

INTERIM REPORT

APPENDIX 4D

31 DECEMBER 2019
HALF-YEAR REPORT

"Spirit delivers high speed Internet and managed IT services to support Australian SMB's growth."



Spirit
Internet & IT

1. COMPANY DETAILS

Name of entity:	Spirit Telecom Limited
ABN:	73 089 224 402
Reporting period:	For the half-year ended 31 December 2019
Previous period:	For the half-year ended 31 December 2018

2. RESULTS FOR ANNOUNCEMENT TO THE MARKET

				\$
Revenues from ordinary activities	up	50.3%	to	12,302,009
Underlying EBITDA*	up	343.4%	to	1,606,703
Loss from ordinary activities after tax	up	31.7%	to	(739,995)
attributable to the owners of Spirit Telecom Limited				
Loss for the half-year attributable to the	up	31.7%	to	(739,995)
owners of Spirit Telecom Limited				

Dividends

There were no dividends paid, recommended or declared during the current financial period.

Comments

The loss for the consolidated entity after providing for income tax amounted to \$739,995 (31 December 2018: \$562,010).

Further details of the results for half year can be found in the 'Review of operations' section of the Directors' report in the attached Interim Report.

* EBITDA is a financial measure which is not prescribed by Australian Accounting Standards ('AAS') and represents the profit under AAS adjusted for depreciation, amortisation, interest and tax. Underlying EBITDA is EBITDA adjusted to exclude business acquisition & integration costs, share based payments and business restructuring costs. The Directors consider that these measures are useful in gaining an understanding of the performance of the entity, consistent with internal reporting.

3. NET TANGIBLE ASSETS

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	2.53	2.88

4. CONTROL GAINED OVER ENTITIES



(1 July 2019)



(1 July 2019)

Contribution of the newly acquired entities to the reporting entity's profit/(loss) from ordinary activities before income tax during the period is not separately identifiable given the absorption of the respective acquisition operations at an overhead level into Spirit Telecom (Australia) Pty Ltd. Revenue for the six months to 31 December 2019 is disclosed in note 16, along with the acquisition accounting disclosures. However, the employees of the acquired entities and other key overheads were absorbed from August 2019. Revenue was maintained separately for the period however this is being migrated out of these entities effective 1 February 2020.

5. LOSS OF CONTROL OVER ENTITIES

Not applicable.

6. DIVIDENDS

Current period

There were no dividends paid, recommended or declared during the current financial period.

Previous period

There were no dividends paid, recommended or declared during the previous financial period.

7. DIVIDEND REINVESTMENT PLANS

Not applicable.

8. DETAILS OF ASSOCIATES AND JOINT VENTURE ENTITIES

Not applicable.

9. FOREIGN ENTITIES

Details of origin of accounting standards used in compiling the report:

Not applicable.

10. AUDIT QUALIFICATION OR REVIEW

Details of audit/review dispute or qualification (if any):

The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report.

11. ATTACHMENTS

Details of attachments (if any):

The Interim Report of Spirit Telecom Limited for the half-year ended 31 December 2019 is attached.

12. SIGNED



Signed _____

Date: 26 February 2020

James Joughin

Non-Executive Chairman

SPIRIT TELECOM LIMITED

ABN 73 089 224 402

INTERIM REPORT - 31 DECEMBER 2019

This interim financial report does not include all of the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2019 and all public announcements made by Spirit Telecom Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Corporate directory	6
Directors' report	7
Auditor's independence declaration	11
Statement of profit or loss and other comprehensive income	12
Statement of financial position	17
Statement of changes in equity	18
Statement of cash flows	20
Notes to the financial statements	21
Directors' declaration	30
Independent auditor's review report to the members of Spirit Telecom Limited	22

Directors	James Joughin (Chairman) Sol Lukatsky (Managing Director) Terence Gray (Non-Executive Director) Mark Dioguardi (Executive Director) Gregory Ridder (Non-Executive Director)
Company secretary	Melanie Leydin
Registered office	Level 4, 100 Albert Road South Melbourne Victoria 3205
Principal place of business	Level 2, 19-25 Raglan Street South Melbourne Victoria 3205
Share register	Automic Group Level 5, 126 Phillip Street, Sydney, New South Wales 2000
Auditor	PKF Melbourne Audit & Assurance Pty Ltd Level 12, 440 Collins Street Melbourne Victoria 3000
Stock exchange listing	Spirit Telecom Limited shares are listed on the Australian Securities Exchange (ASX code: ST1)

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Spirit Telecom Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2019.

