Spirit

ASX: ST1

Appendix 4D

Half-year Report

31st December 2023

Secure. Sustainable. Scalable.

Spirit Technology Solutions Ltd
Appendix 4D
Half-year report

1. Company details

Name of entity:	Spirit Technology Solutions Ltd
ABN:	73 089 224 402
Reporting period:	For the half-year ended 31 December 2023
Previous period:	For the half-year ended 31 December 2022

2. Results for announcement to the market

				$'000
Revenue from ordinary activities	down	15%	to	57,032
Underlying EBITDA*	down	96%	to	160
Loss from ordinary activities after tax attributable to the owners of Spirit Technology Solutions Ltd	down	33%	to	(5,200)
Loss for the half-year attributable to the owners of Spirit Technology Solutions Ltd	down	33%	to	(5,200)

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

Comments
The loss for the Consolidated Entity for the half-year ended 31 December 2023 after providing for income tax amounted to $(5,200,000) (31 December 2022: loss $(7,786,000)).

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

* EBITDA is a financial measure which is not prescribed by Australian Accounting Standards ('AAS') and represents the profit/(loss) under AAS adjusted for depreciation, amortisation, interest and tax. Underlying EBITDA is EBITDA adjusted to exclude acquisition & divestment costs, restructuring & integration costs, other normalisation items, net fair value loss on remeasurement of contingent consideration on business combinations, impairment of non-current assets, loss/(profit) on divestment of non-core assets and share-based payments.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	(4.32)	(4.27)

4. Control gained over entities

Not applicable.

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

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

Not applicable.

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10. Audit qualification or review

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

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

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11. Attachments

Details of attachments (if any):

The Interim Report of Spirit Technology Solutions Ltd for the half-year ended 31 December 2023 is attached.

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12. Signed

Signed ______________________________ Date: 23 February 2024

James Joughin
Non-Executive Chairman

Spirit Technology Solutions Ltd

ABN 73 089 224 402

Interim Report - 31 December 2023

Spirit Technology Solutions Ltd
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31 December 2023

Spirit Technology Solutions Ltd
Corporate directory
31 December 2023

Directors	Mr James Joughin (Non-Executive Chairman) Mr Julian Challingsworth (Managing Director and Chief Executive Officer) Mr Gregory Ridder (Non-Executive Director) Ms Lynn Warneke (Non-Executive Director – appointed 9 October 2023) Mr Elie Ayoub (Executive Director) Mr Shan Kanji (Non-Executive Director – appointed 31 January 2024) Mr Julian Haber (Non-Executive Director – resigned 31 August 2023) Ms Michelle Bendschneider (Non-Executive Director – resigned 31 August 2023)
Company secretary	Melanie Leydin
Registered office	Level 4, 100 Albert Road South Melbourne Victoria 3205
Principal place of business	Level 2, 19-25 Raglan Street South Melbourne Victoria 3205
Share register	Automic Group Level 5, 126 Phillip Street Sydney, New South Wales 2000
Auditor	PKF Melbourne Audit & Assurance Pty Ltd Level 15, 500 Bourke Street Melbourne Victoria 3000
Stock exchange listing	Spirit Technology Solutions Ltd shares are listed on the Australian Securities Exchange (ASX code: ST1)

The Directors present their report, together with the financial statements, on the Consolidated Entity (referred to hereafter as the 'Consolidated Entity') consisting of Spirit Technology Solutions Ltd (referred to hereafter as the 'Company', 'parent entity' or 'Spirit') and the entities it controlled at the end of, or during, the half-year ended 31 December 2023.

Directors

The following persons were Directors of Spirit Technology Solutions Ltd during the whole of the financial half-year and up to the date of this report, unless otherwise stated:

Mr James Joughin (Non-Executive Chairman)
Mr Julian Challingsworth (Managing Director and Chief Executive Officer)
Mr Gregory Ridder (Non-Executive Director)
Ms Lynn Warneke (Non-Executive Director – appointed 9 October 2023)
Mr Elie Ayoub (Executive Director)
Mr Shan Kanji (Non-Executive Director – appointed 31 January 2024)
Mr Julian Haber (Non-Executive Director – resigned 31 August 2023)
Ms Michelle Bendschneider (Non-Executive Director – resigned 31 August 2023)

Principal activities

During the financial year the principal activities of the Consolidated Entity consisted of the provision of Cyber Security services, Collaboration and Communication services and Managed IT services.

