31 August 2017

**ASX/Media Release**

# APPENDIX 4E – PRELIMINARY FINANCIAL RESULTS

Spirit Telecom Limited (ASX:ST1) is pleased to report the Financial Year ended 30 June 2017, with highlights including:

- Revenue increased by 30%
- Gross Profit increased by 55%
- Underlying EBITDA grew by 106%
- Successful acquisition of Phone Name
- Grew connected buildings by 85%, to 349

Spirit Telecom Limited ("the Company" or "Spirit") is pleased to announce its first full year trading results as an ASX listed entity. The Appendix 4E reports a full year (FY17) profit after tax of $468,392, which has been impacted by costs associated with the acquisition of Phone Name Marketing Australia Pty Ltd and partially from the acquisition of World Without Wires ("Wires"). Removing the costs associated with these acquisitions the underlying net profit after tax is $832,182.

During FY17 Spirit recorded a 30% growth in revenue to $11.4 million and a full year underlying EBITDA of $2.05 million.

| Period ending 30 June 2017 | 2017 | 2016 | Change (%) |
|---|---|---|---|
| Statutory Revenue and other Income | $ 11,539,129 | $ 8,855,488 | 30.3% |
| Gross Profit ($) | $ 7,290,439 | $ 4,716,707 | 54.6% |
| Gross Profit (%) | 63% | 53% | 18.6% |
| Underlying EBITDA[1],[2] | $ 2,054,013 | $ 995,931 | 106.2% |
| Statutory EBITDA | $ 1,736,905 | $ (2,128,032) | |
| Underlying EBIT[3],[4] | $ 1,146,560 | $ 414,033 | 176.9% |
| Statutory EBIT | $ 1,005,650 | $ (2,708,930) | |
| Underlying NPAT[5],[6] | $ 832,182 | $ 185,427 | 348.8% |
| Statutory NPAT | $ 468,392 | $ (2,336,065) | |
| | **Cents** | **Cents** | |
| Underlying Earnings Per Share[7],[8] | .45 | .029 | 1,451% |
| Statutory Earning Per Share | .27 | (35.23) | |

[1] Refers to earnings before interest, tax depreciation and amortisation
[2] Items associated with acquisition activity have been removed
[3] Refers to earnings before interest and tax
[4] Items associated with acquisition activity have been removed
[5] Refers to net profit after tax
[6] Items associated with acquisition activity have been removed
[7] Items associated with acquisition activity have been removed
[8] Based on 30 June shares on issue of 184,050,420

Commenting on the result, Spirit Managing Director Geoff Neate said "This year has represented Spirit's first full ASX reporting year and one in which the company has delivered to expectations. We set out with a directive of organic growth and acquisition activity and have fulfilled that mandate. We have transitioned successfully to a public company, have delivered solid growth numbers and set the Company up for continued improvement for FY18"

"The acquisition of the EPS accretive Phone Names has completed transition and delivered on expectations. Perhaps more excitingly is the work that has been done on completing the recently announced World Without Wires Pty Ltd, which will ensure our continued strength and growth for the forthcoming financial year."

**FY2018 Outlook**

Spirit is well placed to continue its recent growth trajectory. The increased use of the Spirit Air model, coupled with the acquisition activity, has delivered a platform of growth, improvement in speed of deployment and geographic and product diversification.

The commencement of FY18 sees an immediate change to Spirit, with the acquisition of World Without Wires, complete with a powerful 12,000km$^2$ network, throughout Southern Queensland and Northern NSW, a readymade technical team and over 2,200 customers and $2.6 million in revenue. Upon the pending settlement of this acquisition, it will be effective as at 1$^{st}$ July 2017.

Spirit has added to its executive the skillsets of a Chief Financial Officer (Donovan Newton), Chief Infrastructure Officer (former Wires CEO, Dainen Keogh) and Sales Director (Andrew Peel, formerly of Vocus), to strengthen Spirit's key commercial pillars: Finance, Network & Provisioning and Sales. The evolution of the executive team is expected to deliver commensurate results in the company's growth and performance.

For further information:

Geoff Neate
**Managing Director**
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geoffn@spirit.com.au

**Spirit Telecom Limited**
**Appendix 4E**
**Preliminary final report**

## 1. Company details

| | |
|---|---|
| Name of entity: | Spirit Telecom Limited |
| ABN: | 73 089 224 402 |
| Reporting period: | For the year ended 30 June 2017 |
| Previous period: | For the year ended 30 June 2016 |

## 2. Results for announcement to the market

| | | | | $ |
|---|---|---|---|---|
| Revenues from ordinary activities | up | 29.7% | to | 11,468,993 |
| Profit from ordinary activities after tax attributable to the owners of Spirit Telecom Limited | up | 120.1% | to | 468,392 |
| Profit for the year attributable to the owners of Spirit Telecom Limited | up | 120.1% | to | 468,392 |

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

*Comments*
The profit for the Consolidated Entity after providing for income tax amounted to $468,392 (30 June 2016: loss of $2,336,065).

## 3. Net tangible assets

| | Reporting period Cents | Previous period Cents |
|---|---|---|
| Net tangible assets per ordinary security | 0.21 | 0.28 |

## 4. Control gained over entities

| | |
|---|---|
| Name of entities (or group of entities) | Phone Name Marketing Australia Pty Ltd & Inbound Telecommunications Unit Trust (together known as 'Phone Name' business) |
| Date control gained | 1 December 2016 |

| | $ |
|---|---|
| Contribution of such entities to the reporting entity's profit/(loss) from ordinary activities before income tax during the period (where material) | 690,523 |
| Profit/(loss) from ordinary activities before income tax of the controlled entity (or group of entities) for the whole of the previous period (where material) | 560,081 |

## 5. Loss of control over entities

Not applicable.

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**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.

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**7. Dividend reinvestment plans**

Not applicable.

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**8. Details of associates and joint venture entities**

Not applicable.

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**9. Foreign entities**

Not applicable.

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**10. Status of audit**

The report is based on accounts that are in the process of being audited.

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**11. Attachments**

The unaudited consolidated preliminary financial statements of Sprit Telecom Limited are attached.

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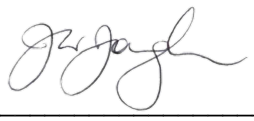
**12. Signed**



Signed _____ Date: 31 August 2017

James Joughin
Non-Executive Chairman

**Spirit Telecom Limited**
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**30 June 2017**


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**Spirit Telecom Limited**
**Statement of profit or loss and other comprehensive income**
**For the year ended 30 June 2017**

| | Note | Consolidated 2017 $ | Consolidated 2016 $ |
|---|---|---|---|
| **Revenue** | 5 | 11,468,993 | 8,844,047 |
| Other income | 6 | 70,136 | 11,441 |
| **Expenses** | | | |
| Depreciation and amortisation expense | 8 | (731,255) | (580,898) |
| Share based payments | | (137,383) | - |
| Cost of sales | | (4,248,690) | (4,138,781) |
| Administration | | (4,778,447) | (4,246,642) |
| Business acquisition & integration costs | | (317,108) | - |
| Arunta transaction fees | | - | (244,500) |
| Listing expense on reverse acquisition | 7 | - | (1,912,963) |
| Selling | | (8,351) | (212,299) |
| Marketing | | (312,245) | (228,335) |
| Finance costs | 8 | (176,198) | (149,136) |
| **Profit/(loss) before income tax (expense)/benefit** | | 829,452 | (2,858,066) |
| Income tax (expense)/benefit | 9 | (361,060) | 522,001 |
| **Profit/(loss) after income tax (expense)/benefit for the year attributable to the owners of Spirit Telecom Limited** | | 468,392 | (2,336,065) |
| Other comprehensive income for the year, net of tax | | - | - |
| **Total comprehensive income for the year attributable to the owners of Spirit Telecom Limited** | | 468,392 | (2,336,065) |
| | | **Cents** | **Cents** |
| Basic earnings per share | 39 | 0.27 | (35.23) |
| Diluted earnings per share | 39 | 0.27 | (35.23) |