Directors

The following persons were directors of Spirit Telecom Limited during the whole of the financial half-year and up to the date of this report, unless otherwise stated:

Mr James Joughin (Non-Executive Chairman)

Mr Sol Lukatsky (Managing Director) (appointed as Executive Director on 21 June 2019, becoming Managing Director on 2 September 2019)

Mr Terence Gray (Non-Executive Director)

Mr Mark Dioguardi (Executive Director)

Mr Gregory Ridder (Non-Executive Director) (appointed 21 November 2019)

Mr Geoff Neate (Managing Director) (resigned on 2 September 2019)

Mr Luke Waldren (Non-Executive Director) (resigned 3 July 2019)

Principal activities

During the financial year the principal activities of the consolidated entity consisted of:

- The provision of telecommunications services whereby Spirit provides Superfast Internet and ancillary services to a range of commercial and residential customers primarily in Sydney, Melbourne and Gold Coast.
- The provision of managed IT and cloud based services to small and medium size businesses.

Review of operations

The loss for the consolidated entity after providing for income tax amounted to \$739,995 (31 December 2018: \$562,010).

Total revenue for the Consolidated Entity for the financial half year ended 31 December 2019 was \$12,302,009 (31 December 2018: \$8,185,020)

The Gross Profit for the Consolidated Entity increased by 50% compared to the previous corresponding period.

The following table summarises key financial metrics for the period:

	Half-year ended 31 December 2019	Half-year ended 31 December 2018	Change
Revenue	12,302,009	8,185,020	50%
Gross Profit	8,918,368	5,960,705	50%
Other income	155,320	18,792	727%
Earnings before interest, taxes, depreciation & amortisation (EBITDA)	802,954	259,180	210%
Business acquisition & integration costs; Share based payments	426,129	103,183	313%
Business restructuring costs	377,620	-	100%
Underlying EBITDA excluding busi- ness acquisition & integration costs, Share based payments & Restructuring costs	1,606,703	362,363	343%
Profit/(loss) after income tax expense	(739,995)	(562,010)	(32%)

EBITDA is a financial measure which is not prescribed by Australian Accounting Standard ('AAS') and represents the profit under AAS adjusted for depreciation, amortisation, interest and tax. Underlying EBITDA is EBITDA adjusted to exclude business acquisition & integration costs, share based payments and business restructuring costs.

The net assets of the Consolidated Entity increased by \$6,223,218 to \$28,277,874 as at 31 December 2019 (30 June 2019: \$22,054,656).

During the period the Consolidated Entity continued deployment and expansion of its Superfast Internet and extended its portfolio of services following the acquisition and integration of its new IT Managed Services offerings to progress the strategy to be Australia's leading provider of IT&T services to Small & Medium Sized Businesses (SMB's).

Significant changes in the state of affairs

On 2 July 2019, the Consolidated Entity announced that it had entered into an agreement to acquire 100% of Arinda IT, effective 1 July 2019 for upfront consideration of \$2.7 million, comprising:

- 80% consideration paid in cash (\$2.2 million)
- 20% consideration paid in scrip (\$0.5 million issued at \$0.21)

The Consolidated Entity completed the acquisition on 12 July 2019 and issued 2,380,952 fully paid ordinary shares (subject to voluntary escrow until 11 July 2020), at a deemed issue price of \$0.21 (21 cents) per share.

On 4 July 2019, the Consolidated Entity issued 1,508,509 fully paid ordinary shares at an issue price of \$0.19688 (19.688 cents) per share pursuant to the exercise of listed options.

On 10 July 2019, the Consolidated Entity issued 13,326,593 fully paid ordinary shares at an issue price of \$0.19688 (19.688 cents) per share pursuant to the exercise of listed options.

On 16 July 2019, the Consolidated Entity issued 3,233,587 fully paid ordinary shares at an issue price of \$0.19688 (19.688 cents) per share pursuant to the exercise of listed options.

On 17 July 2019, the Consolidated Entity issued 1,250,000 fully paid ordinary shares at an issue price of \$0.19 (19 cents) per share pursuant to the exercise of unlisted options.

On 24 July 2019, the Consolidated Entity announced that Non-Executive Chairman, Mr James Joughin exercised his 1,250,000 unlisted options at \$0.19 (19 cents) per share, injecting \$237,500 into Spirit Telecom Limited.

On 24 July 2019, the Consolidated Entity announced that it had entered into an agreement to acquire 100% of Phoenix Austec Group Pty Ltd, effective 1 July 2019 for upfront consideration of \$1.6 million, comprising:

- 80% consideration paid in cash (\$1.3 million)
- 20% of consideration paid in scrip (\$0.32 million issued at \$0.24)

On 29 July 2019, the Consolidated Entity announced the completion of acquisition of Phoenix Austec Group and issued 1,333,333 fully paid ordinary shares at a deemed issue price of \$0.24 (24 cents) per share to the vendor. The shares issued were subject to voluntary escrow until 29 July 2020.