Dividends

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

Operating and Financial Review

Entity's operations

The Consolidated Entity remains focused on becoming one of Australia's leading providers of modern and secure digital workplaces with a focus purely on the business-to-business market by providing a complete offering across Cyber Security, Telecommunications, Internet, Cloud and IT Managed Services. The Spirit business model offers the full solution for the modern-day business to communicate with its staff and customers whilst also protecting businesses' data and cloud infrastructure.

The changing landscape of cloud and hybrid work models has profoundly transformed the cyber landscape, reshaping the way organisations approach cybersecurity, data management, collaboration and remote access. Spirit is aiming to be a leader in the Australian cloud and cyber industry through provision of 'Secure and Modern' solutions for our customers to work from anywhere safely and effectively.

The leading mitigation strategies that companies are recommended to adopt to ensure their cyber security posture and resilience capability is effective is the Australian Signals Directorate ("ASD") "Essential 8". This model is promoted by the Australian Government as a key protective baseline to measure and improve the security posture of organisation's and prevent cyber attacks. The model requires organisations to measure and implement key activities that require skills in cyber security and IT operations, an area that remains under serviced in the Australian market. There are very few technology providers that can provide both services at the required maturity, and to achieve compliance with the ASD recommendations customers need to do both well. Spirit is well positioned to leverage its cyber security and managed services internal capabilities to assist our existing and prospective customers to adopt these protective baseline strategies.

During the financial half-year the Company progressed the tailoring of its mid-market Modern Workplace Solutions to enable our small business customers, whom are likewise looking for cost-effective ways to adopt to the cloud. Our Collaboration & Communication division launched this solution to provide their customers with access to simplified onboarding, expert IT support, cost savings, cybersecurity enhancements, and the ability to leverage cutting-edge technologies.

As a technology services company, our core requirements of any solution are Secure, Sustainable and Scalable to allow for optimised Managed Solutions. The centre of our mission is our customer not the technology. Spirit is dedicated to building and bundling technology solutions that are aligned to each customer's journey. This encompasses for instance 'Internet of Things' technology to drive data points tailored to customer business driver needs or delivering sustainability solutions to assist our customers on their respective individual journeys to achieve energy efficiencies. Spirit has a vision to be known within the market for solving a customer's problem and securely enabling their employees.

The Consolidated Entity's reporting framework aligns to the following key operating segments (as outlined in Note 3: Operating Segments of the financial statements):

- Collaboration and Communication
- Cyber security
- Managed Services

Review of operations and financial position

The loss for the Consolidated Entity for the financial half-year ended 31 December 2023 ("H1 FY24") after providing for income tax amounted to $5.2M (31 December 2022 ("H1 FY23"): loss $7.786M). Total revenue and other income for the Consolidated Entity for H1 FY24 was $57.2M (H1 FY23: $67.3). The following table summarises the key financial metrics for the financial year:

	31 December 2023 $'000	**31 December 2022 $'000**	**Change $'000**
Revenue (refer Note 4 to the financial statements)	57,032	67,289	(10,257)
Other income (refer Note 5 to the financial statements)	172	38	134
Revenue and other income	**57,204**	**67,327**	**(10,123)**
Earnings before interest, taxes, depreciation & amortisation (EBITDA*)	(3,609)	(5,757)	2,148
Share-based payments	668	350	318
Loss/(profit) on divestment of non-core assets	-	412	(412)
Acquisition & divestment costs	492	133	359
Restructuring & integration costs***	535	454	81
Other normalisation items****	679	-	679
Net fair value loss on remeasurement of contingent consideration on business combinations	-	8,385	(8,385)
Impairment of non-current assets	1,395	-	1,395
Underlying EBITDA*	**160**	**3,977**	**(3,817)**
(Loss)/profit after income tax benefit/(expense)	(5,200)	(7,786)	2,586

* EBITDA is a financial measure which is not prescribed by Australian Accounting Standards ('AAS') and represents the profit/(loss) under AAS adjusted for depreciation, amortisation, interest and tax. Underlying EBITDA is EBITDA adjusted to exclude acquisition & divestment costs, restructuring & integration costs, other normalisation items, net fair value loss on remeasurement of contingent consideration on business combinations, impairment of non-current assets, loss/(profit) on divestment of non-core assets and share-based payments.

