ASX: 9SP

ASX Announcement
29 November 2019

Amendment to
Appendix 4D and Condensed Interim Financial Statements
9 Spokes International Limited
30 September 2019

We refer to the Appendix 4D and Condensed Interim Financial Statements issued earlier today.

The Independent Review Report on page 6, paragraph 1, refers to pages "8 to 29". The Company advises this should read pages "8 to 26". We have resubmitted the Appendix 4D and Condensed Interim Financial Statements with the corrected report attached.

About 9 Spokes

9 Spokes is a business tracking and insights tool that enables SMBs to harness the power of their data to improve performance. SMBs can connect their cloud software to the 9 Spokes platform and use the Tracker tool to get a comprehensive, near real-time picture of how they're performing across the metrics that matter most – so they can make quick, sharp decisions that impact growth.

9 Spokes is available to SMBs directly through 9spokes.com and as a white-labelled platform for enterprise customers, including banks and other financial services providers. The Enterprise Edition allows banks, under their own brand, to deliver richer and more engaging experiences to their SMB customers. Through permissioned access to their SMB clients' data, banks get the insights they need to offer products and services that are better tailored to their small business customers' needs.

Find out more at 9spokes.com

ASX: 9SP

ASX Announcement
29 November 2019

Appendix 4D and Condensed Interim Financial Statements

9 Spokes International Limited

30 September 2019

In accordance with Listing Rule 4.2A, please find attached the Appendix 4D and Condensed Interim Financial Statements for the half year ended 30 September 2019, including Chairman and Chief Executive Review.

Highlights of the period:

- Operating loss before tax was $3.0 million (2018: $4.9 million), a reduction of 45%
- Total expenses were $5.8 million (2018: $9.9 million), a reduction of 43%
- Net cash outflows from operating activities were $1.7 million (2018: $6.5 million)
- Receipts from customers were $3.2 million (2018: $3.2 million); payments to employees and suppliers decreased to $5.4 million, a reduction of 47%
- 9 Spokes and Bank of America signed contract to provide 9 Spokes' next generation platform to the bank's small business customers
- Bank of New Zealand launched white-label version of the 9 Spokes platform at the beginning of the period
- Bank of America and Bank of New Zealand recognised as accredited Microsoft co-sell wins.

Detailed commentary on the results are contained in the Condensed Interim Financial Statements and accompanying Chairman and Chief Executive's Review. It is recommended that these half year reports be read in conjunction with the Annual Report for the year ended 31 March 2019 and any public announcements made by the company during the half year.

About 9 Spokes

9 Spokes is a business tracking and insights tool that enables SMBs to harness the power of their data to improve performance. SMBs can connect their cloud software to the 9 Spokes platform and use the Tracker tool to get a comprehensive, near real-time picture of how they're performing across the metrics that matter most – so they can make quick, sharp decisions that impact growth.

9 Spokes is available to SMBs directly through 9spokes.com and as a white-labelled platform for enterprise customers, including banks and other financial services providers. The Enterprise Edition allows banks, under their own brand, to deliver richer and more engaging experiences to their SMB customers. Through permissioned access to their SMB clients' data, banks get the insights they need to offer products and services that are better tailored to their small business customers' needs.

Find out more at 9spokes.com

9 Spokes International Limited (ASX:9SP) ("9 Spokes" or "the Company"), ABN 610 518 075, presents its Appendix 4D report for the half year ended 30 September 2019, incorporating results for the previous corresponding half year ended 30 September 2018.

Results for announcement to the market

	6 Months ended 30 September 2019 (unaudited) NZ$ millions	6 Months ended 30 September 2018 (unaudited) NZ$ millions	Amount changed NZ$ millions	% Change %
Total revenue	3.3	5.0	(1.7)	-34%
Total expenses	(5.8)	(9.9)	4.1	-41%
Net finance (expense) / income	(0.5)	-	(0.5)	0%
Net Loss before income tax	(3.0)	(4.9)	1.9	-39%
Net loss for the period attributable to members	(3.2)	(5.0)	1.8	-36%

Net tangible asset per security

	30 September 2019 *(unaudited)* NZ$'000	30 September 2018 *(unaudited)* NZ$'000
Net tangible assets per security	0.001	0.001

Condensed Interim Financial Statements

The information provided in this Appendix 4D is taken from the attached Condensed Interim Financial Statements of the Company for the financial half year ended 30 September 2019.

Commentary on the results are contained in the Condensed Interim Financial Statements and accompanying Chairman and Chief Executive's Review. These financial statements are presented in New Zealand dollars unless otherwise stated.

The Condensed Interim Financial Statement have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP"). They comply with the New Zealand International Accounting Standard, NZ IAS 34 *Interim Financial Reporting*. The Condensed Interim Financial Statements acontain an Independent Review Report completed by PricewaterhouseCoopers (PwC). Consistent with the financial statements for the year ended 31 March 2019, the Independent Review Report contains an emphasis of matter related to going concern. A copy of the Independent Review Report and the basis of the conclusion is included on pages 6 to 7 of the attached Condensed Interim Financial Statements .

Dividends or Distributions

There were no dividends or distributions.

Details of entities over which control has been gained or lost during the period

There were no entities over which control has been gained or lost during the half year ended 30 September 2019.

Details of associates and joint venture entities

The company has no associates or joint venture entities.

9 Spokes International Limited and subsidiary companies

Condensed Interim Financial Statements

For the 6 months ended 30 September 2019

Contents

The Directors are pleased to present the Condensed Interim Financial Statements of 9 Spokes International Limited ("the Company" or "9 Spokes") and its subsidiaries (together "the Group") for the 6 months ended 30 September 2019.

These financial statements should be read in conjunction with the Group's Annual Report for the year ended 31 March 2019, issued on 28 June 2019.