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

**Spirit Telecom Limited**
**Statement of financial position**
**As at 30 June 2017**

| | Note | Consolidated 2017 $ | Consolidated 2016 $ |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 10 | 1,211,469 | 2,254,258 |
| Trade and other receivables | 11 | 1,248,217 | 835,794 |
| Inventories | 12 | 60,352 | 38,242 |
| Income tax refund due | 13 | 55,782 | - |
| Other | 14 | 61,653 | 42,391 |
| Total current assets | | 2,637,473 | 3,170,685 |
| **Non-current assets** | | | |
| Receivables | 15 | 54,195 | 7,040 |
| Property, plant and equipment | 16 | 3,294,653 | 2,097,614 |
| Intangibles | 17 | 5,576,988 | 1,084,491 |
| Deferred tax | 18 | 716,844 | 949,842 |
| Total non-current assets | | 9,642,680 | 4,138,987 |
| **Total assets** | | 12,280,153 | 7,309,672 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 19 | 2,204,537 | 1,645,696 |
| Borrowings | 20 | 874,870 | 61,899 |
| Provisions | 21 | 131,133 | 127,149 |
| Total current liabilities | | 3,210,540 | 1,834,744 |
| **Non-current liabilities** | | | |
| Borrowings | 22 | 2,980,783 | 2,143,302 |
| Deferred tax | 23 | 917 | - |
| Provisions | 24 | 123,278 | 117,430 |
| Total non-current liabilities | | 3,104,978 | 2,260,732 |
| **Total liabilities** | | 6,315,518 | 4,095,476 |
| **Net assets** | | 5,964,635 | 3,214,196 |
| **Equity** | | | |
| Issued capital | 25 | 9,298,343 | 7,112,970 |
| Reserves | 26 | 143,579 | 6,196 |
| Accumulated losses | | (3,477,287) | (3,904,970) |
| **Total equity** | | 5,964,635 | 3,214,196 |

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

**Spirit Telecom Limited**
**Statement of changes in equity**
**For the year ended 30 June 2017**

| Consolidated | Issued capital $ | Reserves $ | Retained profits $ | Total equity $ |
|---|---|---|---|---|
| Balance at 1 July 2015 | 2,774,984 | 6,196 | (1,568,905) | 1,212,275 |
| Loss after income tax benefit for the year | - | - | (2,336,065) | (2,336,065) |
| Other comprehensive income for the year, net of tax | - | - | - | - |
| Total comprehensive income for the year | - | - | (2,336,065) | (2,336,065) |
| *Transactions with owners in their capacity as owners:* | | | | |
| Deemed value of AJR shares upon acquisition | 1,878,517 | - | - | 1,878,517 |
| Share issue by public offer | 2,620,640 | - | - | 2,620,640 |
| Capital raising costs | (161,171) | - | - | (161,171) |
| Balance at 30 June 2016 | 7,112,970 | 6,196 | (3,904,970) | 3,214,196 |

| Consolidated | Issued capital $ | Reserves $ | Retained profits $ | Total equity $ |
|---|---|---|---|---|
| Balance at 1 July 2016 | 7,112,970 | 6,196 | (3,904,970) | 3,214,196 |
| Profit after income tax expense for the year | - | - | 468,392 | 468,392 |
| Other comprehensive income for the year, net of tax | - | - | - | - |
| Total comprehensive income for the year | - | - | 468,392 | 468,392 |
| *Transactions with owners in their capacity as owners:* | | | | |
| Contributions of equity, net of transaction costs (note 25) | 2,265,990 | - | - | 2,265,990 |
| Share-based payments | - | 137,383 | - | 137,383 |
| Adjustment to deemed value of AJR shares upon acquisition | - | - | (40,709) | (40,709) |
| Capital raising costs | (80,617) | - | - | (80,617) |
| Balance at 30 June 2017 | 9,298,343 | 143,579 | (3,477,287) | 5,964,635 |

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

**Spirit Telecom Limited**
**Statement of cash flows**
**For the year ended 30 June 2017**

| | Note | Consolidated 2017 $ | Consolidated 2016 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of GST) | | 12,411,905 | 8,718,855 |
| Payments to suppliers and employees (inclusive of GST) | | (10,785,821) | (8,599,423) |
| | | 1,626,084 | 119,432 |
| Interest received | | 17,933 | 10,005 |
| Interest and other finance costs paid | | (176,196) | (149,136) |
| Income taxes paid | | (80,169) | - |
| Net cash from/(used in) operating activities | 38 | 1,387,652 | (19,699) |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | 16 | (1,910,473) | (910,043) |
| Payments for intangibles | 17 | (261,293) | (32,440) |
| Net proceeds of cash and loans from acquisition of business | | 310,023 | 4,536 |
| Net payments to acquire business | 35 | (4,400,293) | - |
| Proceeds from disposal of property, plant and equipment | | 9,750 | 31,056 |
| Net cash used in investing activities | | (6,252,286) | (906,891) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | 25 | 2,251,990 | 2,620,640 |
| Share issue transaction costs | | (80,597) | (161,171) |
| Proceeds from borrowings | 27 | 4,200,000 | - |
| Repayment of borrowings | | (2,549,548) | - |
| Net cash from financing activities | | 3,821,845 | 2,459,469 |
| Net increase/(decrease) in cash and cash equivalents | | (1,042,789) | 1,532,879 |
| Cash and cash equivalents at the beginning of the financial year | | 2,254,258 | 721,379 |
| Cash and cash equivalents at the end of the financial year | 10 | 1,211,469 | 2,254,258 |

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

**Spirit Telecom Limited**
**Notes to the preliminary financial report**
**30 June 2017**

## Note 1. General information

The preliminary financial report has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, International Financial Reporting Standards as issued by the International Accounting Standards Board and Corporations Act 2001. The Company is a for-profit entity for financial reporting purposes under the Australian Accounting Standards.

This preliminary final report does not include all notes of the type normally included in an annual financial report. Accordingly this report is to be read in conjunction with the annual report of Sprit Telecom Limited for the year ended 30 June 2016 (a copy of which is available on the company's website) and any public announcements made by Spirit Telecom Limited, during and following the reporting period, in accordance with the continuous disclosure requirements of the ASX listing rules.

This preliminary financial report including any commentary on the Company results was authorised for issue in accordance with a resolution of the board of directors.

## Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**New or amended Accounting Standards and Interpretations adopted**
The Consolidated Entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

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

**Basis of preparation**
These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

*Historical cost convention*
The financial statements have been prepared under the historical cost convention except for, where applicable, the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

*Critical accounting estimates*
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Consolidated Entity's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

**Parent entity information**
In accordance with the Corporations Act 2001, these financial statements present the results of the Consolidated Entity only. Supplementary information about the parent entity is disclosed in note 34.

**Principles of consolidation**
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Spirit Telecom Limited ('Company' or 'parent entity') as at 30 June 2017 and the results of all subsidiaries for the year then ended. Spirit Telecom Limited and its subsidiaries together are referred to in these financial statements as the 'Consolidated Entity'.