*** Restructuring & integration costs encompasses system reengineering costs

**** Other normalisation items covers:

- a notional addback for professional services margin loss supporting customers to move from an acquired end of life product to Spirit's modern workplace solution ("MWS") (-$0.6M).
- Investments in trialling and development of new initiatives within the Collaboration & Communication segment (-$0.4M).
- Net corporate one-off benefits (+$0.2M)

The Company is aiming to be known within the market for solving complex customer business problems and building and delivering products that are tailored to our customers business drivers underpinned by security at the core. A key ongoing focus is to embed our cyber security capability into our customer base through direct engagement of our Cyber Security division or through new cyber security enabled products. That focus is to be delivered through accelerating people collaboration between the business segments.

Below is a review of H1 FY24 performance by segment. The Board continues to acknowledge that the financial performance at a group and individual segment level requires a significant uplift to meet expectations. The restructuring work undertaken by management in the financial year ended 30 June 2023 ("FY23") within the Managed Services business was targeted at returning this segment to an outward growth focus in the financial year ended 30 June 2024 ("FY24") and specifically to getting the operation to a cashflow breakeven exit run rate by 30 June 2024. Performance within this segment has remained challenging in H1 FY24 with ongoing restructuring activities and downsizing needed to counter regrettable customer churn and a slower than expected sales pipeline rebuild. The Company remains focused on taking all necessary steps to move all operations back into sustainable profitability.

Collaboration and Communication

In the Collaboration and Communications market segment (Nexgen brand), Spirit primarily delivers small and mid-sized businesses an integrated solution comprising hardware, software, installation and configuration, bundled with data and voice connectivity. These products and services are targeted at small and medium sized businesses with 'frontline' staff who need sophisticated call management applications combined with meeting (video-conferencing) solutions.

The segment achieved an uEBITDA* for H1 FY24 of $3.48M (H1 FY23 uEBITDA*: $6.38M) on half-year sales revenue of $19.78M (H1 FY23: $22.58M).

The drop in segment performance YoY at both a revenue and uEBITDA basis reflects product-based revenue constraints (associated with economic inflationary market factors dampening SME business confidence and hence demand) that started to present in H2 FY23. Acknowledging the uncertainty of recovery in the macro-economic environment and hence the timing of a sustained rebound in hardware sales is difficult to forecast, the Company has seen a positive start to H2 FY24 with customers showing improved levels of confidence and sales. The segment has progressed a range of initiatives in the half-year period to support forward organic growth. These initiatives included:

- Execution of a new multi-year contract extension with Cisco which underscores Nexgen's commitment to providing advanced voice, messaging, and video solutions for small-to-medium businesses.

- The inauguration of the "Spirit Business Centre" aimed at driving the expansion of a national dealer network, with the overarching ambition to substantially broaden the segments sales channel and footprint.

- Launch of a Managed IT Service Offering, tailored to Nexgen's target market (average 10 seats). This initiative started with a soft launch in October / November 2023 and will be trialed over the next six (6) months to test market acceptance and penetration success within Nexgen's ~6,100+ active business customers.

- The Company continued to trial a new telemarketing team in the Philippines to grow lead generation and in turn conversion success.

Cyber Security

In the cyber security market segment, Spirit manages and optimises cyber intelligence systems, analyses and reports on threats and vulnerabilities and advises on governance, risk and compliance. Spirit sells software solutions, provides professional services and managed services to the mid market and large organisations, with key strategic global vendor partners.