On 25 July 2019, the Consolidated Entity issued 742,906 fully paid ordinary shares at an issue price of \$0.19688 (19.688 cents) per share pursuant to the exercise of listed options.

On 26 July 2019, the Consolidated Entity issued 158,806 fully paid ordinary shares at an issue price of \$0.19688 (19.688 cents) per share pursuant to the exercise of listed options.

On 2 August 2019, the Consolidated Entity issued 8,137,215 fully paid ordinary shares at an issue price of \$0.19688 (19.688 cents) per share pursuant to the exercise of listed options.

On 9 August 2019, the Consolidated Entity issued 1,624,640 fully paid ordinary shares pursuant to the underwriting arrangement for the listed options at an issue price of \$0.19688 (19.688 cents) per share.

On 19 August 2019, the Chief Financial Officer tendered his resignation, effective 30 August 2019.

On 2 September 2019, Mr Geoff Neate (Managing Director) tendered his resignation, effective the same date. Sol Lukatsky was appointed as Managing Director.

On 16 September 2019 the Consolidated Entity issued 88,480 fully paid ordinary shares with a deemed issue price of \$0.226 per share to incentivise employees of the Company (non-directors).

On 22 November 2019, the Consolidated Entity issued 1,250,000 fully paid ordinary shares at an issue price of \$0.19 (19 cents) per share pursuant to the exercise of unlisted options.

On 20 December 2019 the Consolidated Entity issued 332,084 fully paid ordinary shares, upon conversion of vested performance rights.

There were no other significant changes in the state of affairs of the consolidated entity during the financial half-year.

Matters subsequent to the end of the financial half-year

On 28 January 2020, the Consolidated Entity announced the acquisition of Sydney based cloud & managed IT services business, Cloud Business Technology for \$700,000 with the consideration payable 80% in cash and 20% in script.

The acquisition was completed on 3 February 2020 and 700,000 fully paid ordinary shares were issued (subject to voluntary escrow until 3 February 2021), at a deemed issue price of \$0.20 (20 cents) per share.

On 14 February 2020, the Consolidated Entity announced the acquisition of Trident & Neptune Group ("TBCG"), including Trident Computer Services (Trident) and Neptune Managed Services (Neptune), an established managed IT services and security business. The total purchase price of up to \$6.9 million, which includes an earnout component, will be paid as a combination of cash and Spirit equity being a split of 75% cash and 25% Spirit shares if hurdles are met over CY2020 and FY2021.

The acquisition was completed on 18 February 2020 and 5,818,750 fully paid ordinary shares were issued (subject to voluntary escrow until 18 February 2021), at a deemed issue price of \$0.20 (20 cents) per share.

No other matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



James Joughin

Non-Executive Chairman

26 February 2020

**AUDITOR'S INDEPENDENCE
DECLARATION HERE**

Spirit Telecom Limited
Statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2019

		Consolidated	
	Note	31 December 2019	31 December 2018
		\$	\$
Revenue	4	12,302,009	8,185,020
Other income	5	155,320	18,792
Cost of sales		(3,383,641)	(2,224,315)
Expenses			
Depreciation and amortisation expense		(1,566,776)	(818,726)
Share based payments		(260,868)	(68,335)
Administration		(6,890,640)	(4,613,906)
Business acquisition & integration costs		(165,261)	(34,848)
Selling		(448,060)	(391,567)
Marketing		(505,905)	(611,661)
Finance costs		(164,861)	(139,253)
Loss before income tax benefit		(928,683)	(698,799)
Income tax benefit		188,688	136,789
Loss after income tax benefit for the half-year attributable to the owners of Spirit Telecom Limited		(739,995)	(562,010)
Other comprehensive income			
<i>Items that will be reclassified subsequently to profit or loss</i>			
Adjustment to opening retained earnings on adoption of new accounting standard		-	(202,480)
Other comprehensive income for the half-year, net of tax		-	(202,480)
Total comprehensive income for the half-year attributable to the owners of Spirit Telecom Limited		(739,995)	(764,490)
		Cents	Cents
Basic earnings per share	18	(0.220)	(0.229)
Diluted earnings per share	18	(0.220)	(0.229)