Subsidiaries are all those entities over which the Consolidated Entity has control. The Consolidated Entity controls an entity when the Consolidated Entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Consolidated Entity. They are de-consolidated from the date that control ceases.

**Note 2. Significant accounting policies (continued)**

Reverse asset acquisition

On 16 June 2016, Spirit Telecom Ltd (formerly Arunta Resources Limited) ("ST1") completed the acquisition of high-speed internet service provider Spirit Telecom (Australia) Pty Ltd ("STAPL") (“Acquisition”). The Acquisition has been accounted for using the principles for reverse acquisitions in AASB 3 Business Combinations because, as a result of the Acquisition, the former shareholders of STAPL (the legal subsidiary) obtained accounting control of ST1 (the legal parent).

The Acquisition did not meet the definition of a business combination in accordance with AASB 3 Business Combinations as the acquiree was deemed not to be a business for accounting purposes and, therefore, the transaction was not a business combination within the scope of AASB 3. Instead the Acquisition has been accounted for as a share-based payment transaction using the principles of share based payment transactions in AASB 2, and in particular the guidance in AASB 2 that any difference between the fair value of the shares issued by the accounting acquirer (STAPL) and the fair value of the accounting acquiree’s (ST1's) identifiable net assets represents a service received by STAPL, including payment for a service of an ASX stock exchange listing which will be expensed through the consolidated entity's profit and loss statement in the 2016 financial year.

Accordingly the consolidated financial report of ST1 has been prepared as a continuation of the business and operations of STAPL. As the deemed accounting acquirer STAPL has accounted for the acquisition from 16 June 2016. The impact of the reverse asset acquisition on each of the primary statements is as follows:

Consolidated statement of comprehensive income:

- The statement for the period ended 30 June 2017 comprises 12 months of operating results of ST1.
- The statement for the period ended 30 June 2016 comprises 12 months of operating results of STAPL and the operating results of ST1 from 16 June 2016.

Consolidated statement of financial position:

- The consolidated statement of financial position at 30 June 2017 contains the assets and liabilities of ST1 as at that date.
- The consolidated statement of financial position at 30 June 2016 contains the assets and liabilities of STAPL and ST1 as at that date.

Statement of changes in equity:

- The consolidated statement of changes in equity for the period ended 30 June 2017 comprises the ST1 balance at 1 July 2016, its profit for the 12 months and transactions with equity holders for 12 months.
- The consolidated statement of changes in equity for the period ended 30 June 2016 comprises the STAPL balance at 1 July 2015, its loss for the 12 months and transactions with equity holders for 12 months. It also comprises ST1 transactions with equity holders for the period from Acquisition to 30 June 2016 and the equity balances of STAPL and ST1 at 30 June 2016.

Statement of cash flows:

- The consolidated cash flow statement for the period ended 30 June 2017 comprises the cash balance of ST1 as at 1 July 2016, the cash transactions for the 12 months and the cash balance of ST1 at 30 June 2017.
- The consolidated cash flow statement for the period ended 30 June 2016 comprises the cash balance of STAPL, as at 1 July 2015, the cash transactions for the 12 months (12 months for STAPL and the period from Acquisition to 30 June 2016 for ST1 and the cash balance of STAPL and ST1 at 30 June 2016.

References throughout the financial statements to “reverse acquisition” or “reverse takeover” are in reference to the above-mentioned Acquisition and the accounting treatment described above.

**Note 2. Significant accounting policies (continued)**

Intercompany transactions, balances and unrealised gains on transactions between entities in the Consolidated Entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Consolidated Entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the Consolidated Entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Consolidated Entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

**Operating segments**
Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

**Revenue recognition**
Revenue is recognised and measured at the fair value of the consideration received or receivable, after taking into account any trade discounts and volume rebates allowed, to the extent that it is probable that economic benefit will flow to the Consolidated Entity and the revenue can be reliably measured.

*Non-recurring revenue*
Call charges, hardware sales and set-up charges are recognised in the period in which the service is delivered.

*Recurring revenue*
Internet access, equipment rentals and line rentals are recognised in the period in which the service is provided. Where Income for services is invoiced in advance, the amount is recorded as Unearned Income and recognition in the income statement is delayed until the service has been provided.

*Interest*
Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

*Other revenue*
Other revenue is recognised when it is received or when the right to receive payment is established.

**Income tax**
The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

**Note 2. Significant accounting policies (continued)**

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

**Current and non-current classification**
Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Consolidated Entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Consolidated Entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

**Cash and cash equivalents**
Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**Trade and other receivables**
Trade receivables are initially recognised at fair value, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the Consolidated Entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

**Inventories**
Stock on hand is stated at the lower of cost and net realisable value. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

**Property, plant and equipment**
Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation commences from the time the asset is available for its intended use.

Leasehold improvements are depreciated over the shorter of either the period of the issue or the estimated useful lives of the improvements.

**Note 2. Significant accounting policies (continued)**

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

| | |
|---|---|
| Leasehold improvements | 7 – 10 years |
| Plant and equipment | 2 – 7 years |
| Motor vehicles | 4 – 5 years |
| Furniture & Fixtures | 2 – 10 years |
| Other plant and equipment | 7 – 10 years |

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date to ensure it is not in excess of the assets recoverable amount. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have not been discounted in determining recoverable amounts.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Consolidated Entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

**Leases**

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Consolidated Entity will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

**Intangible assets**
Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the de-recognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

**Note 2. Significant accounting policies (continued)**

*Goodwill*
Goodwill is recorded at the amount by which the purchase price for a business combination exceeds the fair value attributed to the interest in the net fair value of identifiable assets, liabilities and contingent liabilities acquired at date of acquisition.

Goodwill is subsequently measured at cost less any impairment losses.

Goodwill is subject to impairment testing on an annual basis. Impairment losses are calculated based on the director's assessment of the business's recoverable amount. Recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal.

Gains and losses on the disposal of a business include the carrying amount of goodwill relating to the business sold.

Other Intangible Assets

Other intangible assets that are acquired by the group and have finite lives are stated at cost less accumulated amortisation and any accumulated impairment losses.

*Software*
Significant costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit being their finite life of 3 years.

**Trade and other payables**
These amounts represent liabilities for goods and services provided to the Consolidated Entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

**Borrowings**
Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

**Employee benefits**

*Short-term employee benefits*
Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Non-accumulating sick leave is expensed to profit or loss when incurred.

*Other long-term employee benefits*
The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

*Defined contribution superannuation expense*
Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

*Share-based payments*
Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

**Note 2. Significant accounting policies (continued)**

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Consolidated Entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Consolidated Entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Consolidated Entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

**Fair value measurement**
When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

**Issued capital**
Ordinary shares are classified as equity.

**Business combinations**
The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business the Consolidated Entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Consolidated Entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

**Note 2. Significant accounting policies (continued)**

Where the business combination is achieved in stages, the Consolidated Entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

**Earnings per share**

*Basic earnings per share*
Basic earnings per share is calculated by dividing the profit attributable to the owners of Spirit Telecom Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

*Diluted earnings per share*
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

**Goods and Services Tax ('GST') and other similar taxes**
Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from or payable to the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from or payable to the tax authority are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from or payable to the tax authority.

**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 annual reporting period ended 30 June 2017. The Consolidated Entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Consolidated Entity, are set out below.

**Note 2. Significant accounting policies (continued)**

*AASB 9 Financial Instruments*
This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The consolidated entity will adopt this standard from 1 July 2018. The impact of its adoption is yet to be assessed in detail by the consolidated entity but is not expected to have material impact on the consolidated entity.