Cyber-security continues to be front of mind for organisations and government, with steady growth in the overall market. The strongest growth areas include cloud security, application security, data privacy and security and integrated risk management. The two key legislative agenda items in Australia that are relevant to the Company's operations relate to the Government's response to the Privacy Act Review, and the updated 2023-2030 Australian Cyber Security Strategy and ASIC's recent position to enforce directors' responsibility/liability around cyber preparedness and response. These reforms (once released) are expected to place a greater emphasis on the broader Australian business community to uplift their internal systems and IT security posture. This is seen as a significant positive for Spirit as our existing and target customers are likely to be required to meet new legislative obligations and will potentially demand services that are sold by the Cyber Security and Managed Services business units.

The Cyber Security division achieved an uEBITDA* for H1 FY24 of $0.62M (H1 FY23 uEBITDA*: $0.26M) on half-year sales revenue of $19.22M (H1 FY23: $14.85M).

The recovery in segment performance builds on the initiatives and investments made in FY23 centred around sales and delivery capabilities. The Security Operations Centre ("SOC") in Brisbane, remains a key differentiator against generic SOC capabilities provided by other Australian managed service providers and is now supporting a growing number of leading Australian organisations. The facility will continue to support our SOC services and enable the cyber team to scale and underpins the sale of security services into the Managed Services customer base.

During the half-year the Cyber Security segment and the Managed Services segment started the progress of greater alignment from both a functional and operational perspective. A Chief Customer & Revenue Officer manages both sales teams and this is an important step to accelerate internal collaboration to drive customer outcomes.

There are a number of key drivers planned for H2 FY24 for supporting further growth of the combined Cyber Security and Managed Services team through the sale of Security Operations to enable ASD "Essential 8" compliance as outlined above.

Managed Services

In the managed (IT) services segment, Spirit focuses on mid-market businesses, delivering a suite of IT solutions which include software, hardware and services that support key business applications including productivity suites, WiFi, data backup, firewall protection and cloud services. Spirit's services include the design, configuration, installation and support of such applications and the associated customer networks. Key strategic partners for Spirit in this segment include Microsoft and Cisco.

The Managed Services division has been a very challenging operation that has weighed heavily on the Groups financial performance. The segment has been a complex operation having a mix of legacy Telco operations and services combined with a number of acquisitions that delivered varying capabilities, products and vendors. As outlined in the FY23 Directors Report, the Board and management have been focused on right sizing this operation and the Company acknowledges the disappointment that those investments and restructuring efforts have not reflected in the results for H1 FY24.

The Managed Services division achieved an uEBITDA* loss for H1 FY24 of $(2.46M) (H1 FY23 uEBITDA* loss: $1.28M) on half-year sales revenue of $18.16M (H1 FY23: $30.06M). The revenue reduction YoY reflects the segments divestment programs and associated customer novation impacts. The revenue outcomes also reflect the loss of customers due to regrettable churn alongside a lack of new 'logo' recurring revenue. That lack of new revenue is primarily considered to be the residual impact of the sales team's 'inward' customer retention focus over the last 18 months. The development of our MWS offering enabled the transition of a range of key customers off historic proprietary legacy platforms that were no longer fit for purpose and were creating significant customer and reputational damage. In FY23 those issues reflected in significant customer disruption, financial credits being provided to compensate customers for outages and a lack of attention to build forward pipeline. Those issues lingered into H1 FY24 and, while accepting the financial performance issues that created, the positive outcome to report is that those proprietary products have finally been closed down, back-end decommissioning is well progressed and all customers are now off legacy products and onto Azure cloud MWP environments.

A restructuring provision of $1M had been recognised as at 30 June 2023 to provide for estimated costs associated with further restructuring initiatives to be implemented in the six months to 31 December 2023. Those additional measures were largely implemented in the October to December 2023 timeframe and the annualised impact of these additional 'cost outs' measures will be more fully reflected in H2 FY24. The segment will implement additional 'cost out' measures in H2 FY24 to achieve its EBITDA breakeven objective.