Financial results of operation

The Group's operating loss before tax for the 6 months ended 30 September 2019 was $3.0 million, down from $4.9 million for the same period last year, a reduction of 39%.

6 Months Financial Performance

	2019 $ millions (unaudited)	2018 $ millions (unaudited)	Variance $ millions	Variance %
Total revenue	3.3	5.0	(1.7)	-34%
Total expenses	(5.8)	(9.9)	(4.1)	-41%
Net finance (expense) / income	(0.5)	-	(0.5)	0%
Net Loss before income tax	**(3.0)**	**(4.9)**	**(1.9)**	**-39%**

Revenue

Total revenue for the 6 months ended 30 September 2019 was $3.3 million (2018: $5.0 million). Revenue for this period includes new platform and implementation fees from OCBC Bank, Singapore and Bank of New Zealand (BNZ) which both went live in the second half of the last financial year. The signing of a new contract with Bank of America in August 2019 will provide a material addition to annual revenues, but these will not be recognised in revenue until the bank's white label platform goes live in the second half of this financial year (see note 5a of the Condensed Interim Financial Statements).

The overall revenue reduction in the 6 months against the same period last year reflects the decision of Royal Bank of Canada (RBC) to re-orientate its small medium business (SMB) strategy during that period in 2018. Total revenue from RBC in the 6 month period in 2018 was $2.0 million, which included an incremental $0.6 million recognised early following their decision.

Expenses

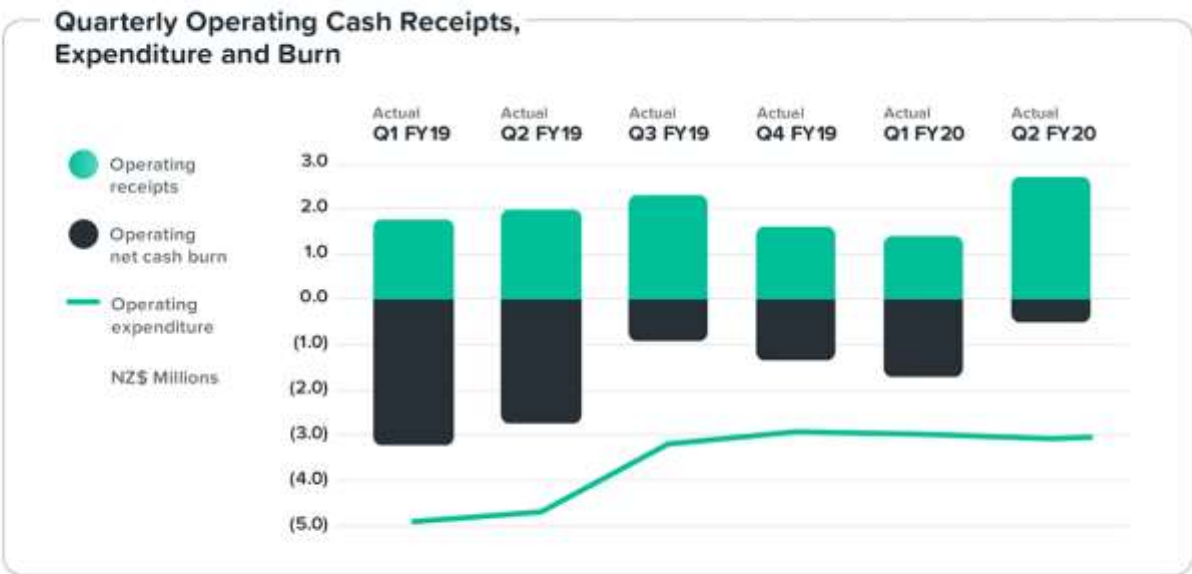
Total expenses for the period were $5.8 million, compared to $9.9 million for the same period last year, a reduction of $4.1 million (41%). Expenditure has reduced in line with the Company's expectations. Costs savings have continued to be achieved in administrative areas and with professional fees. Key resources for supporting existing customers and developing new business opportunities have been ringfenced and maintained. Improvements to the software code base from implementation of our new

V2 product platform have effected significant operational efficiencies and improved use of resources, resulting in greater product development and delivery outputs (highlighted below). As a consequence, research and development expenditure as a percentage of total expenditure has increased to 40% compared to 26% for the same period last year.

Cash Flow

Net cash outflows from operating activities for the 6 months ended 30 September 2019 were $1.7 million (2018: $6.5 million) and at 30 September 2019, the Group had $2.4 million of cash and cash equivalents.

Receipts from customers were $3.2 million (2018: $3.2 million) including the first implementation payment from Bank of America, while payments to employees and suppliers decreased to $5.4 million a reduction of $4.9 million (48%), reflecting the ongoing management of cash expenditure.



During the period the Company completed a capital raise, with proceeds from the issue of shares amounting to $6.3 million, less costs of $0.8 million. Of the proceeds, $2.3 million was used to settle the short-term loan taken out during the previous financial year.

Review of operations

During the 6 months ended 30 September 2019, operationally, the Company focused on three primary areas:

- Further development of existing client relationships and focused targeting of new ones with the core objective to grow the Company's global footprint.
- Strengthening 9 Spokes' partnership with Microsoft and continuing to explore opportunities for go-to-market collaboration with Visa.
- Completing the build of 9 Spokes' next generation product platform (V2), broadening the product ecosystem and releasing to market.

Bank partners and new business development

The Company signed a multi-year contact with Bank of America on 26 August 2019 to provide the bank's small business (SB) customers with access to a white-label version of 9 Spokes' new V2 platform. The platform will operate alongside Business Advantage 360, Bank of America's online cash flow management dashboard for SB customers. 9 Spokes is working closely with Bank of America and business app partners relevant to the US market in preparation for launch in that market.