Spirit Telecom Limited
Statement of financial position
As at 31 December 2019

		Consolidated	
	Note	31 December	30 June 2019
		2019	2019
		\$	\$
Assets			
Current assets			
Cash and cash equivalents		2,305,788	3,376,663
Trade and other receivables	6	844,158	456,411
Inventories		808,978	998,286
Other		942,878	853,551
Total current assets		<u>4,901,802</u>	<u>5,684,911</u>
Non-current assets			
Receivables		93,529	127,697
Property, plant and equipment	7	12,561,732	10,549,758
Right-of-use assets	2	1,369,145	-
Intangibles	8	18,276,220	13,257,188
Deferred tax assets		950,009	751,388
Total non-current assets		<u>33,250,635</u>	<u>24,686,031</u>
Total assets		<u>38,152,437</u>	<u>30,370,942</u>
Liabilities			
Current liabilities			
Trade and other payables	9	2,298,494	1,754,409
Unearned revenue		1,067,363	467,358
Borrowings	10	1,014,349	1,200,000
Lease liabilities	2	486,064	-
Income tax		86,358	-
Provisions		378,278	349,636
Total current liabilities		<u>5,330,906</u>	<u>3,771,403</u>
Non-current liabilities			
Borrowings	11	2,000,000	3,000,000
Lease liabilities	2	897,013	-
Provisions		63,810	13,959
Other	12	1,582,834	1,530,924
Total non-current liabilities		<u>4,543,657</u>	<u>4,544,883</u>
Total liabilities		<u>9,874,563</u>	<u>8,316,286</u>
Net assets		<u>28,277,874</u>	<u>22,054,656</u>
Equity			
Issued capital	13	32,495,308	25,511,726
Reserves	14	348,245	475,834
Accumulated losses		(4,565,679)	(3,932,904)
Total equity		<u>28,277,874</u>	<u>22,054,656</u>

The above statement of financial position should be read in conjunction with the accompanying notes. Comparatives have not been restated for the introduction of AASB 16 Leases.

Spirit Telecom Limited
Statement of changes in equity
For the half-year ended 31 December 2019

Consolidated	Issued capital \$	Reserves \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2018	18,140,872	275,311	(2,906,682)	15,509,501
Loss after income tax benefit for the half-year	-	-	(562,010)	(562,010)
Other comprehensive income for the half-year, net of tax	-	-	(202,480)	(202,480)
Total comprehensive income for the half-year	-	-	(764,490)	(764,490)
<i>Transactions with owners in their capacity as owners:</i>				
Share-based payments	-	48,335	-	48,335
Shares issued to incentivise employees	20,000	-	-	20,000
Balance at 31 December 2018	<u>18,160,872</u>	<u>323,646</u>	<u>(3,671,172)</u>	<u>14,813,346</u>

Consolidated	Issued capital \$	Reserves \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2019	25,511,726	475,834	(3,932,904)	22,054,656
Loss after income tax benefit for the half-year	-	-	(739,995)	(739,995)
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	(739,995)	(739,995)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 13)	5,896,483	-	-	5,896,483
Share-based payments	-	226,734	-	226,734
Shares issued to incentivise employees	19,996	-	-	19,996
Transfers	247,103	(354,323)	107,220	-
Issue of shares to the vendor as part consideration in relation to the Arinda IT acquisition	500,000	-	-	500,000
Issue of shares to the vendor as part consideration in relation to the Phoenix Austec Group acquisition	320,000	-	-	320,000
Balance at 31 December 2019	<u>32,495,308</u>	<u>348,245</u>	<u>(4,565,679)</u>	<u>28,277,874</u>

The above statement of changes in equity should be read in conjunction with the accompanying notes. Comparatives have not been restated for the introduction of AASB 16 Leases.

Spirit Telecom Limited
Statement of cash flows
For the half-year ended 31 December 2019

	Note	Consolidated 31 December 2019 \$	31 December 2018 \$
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		13,667,995	9,089,103
Payments to suppliers and employees (inclusive of GST)		<u>(12,615,301)</u>	<u>(9,291,535)</u>
		1,052,694	(202,432)
Interest received		4,147	42,018
Deposit refunded		47,148	-
Interest and other finance costs paid		(137,389)	(189,949)
Government grants		<u>653,203</u>	<u>753,755</u>
Net cash from operating activities		<u>1,619,803</u>	<u>403,392</u>
Cash flows from investing activities			
Payments for property, plant and equipment	7	(3,333,929)	(1,694,016)
Payments for intangibles	8	(874,656)	(36,910)
Cash payments to acquire business		(3,091,518)	-
Proceeds from investments		60,000	-
Proceeds from disposal of plant and equipment		<u>123,941</u>	<u>-</u>
Net cash used in investing activities		<u>(7,116,162)</u>	<u>(1,730,926)</u>
Cash flows from financing activities			
Proceeds from issue of shares		6,108,475	-
Share issue transaction costs		(226,272)	-
Repayment of borrowings		(1,207,193)	(300,000)
Repayment of lease liabilities		<u>(249,526)</u>	<u>-</u>
Net cash from/(used in) financing activities		<u>4,425,484</u>	<u>(300,000)</u>
Net decrease in cash and cash equivalents		(1,070,875)	(1,627,534)
Cash and cash equivalents at the beginning of the financial half-year		<u>3,376,663</u>	<u>4,631,019</u>
Cash and cash equivalents at the end of the financial half-year		<u><u>2,305,788</u></u>	<u><u>3,003,485</u></u>