*AASB 15 Revenue from Contracts with Customers*
This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgements made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard from 1 July 2018. The impact of its adoption is yet to be assessed in detail by the consolidated entity but is not expected to have material impact on the consolidated entity.

**Note 2. Significant accounting policies (continued)**

*AASB 16 Leases*
This standard is applicable to annual reporting periods beginning on or after 1 January 2019.

This standard:
- replaces AASB 117 Leases and some lease-related Interpretations;
- requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases;
- provides new guidance on the application of the definition of lease and on sale and lease back accounting;
- largely retains the existing lessor accounting requirements in AASB 117;
- requires new and different disclosures about leases.

The consolidated entity will adopt this standard from 1 July 2019. The entity is yet to undertake a detailed assessment of the impact of AASB 16. However, based on the entity's preliminary assessment, the likely impact on the first time adoption of the Standard for the year ending 31 December 2019 includes:
- there will be a significant increase in lease assets and financial liabilities recognised on the balance sheet;
- the reported equity will reduce as the carrying amount of lease assets will reduce more quickly than the carrying amount of lease liabilities;
- EBIT in the statement of profit or loss and other comprehensive income will be higher as the implicit interest in lease payments for former off balance sheet leases will be presented as part of finance costs rather than being included in operating expenses; and
- Operating cash outflows will be lower and financing cash flows will be higher in the statement of cash flows as principal repayments on all lease liabilities will now be included in financing activities rather than operating activities.

**Note 3. Critical accounting judgements, estimates and assumptions**

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

*Provision for impairment of receivables*
The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtor's financial position.

*Estimation of useful lives of assets*
The Consolidated Entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

*Goodwill and other indefinite life intangible assets*
The Consolidated Entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

*Impairment of property, plant and equipment*
The Consolidated Entity assesses impairment of property, plant and equipment at each reporting date by evaluating conditions specific to the Consolidated Entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined.

## Note 3. Critical accounting judgements, estimates and assumptions (continued)

*Recovery of deferred tax assets*
Deferred tax assets are recognised for deductible temporary differences only if the Consolidated Entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

*Business combinations*
As discussed in note 2, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the Consolidated Entity taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

## Note 4. 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 year ended 2017 there are no individual customer's which accounted for 5% or more of sales.

## Note 5. Revenue

| | Consolidated 2017 $ | Consolidated 2016 $ |
|---|---|---|
| *Sales revenue* | | |
| Sales revenue | 11,451,060 | 8,834,042 |
| *Other revenue* | | |
| Interest | 17,933 | 10,005 |
| Revenue | 11,468,993 | 8,844,047 |

## Note 6. Other income

| | Consolidated 2017 $ | Consolidated 2016 $ |
|---|---|---|
| Government grants | 15,670 | - |
| Profit on sale of assets | 1,297 | 11,441 |
| Sundry income | 53,169 | - |
| Other income | 70,136 | 11,441 |

## Note 7. Listing expense on reverse acquisition

| | Consolidated 2017 $ | Consolidated 2016 $ |
|---|---|---|
| Listing expense | - | 1,912,963 |

**Note 7. Listing expense on reverse acquisition (continued)**

The steps for calculating the acquisition account items reflect the following rationale:

- Spirit Telecom (Australia) Pty Ltd ("STAPL") is deemed to make a share-based payment to acquire the existing shareholders' interest in the net assets of Spirit Telecom Ltd ("ST1") following the Acquisition;
- the total consideration deemed to be paid by STAPL at the Acquisition (by way of the share-based payment) is calculated as follows:
  - nature of deemed consideration – shares in STAPL;
  - value of ST1 share – cannot be determined as no active market for ST1 shares at time of acquisition;
  - therefore assess value of ST1 shares deemed to be issued by reference to the fair value of ST1 assets acquired;
  - fair value of ST1 assets acquired (number of ST1 shares on issue prior to Acquisition being 93,925,860 multiplied by the fair value of each ST1 share immediately prior to Acquisition being $0.02 (2 cents).

As the shares of ST1were not being traded at the time of the Acquisition (the shares were suspended pending the outcome of the transaction) there was no active market for those shares. Accordingly the fair value of the shares was determined as 2 cents per share, this being the price at which ST1 shares had been issued pursuant to the Prospectus, which was the last transaction for ST1 shares immediately prior to the Acquisition.

The total consideration deemed to be paid by STAPL was then compared to the net assets of ST1 at the Acquisition, as calculated below. The excess of the consideration paid over the value of the net assets of ST1 is expensed as a listing fee in the consolidated statement of profit or loss and other comprehensive income.

| | Consolidated 2017 | Consolidated 2016 |
|---|---|---|
| **Calculation of listing expense on reverse acquisition** | | |
| Deemed fair value of consideration shares paid on acquisition (93,925,860 fully paid ordinary shares @ $0.02 (2 cents)) | - | 1,878,517 |
| Cash and cash equivalents | - | (4,536) |
| Trade and other receivables | - | (59,225) |
| Trade and other payables | - | 98,207 |
| Listing expense recognised on reverse acquisition | - | 1,912,963 |

**Spirit Telecom Limited**
**Notes to the preliminary financial report**
**30 June 2017**

## Note 8. Expenses

| | Consolidated 2017 $ | Consolidated 2016 $ |
|---|---|---|
| Profit/(loss) before income tax includes the following specific expenses: | | |
| *Depreciation* | | |
| Leasehold improvements | 1,711 | 5,062 |
| Plant and equipment | 683,571 | 543,915 |
| Motor vehicles | 9,205 | 10,099 |
| Furniture and fixtures | 10,494 | 16,708 |
| Total depreciation | 704,981 | 575,784 |
| *Amortisation* | | |
| Software | 12,463 | 5,114 |
| Other intangibles | 13,811 | - |
| Total amortisation | 26,274 | 5,114 |
| Total depreciation and amortisation | 731,255 | 580,898 |
| *Finance costs* | | |
| Interest and finance charges paid/payable | 176,198 | 149,136 |
| *Superannuation expense* | | |
| Defined contribution superannuation expense | 175,580 | 157,316 |
| *Employee benefits expense excluding superannuation* | | |
| Employee benefits expense excluding superannuation | 2,012,239 | 1,702,567 |
| *Impairment of receivables* | | |
| Bad debts* | (84,525) | 87,368 |

*The Consolidated Entity has recognised a gain of $84,525 in profit or loss in respect of impairment of receivables for the year ended 30 June 2017.

## Note 9. Income tax expense/(benefit)

| | Consolidated 2017 $ | Consolidated 2016 $ |
|---|---|---|
| *Numerical reconciliation of income tax expense/(benefit) and tax at the statutory rate* | | |
| Profit/(loss) before income tax (expense)/benefit | 829,452 | (2,858,066) |
| Tax at the statutory tax rate of 30% | 248,836 | (857,420) |
| Tax effect amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Listing expense on reverse acquisition | - | 573,889 |
| Phone Names acquisition | 48,465 | - |
| Share options and employee shares scheme | 45,415 | - |
| Opening timing differences not previously recognised | - | (113,490) |
| Origination and reversal of temporary differences | - | (124,980) |
| Other balances | 6,008 | - |
| Other permanent differences | 12,336 | - |
| Income tax expense/(benefit) | 361,060 | (522,001) |

## Note 10. Current assets - cash and cash equivalents

| | Consolidated 2017 $ | Consolidated 2016 $ |
|---|---|---|
| Cash at bank | 1,211,469 | 1,504,258 |
| Cash on deposit | - | 750,000 |
| | 1,211,469 | 2,254,258 |

## Note 11. Current assets - trade and other receivables

| | Consolidated 2017 $ | Consolidated 2016 $ |
|---|---|---|
| Trade receivables | 1,282,011 | 858,589 |
| Less: Provision for impairment of receivables | (38,101) | (87,638) |
| | 1,243,910 | 770,951 |
| Other receivables | 4,307 | 27,529 |
| GST receivable | - | 37,314 |
| | 1,248,217 | 835,794 |

*Impairment of receivables*
The Consolidated Entity retains a provision of $38,101 in profit or loss in respect of impairment of receivables for the year ended 30 June 2017.

