Dec 2010**	**30 June 2010**
Current Assets			
Cash and cash equivalents	5	910,312	1,415,297
Trade and other receivables		224,887	326,053
Inventories		775,533	144,030
Income tax receivable		473	237,395
Other current assets		82,833	94,615
Total current assets		1,994,038	2,217,390
Non-current assets			
Restricted cash deposits	5	106,826	114,316
Property, plant and equipment		407,322	482,725
Intangible assets		817	1,367
Other non- current assets		-	254,368
Total non-current assets		514,965	852,776
Total assets		2,509,003	3,070,166
Current Liabilities			
Trade and other payables		306,388	269,670
Interest-bearing loans and borrowings		1,516	1,022
Employee benefits		181,533	174,822
Unearned revenue		330,991	281,872
Total current liabilities		820,428	727,386
Non-current Liabilities			
Interest-bearing loans and borrowings		8,140	-
Employee benefits		51,614	35,079
Total non-current liabilities		59,754	35,079
Total liabilities		880,182	762,465
Net assets		1,628,821	2,307,701
Equity			
Issued capital		24,342,077	23,572,077
Reserves		656,807	270,895
Accumulated losses		(23,370,063)	(21,535,271)
Total equity	6	1,628,821	2,307,701

The condensed consolidated interim statement of financial position is to be read in conjunction with the condensed notes to the interim financial statements set out on pages 10 to 17.

pieNETWORKS Limited and its controlled entities
Condensed consolidated interim statement of changes in equity

In AUD	Note	Share capital	Share option reserve	Translation reserve	Accumulated losses	Total equity
		Attributable to share holders of the Company				
Balance at 1 July 2009		19,857,327	226,588	-	(19,460,460)	623,459
Total comprehensive loss for the period						
Loss for the period			-	-	(1,179,680)	(1,179,680)
Other comprehensive income			-	-	-	-
Total comprehensive loss for the period			-	-	(1,179,680)	(1,179,680)
Transactions with Owners, recorded directly in equity						
Issue of ordinary shares, net of issue costs	6	1,493,250	-	-	-	1,493,250
Share based payment transactions	6		9,598	-	-	9,598
Total transactions with Owners		1,493,250	9,598	-	-	1,502,848
Balance at 31 December 2009		21,350,577	236,186	-	(20,640,136)	946,627

The condensed consolidated interim statement of changes in equity is to be read in conjunction with the condensed notes to the interim financial statements set outon pages 10 to 17.

pieNETWORKS Limited and its controlled entities
Condensed consolidated interim statement of changes in equity (Continued)

In AUD	Note	Attributable to share holders of the Company				
		Share capital	**Share option reserve**	**Translation reserve**	**Accumulated losses**	**Total equity**
Balance at 1 July 2010		23,572,077	270,895	-	(21,535,271)	2,307,701
Total comprehensive loss for the period						
Loss for the period		-	-	-	(1,834,792)	(1,834,792)
Other comprehensive income						
Foreign currency translation differences		-	-	22,155	-	22,155
Total comprehensive loss for the period		-	-	22,155	(1,834,792)	(1,812,637)
Transactions with Owners, recorded directly in equity						
Issue of ordinary shares, net of issue costs	6	770,000	-	-	-	770,000
Share based payment transactions	6	-	363,757	-	-	363,757
Total transactions with Owners		770,000	363,757	-	-	1,133,757
Balance at 31 December 2010		24,342,077	634,652	22,155	(23,370,063)	1,628,821

The condensed consolidated interim statement of changes in equity is to be read in conjunction with the condensed notes to the interim financial statements set out on pages 10 to 17.

pieNETWORKS Limited and its controlled entities
Condensed consolidated interim statement of cash flows

For the six months ended 31 December 2010

In AUD	*Note*	31 Dec 2010	31 Dec 2009
Cash flows from operating activities			
Cash receipts from customers		477,705	567,512
Cash paid to suppliers and employees		(2,210,131)	(1,716,869)
Cash (used in) operations		(1,732,426)	(1,149,357)
Research and development tax offset rebate received		237,395	396,012
Net cash used in operating activities		(1,495,031)	(753,345)
Cash flows from investing activities			
Acquisition of plant and equipment		(19,836)	(126,147)
Acquisition of intangible assets		(445)	-
Disposal of plant and equipment		15,680	-
Interest received		39,081	8,869
Net cash produced by/(used in) investing activities		34,480	(117,278)
Cash flows from financing activities			
Payment of finance lease liabilities		(871)	(1,864)
Proceeds from share issues	6	1,000,000	1,562,500
Payments for equity raising costs	6	(50,000)	(69,250)
Interest paid		(1,053)	(1,527)
Net cash provided by financing activities		948,076	1,489,859
Net (decrease)/increase in cash and cash equivalents		(512,475)	619,236
Cash and cash equivalents at 1 July		1,529,613	220,592
Cash and cash equivalents at 31 December	5	1,017,138	839,828

This condensed consolidated interim statement of cashflows is to be read in conjunction with the condensed notes to the interim financial statements set out on pages 10 to 17.