BNZ went live on 9 Spokes' platform in April, with a successful go-to-market campaign supported by a 9 Spokes marketing services programme. BNZ has since become the first bank to migrate to 9 Spokes' next generation product platform. By the end of the March 2020 quarter, all bank partners will be on the new platform.

9 Spokes developed an integrated marketing service designed to complement banks' in-house capabilities with always-on marketing campaigns, content and platform support over the 6 months ended 30 September. Called 9 Spokes Engage™, the programme was later launched with BNZ as anchor partner.

The Company focused on cultivating opportunities for partnerships and collaboration to support the growth and distribution of the 9 Spokes product. Discussions between 9 Spokes and Visa continued during the period and in November 2019 the parties signed an addendum to the Collaboration Framework Agreement announced earlier this year. The addendum enabled joint Visa-9 Spokes participation at major bank industry events in Singapore and Los Angeles.

The multi-faceted relationship with Microsoft was further bolstered and delivered significant benefits to 9 Spokes, from a product and platform perspective (see 'Product development') and in terms of business development. Bank of America was recognised as a second accredited Microsoft co-sell win, following previous recognition of BNZ. Microsoft and 9 Spokes are advancing further mutual business opportunities.

Product development

Extensive progress was made on development of 9 Spokes' V2 platform over the period. The Company's Annual Report provided a detailed product update, noting the completion of migration to Microsoft Azure cloud infrastructure, a new data services framework, a new API service layer, the extension of 9 Spokes' open banking capabilities and a new platform architecture that supports a single code base for desktop and native app deployments.

The move to the V2 platform has enabled 9 Spokes to improve productivity and efficiency in the delivery of new platform features and services, and underpinned significant reductions in headcount and other organisational costs. The new platform also enables 9 Spokes to deploy new bank partners more rapidly – in weeks rather than in months – better positioning the Company to deliver at scale.

Subsequent to the reporting period, 9 Spokes commenced deployment of V2 for BNZ and by the end of the financial year all bank partners and 9 Spokes' Direct business (www.9spokes.com) will be on the V2 platform.

The Company has a clear view of future platform enhancements, including mechanisms to drive ecosystem participation by third parties. The Company's principal product focus is now on opening the platform to development by developers, app partners and banks, and launching a new app marketplace.

New appointments

During the six months ended 30 September, 9 Spokes undertook a search to appoint a new independent Director. This led to the appointment of Shelley Ruha on 14 October as an independent non-executive Director. Shelley has extensive banking and governance experience, now chairs the Board's Audit & Risk Committee and sits on the Remuneration & Nominations Committee. Refer to the ASX announcement on our Investors Centre for full details.

Melisa Beight was appointed General Counsel and Company Secretary. Melisa assumes responsibility for the management of all legal matters for 9 Spokes – including contract and security compliance – and will provide commercial, employment and general counsel to the Company.

Directors

The following persons held office as directors of 9 Spokes International Limited during the 6 months ended 30 September 2019 and up to the date of this report:

Paul Reynolds (Chair)
Adrian Grant (Chief Executive)
Mark Estall
Shelley Ruha (appointed 14 October 2019)
Thomas Power

On behalf of the board,

Paul Reynolds	Adrian Grant
Chairman	Founder & Chief Executive

Independent review report

To the shareholders of 9 Spokes International Limited

Report on the condensed interim financial statements

We have reviewed the accompanying condensed interim financial statements (financial statements) of 9 Spokes International Limited (the Company) and its controlled entities (the Group) on pages 8 to 26, which comprise the condensed consolidated statement of financial position as at 30 September 2019, and the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the period ended on that date, and selected explanatory notes.

Directors' responsibility for the condensed interim financial statements

The Directors are responsible on behalf of the Company for the preparation and fair presentation of these financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) and New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* (NZ IAS 34) and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Our responsibility

Our responsibility is to express a conclusion on the accompanying financial statements based on our review. We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects, in accordance with IAS 34 and NZ IAS 34. As the auditors of the Company, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of the financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. Accordingly, we do not express an audit opinion on these financial statements.

We are independent of the Group. Our firm carries out other services for the Group in the areas of tax compliance, tax advisory, and a review opinion on the Group's Confirmation of Eligible Research & Development Expenses for Callaghan Innovation. The provision of these other services has not impaired our independence.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 30 September 2019, and its financial performance and cash flows for the period then ended, in accordance with IAS 34 and NZ IAS 34.

Material uncertainty related to going concern

We draw attention to note 2(a) in the financial statements, which discloses that the Group has incurred a net loss from continuing activities of $3.0 million and had net cash outflows from operating activities of $1.7 million for the six month period ended 30 September 2019, and at balance date had available cash of $2.0 million. At the current run rate, the Group only has sufficient cash for a further four months from the date of signing these financial statements. In order to generate sufficient cash for at least the next 12 months the Group will need to secure more revenue deals and/or raise additional capital. As stated in note 2(a), these events or conditions, along with other matters set forth in note 2(a), indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Who we report to

This report is made solely to the Company's shareholders, as a body. Our review work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in our review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders, as a body, for our review procedures, for this report, or for the conclusion we have formed.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
29 November 2019

Auckland

	Notes	6 months ended 30 September 2019 (unaudited) $'000	6 months ended 30 September 2018 (unaudited) $'000
Revenue:			
Operating revenue	5a	2,792	4,447
Other operating income	5b	474	511
Total revenue		3,266	4,958
Expenses:			
Operational expenses	6a	(594)	(1,916)
Research and development expenses	6b	(2,321)	(2,623)
Sales, marketing and administration expenses	6c	(2,867)	(5,401)
Total expenses		(5,782)	(9,940)
Operating loss		(2,516)	(4,982)
Net finance (expense) / income	7	(523)	35
Net loss before income tax		(3,039)	(4,947)
Income tax credit / (expense)		1	(5)
Net loss from continuing operations	8	(3,038)	(4,952)
Other comprehensive income:			
Foreign exchange translation of international subsidiaries		(118)	(73)
Total comprehensive loss attributable to shareholders		(3,156)	(5,025)
Loss per share			
Basic and diluted loss per share	9	($0.00)	($0.01)

The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes to the Condensed Interim Financial Statements.

