

For personal use only

vonex

Connecting You

ACN: 063 074 635

INTERIM FINANCIAL REPORT

FOR THE HALF-YEAR ENDED

31 DECEMBER 2017

CONTENTS

Directors' Report	3
Consolidated Statement of Profit or Loss and Other Comprehensive Income	6
Consolidated Statement of Financial Performance	7
Consolidated Statement of Changes in Equity	8
Consolidated Statement of Cash Flows	9
Notes to the Financial Statements	10
Directors' Declaration	21
Independent Auditor's Review Report	22
Auditor's Independence Declaration	24

For personal use only

DIRECTORS' REPORT

Your Directors submit their report for Vonex Limited ("Vonex" or "the Company") and controlled entities ("Consolidated Entity" or "Group") for the half-year ended 31 December 2017.

1. DIRECTORS

The Directors were in office for the entire period unless otherwise stated. The names of the consolidated entities Directors in office during the half-year and until the date of this report are as below:

- Mr Nicholas Ong – Non-Executive Chairman
- Mr Angus Parker - Managing Director (resigned 1 January 2018), now Chief Technology Officer
- Mr Matt Fahey – Managing Director
- Mr David Vilensky – Non-Executive Director
- Ms Winnie Lai Hadad – Non-Executive Director (appointed 1 January 2018)

2. RESULTS OF OPERATIONS

The financial results of the Group for the half-year ended 31 December 2017 are:

	31-Dec-17	30-Jun-17	% Change
Cash and cash equivalents (\$)	749,030	384,624	95%
Net liabilities (\$)	(2,618,278)	(3,170,377)	17%

	31-Dec-17	31-Dec-16	% Change
Revenue (\$)	4,033,449	3,370,937	20%
Net loss after tax (\$)	(1,771,345)	(7,970,242)	78%
Loss per share (cents)	(1.36)	(7.35)	82%

3. REVIEW OF OPERATIONS

During the Period the Company continued to grow its established cloud hosted PBX system and retail customer base. Total group revenues rose by 20% during the reporting period.

The Retail division under the brand, Vonex Telecom, continues to grow its sales revenues base achieved via the sale of IP hardware, full suite of telecommunication services including the provision of data, internet, voice (including IP voice) and billing services within Australia.

The reporting period has seen the Retail division achieve a 19% increase in its sales revenues along with a 23% net increase in customer accounts. . These results have continued to be driven solely via "organic" growth and "word of mouth" on the back of stronger brand exposure and recognition.

The Wholesale division has also continued to grow its sales revenues achieved via the offering of wholesale "white-label" hosted PBX services under license to Internet Service Providers (ISP's), Telco's and Cloud Vendors within Australia and Internationally. The reporting period has seen the Wholesale division achieve an 11% increase in its direct sales revenue along with a 21% increase in the user numbers hosted with Vonex.

DIRECTORS' REPORT

Vonex continues to be successful with the Research and Development (R&D) tax offset rebates. Works are in progress for the lodgement of the 2017 financial year claim and these results will be reported in the 2018 annual financial year report.

Corporate

Board Composition

Subsequent to the period and effective from 1 January 2018, Mr Angus Parker transitioned from CEO & Managing Director to his previous role as Chief Technology Officer, where he will be spearheading the development of Oper8tor, as well as the Company's numerous other technology products. Mr Matthew Fahey has moved from Chief Commercial Officer to the CEO & Managing Director role. Ms Winnie Lai Hadad has joined the Board as a Non-Executive Director to further strengthen the Company's corporate governance and commercial experience. Ms Hadad is a highly experienced lawyer, accountant and public company advisor.

Conditional and Partial Underwriting Arrangement for ASX Listing

On 7 November 2017 the Company entered into a conditional underwriting arrangement with State One Equities Pty Ltd (**State One**) to partially underwrite the Company's ASX listing up to \$5.5 million, subject to certain conditions, including:

- the Company receiving an in-principle confirmation from ASX to the proposed listing, and which is not subsequently withdrawn, qualified or withheld before completion of the Raising;
- the Company's Noteholders agree to extend the Term of the Convertible Notes to 30 April 2018 to accommodate the indicative closing date of the ASX listing expected to be on or prior to this latter date; and
- subject to appropriate level of sub-underwriting arrangements being made.