Condensed notes to the consolidated interim financial report

1. REPORTING ENTITY

pieNETWORKS Limited (the "Company") is a company domiciled in Australia. The condensed consolidated interim financial report of the Company as at and for the six months ended 31 December 2010 comprises the Company and its subsidiaries (together referred to as the "Group").

The consolidated annual financial report of the Group as at and for the year ended 30 June 2010 is available upon request from the Company's registered office at 75 Collingwood Street, Osborne Park, WA 6017 or at www.pienetworks.com.

2. STATEMENT OF COMPLIANCE

The condensed consolidated interim financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards AASB 134 *Interim Financial Reporting* and the Corporations Act 2001.

The condensed consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 30 June 2010.

This condensed consolidated interim financial report was approved by the Board of Directors on 22nd February 2011.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Group in this condensed consolidated interim financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 30 June 2010.

Going concern

The Group incurred a loss after tax for the period of $1,834,792 (2009: $1,179,680) and has a surplus in working capital at 31 December 2010 of $1,173,610 (30 June 2010: $1,490,004). During the period, the Group used cash of $1,732,426 (2009:$1,149,357) in its operations. The Group continues to have net cash outflows from its operations.

The accounts for the half year ended 31 December 2010 have been prepared on the basis of going concern, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

Directors believe this to be appropriate for the following reasons:

- The Group has been implementing a strategy over the past 12 to 18 months of establishing a Hotspot Webphone network to demonstrate the merits of its business model with the aim of then securing a major contract with a large telecommunications company capable of providing both capacity and scale. To this end:

Condensed notes to the consolidated interim financial report

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Going concern

- In 2010, the Group deployed its own network of 42 Hotspot Webphones in Westfield and AMP shopping centres in New Zealand which is now being utilised by the Group as a reference network for telecommunications companies.
- Additionally, in March 2010 the Group commenced discussions with Telstra on a trial for the Australian Market of Hotspot Webphones. In November 2010 a 4 month market assessment commenced with a network of 50 Hotspot Webphones deployed across Australia in the majority of major airports. Subject to the success of the market assessment, it is anticipated that the Group and Telstra will negotiate the terms for a large scale deployment of pieNetworks Hotspot Webphones.

- Subsequent to the end of the half year, the Group has announced a fully underwritten entitlement issue on the basis of 1 new shares for every 8 shares held, at 2 cents per share. The issue will raise $2.15 million before costs. The Group has been successful in raising new capital during the half-year and in the previous financial year totalling $4,862,500, notwithstanding the challenging status of the capital markets.
- The Group are continuing the pursuit of other business opportunities that, in the Directors opinion, warrant the ongoing commitment of the Group's financial resources.
- Directors have undertaken an analysis of the Group's minimum cash requirements for the 12 month period subsequent to the date of this report and are confident, subject to a capital raising as and when required, that the Group will have sufficient cash reserves for that period. The Directors anticipate on-going support from key stakeholders in the Group, as has been demonstrated to date.

For the reasons discussed above, the directors are confident that the Group will be able to continue its transformation into a 'telco grade' project management, software and hardware supplier.

Should the Group be unable to successfully commercialise its Webphone within a reasonable timeframe and/or be unable to successfully raise sufficient capital when required there is material uncertainty which may cast significant doubt as to whether the Group will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Condensed notes to the consolidated interim financial report

4. SUBSEQUENT EVENTS

Subsequent to 31 December 2010, the Company announced a 1 for 8 fully underwritten non-renounceable entitlement issue at 2 cents per share, to raise approximately $2.15 million. The proceeds of the issue will be used to fund further market and products development, as well as ongoing production and deployment of pieNETWORKS Hotspot Webphone and to provide working capital.