	Notes	Share capital $'000	Share based payments reserve $'000	Foreign currency translation reserve $'000	Accumulated losses $'000	Total $'000
Balance as at 1 April 2019 (as previously reported)		48,984	906	(143)	(53,363)	(3,616)
Correction of prior period error	16	-	-	-	294	294
Restated balance at 1 April 2019		48,984	906	(143)	(53,069)	(3,322)
Proceeds from shares issued	12	6,310	-	-	-	6,310
Costs of capital raise	12	(827)	-	-	-	(827)
Shares issued in settlement of short-term loan	12	1,356	-	-	-	1,356
Share option expense		-	6	-	-	6
Reserve arising on conversion of foreign currency subsidiary		-	-	(118)	-	(118)
Net loss for the period		-	-	-	(3,038)	(3,038)
Balance as at 30 September 2019		55,823	912	(261)	(56,107)	367
Balance as at 1 April 2018		49,028	898	(200)	(44,039)	5,687
Proceeds from shares issued		-	-	-	-	-
Share option expense		-	6	-	-	6
Costs of capital raise		(44)	-	-	-	(44)
Reserve arising on conversion of foreign currency subsidiary		-	-	(73)	-	(73)
Net loss for the period		-	-	-	(4,952)	(4,952)
Balance as at 30 September 2018		48,984	904	(273)	(48,991)	624

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes to the Condensed Interim Financial Statements.

	Notes	30 September 2019 (unaudited) $'000	Restated 31 March 2019 (audited) $'000
Assets			
Non-current assets			
Property, plant and equipment		277	346
Right of use asset	10	759	-
Total non-current assets		1,036	346
Current assets			
Cash and cash equivalents		2,419	1,360
Trade and other receivables		1,467	890
Contract assets	5a	205	475
Total current assets		4,091	2,725
Total assets		5,127	3,071
Equity			
Share capital	12	55,823	48,984
Share based payments reserve		912	906
Foreign currency translation reserve		(261)	(143)
Accumulated losses		(56,107)	(53,069)
Equity attributable to the owners of the Company		367	(3,322)
Total equity		367	(3,322)
Non-current liabilities			
Provision for make good	10	60	-
Lease liabilities	10	435	-
Contract liabilities	5a	1,320	281
Total non-current liabilities		1,815	281
Current liabilities			
Trade and other payables		1,230	1,685
Short-term loan	11	-	2,637
Fair value of loan conversions option	11	-	585
Lease liabilities	10	502	-
Contract liabilities	5	1,213	1,205
Total current liabilities		2,945	6,112
Total equity and liabilities		5,127	3,071

Certain amounts shown here do not correspond to the Consolidated Statement of Financial Position as at 31 March 2019 (see note 16) The Condensed Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes to the Condensed Interim Financial Statements.

	Notes	6 months ended 30 September 2019 (unaudited) $'000	6 months ended 30 September 2018 (unaudited) $'000
Cash flows from operating activities			
Receipts from customers		3,167	3,154
Receipts from government grants		577	540
Payments to employees and suppliers		(5,412)	(10,293)
		(1,668)	(6,599)
Interest received		5	78
Lease interest paid		(68)	
Interest paid		(8)	(5)
Net cash flows from operating activities	8	(1,739)	(6,526)
Cash flows from investing activities			
Purchase of property, plant and equipment		-	(69)
Transfer from term deposits		-	1,000
Net cash flows from investing activities		-	931
Cash flows from financing activities			
Proceeds from the issue of share capital	12	6,310	-
Repayment of short-term loan	11	(2,321)	-
Costs of raising capital		(827)	(63)
Principle portion of lease liability		(247)	-
Net cash flows from financing activities		2,915	(63)
Net change in cash and cash equivalents		1,176	(5,658)
Cash and cash equivalents at beginning of the period		1,360	7,297
Foreign exchange loss on cash and cash equivalents		(117)	(77)
Cash and cash equivalents at end of the period		2,419	1,562

The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes to the Condensed Interim Financial Statements.

1. General information

These condensed interim financial statements are for 9 Spokes International Limited ("the Company" or "9 Spokes") and its subsidiaries (together "the Group").

9 Spokes is a limited liability company incorporated in New Zealand. The registered office of the Company is Level 4, AECOM House, 8 Mahuhu Crescent, Auckland 1010, New Zealand.

9 Spokes current operations do not follow a seasonal or cyclical pattern.

The condensed interim financial statements were authorised for use by the Board of Directors on 29 November 2019.

2. Basis of preparation

These are the condensed interim financial statements for the Group for the six months ended 30 September 2019.

These condensed interim financial statements have been prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP). They comply with NZ IAS 34: Interim Financial Reporting and IAS 34: Interim Financial Reporting.

These condensed interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the audited financial statements for the year ended 31 March 2019, which have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS), and any public announcements made by the Company during the interim reporting period. Accordingly, the comparatives used in the Condensed Consolidated Statement of Financial Position are those at 31 March 2019, while comparatives used in income, cashflow and equity statements are for the 6 months ended 30 September 2018.

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The condensed interim financial statements are presented in New Zealand dollars, unless otherwise stated, which is the Group's functional and presentational currency. The Group is designated as a profit-oriented entity.

The Group has adopted External Reporting Board Standard A1 "Accounting Standards Framework (For-profit Entities Update)" ("XRB A1"). XRB A1 establishes a for-profit tier structure and outlines which suite of accounting standards entities in different tiers must follow. The Group is a Tier 1 entity.