On 9 March 2018, State One has been appointed the Lead Manager for the Offers, and has agreed to underwrite the subscription of the first 27,500,000 of the New Shares to be issued under the Offers, up to the Underwritten Amount of \$5.5 million, on the terms and conditions set out in the Underwriting Agreement (see further details in Note 10).

On 30 November 2017 the Company received written confirmation from the ASX to the effect that the proposed structure and operations of the Company as submitted by the Company to the ASX are not unsuitable for listing on the ASX. In essence what this means is that subject to the Company meeting all of the standard requirements for admission which are set out in chapters 1 and 2 of the ASX Listing Rules, the Company is likely to be admitted to the official list of the ASX. The decision of the ASX above was in response to an in-principle application for advice lodged by the Board with ASX several weeks ago.

As a consequence of ASX's confirmation that the Company's structure and operations are not unsuitable for listing on the ASX, the Company lodged a Second Supplementary Prospectus dated 14 November 2017 with the Australian Securities & Investments Commission, formally withdrawing the Offer made under the Replacement Prospectus in respect of the Company's NSX Listing.

DIRECTORS' REPORT

Shareholder Meetings

At a shareholders' meeting held on 28 July 2017 shareholders approved, amongst other things, a consolidation of capital whereby the issued capital of the Company was consolidated on the basis that every five ordinary shares be consolidated into one ordinary share. In addition, shareholders approved the issue of 6 million ordinary shares and 34 million performance rights (on a post-consolidation basis) to Mr Angus Parker and Mr Matt Fahey as the inventors of the Oper8tor App in consideration for them executing a deed of confirmation of assignment of patent agreement to confirm the Company's ownership of the Oper8tor intellectual property.

The Company's annual general meeting was held on 30 November 2017 with the resolution to re-elect Mr David Vilensky passed by a show of hands.

Noteholder Meeting

On 15 December 2017 the Company advised that noteholders had approved the extension of the term of the outstanding convertible notes to 30 April 2018, with 100% of votes cast by noteholders voting in favour of the resolution.

4. AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration under Section 307C of the Corporations Act 2001 has been received and is included within the Interim Financial Report.

Signed in accordance with a resolution of the Board of Directors, pursuant to section 306(3)(a) of the Corporations Act 2001.



Matt Fahey
Managing Director

Dated this 12th day of March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	31-Dec-17	31-Dec-16
		\$	\$
Sales revenue		3,926,604	3,329,781
Cost of sales		(2,490,600)	(2,298,020)
Gross profit		1,436,004	1,031,761
Other revenues		106,845	41,156
Administration expenses		(309,288)	(185,557)
Amortisation		(37,801)	(37,563)
Audit fees		(52,000)	(32,200)
Bad & doubtful debt expenses		(17,981)	(10,061)
Contractor expenses		(158,719)	(255,260)
Depreciation expenses		(18,396)	(40,192)
Directors fees		(103,286)	(91,613)
Finance costs		(275,501)	(82,408)
Impairment		-	(242,551)
Insurance expense		(19,032)	(20,886)
Legal fees		(29,455)	(25,342)
Occupancy expenses		(135,544)	(118,806)
Share based payment expense	8	(1,298,241)	(6,991,066)
Travel expenses		(94,460)	(56,379)
Employee expenses		(764,490)	(853,275)
Loss before income tax		(1,771,345)	(7,970,242)
Income tax expense		-	-
Net loss for the period		(1,771,345)	(7,970,242)
Other comprehensive income / (loss)			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Other comprehensive income / (loss) for the year, net of tax		-	-
Total comprehensive loss for the period		(1,771,345)	(7,970,242)
Basic and diluted earnings per share of loss attributable to the owners of Vonex Limited (cents per share)		1.36	7.35