The above statement of cash flows should be read in conjunction with the accompanying notes. Comparatives have not been restated for the introduction of AASB 16 Leases.

Spirit Telecom Limited
Notes to the financial statements
31 December 2019

Note 1. General information

The financial statements cover Spirit Telecom Limited as a consolidated entity consisting of Spirit Telecom Limited and the entities it controlled at the end of, or during, the half-year. The financial statements are presented in Australian dollars, which is Spirit Telecom Limited's functional and presentation currency.

Spirit Telecom Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

Registered office	Principal place of business
Level 4, 100 Albert Road South Melbourne Victoria 3205	Level 2, 19-25 Raglan Street South Melbourne Victoria 3205

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 26 February 2020.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2019 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the policies stated below.

New Accounting Standards and Interpretations adopted

AASB 16 Leases

The consolidated entity has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low value assets, right-of-use assets (ROUA) and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

Impact on application

The consolidated entity has adopted AASB 16 using the modified retrospective approach whereby the consolidated entity has recognised the cumulative effect of initially applying this standard as an adjustment to the opening balance of equity as at 1 July 2019. Accordingly, the consolidated entity has not restated comparative balances in this set of financial statements.

Note 2. Significant accounting policies (continued)

On adoption of AASB 16, the consolidated entity recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB 117 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 5.27%. The associated right-of-use assets (ROUA) for these leases were measured on a retrospective basis as if AASB 16 had always been applied, with the incremental borrowing rate applied as at each lease's commencement date and the assets depreciated on a straight-line basis over the term of the lease. The provisions recognised in respect of onerous lease contracts were netted off against the associated right-of-use assets at the date of transition. \$1,236,094 of ROUA and lease liability were recognised on adoption.

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of-use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

Lease Liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the period ended 31 December 2019.

Note 3. Operating segments

Identification of reportable operating segments

The consolidated entity is organised into one operating segment, being the provision of high speed internet and telecommunications services, to commercial and residential customers within Australia.

Major customers

During the half year ended 31 December 2019 there are no individual customers which account for 5% or more of sales.

Spirit Telecom Limited
Notes to the financial statements
31 December 2019

Note 4. Revenue

	Consolidated	
	31 December 2019	31 December 2018
	\$	\$
<i>Sales revenue</i>		
Recurring sales revenue	10,596,204	7,489,754
Non-recurring sales revenue	1,701,657	662,864
	<u>12,297,861</u>	<u>8,152,618</u>
<i>Other revenue</i>		
Interest	4,148	32,402
Revenue	<u><u>12,302,009</u></u>	<u><u>8,185,020</u></u>

Disaggregation of revenue

The disaggregation of revenue from contracts with customers is as follows:

	Consolidated	
	31 December 2019	31 December 2018
	\$	\$
<i>Major product lines</i>		
Internet and data services	7,916,217	6,278,687
Voice services	2,072,248	1,835,924
Other	2,309,396	38,007
	<u>12,297,861</u>	<u>8,152,618</u>
<i>Geographical regions</i>		
Australia	<u>12,297,861</u>	<u>8,152,618</u>
<i>Timing of revenue recognition</i>		
Goods transferred at a point in time	374,680	300,839
Services transferred over time	11,923,181	7,851,779
	<u>12,297,861</u>	<u>8,152,618</u>

Note 5. Other income

	Consolidated	
	31 December 2019	31 December 2018
	\$	\$
Government grants	154,411	18,792
Profit on sale of assets	909	-
Other income	<u><u>155,320</u></u>	<u><u>18,792</u></u>

Spirit Telecom Limited
Notes to the financial statements
31 December 2019

Note 6. Current assets - trade and other receivables

	Consolidated	
	31 December	30 June 2019
	2019	2019
	\$	\$
Trade receivables	1,008,859	522,258
Less: Allowance for expected credit losses	<u>(170,406)</u>	<u>(65,847)</u>
	<u>838,453</u>	<u>456,411</u>
Other receivables	5,705	-
	<u>844,158</u>	<u>456,411</u>