All significant accounting policies have been applied on a basis consistent with those used in the audited financial statements of the Group for the year ended 31 March 2019. The only exception is the adoption of new or amended standards as set out in note 2 (b) below.

a. Going concern

The condensed interim financial statements have been prepared on a going concern basis, which assumes that the Group has the intention and ability to continue its operations for the foreseeable future. The Group incurred a net loss of $3.0 million for the 6 months ended 30 September 2019 and at balance date had available cash of $2.0 million. The Group's net cash outflow from operating activities was $1.7 million during the period.

During the last six months, the Group reduced its cost base, with cash outflows from operating activities reducing by $1 million (35%), compared to the previous six months ended 31 March 2019.

At the current cashflow run rate, the Group has sufficient cash for a further four months from the date of signing these financial statements. The Group, therefore, will need to secure new revenue opportunities and/or raise additional capital to continue operations beyond the four-month period.

The Group has a number of revenue opportunities that are currently being actively progressed by management, including the Group recently announcing the signing of an addendum to its Collaboration Framework Agreement with Visa USA Inc ("Visa"). This provides the potential opportunity to engage with Visa's global client base. The Group is also in discussions with various banks in all regions of operation.

The Group has engaged with the same broker who facilitated the May 2019 capital raise. The Group has instructed the broker to progress a capital raise, with the aim of raising additional capital to extend available cash to December 2020.

These matters indicate that a material uncertainty exists as at 30 September 2019 that may cast significant doubt about the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

Following discussions with the broker, Management and the Directors are confident that new capital can be raised within the next four months. Additionally, Management and the Directors are confident that the Group will secure new customer contracts given the current progress of new revenue opportunity discussions. This will provide the Group with sufficient funds to support planned expenditure and maintain operations. Therefore, they consider it appropriate to continue to adopt the going concern basis in preparing these condensed interim financial statements. However, they recognise that uncertainties exist, as detailed above.

b. Changes in accounting policies

NZ Equivalent to International Financial Reporting Standard 16: Leases

NZ IFRS 16: Leases replaces NZ IAS 17: Leases. It introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Under the standard a right of use asset is recognised, representing the lessee's right to use the underlying leased asset. A corresponding lease liability is recognised, representing the obligation to make lease payments.

Prior to 31 March 2019, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to the Condensed Consolidated Statement of Comprehensive Income on a straight-line basis over the period of the lease.

From 1 April 2019, leases with term over 12 months are recognised as a right of use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the Condensed Consolidated Statement of Comprehensive Income over the lease period. The right of use asset is depreciated on a straight-line basis over the asset's lease term.

In applying NZ IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- Reliance on previous assessments on whether leases are onerous
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying NZ IAS 17 and IFRIC 4: Determining whether an Arrangement contains a Lease.

The Group has elected to transition to NZ IFRS 16: Leases using the modified retrospective approach, under which the Group does not restate comparative information. The impact of this transition on the 6 months ended 30 September 2018 net loss from continuing operations would be a decrease of $14,000.

The adoption of IFRS 16: Leases also resulted in a reclassification in the Condensed Consolidated Statement of Cash Flows between operating cash flows and financing cash flows. The reclassification resulted in a $247,000 decrease to operating cash flows and a corresponding increase to financing cash flows.

The impact on earnings per share, as a result of the adoption of NZ IFRS 16, is insignificant and immaterial therefore it has not been recorded.

3. Significant changes in the current reporting period

There have been no other significant events or transactions affecting the financial position and performance of the Group during the six months ended 30 September 2019 that have not otherwise been reported elsewhere in these Condensed Interim Financial Statements.

4. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers. The chief operating decision makers, who are responsible for allocating resources and assessing performance of the operating segment, have been identified as the Chief Executive Officer and the Chief Financial Officer.

The chief operating decision makers have determined that the business operates as a single business operating segment.

5. Revenue

a. Operating revenue from contracts with customers

	6 months ended 30 September 2019 (unaudited) $'000	6 months ended 30 September 2018 (unaudited) $'000
Implementation revenue	907	1,652
Platform access revenue - recurring	1,820	2,725
Other revenue from enterprise customers	65	70
Total operating revenue	2,792	4,447

Recognition of operating revenue from contracts with customers

The Group adopts the five-step method to the revenue contracts with the Group's enterprise customers to assess the impact on revenue recognition. The five-step method for recognising revenue from contracts with customers involves consideration of the following:

1. Identifying the contract with the customer
2. Identifying performance obligations
3. Determining the transaction price
4. Allocating the transaction price to distinct performance obligations
5. Recognising revenue

The accounting policy and key judgements are outlined below.

Implementation fees and platform access fees

The Group receives implementation fees and platform access fees in relation to the platforms it provides to its enterprise customers. Implementation fees are received as part of the deployment of the 9 Spokes' platform to these customers. Platform access fees are charged to customers throughout the term of the service.

Together, these fees form the majority of the revenue of the Group. While there are two forms of fees, there is only one performance obligation, which is to provide the platform services to the enterprise customer over the contracted period. The implementation and platform access fees are aggregated (based on the expected total fees over the expected period of service including the most probable outcome of variable arrangements) and then recognised as revenue in the Condensed Consolidated Statement of Comprehensive Income on a straight-line basis over the expected term of the service, starting when the system has been deployed.

The table below provides further information on the application of NZ IFRS 15 across the two main revenue categories in the Group. The segments detailed below represent 84% of the Group's total revenue for the 6 months ended 30 September 2019.