5. CASH AND CASH EQUIVALENTS

In AUD	**31 Dec 2010**	**30 June 2010**
Bank balances	68,218	46,761
Call deposits	328,459	868,536
Term deposits	513,635	500,000
Cash and cash equivalents included under current assets	**910,312**	1,415,297
Restricted term deposits*	106,826	114,316
Cash and cash equivalents included under non-current assets	**106,826**	114,316
Total cash and cash equivalents in statement of cashflows	**1,017,138**	1,529,613

*Restricted term deposits of $106,826 are being held by ASB bank New Zealand Ltd as security for bank guarantees of NZ$135,000 and NZ$5,700 in favour of Westfield New Zealand Limited and AMP Capital Property Portfolio Ltd, respectively.

Condensed notes to the consolidated interim financial report

CAPITAL AND RESERVES

6 During the six months ended 31 December 2010, the Company issued 50,000,000 shares (2009:156,250,000) to raise $1,000,000 (2009:$1,562,500), less issue costs of $230,000 (2009:$69,250) were incurred. At 31 December 2010, the Company had 860,768,454 ordinary shares in issue (30 June 2010: 810,768,454).

Movements in options during the half year to:

	31 December 2010		31 December 2009	
	Number of options	**Fair value** *In AUD*	**Number of options**	**Fair value** *In AUD*
Options on issue at 1 July	24,550,000		18,050,000	
Options granted to financial advisers	20,000,000	180,000	-	-
Options granted to employees and contractors	17,600,000	346,133	-	-
Options granted to Directors	4,000,000	48,000	16,500,000	44,307
Options expired	(8,050,000)	-	-	-
Options on issue at 31 December	58,100,000		34,550,000	

The Company granted 20,000,000 options to CPS securities in part consideration for fundraising and advisory services on 8 July 2010.These options vested on grant date and had the following terms and conditions:

Item	
Number of options	20,000,000
Exercise price	$0.05
Expiry date	31 March 2013

The fair value of these options at the grant date has been determined using the Binomial model, utilising the following model assumptions:

Item	
Underlying share spot price	$0.02
Exercise price	$0.05
Grant date	8 July 2010
Expiration date	31 March 2013
Life of options	2.73 years
Volatility	90%
Risk free rate	4.79%
Number of options	20,000,000
Fair value	$0.009

The full cost of these options has been recognised as issued capital costs.

Condensed notes to the consolidated interim financial report

6 CAPITAL AND RESERVES (Continued)

In addition, the Company granted 17,600,000 options to employees and contractors on 8 July 2010. The terms and conditions of these options are as follows:

Item	Tranche A	Tranche B	Tranche C
Number of options	5,866,667	5,866,667	5,866,667
Exercise price	$0.01	$0.01	$0.01
Expiry date	30 June 2015	30 June 2015	30 June 2015
Vesting period	12 months	24 months	36 months

Vesting conditions:
1. The Tranche A options vest after 12 months from the date of issue if at the anniversary the underlying shares have traded and are trading based on a 30 day average, at or above $0.03.
2. The Tranche B options vest after 24 months from the date of issue if at the anniversary the underlying shares have traded and are trading based on a 30 day average, at or above $0.05.
3. The Tranche C options vest after 36 months from the date of issue if at the anniversary the underlying shares have traded and are trading based on a 30 day average, at or above $0.07.

The fair value of these options at the grant date has been determined using the Binomial model, utilising the following model assumptions:

Item	Tranche A	Tranche B	Tranche C
Underlying share spot price	$0.02	$0.02	$0.02
Exercise price	$0.01	$0.01	$0.01
Share price barrier	$0.03	$0.05	$0.07
Grant date	8 July 2010	8 July 2010	8 July 2010
Expiration date	30 June 2015	30 June 2015	30 June 2015
Life of options	5 years	5 years	5 years
Volatility	90%	90%	90%
Risk free rate	4.79%	4.79%	4.79%
Number of options	5,866,667	5,866,667	5,866,667
Fair value	$0.02	$0.02	$0.019

Condensed notes to the consolidated interim financial report

6 CAPITAL AND RESERVES (Continued)

The Company also granted 3,000,000 and 1,000,000 director incentive share options to Messrs Peter Abery and Bill Zikou on 24 November 2010.These options vested on grant date and had the following terms and conditions:

Item	
Number of options	4,000,000
Exercise price	$0.03
Expiry date	30 November 2014

The fair value of these options at the grant date has been determined using the Binomial model, utilising the following model assumptions:

Item	
Underlying share spot price	$0.02
Exercise price	$0.03
Grant date	24 November 2010
Expiration date	30 November 2014
Life of options	4 years
Volatility	90%
Risk free rate	5.47%
Number of options	4,000,000
Fair value	$0.012

An amount of $363,757 has been recognised in the share option reserve with respect to the share based payment arrangements set out above.