Key segment initiatives progressed in the half-year period to 31 December 2023 covered:

- Implementation of ServiceNow a modern ITSM used by many mid-market and enterprise customers and is seen a key advantage when tendering for work to enable a seamless customer experience.
- CRM enhancements to align the Managed Services and Cyber Security sales process.
- Appointment of a Chief Customer & Revenue Officer ("CCRO") with a dual focus on customer satisfaction to minimize forward customer churn alongside driving the sales team on new customer acquisition. The focus on sales execution by the CCRO, whilst still a key risk for the Company, will likely drive an increase in revenue over time and quality of customers.

Management is targeting that the segment will reach an underlying EBITDA breakeven point by June 2024.

Group disclosures

Cash outflows from operating activities were $5.4M for the half-year ended 31 December 2023 (2022: cash outflows $3.6M). This included cash outflows associated with employee redundancy and other restructuring costs of $1.21M (2022: $(1.46M). Net cash outflows from investing activities (principally related to obligations associated with business combination payments and business acquisition and divestment costs) were $2.5M (2022 outflows: $3.6M). During the financial period, the Company drew down net debt from its banking facility of $3M in conjunction with a convertible note raise totaling $5.5M (after costs).

The basic and diluted earnings per share loss for the financial half-year ended 31 December 2023 was 0.71 cents (2022: loss of 1.17 cents).

The net assets of the Consolidated Entity decreased by $4.3M to $48.841M as at 31 December 2023 (30 June 2023: $53.133M). This decrease primarily reflects the impact of the continued under-performance of the Managed Services segment.

Prospects for future financial years and Business Risks

The Consolidated Entity continues to evolve as it progresses its transition into a Modern Technology service provider that is known for delivering secure customer outcomes. As part of this transition (and as outlined below in Matters subsequent to the end of the financial half-year) the Company announced on 7th February 2024 the fully funded acquisition of Sydney-based cyber security company, InfoSurety Holdings Pty Ltd (InfoTrust). The acquisition expands Spirit's presence in the growing cyber security market and strengthens the Company's position in the major geographic markets of Sydney and Melbourne.

The Company's immediate strategic priorities are focused on extracting the revenue and gross margin synergies that this acquisition presents and accelerating cross-sell opportunities from Spirit's other segments into InfoTust's customer base. Alongside this there will be ongoing acceleration of initiatives within the Managed Services business segment to move that division's uEBITDA* to a positive position.

The evolutionary path of building a scalable and profitable company inherently involves risk. Those risk factors change over time in both nature and weighting. Management and the Board of the Company actively manage risk and apply mitigation strategies (where possible) to reduce the impact of the stated risk on the Company's achievement of its goals. The key material business risks that the Company foresees that could impede the achievement of its future operational and financial success at the time of signing the Directors Report are set out below.

Funding Risk

In recognition of the profitability outcomes in recent financial years, the Company is focused on getting to an operational cashflow positive position alongside managing residual acquisition fixed consideration obligations. The Company's aim is to manage settlement of these obligations from its future operating cash flows. That noted, the risk with respect to such preferred funding is contingent on the Company's performance improvements to generate positive cashflows sufficient to:

- manage working capital obligations;
- fund the fixed residual acquisition obligations; and
- fund agreed Bank debt redemption payments.

To the extent that the Company is unable to make the necessary performance improvements, it may require additional equity funding, which may have a dilutionary effect on the Company's shareholders.

The Company has material debt funding in place with its banker which is subject to various covenants. During the financial half-year the Company renegotiated its funding facility terms in conjunction with the Company executing the acquisition of InfoSurety Holdings Pty Ltd as detailed in the subsequent event note. The renegotiation of the facility included changes to the financial covenants (as outlined in note 12 of the financial statements) and other conditions and undertakings by the Company. As part of the undertakings provided, the Company is required to make a repayment of $85,000 per month (commencing 1 July 2024) to pay down the facility. The duration of the monthly amortisation requirement will be reassessed at facility renewal on 1 July 2025.

To the extent that the Company's performance does not meet these revised covenants, there is a risk that the Company will need to:

(i) renegotiate the terms of debt with its banker, which may be on less advantageous terms,
(ii) refinance with another lender, which may be on less advantageous terms, or
(iii) undertake a capital raising to repay all or part of the debt finance.