Revenue Type	Description	Key Judgements	Outcome	Timing of Revenue Recognition
Implementation Revenue	Deployment of 9 Spokes' systems.	Determining whether the deployment is a distinct performance obligation.	The customer could not benefit from deployment of the system on its own and separately from the platform access and as such there is no distinct performance obligation.	Over time – while cash is received at the time of implementation, revenue is recognised on a straight-line basis, equally over the expected licence period, once the system has been deployed.
Platform Access Revenue	The right to access 9 Spokes' platform.	Determining whether the platform access is a distinct performance obligation.	As above.	Over time - recognised monthly, on a straight-line basis, recurring over the expected licence period.
Implementation Revenue and Platform Access Revenue	As above.	Determining the length of the expected licence period.	The expected licence period is the minimum contractual period excluding extension options, unless these options have formally been exercised.	As above.

In terms of the impact to the presentation of the condensed interim financial statements, NZ IFRS 15 requires the disaggregation of revenue to provide clear and meaningful information. Management concluded that presentation of revenue in terms of this method of revenue recognition was most appropriate. As disclosed in note 4, the Group operates as a single business operating segment therefore further disaggregation of revenue is not deemed material.

During the period the Company announced that it has entered into a formal contract with Bank of America to provide Bank of America's small business customers with access to a white-labelled platform powered by 9 Spokes for an initial period of three years. The platform access fee is for 3 years and can only be reduced or terminated if the Company fails to perform services as defined in the contract. If Bank of America were to terminate for convenience, they would be liable for residual access fees to the conclusion of the initial term. Implementation fees will be amortised over the period of the initial contract term.

Revenue from Bank of America will be recognised when the white label platform goes live. As a result, at balance date, Implementation fees invoiced during the current period have been deferred and treated as a contract liability.

As announced to the market on 22 July 2019, 9 Spokes and Barclays have agreed a variation to their existing white-label platform agreement. As part of the variation, the parties will no longer have an exclusive relationship, positioning 9 Spokes to pursue new opportunities in the UK banking industry.

The current contract for white label platform services will expire in December. Ongoing discussions around alternative services which could extend into 2020 would be covered under a separate contract.

The variation brings the expiry date of the original contract forward from 31 December 2019 to 15 December 2019 (16 days). This change in date results in a change in the recognition of revenues with implementation revenue increasing by $49,000 and platform access revenue decreasing by $151,000.

Contract liabilities (deferred revenue)

Implementation fees received prior to deployment are deferred in the Condensed Consolidated Statement of Financial Position and treated as a contract liability. The Group had deferred implementation revenue as at 30 September 2019 of $2.5 million (31 March 2019: $1.5 million).

Accounting for costs to fulfil contracts

During the implementation process the Group incurs costs directly related to fulfilling its obligations in the contract and expects to recover these costs against implementation revenue. These costs are capitalised as contract assets on the condensed consolidated statement of financial position and amortised on a straight-line basis over the same period that the implementation revenue is recognised.

b. Other operating income

	6 months ended 30 September 2019 (unaudited) $'000	6 months ended 30 September 2018 (unaudited) $'000
Government grants	449	492
Other income	25	19
Total other operating income	474	511

6. Expenses by nature

The Group operates as a single business operating segment, providing online solutions for businesses, with costs predominately incurred in New Zealand.

a. Operational expenses

	6 months ended 30 September 2019 (unaudited) $'000	6 months ended 30 September 2018 (unaudited) $'000
Employee benefit expenses	380	1,258
Other operational expenses	-	143
Platform hosting and tools	152	505
Third party contractors	62	10
Total operational expenses	594	1,916

b. Research and development expenses

	Note	6 months ended 30 September 2019 (unaudited) $'000	6 months ended 30 September 2018 (unaudited) $'000
Amortisation of previously capitalised contract assets	5a	270	227
Capitalisation of contract assets	5a	-	(31)
Depreciation expense		200	32
Employee benefit expenses		1,491	1,678
Other research and development expenses		268	401
Third party contractors		92	316
Total research and development expenses		2,321	2,623

Total capitalised contract assets in the Condensed Consolidated Statement of Financial Position at 30 September 2019 is $0.2 million (31 March 2019: $0.3 million).

c. Sales, marketing and administration expenses

	6 months ended 30 September 2019 (unaudited) $'000	6 months ended 30 September 2018 (unaudited) $'000
Depreciation expense	154	62
Directors' fees	103	143
Directors' consultancy services	5	108
Employee benefit expenses	1,835	2,601
Marketing expenses	60	310
Travel	220	612
Professional, audit, rent, office costs and other administration expenses	490	1,565
Total sales, marketing and administration expenses	2,867	5,401

7. Finance expense / (income)

	Notes	6 months ended 30 September 2019 (unaudited) $'000	6 months ended 30 September 2018 (unaudited) $'000
Interest receivable on short term bank deposits		(5)	(40)
Bank interest payable		8	5
Interest on lease liabilities	10	65	-
Finance expense on short term loan	11	1,040	-
Fair value loss on loan conversion option	11	(585)	-
Total finance expense / (income)		523	(35)

8. Reconciliation of reported loss after income tax with cash flows from operating activities

	6 months ended 30 September 2019 (unaudited) $'000	6 months ended 30 September 2018 (unaudited) $'000
Loss after income tax	(3,038)	(4,952)
Non-cash items:		
Depreciation expense	350	94
Share option expense	5	6
Foreign exchange loss on monetary assets	-	1
Finance expense on short-term loan	1,040	-
Fair value gain on loan conversion option	(585)	-
Changes in working capital:		
Increase in trade and other receivables	(764)	(10)
Decrease in contract assets	355	195
(Decrease) / increase in trade and other payables	(148)	(533)
Increase / (decrease) in contract liabilities	1,046	(1,327)
Net cash flow from operating activities	(1,739)	(6,526)

9. Loss per share

Basic earnings per share is calculated by dividing the comprehensive loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares on issue during the period.