7 OPERATING SEGMENTS

The Group has two reportable segments, as detailed below, which are the Group's strategic operational units. The strategic operational units operate in separate geographical locations and offer similar products and services, and are managed centrally because they require similar administrational, operational and marketing support. For each strategic operational unit, the CEO reviews internal management reports on a monthly basis. The following summary describes the operations in each of the Group's reportable segments:

- Australia – Includes manufacture, distribution and management of self service telecommunications infrastructure within Australia.

- New Zealand – Includes assembly, distribution and management of self service telecommunications infrastructure within New Zealand.

There is some level of integration between the two segments. The integration includes transfers of Hotspot Webphone units and component parts between the two segments. The accounting policies of the two segments are the same as those described in the 30 June 2010 Financial Report.

Condensed notes to the consolidated interim financial report

7 OPERATING SEGMENTS (Continued)

	Australia		New Zealand		Total	
In AUD	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
External revenue	267,473	380,702	30,183	25,082	297,656	405,784
Inter-segment revenue	13,854	461,408	-	-	13,854	461,408
Interest income	36,267	7,166	2,814	1,703	39,081	8,869
Interest expense	(1,053)	(1,526)	-	-	(1,053)	(1,526)
Depreciation and amortisation	(43,571)	(43,668)	(73,304)	(25,747)	(116,875)	(69,415)
Segment loss after tax	(1,643,491)	(836,569)	(204,701)	(97,775)	(1,848,192)	(934,344)
Segment assets	2,972,373	1,973,890	395,627	601,676	3,368,000	2,575,566
Segment liabilities	867,127	670,906	822,388	708,203	1,689,515	1,379,109

Condensed notes to the consolidated interim financial report

7 OPERATING SEGMENTS (Continued)

Reconciliation of reportable segment loss

In AUD	31 Dec 2010	31 Dec 2009
Loss		
Total loss for reportable segments	(1,848,192)	(934,344)
Elimination of inter-segment (profit)/loss	13,400	(245,350)
Unallocated amounts: other corporate expenses	-	14
Consolidated loss after tax	(1,834,792)	(1,179,680)

Directors' declaration

In the opinion of the directors of pieNETWORKS Limited ("the company"):

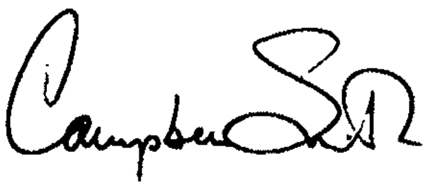
1. the financial statements and notes set out on pages 5 to 17, are in accordance with the Corporations Act 2001 including:
   (a) giving a true and fair view of the Group's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and

   (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

2. For the reasons set out in Note 3, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Perth this 25th day of February 2011.

Signed in accordance with a resolution of the directors:



Campbell Smith
Managing Director

Independent auditor's review report to the members of pieNETWORKS Limited

Report on the financial report

We have reviewed the accompanying interim financial report of pieNETWORKS Limited, which comprises the condensed consolidated interim statement of financial position as at 31 December 2010, condensed consolidated interim statement of comprehensive income, condensed consolidated interim statement of changes in equity and condensed consolidated interim statement of cash flows for the half year ended on that date, notes 1 to 7 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half year.

Directors' responsibility for the interim financial report

The directors of the company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the interim 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 interim 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 interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2010 and its performance for the half year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of pieNETWORKS Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a interim 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*.

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of independent member firms affiliated with KPMG International, a Swiss cooperative.

Conclusion

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

(a) giving a true and fair view of the Group's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material uncertainty regarding continuation as a going concern

Without qualification to the conclusion expressed above, attention is drawn to the following matter.

As detailed in Note 3, the Group's ability to continue as a going concern is dependant upon raising sufficient funding and/ or successfully commercialising its Webphone offering. The outcome of these activities cannot presently be determined with certainty.

Accordingly there is material uncertainty which may cast significant doubt as to whether the Group will be able to continue as a going concern and therefore whether it will be able to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

KPMG

KPMG

Matthew Beevers
Partner

Perth

25 February 2011

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

To: the directors of pieNETWORKS Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2010 there have been:

(i) no contraventions of the auditor independence requirements as set out in 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.

KPMG

KPMG

Matthew Beevers
Partner

Perth

25 February 2011

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