The accompanying notes form part of this interim financial report

VONEX LIMITED
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31-Dec-17	30-Jun-17
		\$	\$
CURRENT ASSETS			
Cash and cash equivalents		749,030	384,624
Trade and other receivables		699,860	809,766
Other current assets		120,702	58,141
TOTAL CURRENT ASSETS		<u>1,569,592</u>	<u>1,252,531</u>
NON CURRENT ASSETS			
Intangible assets	4	1,012,196	447,652
Property, plant and equipment		140,467	157,339
Other non-current assets		43,060	42,030
TOTAL NON CURRENT ASSETS		<u>1,195,723</u>	<u>647,021</u>
TOTAL ASSETS		<u>2,765,315</u>	<u>1,899,552</u>
CURRENT LIABILITIES			
Trade and other payables		2,270,502	2,267,683
Provisions		341,000	324,000
Borrowings	5	2,662,091	2,378,430
TOTAL CURRENT LIABILITIES		<u>5,273,593</u>	<u>4,970,113</u>
NON-CURRENT LIABILITIES			
Provisions		101,332	91,148
Borrowings	5	8,668	8,668
TOTAL NON-CURRENT LIABILITIES		<u>110,000</u>	<u>99,816</u>
TOTAL LIABILITIES		<u>5,383,593</u>	<u>5,069,929</u>
NET LIABILITIES		<u>(2,618,278)</u>	<u>(3,170,377)</u>
EQUITY			
Issued capital	6	23,326,770	22,301,567
Reserves	7	3,629,699	2,331,458
Accumulated losses		(29,574,747)	(27,803,402)
TOTAL EQUITY		<u>(2,618,278)</u>	<u>(3,170,377)</u>

The accompanying notes form part of this interim financial report

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued Capital	Accumulated Losses	Reserves	Total
	\$	\$	\$	\$
At 1 July 2016	16,014,130	(18,065,583)	19,114	(2,032,339)
Comprehensive income:				
Loss for the period	-	(7,970,242)	-	(7,970,242)
Total comprehensive income / (loss) for the period	-	(7,970,242)	-	(7,970,242)
Transactions with owners, in their capacity as owners				
Share-based payment – performance shares and rights	6,000,000	-	991,066	6,991,066
At 31 December 2016	22,014,130	(26,035,825)	1,010,180	(3,011,515)
At 1 July 2017	22,301,567	(27,803,402)	2,331,458	(3,170,377)
Comprehensive income:				
Loss for the period	-	(1,771,345)	-	(1,771,345)
Total comprehensive income / (loss) for the period	-	(1,771,345)	-	(1,771,345)
Transactions with owners, in their capacity as owners				
Issue of shares (net of costs)	1,025,203	-	-	1,025,203
Share-based payment – performance shares and rights	-	-	1,298,241	1,298,241
At 31 December 2017	23,326,770	(29,574,747)	3,629,699	(2,618,278)

The accompanying notes form part of this interim financial report

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	31-Dec-17 \$	31-Dec-16 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		4,075,814	3,300,771
Payments to suppliers and employees		(4,097,724)	(3,817,621)
Interest paid		(58,600)	(6,272)
Interest received		2,025	1,854
Net cash used in operating activities		<u>(78,485)</u>	<u>(521,268)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		(669)	(177,486)
Receipt of capital grants		-	145,214
Payment for research and development (intangibles)		(3,200)	-
Net cash used in investing activities		<u>(3,869)</u>	<u>(32,272)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from borrowings		446,760	244,336
Net cash received by financing activities		<u>446,760</u>	<u>244,336</u>
Net decrease in cash and cash equivalents		364,406	(309,204)
Cash and cash equivalents at the beginning of the financial year		384,624	581,540
Cash and cash equivalents at end of the financial year		<u>749,030</u>	<u>272,336</u>

The accompanying notes form part of this interim financial report

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION OF THE INTERIM FINANCIAL REPORT

Basis of Preparation

These general purpose financial statements for the interim half-year reporting period ended 31 December 2017 have been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards including AASB 134: "Interim Financial Reporting". Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 134 "Interim Financial Reporting".

This interim financial report does not include full disclosures of the type normally included in an annual report. It is recommended that this interim financial report be read in conjunction with the annual financial report for the year ended 30 June 2017 and any public announcements made by Vonex Limited during the half-year reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

A summary of the material accounting policies adopted by the consolidated entity in the preparation of the financial report can be found in the annual financial report for the year ended 30 June 2017. The accounting policies have been consistently applied, unless otherwise stated.

New and Revised Accounting Standards and Interpretations

The consolidated entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are mandatory for the current reporting period. The adoption of these new and revised Accounting Standards and Interpretations has not resulted in a significant or material change to the consolidated entity's accounting policies.

Any new or amended Accounting Standards or interpretations that are not yet mandatory have not been early adopted.

Going Concern

The interim financial report has been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

As disclosed in the interim financial report, the consolidated entity incurred a loss of \$1,771,345 and had net cash operating outflows of \$78,485 for the half-year ended 31 December 2017. As at that date, the consolidated entity had net current liabilities of \$3,704,001 and net liabilities of \$2,618,278.