**Note 11. Current assets - trade and other receivables (continued)**

The ageing of the impaired receivables provided for above are as follows:

| | Consolidated 2017 $ | Consolidated 2016 $ |
|---|---|---|
| 0 to 3 months overdue | - | 34,433 |
| 3 to 6 months overdue | 10,446 | 12,111 |
| Over 6 months overdue | 27,655 | 41,094 |
| | 38,101 | 87,638 |

Movements in the provision for impairment of receivables are as follows:

| | Consolidated 2017 $ | Consolidated 2016 $ |
|---|---|---|
| Opening balance | 87,638 | - |
| Additional provisions recognised | - | 87,638 |
| Unused amounts reversed | (49,537) | - |
| Closing balance | 38,101 | 87,638 |

**Note 12. Current assets - inventories**

| | Consolidated 2017 $ | Consolidated 2016 $ |
|---|---|---|
| Stock on hand - at cost | 60,352 | 38,242 |

**Note 13. Current assets - income tax refund due**

| | Consolidated 2017 $ | Consolidated 2016 $ |
|---|---|---|
| Income tax refund due | 55,782 | - |

**Note 14. Current assets - other**

| | Consolidated 2017 $ | Consolidated 2016 $ |
|---|---|---|
| Prepayments | 61,653 | 42,391 |

**Note 15. Non-current assets - receivables**

| | Consolidated 2017 $ | Consolidated 2016 $ |
|---|---|---|
| Other receivables | 54,195 | 7,040 |

## Note 16. Non-current assets - property, plant and equipment

| | Consolidated 2017 $ | Consolidated 2016 $ |
|---|---|---|
| Leasehold improvements - at cost | 10,736 | 10,736 |
| Less: Accumulated depreciation | (6,650) | (5,063) |
| | 4,086 | 5,673 |
| Plant and equipment - at cost | 309,543 | 308,548 |
| Less: Accumulated depreciation | (238,706) | (196,947) |
| | 70,837 | 111,601 |
| Motor vehicles - at cost | 50,610 | 51,174 |
| Less: Accumulated depreciation | (9,938) | (19,352) |
| | 40,672 | 31,822 |
| Furniture & Fixtures at Cost | 111,282 | 83,361 |
| Less: Accumulated depreciation | (66,706) | (56,818) |
| | 44,576 | 26,543 |
| Other plant and equipment at Cost | 4,376,866 | 2,714,473 |
| Less: Accumulated depreciation | (1,242,384) | (792,498) |
| | 3,134,482 | 1,921,975 |
| | 3,294,653 | 2,097,614 |

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

| **Consolidated** | Leasehold improvements $ | Plant and equipment $ | Motor vehicles $ | Furniture & Fixtures $ | Plant and equipment - other $ | Total $ |
|---|---|---|---|---|---|---|
| Balance at 1 July 2015 | 9,885 | 172,257 | 48,082 | 24,498 | 1,539,689 | 1,794,411 |
| Additions | 850 | - | 24,101 | 21,376 | 863,716 | 910,043 |
| Disposals | - | - | (31,056) | - | - | (31,056) |
| Depreciation expense | (5,062) | (60,656) | (9,305) | (19,331) | (481,430) | (575,784) |
| Balance at 30 June 2016 | 5,673 | 111,601 | 31,822 | 26,543 | 1,921,975 | 2,097,614 |
| Additions | 124 | 995 | 26,508 | 28,527 | 1,854,319 | 1,910,473 |
| Disposals | - | - | (8,453) | - | - | (8,453) |
| Depreciation expense | (1,711) | (41,759) | (9,205) | (10,494) | (641,812) | (704,981) |
| Balance at 30 June 2017 | 4,086 | 70,837 | 40,672 | 44,576 | 3,134,482 | 3,294,653 |

*Property, plant and equipment secured under finance leases*
Refer to note 22 for further information on property, plant and equipment secured under finance leases.

## Note 17. Non-current assets - intangibles

| | Consolidated 2017 $ | Consolidated 2016 $ |
|---|---|---|
| Goodwill - at cost | 3,317,607 | 480,274 |
| Software - at cost | 45,440 | 32,440 |
| Less: Accumulated amortisation | (17,531) | (5,114) |
| | 27,909 | 27,326 |
| Other intangible assets - at cost | 2,245,282 | 576,891 |
| Less: Accumulated amortisation | (13,810) | - |
| | 2,231,472 | 576,891 |
| | 5,576,988 | 1,084,491 |

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

| **Consolidated** | Goodwill at cost $ | Other intangibles at cost $ | Software at cost $ | Total $ |
|---|---|---|---|---|
| Balance at 1 July 2015 | 500,360 | 576,891 | - | 1,077,251 |
| Additions | - | - | 32,440 | 32,440 |
| Revaluation decrements | (20,086) | - | - | (20,086) |
| Amortisation expense | - | - | (5,114) | (5,114) |
| Balance at 30 June 2016 | 480,274 | 576,891 | 27,326 | 1,084,491 |
| Additions | - | 272,041 | 13,000 | 285,041 |
| Additions through business combinations (note 35) | 2,837,333 | 1,396,397 | - | 4,233,730 |
| Amortisation expense | - | (13,857) | (12,417) | (26,274) |
| Balance at 30 June 2017 | 3,317,607 | 2,231,472 | 27,909 | 5,576,988 |

*Goodwill & Intangible Assets with Indefinite Useful Lives*
Impairment Tests for cash generating units containing goodwill

At 30 June 2017 Spirit's Intangible assets, including goodwill were reviewed by identifying the appropriate cash generating unit's specific to the individual carrying amount. Discounted cash flow models are designed to determine whether an impairment has occurred. Determining whether goodwill is impaired involves estimating the value-in-use of the CGU's to which goodwill has been allocated. The model takes into account the following;

- A discount rate 12.2% is applied to factor in associated risks
- All costs associated with the cash generating unit are applied
- Revenues are applied with conservative growth rates
- Current year data has been used to in calculating PV of cashflows
- Models are built with 5 years of data and reviewed annually

The cash flow projections are prepared with a conservative approach, including a zero-growth rate. Upon applying the tests across both intangible assets, including goodwill, it was concluded that no impairment had occurred.

## Note 18. Non-current assets - deferred tax

| | Consolidated 2017 $ | Consolidated 2016 $ |
|---|---|---|
| *Deferred tax asset comprises temporary differences attributable to:* | | |
| Amounts recognised in profit or loss: | | |
| Tax losses | 716,844 | 949,842 |
| Deferred tax asset | 716,844 | 949,842 |

## Note 19. Current liabilities - trade and other payables

| | Consolidated 2017 $ | Consolidated 2016 $ |
|---|---|---|
| Trade payables | 610,502 | 581,382 |
| Unearned revenue | 794,349 | 554,179 |
| GST payable | 62,155 | - |
| Other payables | 737,531 | 510,135 |
| | 2,204,537 | 1,645,696 |

Refer to note 28 for further information on financial instruments.