Note 7. Non-current assets - property, plant and equipment

	Consolidated	
	31 December	30 June 2019
	2019	2019
	\$	\$
Plant and equipment - at cost	16,322,650	13,975,194
Less: Accumulated depreciation	<u>(5,709,273)</u>	<u>(4,527,792)</u>
	<u>10,613,377</u>	<u>9,447,402</u>
Motor vehicles - at cost	164,101	141,101
Less: Accumulated depreciation	<u>(83,582)</u>	<u>(56,121)</u>
	<u>80,519</u>	<u>84,980</u>
Furniture & Fixtures at Cost	328,559	301,988
Less: Accumulated depreciation	<u>(91,494)</u>	<u>(68,512)</u>
	<u>237,065</u>	<u>233,476</u>
Work in progress	1,630,771	783,900
	<u>12,561,732</u>	<u>10,549,758</u>

Reconciliations

Reconciliations of the written down values at the beginning and end of the current financial half-year are set out below:

Consolidated	Plant and equipment \$	Motor vehicles \$	Furniture & Fixtures \$	Work in progress \$	Total \$
Balance at 1 July 2019	9,447,402	84,980	233,476	783,900	10,549,758
Additions	2,470,487	-	16,571	846,871	3,333,929
Additions through business combinations (note 16)	-	23,000	10,000	-	33,000
Disposals	(123,032)	-	-	-	(123,032)
Depreciation expense	<u>(1,181,480)</u>	<u>(27,461)</u>	<u>(22,982)</u>	-	<u>(1,231,923)</u>
Balance at 31 December 2019	<u>10,613,377</u>	<u>80,519</u>	<u>237,065</u>	<u>1,630,771</u>	<u>12,561,732</u>

Spirit Telecom Limited
Notes to the financial statements
31 December 2019

Note 8. Non-current assets - intangibles

	Consolidated	
	31 December	
	2019	30 June 2019
	\$	\$
Goodwill	14,805,725	10,557,157
Software	1,895,488	1,021,582
Less: Accumulated amortisation	(430,383)	(326,191)
	<u>1,465,105</u>	<u>695,391</u>
Other intangible assets	2,005,390	2,004,640
	<u>18,276,220</u>	<u>13,257,188</u>

Reconciliations

Reconciliations of the written down values at the beginning and end of the current financial half-year are set out below:

Consolidated	Goodwill \$	Software \$	Other intangibles \$	Total \$
Balance at 1 July 2019	10,557,157	695,391	2,004,640	13,257,188
Additions	-	870,431	4,225	874,656
Additions through business combinations (note 16)	4,248,568	-	-	4,248,568
Amortisation expense	-	(100,717)	(3,475)	(104,192)
Balance at 31 December 2019	<u>14,805,725</u>	<u>1,465,105</u>	<u>2,005,390</u>	<u>18,276,220</u>

Note 9. Current liabilities - trade and other payables

	Consolidated	
	31 December	
	2019	30 June 2019
	\$	\$
Trade payables	1,206,478	1,055,934
GST payable	196,118	80,153
Other payables	895,898	618,322
	<u>2,298,494</u>	<u>1,754,409</u>

Note 10. Current liabilities - borrowings

	Consolidated	
	31 December	
	2019	30 June 2019
	\$	\$
Bank loans	992,807	1,200,000
Hire purchase	21,542	-
	<u>1,014,349</u>	<u>1,200,000</u>

Note 11. Non-current liabilities - borrowings

	Consolidated	
	31 December 2019	30 June 2019
	\$	\$
Bank loans	2,000,000	3,000,000

Total secured liabilities

The total secured liabilities (current and non-current) are as follows:

	Consolidated	
	31 December 2019	30 June 2019
	\$	\$
Bank loans	2,992,807	4,200,000
Hire purchase	21,542	-
	<u>3,014,349</u>	<u>4,200,000</u>

Assets pledged as security

The bank loan of \$2,992,807 is secured first over the assets and undertakings of Spirit Telecom Limited, Spirit Telecom (Australia) Pty Ltd, Phone Name Marketing Australia Pty Ltd, World Without Wires Pty Ltd, Bigscreensound Pty Ltd and Phoenix Austec Group Pty Ltd.

Note 12. Non-current liabilities - other

	Consolidated	
	31 December 2019	30 June 2019
	\$	\$
Unearned grant revenue	1,582,834	1,506,339
Other non-current liabilities	-	24,585
	<u>1,582,834</u>	<u>1,530,924</u>

Unearned revenue represents Government grant proceeds primarily related to the Horsham & Morwell high speed internet projects that will be recognised over a four year period.