The number of shares and weighted average number of shares as at 30 September 2018 has been restated for the dilutive impact of bonus shares that arise from the placement completed in May 2019 (note 11).

	6 months ended 30 September 2019 (unaudited) $'000	6 months ended 30 September 2018 (unaudited) $'000
Total comprehensive loss attributable to shareholders	($3,156)	($5,025)
Ordinary number of shares	948,893	518,301
Weighted average number of shares on issue	816,794	518,301
Basic and diluted loss per share	($0.00)	($0.01)

10. Right of use assets and lease liabilities

The Group has identified 2 contracts containing leases:

- leased office premises in Auckland, New Zealand, with a term to 31 January 2021, and
- leased office in London, United Kingdom, a short term lease to 31 March 2020.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Right of use assets

Leased assets are measured at cost comprising the amount of the initial measurement of lease liability less any lease incentives received and make good provisions. Key movements during the period, relating to lease right of use assets are presented below:

	6 months ended 30 September 2019 $'000
Balance at 1 April 2019	-
Additions due to first-time adoption of NZ IFRS 16	1,043
Additions during the year	-
Depreciation charges	(284)
Balance at 30 September 2019	759

Lease liabilities

Under IFRS 16: Leases, the Group is required to recognise lease liabilities for contracts identified as containing a lease, except when the lease is for 12 months or less or the underlying asset is of low value. Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the Condensed Consolidated Statement of Comprehensive Income. The expense relating to short-term leases for the six months ending 30 September 2019 was $80,000 (2018: $139,000).

Lease liabilities are initially measured at the present value of the remaining lease payments, which include:

- fixed payments less any incentives receivable, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the Group's incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. The incremental borrowing rate applied is 12%. Subsequently the carrying value of the liability is adjusted to reflect interest and lease payments made.

The total interest expense on lease liabilities and the total cash outflow for the six months ended 30 September 2019 was $65,000 and $312,000, respectively.

The maturity of the lease liabilities is as follows:

	6 months ended 30 September 2019 $'000
Less than one year	502
One to five years	435
Total lease liabilities	937

Make good provision

The Company is required, at the expiry of the lease to make good on the condition of its leased premises. The provision is based on estimates obtained from third parties, for the expected work required.

Subleasing

For the six months ended 30 September 2019 the Company received $21,000 from subleasing portion of its leased premises (2018: $16,500).

11. Short-term loan and fair value of conversion option

During the year ended 31 March 2019, the Company entered into a short-term funding facility to provide the Company with working capital to allow time to conclude a capital raise.

The terms of the facility included a conversion option, which entitled the lenders to convert any portion of the loan to ordinary shares, which under certain conditions may be exercised at a discount to the current market price of the shares. As a result, the loan was accounted for as two separate components, pure debt portion and the loan conversion option.

Settlement of the short-term loan

Following completion of an entitlement offer and placement on 24 May 2019 (note 12), the loan including fees and interest was settled on that date, discharged by the payment of $2.32 million and the issue of 80.1 million shares at the offer price of A$0.016 per share. This repaid the outstanding amount and the lenders security was released.

Finance expense of the debt portion

The finance expense is made up of interest plus completion and work fees over the life of the loan. The finance expense is accounted for using the amortised cost basis method and recognised in the Condensed Consolidated Statement of Comprehensive Income as finance expense on short-term loan.

Derivative conversion option

On the date of settlement of the loan the lenders opted to exercise a portion of the loan at the offer price of A$0.016 per share. There was no discount on their exercise. As a result, the fair value of the conversion option was revalued to nil and recognised in the Condensed Consolidated Statement of Comprehensive Income as fair value loss on loan conversion option.

12. Share capital

On 24 May 2019 the Company issued 330,047,971 ordinary shares at A$0.016 per share following the announcement of a fully underwritten pro rata renounceable entitlement offer on 18 April 2019. As a consequence of demand from shareholders and sub-underwriters, on the same date the Company secured a placement of a further 43,500,000 ordinary shares at A$0.016 per share.

On 24 May 2019, the Company issued 80,073,630 ordinary shares at A$0.016 per share as partial settlement of the short-term loan (note 11).

	Notes	Share capital $'000	Shares 000's
Balance at 1 April 2019		48,984	495,271
Shares issued for cash at A$0.016 per share ($0.017)		6,310	373,548
Shares issued as partial settlement of short-term loan at A$0.016 per share ($0.017)	11	1,356	80,074
Costs of capital raise		(827)	-
Balance at 30 September 2019		55,823	948,893

13. Share-based payments

The fair value of share options issued as part of share-based payment arrangement is measured at grant date and expensed over the vesting period. At the end of each reporting period, the Company revises its estimates of the number of options that are expected to vest. Revisions to original estimates, if any, are recognised in the Condensed Consolidated Statement of Comprehensive Income, with a corresponding adjustment to equity.

Employee share option (August 2019)

During the period ended 30 September 2019, the Board approved the issue of options under the employee share option plan (ESOP) to members of the senior leadership team. The amount granted will be calculated on achievement of Company and personal performance targets for the financial year ending 31 March 2020. The options will vest in three equal tranches. 1/3 of the options will each vest on 31 March 2020, 31 March 2021 and 31 March 2022 and all the options will expire 5 years from the date of issue. At each of these dates, 70% of the options issued will each have an exercise price of A$0.032 and 30% of the options issued will each have an exercise price of $A0.05. Under the Black Scholes valuation model, the weighted average of the fair value of the options is AU$0.04. The significant inputs into the model were a share price of AU$0.018 at the grant date, volatility of 87.0%, no dividend, expected option life of five years and a risk-free interest rate of 0.93%. The total fair value of options granted during this period of $70,356, will be expensed over the vesting periods for each tranche up to 31 March 2020, 31 March 2021 and 31 March 2022. The amount recognised in the 6 months to September 2019 was $5,284.