The Directors believe that there are reasonable grounds to believe that the consolidated entity will continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of the financial report because the consolidated entity is currently preparing a capital raising prospectus to list on the Australian Securities Exchange to raise up to \$7 Million through the issue of up to 35,000,000 new shares at an issue price of \$0.20 each. In addition, the consolidated entity has entered into a conditional and partial underwriting agreement with State One Equities Pty Ltd (**State One**) to underwrite the Company's ASX listing up to \$5.5 million on 9 March 2018. State One has been appointed the Lead Manager for the Offers, and has agreed to underwrite the subscription of the first 27,500,000 of the New Shares to be issued under the Offers, up to the Underwritten Amount, on the terms and conditions set out in the Underwriting Agreement .

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION OF THE INTERIM FINANCIAL REPORT (Continued)

Accordingly, the Directors believe that the consolidated entity will be able to continue as a going concern and that is appropriate to adopt the going concern basis in the preparation of the financial report.

If the consolidated entity is not successful in meeting the required conditions for a listing on Australian Securities Exchange, there is significant uncertainty as to whether the consolidated entity will 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.

The financial report does not include any adjustments relating to the amounts or classification of recorded assets or liabilities that might be necessary if the consolidated entity does not continue as a going concern.

2. DIVIDENDS

There have been no dividends declared or recommended and no distributions made to shareholders or other persons during the period.

3. SEGMENT INFORMATION

Identification of reportable segments

The Group has identified its operating segments based the Group's service offerings, which represents retail and wholesale services within the telecommunications industry. The two main operating segments are:

Retail: engaged in the sale of hardware and the full suite of telecommunication services including the provision of data, internet, voice (including IP voice) and other services within Australia.

Wholesale: engaged in offering wholesale "white-label" hosted PBX services under license for Internet Service Providers ("ISP's"), Telco's and Cloud Vendors within Australia and Internationally.

Corporate: engaged in managing the corporate affairs of the group, including capital-raising and listing endeavours.

Basis of accounting for purposes of report by operating segments

Unless stated otherwise, all amounts reported within the operating segments are by determined in accordance with accounting standards adopted within the annual financial statements.

Segment assets and liabilities

Segment assets and liabilities have been identified based where the direct relationship that exists in the provision of services within the two main operating segments.

Unallocated items

Items of revenue, expense, assets and liabilities that are not allocated to operating segments if they are considered part of the core operations of any segment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SEGMENT INFORMATION (Continued)

The segment information provided to the Board of Directors for the reportable segments for the period ended 31 December 2017 are as follows:

31 December 2017	Wholesale AUSTRALIA	Retail AUSTRALIA	Corporate AUSTRALIA	Consolidated
	\$	\$	\$	\$
Revenue	532,771	3,412,363	88,315	4,033,449
Total segment revenue	532,771	3,412,363	88,315	4,033,449
Segment result before income tax	63,445	546,498	(2,381,288)	(1,771,345)
Loss before income tax				(1,771,345)
Segment assets	152,948	1,024,515	1,587,852	2,765,315
Total assets				2,765,315
Segment liabilities	408,751	989,903	3,984,938	5,383,593
Total Liabilities				5,383,593

31 December 2016	Wholesale AUSTRALIA	Retail AUSTRALIA	Corporate AUSTRALIA	Consolidated
	\$	\$	\$	\$
Revenue	489,697	2,880,501	739	3,370,937
Total segment revenue	489,697	2,880,501	739	3,370,937
Segment result before income tax	(35,733)	244,734	(8,179,243)	(7,970,242)
Loss before income tax				(7,970,242)
Segment assets	259,399	734,373	599,921	1,593,694
Total assets				1,593,694
Segment liabilities	367,126	884,918	3,353,165	4,605,209
Total Liabilities				4,605,209

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SEGMENT INFORMATION (Continued)

<i>Segment performance</i>	31 December 2017			31 December 2016		
	Wholesale	Retail	Corporate	Wholesale	Retail	Corporate
External customer sales	515,271	3,411,333	-	465,966	2,863,815	-
Other revenues	17,500	-	87,319	3,731	15,571	-
Interest received	-	1,030	996	20,000	1,115	739
Total segment revenues	532,771	3,412,363	88,315	489,697	2,880,501	739
Segmented operating loss	63,445	546,498	(2,381,288)	(35,733)	244,734	(8,179,243)
Reconciliation of segment result to net profit / (loss) before tax	(1,771,345)			(7,970,242)		
Amounts not included in segment						
- Unallocated items	-			-		
Net profit/(loss) before tax from continuing operations	(1,771,345)			(7,970,242)		