The Company completed a Convertible Note Placement as set out in its ASX announcements dated 6 October 2023 and 24 October 2023 with the funds raised used for acquisition due diligence and evaluation and legal costs and providing working capital for the Company. The Company has an optional right of conversion if at any time prior to 21 September 2026, the Company's shares have traded above $0.09 per share for a period of at least 21 consecutive trading days. If the note holders do not exercise their right of conversion, the Company may be at risk of funding the convertible note redemptions at a future point in time that may require additional equity funding, which may have a dilutionary effect on the Company's shareholders.

Cyber Risks and data breaches

Cyber related attacks are an inherent risk faced by every organisation and the financial and operational impact that this risk can have on an organisation is very disruptive and could have a material adverse effect on the Company and its prospects. This is exacerbated in the context of the Company given that it sells cyber protection solutions. An impactful cyber attack on the Company could result in the Company's reputation being damaged and associated loss of customers, leading to a reduction in revenue and profit and damage to the Company's prospects.

Accordingly, as a material business risk it requires constant management and risk mitigation. The Consolidated Entity has the internal capability of its Cyber Security division to provide proactive and reactive solutions management of any Cyber related events that present against Spirit and its customer base. Cyber Security services are now a fundamental risk management requirement for any organisation and is a critical defence mechanism for all companies across their IT infrastructure and software layers.

Sales Execution Risk

Achievement of the Company's growth strategy is contingent on consistent building and execution of its sales strategy within the segment target markets. That execution is reliant, amongst other things, on attracting and retaining the right mix of sales talent. Failure to attract and retain suitable staff is disruptive to the Company's business, with resultant inability to grow its revenue, increased costs and reduced profits arising, as well as having an adverse impact on the Company's prospects.

Labour Market and Inflationary Pressures

Access to required human capital talent within the Australian employment pool remains a key business risk. The Company operates in a highly competitive industry and requires a mix of skilled professionals to execute its business plan. Spirit is not immune to the ongoing challenges in sourcing and retaining skilled staff in a competitive and at times wage inflationary environment. Failure to attract and retain suitable staff is disruptive to the Company's business, with resultant increased costs and reduced profits arising, as well as having an adverse impact on the Company's prospects. Spirit has, and continues to, develop strategies to retain its workforce team and will continue to invest in not only employee retention programs but also the enhancement of initiatives to be an employer of choice.

Impact of competitive landscape

The Company competes with a number of other companies that provide comparable IT services and its operating performance is influenced by a number of factors. In particular, it operates in an industry that sees disruptors entering the market with new technologies which may threaten an existing offering or make some of the Company’s service offerings redundant. This may impact the Company’s ability to retain existing clients and attract new clients, adversely impacting its revenues, profitability and prospects.

Aspirational Risk

The Consolidated Entity can still be classified as a small company as measured against other companies listed on the ASX. As the Company continues to achieve growth and scale, the potential complexity and degree of risk may also increase in the absence of mitigation strategies. The Company's forward strategic goal is also to accelerate entry into the mid-market customer space. That strategy will increasingly focus on targeting more complex mid-market customers and transactions. To achieve these goals, this process will involve an ongoing investment in people, marketing/branding and system enhancements.

Spirit will continue to pursue accelerated growth through both an organic and inorganic acquisition strategy. Acquisitions carry risk. Specifically they consume a large amount of management time and attention during integration, and the acquired company may fail to meet strategic objectives, achieve expected financial performance (including unrealised synergies), or Spirit may not be able to integrate effectively the operations, products, technologies and personnel of the target. Failure to do this may result in staff turnover, loss of customers and increased costs with the resultant reduction in the Company's profits and prospects.

Business Environment Risk

Changes in economic and business conditions or government policies in Australia or internationally may impact the fundamentals upon which the projected growth of the Company's target markets or its cost structure and profitability will rely. Adverse changes in such things as the level of inflation, interest rates, government policy (including fiscal, monetary and regulatory policies), consumer spending, employment rates, amongst others, are outside the control of the Company and may result in material adverse impacts on its business, operating results and prospects.