## Note 20. Current liabilities - borrowings

| | Consolidated 2017 $ | Consolidated 2016 $ |
|---|---|---|
| Bank loans | 840,000 | - |
| Hire purchase | 34,870 | 61,899 |
| | 874,870 | 61,899 |

Refer to note 28 for further information on financial instruments.

## Note 21. Current liabilities - provisions

| | Consolidated 2017 $ | Consolidated 2016 $ |
|---|---|---|
| Annual leave | 131,133 | 127,149 |

## Note 22. Non-current liabilities - borrowings

| | Consolidated 2017 $ | Consolidated 2016 $ |
|---|---|---|
| Bank loans | 2,940,000 | 1,500,000 |
| Loans - unsecured | - | 575,000 |
| Hire purchase | 40,783 | 68,302 |
| | 2,980,783 | 2,143,302 |

Refer to note 28 for further information on financial instruments.

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

| | Consolidated 2017 $ | Consolidated 2016 $ |
|---|---|---|
| Bank loans | 3,780,000 | 1,500,000 |
| Hire purchase | 75,653 | 130,201 |
| | 3,855,653 | 1,630,201 |

*Assets pledged as security*
The bank loan of $3,780,000 is secured first over the assets and undertakings of Spirit Telecom Limited, Spirit Telecom (Australia) Pty Ltd, and Phone Name Marketing Australia Pty Ltd.

## Note 23. Non-current liabilities - deferred tax

| | Consolidated 2017 $ | Consolidated 2016 $ |
|---|---|---|
| Deferred tax liability | 917 | - |

## Note 24. Non-current liabilities - provisions

| | Consolidated 2017 $ | Consolidated 2016 $ |
|---|---|---|
| Long service leave | 123,278 | 117,430 |

## Note 25. Equity - issued capital

| | Consolidated 2017 Shares | Consolidated 2016 Shares | Consolidated 2017 $ | Consolidated 2016 $ |
|---|---|---|---|---|
| Ordinary shares - fully paid | 184,050,420 | 836,207,860 | 9,298,343 | 7,112,970 |

## Note 25. Equity - issued capital (continued)

*Movements in ordinary share capital*

| Details | Date | Shares | Issue price | $ |
|---|---|---|---|---|
| Balance | 1 July 2015 | 1,214,934 | | 2,774,984 |
| Elimination of issued shares of STA at acquisition | 16 June 2016 | (1,214,934) | $0.000 | - |
| Existing AJR shares at acquisition of AJR by STA | 16 June 2016 | 93,925,860 | $0.000 | - |
| Issue of shares to vendor of STA as consideration for acquisition of STA | 16 June 2016 | 611,250,000 | $0.000 | - |
| Deemed value of shares deemed to be issued to existing shareholders of AJR upon reverse acquisition | 16 June 2016 | - | $0.000 | 1,878,517 |
| Shares issued via Public Offer | 16 June 2016 | 131,032,000 | $0.020 | 2,620,640 |
| Share issue costs | | - | | (161,171) |
| Balance | 30 June 2016 | 836,207,860 | | 7,112,970 |
| Issue of shares | 6 October 2016 | 636,356 | $0.022 | 14,000 |
| Issue of shares | 13 December 2016 | 83,407,037 | $0.027 | 2,251,990 |
| Share consolidation/split | 16 March 2017 | (736,200,833) | $0.000 | - |
| Costs of capital raising | | - | | (80,617) |
| Balance | 30 June 2017 | 184,050,420 | | 9,298,343 |

*Movements in listed options*

| Details | Date | Listed options |
|---|---|---|
| Balance | 1 July 2015 | 590,586,829 |
| Exercise of options | 4 March 2016 | (26) |
| Share consolidation/split | 29 April 2016 | (564,909,007) |
| Issue of options | 16 June 2016 | 197,594,357 |
| Balance | 30 June 2016 | 223,272,153 |
| Share consolidation/split | 16 March 2017 | (178,617,630) |
| Balance | 30 June 2017 | 44,654,523 |

*Movements in unquoted options*

| Details | Date | Unquoted options |
|---|---|---|
| Balance | 1 July 2015 | 15,000,000 |
| Share consolidation/split | 29 April 2016 | (14,347,826) |
| Balance | 30 June 2016 | 652,174 |
| Expiry of unlisted options | 18 December 2016 | (652,174) |
| Balance | 30 June 2017 | - |

*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.

**Note 25. Equity - issued capital (continued)**

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.

*Share consolidation*
On 16 March 2017 the Consolidated Entity announced that it had completed the consolidation of its ordinary share capital on a one (1) for five (5) basis. The Consolidation was approved by shareholders at the General Meeting of the Company held on 6 March 2017.

*Capital risk management*
The Consolidated Entity's objectives when managing capital is to safeguard its ability to continue as a going concern so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the Consolidated Entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Consolidated Entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current Company's share price at the time of the investment. The Consolidated Entity is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The Consolidated Entity is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

The capital risk management policy remains unchanged from the 30 June 2016 Annual Report.

**Note 26. Equity - reserves**

| | Consolidated | |
|---|---|---|
| | **2017** | **2016** |
| | **$** | **$** |
| Share based payments reserve | 137,383 | - |
| Capital reserve | 6,196 | 6,196 |
| | 143,579 | 6,196 |

*Share-based payments reserve*
The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

## Note 26. Equity - reserves (continued)

*Movements in reserves*
Movements in each class of reserve during the current and previous financial year are set out below:

| Consolidated | Capital reserve $ | Share based payments reserve $ | Total $ |
|---|---|---|---|
| Balance at 1 July 2015 | 6,196 | - | 6,196 |
| Balance at 30 June 2016 | 6,196 | - | 6,196 |
| Share based payments expense | - | 137,383 | 137,383 |
| Balance at 30 June 2017 | 6,196 | 137,383 | 143,579 |

## Note 27. Equity - dividends

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

## Note 28. Financial instruments

***Financial risk management objectives***
The Consolidated Entity's activities expose it to a variety of financial risks as set out below.

Risk management is carried out by senior finance executives ('finance') under the guidance of the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the Consolidated Entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and if required, hedges financial risks within the Consolidated Entity's operating units. Finance reports to the Board on a monthly basis.

***Market risk***

*Foreign currency risk*
The Consolidated Entity undertakes minimal transactions denominated in foreign currencies and therefore has little exposure to foreign currency risk. Customer Care are located in Manilla and cost around $6,500 USD per week. Payments are made monthly and conversion is at the applicable exchange rate at the time the transaction is authorised. No hedging activity is undertaken to minimise currency fluctuations.

*Price risk*
The Consolidated Entity is not exposed to any significant price risk.

*Interest rate risk*
The Consolidated Entity's main interest rate risk arises from long-term borrowings. Borrowings obtained at variable rates expose the Consolidated Entity to interest rate risk. Borrowings obtained at fixed rates expose the Consolidated Entity to fair value interest rate risk.

The Consolidated Entity's main interest rate risk arises from long-term borrowings. Borrowings obtained at variable rates expose the Consolidated Entity to interest rate risk. Borrowings obtained at fixed rates expose the Consolidated Entity to fair value interest rate risk. The entire Facility is exposed to variable interest rates. The Consolidated Entity paid $176,198 in interest during the 2017 financial year. A quarterly payment of $210,000 reduces the principal amount of the long-term borrowings.