<i>Segment assets</i>	31 December 2017			30 June 2017		
	Wholesale	Retail	Corporate	Wholesale	Retail	Corporate
Cash and cash equivalents	14,437	464,458	270,135	88,360	294,500	1,765
Trade and other receivables	91,410	485,496	122,954	93,025	348,436	368,305
Other assets	125	54,983	108,655	454	58,965	40,752
Intangibles	8,917	750	1,002,528	26,782	858	420,012
Property, plant & equipment	38,059	18,828	83,580	45,720	20,432	91,186
Total segment assets from continuing operations	152,948	1,024,515	1,587,852	254,341	723,191	922,020
Reconciliation of segment assets	2,765,315			1,899,552		
Unallocated assets	-			-		
Total assets from continuing operations	2,765,315			1,899,552		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SEGMENT INFORMATION (Continued)

<i>Segment liabilities</i>	31 December 2017			30 June 2017		
	Wholesale	Retail	Corporate	Wholesale	Retail	Corporate
Trade and other payables	298,824	898,362	1,073,316	274,024	741,744	1,251,916
Borrowings (including related parties)	39,611	27,577	2,603,571	42,344	34,316	2,310,438
Provisions	70,316	63,964	308,052	61,747	56,302	297,098
Total segment liabilities from continuing operations	408,751	989,903	3,984,939	378,115	832,362	3,859,452
Reconciliation of segment liabilities	5,383,593			5,069,929		
Unallocated liabilities	-			-		
Total liabilities from continuing operations	5,383,593			5,069,929		

4. INTANGIBLE ASSETS

	31-Dec-17	30-Jun-17
	\$	\$
Customer list	720,081	720,081
Less: Accumulated amortisation	(336,110)	(300,069)
	<u>383,971</u>	<u>420,012</u>
Borrowing Costs - at cost	935	935
Less: Accumulated amortisation	(643)	(526)
	<u>292</u>	<u>409</u>
Intellectual Property Patent - Oper8tor (i)	600,000	-
	<u>600,000</u>	<u>-</u>
Patents and trademarks - at cost	33,133	29,933
Less: Accumulated amortisation	(7,271)	(4,773)
	<u>25,862</u>	<u>25,160</u>
Domain name acquisition	2,071	2,071
	<u>2,071</u>	<u>2,071</u>
	<u>1,012,196</u>	<u>447,652</u>

- (i) On 28 July 2017 and subsequent to shareholder approval, the Company issued 6,000,000 post consolidation fully paid ordinary shares for assignment of the intellectual property relating to the communication platform known as Oper8tor to the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. BORROWINGS

	31-Dec-17	30-Jun-17
	\$	\$
CURRENT		
Unsecured		
Loans from related parties – non-interest bearing	30,000	30,000
Loans from related parties – interest bearing	21,322	26,176
Convertible notes (i)	432,436	407,759
Other financial liabilities	-	430,000
	483,758	893,935
Secured		
Convertible notes (ii)	2,171,135	1,472,679
Commercial loans - interest bearing	7,198	11,816
	2,178,333	1,484,495
	2,662,091	2,378,430
NON CURRENT		
Secured		
Commercial loans – interest bearing	8,668	8,668
	8,668	8,668

(i) On 27 April 2017 the Company raised \$400,000 via the issue of a senior unsecured convertible note which is convertible into fully paid ordinary shares upon certain terms and conditions. The face value of the notes is \$1 and have a maturity date of 24 months from the date of the agreement. The convertible notes will accrue interest at a rate of 12% per annum, calculated every six months and added to the note face value. The convertible note will convert into ordinary shares upon completion of an initial public offering, reverse takeover or introduction to trading on the Australian Securities Exchange or equivalent overseas stock exchange at a price equal to 80% of the IPO price.

