

DROPSUITE LIMITED & CONTROLLED ENTITIES

ABN 008 021 118

ASX APPENDIX 4D FOR THE SIX MONTHS ENDED 30 JUNE 2019

The following information should be read in conjunction with both the Financial Report for the year ended 31 December 2018 and the Interim Report for the half year ended 30 June 2019 and the attached auditors' review report.

This Appendix 4D is prepared in accordance with ASX Listing Rule 4.2A.3.

Reporting period: Half-year from 1 January 2019 to 30 June 2019

Previous corresponding period: Half-year from 1 January 2018 to 30 June 2018

Results for announcement to the market

Dropsuite Limited (DSE) and its controlled entities' (the Dropsuite Group or Group) Results for Announcement to the Market are detailed below:

Financial Results

	June 2019	June 2018	Change
Revenue and other income	2,346,121	1,913,476	23%
EBITDA	(1,079,126)	(769,806)	(40%)
Profit before tax	(1,453,227)	(836,680)	(74%)
Profit after tax	(1,453,227)	(836,680)	(74%)

Dividends

No interim dividend will be paid in relation to the half-year ended 30 June 2019.

Explanation of results

Please refer to the 'Directors Report' for an explanation of the results.

This information should be read in conjunction with the Consolidated Annual Financial Report of the Dropsuite Group for the year ended 31 December 2018.

This report should also be read in conjunction with any public announcements made by Dropsuite in accordance with the continuous disclosure requirements arising under the Corporations Act 2001 and ASX Listing Rules.

The information provided in the report contains all the information required by ASX Listing Rule 4.2A.

Details of individual and total dividends and payment dates

No dividends have been declared by the Company.

Dates: 30 August 2019



Julian Rockett

Company Secretary

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DROPSUITE LIMITED

ACN 008 021 118

INTERIM REPORT

FOR THE HALF YEAR ENDED 30 June 2019

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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 2019.

Directors

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

Principal activities

Dropsuite's Cloud platform allows businesses to easily backup, archive, discover and recover their data to protect themselves from all forms of data loss and to help them comply with privacy regulations. Provisioning, onboarding, user management and billing happens seamlessly through our partners who have at their disposal Dropsuite's APIs and plug-ins to integrate the Dropsuite backup software into their infrastructure.

Dropsuite's engineering team has developed the backup technology on a state-of-the-art software architecture that is both modular and scalable. Dropsuite's software platform has been built for successful horizontal scaling and has demonstrated strong ability to scale to hundreds of thousands of users worldwide.

Key Highlights of 1H 2019

- Revenue up 23% year on year
- Diversification of the revenue base through a 30% increase in new partner numbers to 183.
- The revenue contribution from the top 10 partners reducing from 91% to 75%.
- Further improvement and enhancement of its market-leading Email Backup and Archiving platform.
- Annualised Recurring Revenue forecast to grow to between \$4.8M-\$5M by end of December 2019.

Results overview

	30 June 2019	30 June 2018
Net Revenue	2,346,121	1,913,476
Operating EBITDA	(1,079,126)	(769,806)
Operating NPAT	(1,453,227)	(836,680)
Operating Cash flow	(1,277,799)	(688,190)
Cash and cash equivalents	2,197,907	4,034,184

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Financial and Business Highlight

Revenue of \$2.3m for the first half of 2018 (up 23% PCP) was encouraging and reflects the diversification of revenue derived from our top partners. Whilst Annualised Run Rate declined due to website back migration and email back deactivations, we have promising traction from new Reseller partnerships.

The half-year loss of \$1.45m reflects the investment in resources to expand our platform capabilities this year and a reduction in Gross Margin to 68% due to lower margin email backup and archiving, and a material increase in backup data across our data centres. Cash at hand of \$2.2m is down 45% PCP, with a focus on OpEx reduction in 2H19.