## Note 28. Financial instruments (continued)

As at the reporting date the Consolidated Entity had the following variable rate borrowings BBSW plus 3%.

| | 2017 | | 2016 | |
|---|---|---|---|---|
| **Consolidated** | **Weighted average interest rate %** | **Balance $** | **Weighted average interest rate %** | **Balance $** |
| Bank loan | 5.39% | 3,780,000 | 5.23% | 1,500,000 |
| Other loans | - | - | 9.74% | 575,000 |
| Net exposure to cash flow interest rate risk | | 3,780,000 | | 2,075,000 |

An analysis by remaining contractual maturities in shown in 'liquidity and interest rate risk management' below.

For the Consolidated Entity the bank loans outstanding, totalling $3.78m (2016: $1.5m), are interest payment loans requiring quarterly amortisation of principal of $210,000. Monthly cash outlays of approximately $160,000 per month are required to service the interest payments. An official increase/decrease in interest rates of 2% would have an adverse/favourable effect on profit before tax of no more than $75,600 per annum.

***Credit risk***
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Consolidated Entity. The Consolidated Entity has a strict code of credit and follows a rigorous collection process. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The Consolidated Entity does not hold any collateral.

With regards to Debtors, amounts older than 90 days owing are reviewed and where appropriate taken up as a provision for doubtful debts. This process is completed monthly. As at 30 June 2017 $38,101 was expensed as a provision for doubtful debts against the total amount owed by debtors. There are no guarantees against this receivable but management closely monitors the receivable balance on a monthly basis and is in regular contact with this customer to mitigate risk.

***Liquidity risk***
Vigilant liquidity risk management requires the Consolidated Entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The Consolidated Entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

## Note 28. Financial instruments (continued)

*Remaining contractual maturities*
The following tables detail the Consolidated Entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

| **Consolidated - 2017** | Weighted average interest rate % | 1 year or less $ | Between 1 and 2 years $ | Between 2 and 5 years $ | Over 5 years $ | Remaining contractual maturities $ |
|---|---|---|---|---|---|---|
| **Non-derivatives** | | | | | | |
| *Non-interest bearing* | | | | | | |
| Trade payables | - | 610,502 | - | - | - | 610,502 |
| Unearned revenue | - | 794,349 | - | - | - | 794,349 |
| Other payables | - | 799,686 | - | - | - | 799,686 |
| *Interest-bearing - variable* | | | | | | |
| Bank loan | 5.39% | 840,000 | 840,000 | 2,100,000 | - | 3,780,000 |
| *Interest-bearing - fixed rate* | | | | | | |
| Hire purchase | 6.59% | 34,870 | 40,783 | - | - | 75,653 |
| Total non-derivatives | | 3,079,407 | 880,783 | 2,100,000 | - | 6,060,190 |

| **Consolidated - 2016** | Weighted average interest rate % | 1 year or less $ | Between 1 and 2 years $ | Between 2 and 5 years $ | Over 5 years $ | Remaining contractual maturities $ |
|---|---|---|---|---|---|---|
| **Non-derivatives** | | | | | | |
| *Non-interest bearing* | | | | | | |
| Trade payables | - | 581,382 | - | - | - | 581,382 |
| Unearned revenue | - | 554,179 | - | - | - | 554,179 |
| Other payables | - | 510,135 | - | - | - | 510,135 |
| Other loans | 9.74% | - | 575,000 | - | - | 575,000 |
| *Interest-bearing - variable* | | | | | | |
| Bank loan | 5.23% | - | 1,500,000 | - | - | 1,500,000 |
| *Interest-bearing - fixed rate* | | | | | | |
| Hire purchase | 6.59% | 61,899 | 68,302 | - | - | 130,201 |
| Total non-derivatives | | 1,707,595 | 2,143,302 | - | - | 3,850,897 |

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

***Fair value of financial instruments***
Unless otherwise stated the carrying amounts of financial instruments reflect their fair value.

## Note 29. Key management personnel disclosures

*Directors*
The following persons were directors of Spirit Telecom Limited during the financial year:

Mr James Joughin
Mr Geoff Neate
Mr Terence Gray

## Note 29. Key management personnel disclosures (continued)

*Compensation*
The aggregate compensation made to directors and other members of key management personnel of the Consolidated Entity is set out below:

| | Consolidated 2017 $ | Consolidated 2016 $ |
|---|---|---|
| Short-term employee benefits | 419,352 | 493,090 |
| Post-employment benefits | 29,935 | 25,007 |
| Long-term benefits | 4,759 | 4,754 |
| Share-based payments | 44,050 | - |
| | 498,096 | 522,851 |

## Note 30. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Advantage Advisors Audit Partnership, the auditor of the Company:

| | Consolidated 2017 $ | Consolidated 2016 $ |
|---|---|---|
| *Audit services - Advantage Advisors Audit Partnership* | | |
| Audit or review of the financial statements | 46,000 | 59,400 |

## Note 31. Contingent liabilities

There were no contingent liabilities at 30 June 2017 and 30 June 2016.

## Note 32. Commitments

| | Consolidated 2017 $ | Consolidated 2016 $ |
|---|---|---|
| *Lease commitments - operating* | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | - | 45,000 |
| *Lease commitments - finance* | | |
| Committed at the reporting date and recognised as liabilities, payable: | | |
| Within one year | 34,870 | 61,899 |
| One to five years | 40,783 | 68,302 |
| Total commitment | 75,653 | 130,201 |
| Less: Future finance charges | 6,635 | 14,293 |
| Net commitment recognised as liabilities | 82,288 | 144,494 |

Operating lease commitments includes contracted amounts for the Consolidated Entity's offices under non-cancellable operating leases expiring within 1 year with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

## Note 33. Related party transactions

*Parent entity*
Spirit Telecom Limited is the parent entity.

*Subsidiaries*
Interests in subsidiaries are set out in note 36.

*Key management personnel*
Disclosures relating to key management personnel are set out in note 29 and the remuneration report included in the directors' report.

*Transactions with related parties*
The following transactions occurred with related parties:

| | Consolidated 2017 $ | Consolidated 2016 $ |
|---|---|---|
| Payment for other expenses: | | |
| Consulting fees paid to Angus Edgar (Mungala) | - | 20,000 |
| Consulting fees paid to Adrien Wing | - | 7,000 |
| Lodge Corporate Pty Ltd | 201,000 | 524,328 |
| Other expenses paid to Melbourne Capital in relation to rental (an entity related to Arunta Resources Ltd / Angus Edgar) | - | 11,546 |
| Other expenses paid to CLT Net in relation to rental (an entity related to Arunta Resources Ltd) | - | 4,364 |
| Wages paid to Jennifer Neate in relation to casual employment | 18,044 | - |

In the prior year, Lodge Corporate Pty Ltd were paid $366,750 upon successful completion of the reverse takeover of Arunta Resources. In addition to this they were also paid a capital raising fee of $157,238. Terry Gray is a Director of Spirit Telecom Limited and a consultant with Lodge Corporate Pty Ltd.

*Receivable from and payable to related parties*
There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

*Loans to/from related parties*
The following balances are outstanding at the reporting date in relation to loans with related parties:

| | Consolidated 2017 $ | Consolidated 2016 $ |
|---|---|---|
| Non-current borrowings: | | |
| Loan from Eloise Leighton Pty Ltd (an entity related to Geoff Neate, a director of the Company) | - | 250,000 |
| Loan from Geoff Neate (director of the Company) | - | 100,000 |
| Loan from SharJoe Pty Ltd (an entity related to Joe Tigel, employee and shareholder of Spirit) | - | 225,000 |

*Terms and conditions*
Unless otherwise noted, all transactions were made on normal commercial terms and conditions and at market rates.