(ii) Conversion of the secured convertible note is equal to face value divided by the capital raising price of \$0.16c (unless there is any further capital raised by the Company at a lower price) and written notice to the Company of its intention to convert the principal amount and/or accrued interest to shares. The maturity date is the earlier of (a) the date of conversion, (b) The date of redemption, or (c) any earlier date which the company repays the Convertible Note. Interest is calculated at a rate of 25% per annum compounding monthly of the Face Value from 26 April 2017 and will be calculated to 30 April 2018 even if an ASX listing was achieved by the Company prior to this date. The expiry of the facility is 30 April 2018. The Noteholders will also be entitled to be issued by the Company one free attaching option (Note Options) for each share issued to Noteholders respectively following the conversion and the Exercise Price for the Note Options would be \$0.20 with an expiry date of 30 November 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. ISSUED CAPITAL

a) Ordinary Shares

	31-Dec-17		30-Jun-17	
	\$	No.	\$	No.
Fully paid ordinary shares	23,326,770	131,930,890	22,301,567	608,398,417
Movement in ordinary shares	\$	No.	Issue price	
Balance at 30 June 2017	22,301,567	608,398,417		
Issue of shares – Acquisition of Intellectual Property	600,000	30,000,000	0.02	
Share Capital Consolidation (1:5)		(510,719,557)		
Shares issued in settlement of trade payables	45,203	452,030	0.10	
Shares issued in settlement of borrowings	380,000	3,800,000	0.10	
Balance at 31 December 2017	23,326,770	131,930,890		

b) Unlisted Options

On 22 September 2017, the Company issued 267,500 options, each exercisable at \$0.45 with a three-year expiry period and two-year escrow period, for services provided in relation to convertible loan funds raised. The balance of unlisted options at 31 December 2017 is 267,500.

7. RESERVES

	31-Dec-17	30-Jun-17
	\$	\$
Asset revaluation	19,114	19,114
Share based payments reserve	3,605,501	2,312,344
Option reserve	5,084	-
	3,629,699	2,331,458

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. SHARE BASED PAYMENTS

The total expense arising from share based payment transactions recognized during the period in relation to the performance rights, performance shares and options issued amounted to \$1,298,241.

Date Issued	Type	Class/ Tranche	Number (Outstanding)	Vesting Date or expiry date.	Share based payment expense (\$)
20 September 2016	Performance Rights – Key Personnel	1	Forfeited	Forfeited (i)	(272,145)
20 September 2016	Performance Rights – Key Personnel	2	Vested	23/06/2017	-
20 September 2016	Performance Rights - Key Personnel	3	7,800,000	12/07/2022	58,981
20 September 2016	Performance Shares – Vendor	A	Vested	20/09/2016	-
20 September 2016	Performance Shares – Vendor	B	133,333,333	08/02/2019 (ii)	1,267,509
20 September 2016	Performance Shares – Vendor	C	133,333,334	20/09/2019 (ii)	-
	Consolidation (1:5)		54,893,333		
14 July 2017	Performance Rights –Vodia	1	356,000	30/04/2018	20,025
14 July 2017	Performance Rights –Vodia	2	100,000	01/07/2018	4,685
14 July 2017	Performance Rights –Vodia	3	100,000	01/07/2019	2,342
14 July 2017	Performance Rights –Vodia	4	100,000	01/07/2020	1,560
28 July 2017	Performance Rights - Key Personnel	1	14,520,000	28/07/2022 (iii)	-
28 July 2017	Performance Rights – Key Personnel	2	9,680,000	28/07/2021	105,100
28 July 2017	Performance Rights - Key Personnel	3	9,680,000	28/07/2021	105,100
28 July 2017	Performance Rights - IP	1	4,000,000	28/07/2022	-
28 July 2017	Performance Rights - IP	2	10,000,000	28/07/2022	-
28 July 2017	Performance Rights - IP	3	20,000,000	28/07/2022	-
22 September 2017	Facilitation Options		267,500	22/09/2020	5,084
Total			123,696,833		1,298,241

- i) Performance rights were forfeited and amounts previously recorded was reversed during the period as the vesting conditions were not satisfied. On 13 February 2018, as a result of the forfeiture the company cancelled these performance rights.
- ii) On 29 January 2018 , Variation to the terms of Class B and Class C Performance Shares by adding an additional performance milestone to Milestone 2, such that each Class B and Class C Performance Share may also convert into one ordinary fully paid share in the Company on the occurrence of the Company listing on the Australian Securities Exchange.
- iii) On 29 January 2018, the performance rights relating to Trache 1 were amended such that the 14,520,000 vest upon successful listing on the Australian Securities Exchange.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. SHARE BASED PAYMENTS (Continued)

Issued during the half year:

Performance Rights – Vodia Networks Inc - 14 July 2017

Vonex Ltd issued 656,000 performance rights to Vodia Networks Inc in four tranches. Each performance right will convert into 1 ordinary share of Vonex Ltd upon achievement of the performance milestone. The company has assessed each class as being probable of being achieved and have therefore recognized an expense over the expected vesting period.