Product Update

In the first half of 2019, the Company continued its focus on bolstering and expanding the Email Backup and Archiving platform. From boosting security, ensuring availability on a private cloud platform in Europe, and by adding several new features to strengthen the appeal of the company's products across geographies and customer segments, the product and engineering team has had a busy and productive first half. The email mix has grown significantly year-on-year to almost 60% in June 2019 vs. 35% in June 2018 and 1.4% in Dec 2017. This demonstrates Dropsuite's ability to bring new products to market which have near-instant appeal to partners and their end customers.

Partner Update

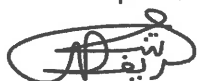
The number of transacting partners, being those generating revenue and which are billed directly by the Company, has increased more than 30% from 140 in June 2018 to 183 in June 2019. This figure does NOT include the IT service providers who are transacting through the distributors that we have signed in the second half of 2018. Adding those providers to the number of transacting partners, the growth would far exceed 100% year-on-year. Revenue growth is expected both from existing partners and distributors as well as from new partners that the Company on-boards going forward.

Significant Events since Balance Sheet Date

No other matters have arisen since 30 June 2019 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 7.

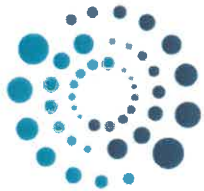
This report is made in accordance with a resolution of directors.



Charif El Ansari

Managing Director

Dated this 30 August 2019



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 2019, 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


Rafay Nabeel
Audit Director

30 August 2019
Perth

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Consolidated Statement of Profit or Loss and Other Comprehensive Income for the Half Year ended 30 June 2019

	30 June 2019	30 June 2018
	\$	\$
REVENUE FROM CONTINUING OPERATIONS		
Sales Revenue	2,316,908	1,856,816
Other Income	2,835	21,540
Interest Income	26,378	35,120
	<u>2,346,121</u>	<u>1,913,476</u>
EXPENSES FROM CONTINUING OPERATIONS		
Hosting Fees	(745,283)	(385,814)
Marketing and conference expenses	(124,360)	(168,482)
Professional fees	(44,728)	(45,352)
Employee and director expenses	(1,903,529)	(1,561,479)
Depreciation expense	(22,317)	(12,000)
Amortisation expense	(378,161)	(89,993)
Office expenses	(256,537)	(324,714)
Other operating expenses	(184,459)	(38,656)
Other expenses	(139,974)	(123,666)
NET LOSS BEFORE INCOME TAX	(1,453,227)	(836,680)
Income tax expense	-	-
NET LOSS FOR THE PERIOD	(1,453,227)	(836,680)
Other comprehensive income that may be reclassified to profit or loss		
– Exchange differences on translation of foreign subsidiaries	17,874	(2,094)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	(1,435,353)	(838,774)
Earnings per share		
Basic and diluted earnings per share – cents per share	(0.30)	(0.20)

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

Consolidated Statement of Financial Position as at 30 June 2019

	Note	30 June 2019	31 December 2018
		\$	\$
Current assets			
Cash and cash equivalents		2,197,907	3,486,932
Trade and other receivables		907,235	767,969
Other assets		131,356	137,747
Total current assets		3,236,498	4,392,648
Non current assets			
Property, plant and equipment		31,200	42,888
Intangible assets	5	833,085	1,211,246
Investment		5,231	6,511
Other		64,268	64,268
Total non-current assets		933,784	1,324,913
Total assets		4,170,282	5,717,561
Current liabilities			
Trade and other payables		312,764	458,315
Wages payable		222,836	189,996
Deferred Income		64,391	63,607
Provisions		-	-
Total current liabilities		599,991	711,918
Non-current liabilities			
Other		50,343	50,343
Total non-current liabilities		50,343	50,343
Total liabilities		650,334	762,261
Net assets		3,519,948	4,955,301
Shareholders' equity			
Contributed equity	6	21,138,601	21,138,601
Reserves		134,004	116,131
(Accumulated losses)		(17,752,657)	(16,299,431)
Total shareholders' equity		3,519,948	4,955,301