The loans to the Consolidated Entity from Geoff Neate and his related entity and SharJoe are made on the following terms: All loans have a repayment date of 1 July 2017. The interest rate is based on the CBA published rate for Better Business Variable Rate Loan (Security other than residential) + 1.5% fixed margin. Interest only payments calculated on the prevailing interest rate plus fixed margin on loan balance and paid on the last business day of each month.

**Spirit Telecom Limited**
**Notes to the preliminary financial report**
**30 June 2017**

## Note 34. Legal parent entity information

Set out below is the supplementary information about the parent entity.

*Statement of profit or loss and other comprehensive income*

| | Parent | |
|---|---|---|
| | **2017** | **2016** |
| | **$** | **$** |
| Profit/(loss) after income tax | (278,019) | (920,526) |
| Total comprehensive income | (278,019) | (920,526) |

*Statement of financial position*

| | Parent | |
|---|---|---|
| | **2017** | **2016** |
| | **$** | **$** |
| Total current assets | 100 | 45,638 |
| Total assets | 20,456,515 | 14,970,920 |
| Total current liabilities | 3,733,396 | 51,373 |
| Total liabilities | 3,733,396 | 51,373 |
| Equity | | |
| Issued capital | 46,172,514 | 43,987,121 |
| Capital reserve | 297,383 | 160,000 |
| Accumulated losses | (29,746,778) | (29,227,574) |
| Total equity | 16,723,119 | 14,919,547 |

*Guarantees entered into by the parent entity in relation to the debts of its subsidiaries*
The bank loan of $3,780,000 are secured first over the assets and undertakings of Spirit Telecom Limited, Spirit Telecom (Australia) Pty Ltd, and Phone Name Marketing Australia Pty Ltd.

The parent entity had no other guarantees in relation to the debts of its subsidiaries as at 30 June 2017 and 30 June 2016.

*Contingent liabilities*
The parent entity had no contingent liabilities as at 30 June 2017 and 30 June 2016.

*Capital commitments - Property, plant and equipment*
The parent entity had no capital commitments for property, plant and equipment as at 30 June 2017 and 30 June 2016.

*Significant accounting policies*
The accounting policies of the parent entity are consistent with those of the Consolidated Entity, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

## Note 35. Business combinations

Spirit Telecom Ltd acquired 100% of Phone Name Marketing Australia Pty Ltd and Inbound Telecommunications Unit Trust ("Phone Name"), with effective control on 1 December 2016. The acquisition has been accounted as a Business Combination under AASB 3. Phone Name owns and markets inbound 13/1300/1800 Smart Numbers and owns approximately 2,200 phone names. The acquisition was undertaken by the Company to expand its asset base and provided a strategic fit with cross selling and growth opportunities.

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

| | Fair value $ |
|---|---|
| Cash and cash equivalents | 310,023 |
| Trade receivables | 84,142 |
| Other receivables | 75,185 |
| Intangible assets | 1,396,397 |
| Deferred tax asset | 56,685 |
| Trade payables | (168,047) |
| Deferred tax liability | (753) |
| Unearned revenue | (109,435) |
| Provisions | (81,237) |
| Net assets acquired | 1,562,960 |
| Goodwill | 2,837,333 |
| Acquisition-date fair value of the total consideration transferred | 4,400,293 |
| Acquisition costs expensed to profit or loss | 213,163 |
| Cash used to acquire business, net of cash acquired: | |
| Acquisition-date fair value of the total consideration transferred | 4,200,000 |
| Working capital adjustments paid in cash | 200,293 |
| Less: cash and cash equivalents | (310,023) |
| Net cash used | 4,090,270 |

i. Consideration transferred
Acquisition & integration costs amounting to $213,163 are not included as part of 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 $84,142. As of the acquisition date, the Company's best estimate is that all cash will be collected.

iii. Goodwill
Goodwill of $2,837,333 was primarily related to the Company's growth expectations through Smart Numbers and cross selling.

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
Phone Name contributed revenues of $840,089 and net profit of $690,546 to the Consolidated Entity from the date of the acquisition to 30 June 2017. Had the acquisition occurred on 1 July 2016, the consolidated revenues and net profit would have been $1,512,713 and $203,217 respectively. Prior to acquisition, Phone Name only adopted accrual accounting in November for the first time, affecting results, but not operational performance.

## Note 36. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

| Name | Principal place of business / Country of incorporation | Ownership interest 2017 % | Ownership interest 2016 % |
|---|---|---|---|
| Spirit Telecom (Australia) Pty Ltd | Australia | 100.00% | 100.00% |
| Phone Name Marketing Australia Pty Ltd | Australia | 100.00% | - |
| Inbound Telecommunications Pty Ltd | Australia | 100.00% | - |

For the purposes of this note the parent entity has been deemed as the legal parent entity Spirit Telecom Limited.

## Note 37. Events after the reporting period

On 24 August 2017 the Consolidated Entity entered into a binding agreement to purchase 100% of the equity of World Without Wires Pty Ltd for purchase consideration of $4,600,000. Control is effective from 1 July 2017 and World Without Wires Pty Ltd will be consolidated as part of the Consolidated Entity's operations from that date.

No other matter or circumstance has arisen since 30 June 2017 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 38. Reconciliation of profit/(loss) after income tax to net cash from/(used in) operating activities

| | Consolidated 2017 $ | Consolidated 2016 $ |
|---|---|---|
| Profit/(loss) after income tax (expense)/benefit for the year | 468,392 | (2,336,065) |
| Adjustments for: | | |
| Depreciation and amortisation | 731,255 | 580,898 |
| Share-based payments | 137,383 | - |
| Listing expense on reverse acquisition | - | 1,912,963 |
| Profit on asset disposal | 1,297 | 11,441 |
| Change in operating assets and liabilities: | | |
| Increase in trade and other receivables | (201,616) | (107,062) |
| Increase in inventories | (22,110) | (14,126) |
| Decrease/(increase) in deferred tax assets | 291,350 | (522,001) |
| Decrease/(increase) in prepayments | 8,768 | (42,391) |
| Increase in trade and other payables | 44,507 | 646,075 |
| Decrease in employee benefits | (71,574) | (34,823) |
| Decrease in other provisions | - | (114,608) |
| Net cash from/(used in) operating activities | 1,387,652 | (19,699) |

## Note 39. Earnings per share

In accordance with the principles of reverse acquisition accounting, the weighted average number of ordinary shares outstanding during the period ended 30 June 2017 has been calculated as the weighted average number of ordinary shares of Spirit Telecom (Australia) Pty Ltd outstanding during the period before acquisition multiplied by the exchange ratio established in the acquisition accounting, and the actual number of ordinary shares of Spirit Telecom Ltd outstanding during the period after acquisition.

## Note 39. Earnings per share (continued)

| | Consolidated 2017 $ | Consolidated 2016 $ |
|---|---|---|
| Profit/(loss) after income tax attributable to the owners of Spirit Telecom Limited | 468,392 | (2,336,065) |
| | **Number** | **Number** |
| Weighted average number of ordinary shares used in calculating basic earnings per share | 176,404,525 | 6,630,917 |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | 176,404,525 | 6,630,917 |
| | **Cents** | **Cents** |
| Basic earnings per share | 0.27 | (35.23) |
| Diluted earnings per share | 0.27 | (35.23) |