The details of each tranche are tabled below:

Tranche	Number	Start Date	Exercise Price	Expiry Date of Milestone Achievements	Underlying Share Price	Total Fair Value
1	356,000	14/07/17	Nil	30/04/2018	\$0.10	\$35,600
2	100,000	14/07/17	Nil	01/07/2018	\$0.10	\$10,000
3	100,000	14/07/17	Nil	01/07/2019	\$0.10	\$10,000
4	100,000	14/07/17	Nil	01/07/2020	\$0.10	\$10,000

These performance rights were valued at \$65,600 on their grant date. Expenses of \$28,612 have been recognized during the period as these performance rights are expensed over the expected vesting periods.

Performance Milestones:

1. Performance rights convert upon the Company's admission to the official list of the Australian Securities Exchange (ASX).
2. Performance Rights convert on 1 July 2018.
3. Performance Rights convert on 1 July 2019.
4. Performance Rights convert on 1 July 2020.

Performance Rights – Key Personnel – 28 July 2017

On 28 July 2017, Vonex Ltd issued 33,880,000 performance rights to management. These performance rights were issued in three tranches, each with different performance milestones. Each performance right will convert into 1 ordinary share of Vonex Ltd upon achievement of the performance milestone.

The company has assessed tranche 2 and 3 as being probable of being achieved and have therefore recognized an expense over the expected vesting period. Trench 1 was not deemed probable due to the fact it required a successful listing on an alternative securities exchange other than the Australian Securities Exchange.

The details of each class are tabled below:

Tranche	Number	Start Date	Exercise Price	Expiry Date of Milestone Achievements	Underlying Share Price	Total Fair Value
1	14,520,000	28/07/17	Nil	28/07/2022	\$0.10	\$0
2	9,680,000	28/07/17	Nil	28/07/2021	\$0.10	\$968,000
3	9,680,000	28/07/17	Nil	28/07/2021	\$0.10	\$968,000

These performance rights were valued at their issue dates at \$1,936,000. Expenses of \$210,200 have been recognised during the period as these performance rights are expensed over the expected vesting periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. SHARE BASED PAYMENTS (Continued)

Performance Milestones:

1. Vonex Ltd successful listing on an alternative securities exchange other than the Australian Securities Exchange. This milestone expires five years from the date of shareholder approval (28 July 2022).
2. Vonex achieving audited gross revenue of \$15 million in a financial year. This milestone expires five years from the date of shareholder approval (28 July 2022).
3. Vonex achieving audited net profit after tax of \$1 million in a financial year. This milestone expires five years from the date of shareholder approval (28 July 2022).

Performance Rights – Intellectual Property Consideration Securities – 28 July 2017

On 28 July 2017, Vonex Ltd issued 34,000,000 performance rights to Mr Angus Parker and Mr Matt Fahey as the inventors of the Oper8tor App in consideration for them executing a deed of confirmation of assignment of patent agreement to confirm the Company's ownership of the Oper8tor intellectual property.

No value has been allocated to the performance rights due to significant uncertainty of the meeting the performance milestone which are based on future events.

Performance Milestones:

- a) 4,000,000 Performance Rights which shall vest and convert into ordinary fully paid shares in the issued share capital of the Assignee upon completion of the beta version of the Oper8tor App and commencement of the official Oper8tor launch in Europe;
- b) 10,000,000 Performance Rights which shall vest and convert into ordinary fully paid shares in the issued share capital of the Assignee when Oper8tor reaches 10 million Active Users; and
- c) 20,000,000 million Performance Rights which shall vest and convert into ordinary fully paid shares in the issued share capital of the Assignee when Oper8tor reaches 50 million Active Users.

Facilitation Options– 22 September 2017

On 22 September 2017, Vonex Ltd issued 267,500 options exercisable at 45c each on or before the date that is 3 years from the date of issue pursuant to the Facilitation Mandate, in consideration for the introduction of investors.