Other Risks

The above risks should not be taken as a complete list of the risks associated with the Consolidated Entity. The risks outlined above and other risks may in the future materially adversely affect the value of, and the financial performance of, the Company.

Significant changes in the state of affairs

The Company completed a Convertible Note Placement as set out in its ASX announcements dated 6 October 2023 and 24 October 2023 with the funds raised used for acquisition due diligence and evaluation and legal costs and providing working capital for the Company.

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

Matters subsequent to the end of the financial half-year

On the 7th February 2024 the Company announced the fully funded acquisition of InfoSurety Holdings Pty Ltd (InfoTrust), a fast growing and profitable cyber security business for a total consideration of $34.6M. InfoTrust provides a range of cyber security services via strategy, solution design, project management, implementation, change management, training and premium support via its CISO Services Retainer, which allows companies to leverage the support of an entire cyber security team.

- The total consideration of $34.6M, comprises:
  - $14.0M in cash on completion;
  - $14.0M in Spirit shares at 4.6c per share, totaling 304.3M shares; and
  - $6.6M in deferred consideration to be paid in cash (being $1.5M on the 6-month anniversary of the completion date; $1.5M on the 12-month anniversary of the completion date and $3.6 million on the 18-month anniversary of the completion date).
- The acquisition and associated costs are to be funded by:
  - A Placement, to 263 Finance Pty Ltd, a significant shareholder and an associate of Non-Executive Director Shan Kanji to raise $16 million at 5.0c per share (being 320 million shares);
  - 304.3M Spirit shares issued to InfoTrust shareholders with an implied value of $14.0 million; and
  - $6.6M in Deferred Consideration, to be satisfied using combined group earnings and/or existing cash.

No other matter or circumstance has arisen since 31 December 2023 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.

Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration

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

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

On behalf of the directors

James Joughin
Non-Executive Chairman

23 February 2024

PKF Melbourne Audit & Assurance Pty Ltd
ABN 75 600 749 184
Level 15, 500 Bourke Street
Melbourne, Victoria 3000

T: +61 3 9679 2222
F: +61 3 9679 2288
info@pkf.com.au
pkf.com.au

AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF SPIRIT TECHNOLOGY SOLUTIONS LTD

In relation to our review of the financial report of Spirit Technology Solutions Ltd for the half-year ended 31 December 2023, I declare to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the Corporations Act 2001; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is made in respect of Spirit Technology Solutions Ltd and the entities it controlled during the period.

PKF

PKF
Melbourne, 23 February 2024

Kaitlynn Brady

Kaitlynn Brady
Partner

Spirit Technology Solutions Ltd
Statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2023

	Note	Consolidated 31 December 2023 $'000	31 December 2022 $'000
Revenue	4	57,032	67,289
Other income	5	172	38
Cost of sales		(30,768)	(32,979)
Expenses			
Employee benefits expense		(22,293)	(23,749)
Share based payments		(668)	(350)
Administration and corporate expenses		(3,604)	(5,596)
Selling expenses		(487)	(529)
Marketing expenses		(545)	(902)
Business acquisition and divestment costs		(492)	(133)
Restructuring and integration costs		(535)	(454)
Net fair value loss on remeasurement of financial liabilities		-	(8,385)
Impairment of non-current assets		(1,395)	-
Depreciation and amortisation expense		(1,997)	(2,069)
Finance costs		(1,365)	(616)
(Loss)/Profit before income tax benefit/(expense)		**(6,945)**	**(8,435)**
Income tax benefit/(expense)		1,745	649
(Loss)/Profit after income tax benefit/(expense) for the half-year attributable to the owners of Spirit Technology Solutions Ltd		**(5,200)**	**(7,786)**
Other comprehensive income for the half-year, net of tax		-	-
Total comprehensive income for the half-year attributable to the owners of Spirit Technology Solutions Ltd		**(5,200)**	**(7,786)**
		Cents	**Cents**
Earnings per share attributable to the owners of Spirit Technology Solutions Ltd			
Basic earnings per share	19	(0.71)	(1.17)
Diluted earnings per share	19	(0.71)	(1.17)