The Company has issued a number of options since December 2015, details of which are provided in the consolidated financial statements for the year ended 31 March 2019.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	Pre-IPO employee share options[1]	IPO advisor share options[2]	Employee ESOPs	NEDs ESOPs	Employee ESOPs	Total	Weighted average exercise price $ per option
Exercise price	Dec 2015 *NZ$0.16*	Jan 2016 *AU$0.20*	Aug 2017 *AU$0.20*	Sep 2017 *AU$0.225*	Aug 2019 *AU$0.032 & AU$0.05*		
	000's	000's	000's	000's	000's	000's	
Balance outstanding at 1 April 2019	1,533	8,750	1,352	1,143	-	12,778	0.21
Granted	-	-		-	5,250	5,250	0.04
Forfeited	(56)	(8,750)	(167)	-	-	(8,973)	0.21
Balance outstanding at 30 September 2019	1,477	-	1,185	1,143	5,250	9,055	0.11
Balance exercisable at 30 September 2019	1,477	-	1,185	-	-	2,662	0.18
Balance outstanding at 1 April 2018	1,533	8,750	1,715	1,713	-	13,711	0.21
Granted	-	-	-	-	-	-	-
Forfeited	-	-	(111)		-	(111)	0.22
Balance outstanding at 30 September 2018	1,533	8,750	1,604	1,713	-	13,600	0.21
Balance exercisable at 30 September 2018	1,533	-	1,604	1,713	-	4,850	0.21

1. Pre IPO options were with an exercise price denominated in NZ dollars
2. IPO advisor share options expired on 30 June 2019

14. Contingencies

Guarantee

As at 30 September 2019, the Group provided a guarantee of $423,635 for the operating lease on its Auckland premises, held by ASB Bank Limited. As at 30 September 2018 the amount of the guarantee was $831,000. The reduction follows the Company's decision to relinquish office space as part of a cost reduction programme.

Repayment of remuneration

During the period September 2018 to May 2019, the Directors and members of the executive team took a voluntary reduction in their remuneration recognising the cash constraints of the Company at that time. The total amount of the reduction amounted to approximately $0.52 million.

The Board, recognizing the commitment of the Directors and executive team, has since decided that this amount should be repaid at some stage in the future, subject to a clear cash runway of twelve months.

The total amount of remuneration reductions by directors and some executives is:

	$'000
Directors	
Paul Reynolds	103
Thomas Power	53
Mark Estall	103
Adrian Grant	106
Executive employees	154
Total amount of contingency	519

As at the balance date the Company did not meet the criteria for payment and therefore have not recognised this arrangement as a liability. Even though it is not probable that the payment will be made, it is more than a remote chance that the payment will occur at some time in the future, hence this is recognised as a contingent liability

As the Company works towards achieving breakeven, it will re-evaluate the suitability of repayment based on latest cash forecasts. Any repayment will be subject to Board approval.

15. Related party transactions and balances

a. Transactions with related parties during the period

Name of related party	Nature of relationship	Transaction	6 months ended 30 September 2019 $'000	6 months ended 30 September 2018 $'000
Kestrel Corporate Advisory, Inc.[1]	Director (resigned 21 September 2018)	Directors' fees	-	39
		Consulting services	-	23
Mint Recruitment Limited [2]	Family Member of Director	Provision of recruitment services	22	130
Paul Reynolds	Director	Directors' fees	70	71
Tightline Advisory [3]	Director	Consulting services	5	27
Social Power (Surrey) Limited [4]	Director	Directors' fees	33	33
		Consulting services	-	58

1. Non-executive Director, Wendy Webb is a Director and shareholder of Kestrel Corporate Advisory, Inc. Wendy resigned from the Board on 21 September 2018.
2. A member of Executive Director, Adrian Grant's, family is a Director and shareholder of Mint Recruitment Limited.
3. Non-executive Director, Paul Reynolds is a Director and shareholder of Tightline Advisory.
4. Non-executive Director, Thomas Power is a Director and shareholder of Social Power (Surrey) Limited.

b. Amounts owed by the Group to related parties

Name of related party	Nature of relationship	Balance type	30 September 2019 $'000	31 March 2019 $'000
Mint Recruitment Limited	Family Member of Director	Trade and other payables	8	8
Paul Reynolds	Director	Trade and other payables	13	13
Social Power (Surrey) Limited	Director	Trade and other payables	7	7
Net amounts owed to related parties			28	28

16. Restatement of previously reported 31 March 2019 consolidated financial statements

During the process of preparing these condensed interim financial statements, the Company has made the following adjustments to the condensed consolidated statement of financial position as at 31 March 2019 following a reassessment taking into account the implications to the current period financial position and performance:

These adjustments have been identified during the audit of financial statements for the year ended 31 March 2019, however they were not considered material. After the reassessment of these accounts, the Company decided to record these adjustments in order to provide the most accurate presentation of Group's financial position and performance.

- $85,000 increase in trade and other receivable due to under recognition of grant income, and
- $209,000 increase in contract assets due to the under capitalisation of platform implementation cost.

Included below are reconciliations of the amounts previously reported in the 31 March 2019 consolidated statement of financial position to the restated amounts reported in the condensed consolidated statement of financial position with explanations of the adjustments. There is no impact to the Group's consolidated statement of comprehensive income and consolidated statement of cash flows for the 6 months ended September 2019 and so are not re-presented.

	31 March 2019 $'000	Adjustment $'000	Restated 31 March 2019 $'000
Current assets			
Trade and other receivables	805	85	890
Contract assets	266	209	475
Equity			
Accumulated losses	(53,363)	294	(53,069)

17. Events after the reporting period

There have been no reportable events arising after the end of the reporting period.