9. CONTINGENT ASSETS AND LIABILITIES

There are no contingent assets and liabilities at the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. EVENTS SUBSEQUENT TO REPORTING DATE

On 29 January 2018 the Company held a shareholder meeting where shareholders approved the following resolutions:

- A consolidation of capital on the basis that two (2) Ordinary Shares be consolidated into one (1) Ordinary Share;
- The issue of up to 35,000,000 Ordinary Fully Paid shares (on a post consolidation bases) to raise up to \$7 million;
- Variation to the terms of the Class B Performance Shares by adding an additional performance milestone to Milestone 2, such that each Class B Performance Share may also convert into one ordinary fully paid share in the Company on the occurrence of the Company listing on the Australian Securities Exchange;
- Variation to the terms of the Class C Performance Shares by adding an additional performance milestone to Milestone 2, such that each Class C Performance Share may also convert into one ordinary fully paid share in the Company on the occurrence of the Company listing on the Australian Securities Exchange; and
- The performance rights issued on the 28 July relating to Tranche 1 were amended such that the 14,520,000 (pre consolidated basis) performance rights vest upon successful listing on the Australian Securities Exchange.

Tranche 1 Performance Rights issued on 20 September 2016 were forfeited and amounts previously recorded were reversed during the period as the vesting conditions were not satisfied. On 13 February 2018, as a result of the forfeiture the company cancelled the 780,000 (post-second share consolidation) director performance rights.

On 9 March 2018, State One has been appointed the Lead Manager for the Offers, and has agreed to underwrite the subscription of the first 27,500,000 of the New Shares to be issued under the Offers, up to the Underwritten Amount of \$5.5 million, on the terms and conditions set out in the Underwriting Agreement. The obligation of the Lead Manager to manage and underwrite the Offers up to the Underwritten Amount are conditional upon a number of specific conditions precedent which are outlined in the Underwriting Agreement.

Other than the above there are no other matters or circumstances that have arisen since 31 December 2017 that have or may significantly affect the operations, results, or state of affairs of the consolidated entity in future financial periods.

DIRECTORS' DECLARATION

The Directors of Vonex Limited declare that:

1. The consolidated financial statements and notes, as set out in this half-year financial report:
 - a. comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Act 2001; and
 - b. Give a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date.
2. In the Director's opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The declaration is made in accordance with a resolution of the Board of Directors made pursuant to section 303(5)(a) of the Corporations Act 2001.



Matt Fahey

Executive Director

Dated this 12th day of March 2018

RSM Australia Partners

Level 32, Exchange Tower
2 The Esplanade Perth WA 6000
GPO Box R1253 Perth WA 6844

T +61 (0) 8 92619100
F +61 (0) 8 92619111

www.rsm.com.au

**INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF
VONEX LIMITED**

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Vonex Limited which comprises the statement of financial position as at 31 December 2017, the statement of profit or loss and other comprehensive income, statement of changes in equity and 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 of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

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 half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 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 Vonex 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.

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM Australia Partners is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm which practices in its own right. The RSM network is not itself a separate legal entity in any jurisdiction.

RSM Australia Partners ABN 36 965 185 036

Liability limited by a scheme approved under Professional Standards Legislation

For personal use only

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Vonex Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

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 Vonex Limited is not in accordance with the *Corporations Act 2001* including:

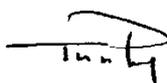
- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Material Uncertainty Related to Going Concern

We draw attention to Note 1, which indicates that the consolidated entity incurred a net loss of \$1,771,345 and had net cash outflows from operating activities of \$78,485 for the half-year ended 31 December 2017 and, as of that date, the consolidated entity had net current liabilities of \$3,704,001 and net liabilities of \$2,618,278. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the consolidated entity's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.



RSM AUSTRALIA PARTNERS



TUTU PHONG
Partner

Perth, WA
Dated: 12 March 2018

For personal use only



RSM Australia Partners

Level 32, Exchange Tower
2 The Esplanade Perth WA 6000
GPO Box R1253 Perth WA 6844

T +61 8 9261 9100
F +61 8 9261 9111

www.rsm.com.au

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Vonex Limited for the half-year ended 31 December 2017, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

RSM AUSTRALIA PARTNERS

TUTU PHONG
Partner

Perth, WA
Dated: 12 March 2018

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM Australia Partners is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm which practices in its own right. The RSM network is not itself a separate legal entity in any jurisdiction.

RSM Australia Partners ABN 36 965 185 036

Liability limited by a scheme approved under Professional Standards Legislation

For personal use only