Note 13. Equity - issued capital

	Consolidated			
	31 December 2019	30 June 2019	31 December 2019	30 June 2019
	Shares	Shares	\$	\$
Ordinary shares - fully paid	<u>341,091,093</u>	<u>305,723,988</u>	<u>32,495,308</u>	<u>25,511,726</u>

Spirit Telecom Limited
Notes to the financial statements
31 December 2019

Note 13. Equity - issued capital (continued)

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$
Balance	1 July 2019	305,723,988		25,511,726
Exercise of ST10 listed options	4 July 2019	1,508,509	\$0.196	296,995
Exercise of ST10 listed options	10 July 2019	13,326,593	\$0.196	2,623,740
Issue of shares to the vendor as part consideration in relation to the Arinda IT acquisition	11 July 2019	2,380,952	\$0.210	500,000
Exercise of ST10 listed options	16 July 2019	3,233,587	\$0.196	636,629
Exercise of unlisted options	17 July 2019	1,250,000	\$0.190	237,500
Exercise of ST10 listed options	25 July 2019	742,906	\$0.196	146,263
Exercise of ST10 listed options	26 July 2019	158,806	\$0.196	31,266
Issue of shares to the vendor as part consideration in relation to the Phoenix Austec Group acquisition	29 July 2019	1,333,333	\$0.240	320,000
Exercise of ST10 listed options	2 August 2019	8,137,215	\$0.196	1,602,055
Issue of shares pursuant to the underwriting arrangement for ST10 listed options	9 August 2019	1,624,640	\$0.196	319,859
Issue of shares to incentivise employees	16 September 2019	88,480	\$0.226	19,996
Exercise of unlisted options	22 November 2019	1,250,000	\$0.190	237,500
Conversion of vested performance rights	20 December 2019	332,084	-	42,507
Transfer from option reserve		-	-	232,874
Costs of capital raising		-	-	(263,602)
Balance	31 December 2019	<u>341,091,093</u>		<u>32,495,308</u>

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back

There is no current on-market share buy-back.

Note 14. Equity - reserves

	Consolidated	
	31 December	30 June 2019
	2019	2019
	\$	\$
Options reserve	342,049	469,638
Capital reserve	6,196	6,196
	<u>348,245</u>	<u>475,834</u>

Note 15. Equity - dividends

There were no dividends paid, recommended or declared during the current or previous financial half-year.

Note 16. Business combinations

Arinda IT

Spirit Telecom Ltd acquired 100% of Bigscreensound Pty Ltd, trading as Arinda IT, with effective control on 1 July 2019. The acquisition has been accounted as a Business Combination under AASB 3. Arinda IT is a long-term partner of Spirit's having worked together on mutual customers including several Quest apartments and Punthill apartments. The acquisition was undertaken by the Company to expand its product offering and the flagship entry into the Managed Service Provider (MSP) sector.

The provisional fair values of the identifiable net assets acquired are detailed below:

	Fair value
	\$
Cash and cash equivalents	163,089
Trade receivables	415,132
Prepayments	128,568
Deposits	12,980
Property, plant and equipment	33,000
Trade and other payables	(354,852)
Provision for income tax	(40,044)
Employee benefits	(66,157)
Unearned revenue	(171,424)
Finance leases	(26,863)
	<hr/>
Net assets acquired	93,429
Goodwill	2,625,079
	<hr/>
Acquisition-date fair value of the total consideration transferred	<u>2,718,508</u>
Cash used to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	2,718,508
Less: shares issued by Company as part of consideration	(500,000)
	<hr/>
Net cash used	<u>2,218,508</u>

i. Consideration transferred

Acquisition-related costs amounting to \$40,766 are not included as part of the consideration for the acquisition and have been recognised as transaction costs in the profit and loss statement.

ii. Identifiable net assets

The fair value of the trade receivables acquired as part of the business combination amounted to \$415,132. As of the acquisition date, the Company's best estimate is that all cash will be collected.

iii. Goodwill

Goodwill of \$2,625,079 was primarily related to the Company's growth expectations through customer expansion.

The consolidated entity operates as one operating segment and goodwill was allocated to a single cash generating unit as at acquisition date. The goodwill that arose from this business combination is not deductible for tax purposes.

iv. Contribution to the Consolidated Entity's results

Arinda IT contributed revenues of \$1,039,586 to the Consolidated Entity from the date of the acquisition to 31 December 2019. Arinda does not receive any allocations of acquisition costs, corporate overhead, listing, finance, or other overhead costs which is all absorbed by Spirit's core operations. Employees of Arinda IT have also been transferred to Spirit Telecom (Australia) Pty Ltd. Spirit's business growth generates increased revenue opportunities across the entire Spirit network which are also reflected in the revenue performance of Arinda IT.