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 2019

Consolidated Entity	Issued Capital	Foreign exchange reserve	Accumulated losses	Total
	\$	\$	\$	\$
Balance as at 1 January 2019	21,138,601	116,130	(16,299,430)	4,955,301
Loss for the period	-	-	(1,453,227)	(1,453,227)
Other comprehensive income	-	17,874		17,874
Total comprehensive income / (loss)	-	17,874	(1,453,227)	(1,435,353)
Balance as at 30 June 2019	21,138,601	134,004	(17,752,657)	3,519,948
Balance as at 1 January 2018	21,138,601	(11,239)	(14,842,481)	6,284,881
Loss for the period	-	-	(836,680)	(836,680)
Other comprehensive income	-	(2,094)	-	(2,094)
Total comprehensive income / (loss)	-	(2,094)	(836,680)	(838,774)
Balance as at 30 June 2018	21,138,601	(13,333)	(15,679,161)	5,446,107

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 2019

	Note	30 June 2019 \$	30 June 2018 \$
CASH FLOW FROM OPERATING ACTIVITIES			
Cashflow received from sales		2,076,333	1,773,899
Other income		-	-
Interest received		29,906	23,708
Payments to suppliers and employees		(3,384,037)	(2,485,797)
Interest paid		-	-
Net cash used in operating activities		(1,277,798)	(688,190)
CASH FLOW FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		(11,227)	(10,119)
Payment for development costs		-	(229,631)
Net cash used in investing activities		(11,227)	(239,750)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from capital raising		-	-
Proceeds from issue of Convertible Notes		-	-
Repayment of borrowings		-	-
Proceeds from borrowings		-	-
Net cash provided by financing activities		-	-
NET (DECREASE) / INCREASE IN CASH HELD		(1,289,025)	(927,940)
Cash and cash equivalent at beginning of financial period		3,486,932	4,962,123
Effects of changes in exchange rates		-	-
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		2,197,907	4,034,183

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 2019

Note 1—Basis of Preparation of Half-Year Report

These general purpose financial statements for the half-year reporting period ended 30 June 2019 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 2018, 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 30 August 2019.

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 2018.

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Notes to the Financial Statements for the Half Year ended 30 June 2019

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 2019 of \$1,453,227 (2018: loss of \$836,680) and has experienced net cash outflows from operating activities of \$1,277,799 (2018: \$688,190). As at 30 June 2019, the Group has a net current asset surplus of \$2,636,507 (31 December 2018: \$3,680,730).

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 2019, 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 2019

Note 5: Intangible Assets

	30 June 2019	31 December 2018
	\$	\$
Software Development – at cost	2,268,968	2,268,968
Less: accumulated amortisation	(1,435,883)	(1,057,722)
	<u>833,085</u>	<u>1,211,246</u>

Note 6— Contributed Equity

(a) Share Capital

	Note	30 June 2019	31 December 2018
		\$	\$
Fully paid Ordinary Shares: 493,680,533 (31 December 2018: 480,247,200)		<u>21,138,601</u>	<u>21,138,601</u>
		Half year to 30 June 2019	Half year to 30 June 2019
		\$	Number of shares
31 December 2018		21,138,601	480,247,200
Conversion of Performance Shares		-	13,433,333
30 June 2019		<u>21,138,601</u>	<u>493,680,533</u>

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Notes to the Financial Statements for the Half Year ended 30 June 2019

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 2019.

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 2019

Note 9—Events Occurring after the Balance Sheet Date

On 17 July 2019, the Company issued Performance Rights ('PR') to employees. The three year PRs are based on share price targets and the maximum number of shares that can be issued on conversion is 12,080,000.

No other matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

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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 2019 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.

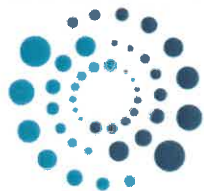
This declaration is made in accordance with a resolution of directors.



Charif El Ansari

Managing Director
Singapore

Dated this 30th day of August 2019



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 consolidated condensed statement of financial position as at 30 June 2019, the consolidated condensed statement of profit or loss, the consolidated condensed statement of comprehensive income, the consolidated condensed statement of changes in equity and the consolidated condensed 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 2019 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 2019 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



Rafay Nabeel
Audit Director

30 August 2019
Perth

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