Note 16. Business combinations (continued)

Phoenix Austec Group Pty Ltd

Spirit Telecom Ltd acquired 100% of Phoenix Austec Group Pty Ltd, trading as 'Phoenix Austec' (Phoenix), with effective control on 1 July 2019 for upfront consideration of \$1.5 million. The acquisition has been accounted as a Business Combination under AASB 3. Phoenix has been operating since 2007 providing Small-Medium Enterprise's (SME) with managed IT support, IT security and consulting services. The acquisition was undertaken by the Company to expand and strengthen Spirit's entry into the Managed Service Provider (MSP) sector for SMEs.

The provisional fair values of the identifiable net assets acquired are detailed below:

	Fair value
	\$
Cash and cash equivalents	170,866
Trade receivables	84,744
Trade and other payables	(218,539)
Provision for income tax	(47,482)
Employee benefits	<u>(67,031)</u>
Net liabilities acquired	(77,442)
Goodwill	<u>1,623,489</u>
Acquisition-date fair value of the total consideration transferred	<u><u>1,546,047</u></u>
Cash used to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	1,546,047
Less: shares issued by Company as part of consideration	<u>(320,000)</u>
Net cash used	<u><u>1,226,047</u></u>

i. Consideration transferred

Acquisition-related costs amounting to \$38,772 are not included as part of the consideration for the acquisition and have been recognised as transaction costs in the profit and loss statement.

ii. Identifiable net assets

The fair value of the trade receivables acquired as part of the business combination amounted to \$84,744. As of the acquisition date, the Company's best estimate is that all cash will be collected.

iii. Goodwill

Goodwill of \$1,623,489 was primarily related to the Company's growth expectations through customer expansion.

The consolidated entity operates as one operating segment and goodwill was allocated to a single cash generating unit as at acquisition date. The goodwill that arose from this business combination is not deductible for tax purposes.

iv. Contribution to the Consolidated Entity's results

Phoenix contributed revenues of \$1,039,107 to the Consolidated Entity from the date of the acquisition to 31 December 2019. Phoenix does not receive any allocations of acquisition costs, corporate overhead, listing, finance, or other overhead costs which is all absorbed by Spirit's core operations. Employees of Phoenix have also been transferred to Spirit Telecom (Australia) Pty Ltd. Spirit's business growth generates increased revenue opportunities across the entire Spirit network which are also reflected in the revenue performance of Phoenix.

Spirit Telecom Limited
Notes to the financial statements
31 December 2019

Note 17. Events after the reporting period

On 28 January 2020, the Consolidated Entity announced the acquisition of Sydney based cloud & managed IT services business, Cloud Business Technology for \$700,000 with the consideration payable 80% in cash and 20% in script.

The acquisition was completed on 3 February 2020 and 700,000 fully paid ordinary shares were issued (subject to voluntary escrow until 3 February 2021), at a deemed issue price of \$0.20 (20 cents) per share.

On 14 February 2020, the Consolidated Entity announced the acquisition of Trident & Neptune Group ("TBG"), including Trident Computer Services (Trident) and Neptune Managed Services (Neptune), an established managed IT services and security business. The total purchase price of up to \$6.9 million, which includes an earnout component, will be paid as a combination of cash and Spirit equity being a split of 75% cash and 25% Spirit shares if hurdles are met over CY2020 and FY2021.

The acquisition was completed on 18 February 2020 and 5,818,750 fully paid ordinary shares were issued (subject to voluntary escrow until 18 February 2021), at a deemed issue price of \$0.20 (20 cents) per share.

No other matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 18. Earnings per share

	Consolidated	Consolidated
	31 December	31 December
	2019	2018
	\$	\$
Loss after income tax attributable to the owners of Spirit Telecom Limited	<u>(739,995)</u>	<u>(562,010)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>336,838,637</u>	<u>244,960,135</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>336,838,637</u>	<u>244,960,135</u>
	Cents	Cents
Basic earnings per share	(0.220)	(0.229)
Diluted earnings per share	(0.220)	(0.229)

Note 19. Related party transactions

Parent entity

Spirit Telecom Limited is the parent entity.

Key management personnel

Directors are listed in the Directors report.

Spirit Telecom Limited
Directors' declaration
31 December 2019

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



James Joughin
Non-Executive Chairman

26 February 2020

Spirit Telecom Limited
Independent auditor's review report to the members of Spirit Telecom Limited

[This page has intentionally been left blank for the insertion of page one of the independent auditor's review report]