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

Spirit Technology Solutions Ltd
Statement of financial position
As at 31 December 2023

	Note	Consolidated 31 December 2023 $'000	30 June 2023 $'000
Assets			
Current assets			
Cash and cash equivalents		6,678	7,024
Trade and other receivables	6	8,378	8,463
Inventories		2,368	2,789
Contract cost assets	8	2,146	2,595
Other assets	7	7,106	4,718
Total current assets		26,676	25,589
Non-current assets			
Contract cost assets	8	2,762	3,492
Property, plant and equipment		787	1,003
Right-of-use assets		3,709	4,429
Intangibles assets	9	77,001	77,589
Deferred tax		6,631	5,118
Other assets	7	2,265	1,960
Total non-current assets		93,155	93,591
Total assets		119,831	119,180
Liabilities			
Current liabilities			
Trade and other payables	10	16,071	15,329
Lease liabilities		1,442	1,771
Unearned revenue	14	3,247	3,132
Provisions	15	2,987	3,944
Borrowings	12	510	5,000
Deferred consideration	11	4,407	4,089
Total current liabilities		28,664	33,265
Non-current liabilities			
Borrowings	12	27,490	20,000
Convertible notes	13	4,983	-
Lease liabilities		2,270	2,673
Deferred tax		3,968	4,200
Unearned revenue	14	348	467
Provisions	15	1,979	2,005
Deferred consideration	11	1,288	3,437
Total non-current liabilities		42,326	32,782
Total liabilities		70,990	66,047
Net assets		**48,841**	**53,133**
Equity			
Issued capital	16	120,032	119,411
Reserves		971	2,393
Accumulated losses		(72,162)	(68,671)
Total equity		**48,841**	**53,133**

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

Spirit Technology Solutions Ltd
Statement of changes in equity
For the half-year ended 31 December 2023

Consolidated	Issued capital $'000	Reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2022	114,874	1,826	(57,282)	59,418
Loss after income tax expense for the half-year	-	-	(7,786)	(7,786)
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	(7,786)	(7,786)
Transactions with owners in their capacity as owners:				
Share-based payments	-	350	-	350
Balance at 31 December 2022	114,874	2,176	(65,068)	51,982

Consolidated	Issued capital $'000	Reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2023	119,411	2,393	(68,671)	53,133
Loss after income tax expense for the half-year	-	-	(5,200)	(5,200)
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-		
Transactions with owners in their capacity as owners:				
Share-based payments	-	287	-	287
Convertible notes issued (note 16)	567	-	-	567
Conversion of convertible notes into ordinary shares (note 16)	54			54
Transfers from reserves to accumulated losses	-	(1,709)	1,709	-
Balance at 31 December 2023	120,032	971	(72,162)	48,841

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

Spirit Technology Solutions Ltd
Statement of cash flows
For the half-year ended 31 December 2023

	Note	Consolidated 31 December 2023 $'000	31 December 2022 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		60,371	70,588
Payments to suppliers and employees (inclusive of GST)		(63,180)	(72,447)
		(2,809)	(1,859)
Deposit refunded		44	189
Employee redundancy costs		(675)	-
Restructuring & integration costs		(535)	(1,459)
Loan funded share plan		(382)	-
Government infrastructure grants received		21	32
Other receipts		90	6
Interest received		26	7
Interest and other finance costs paid		(1,196)	(544)
Net cash used in operating activities		(5,416)	(3,628)
Cash flows from investing activities			
Payments for property, plant and equipment		(111)	(89)
Payments for intangibles	9	(226)	(136)
Cash payments to acquire business, net of cash acquired		(1,831)	(3,018)
Acquired income tax liabilities refunded/(paid)		-	169
Business acquisition and divestment costs		(408)	(133)
Net proceeds from disposal of assets and right of use		64	(407)
Net cash used in investing activities		(2,512)	(3,614)
Cash flows from financing activities			
Net proceeds from borrowings	12	3,000	4,500
Net proceeds from convertible notes		5,539	-
Repayment of lease liabilities		(957)	(927)
Net cash from financing activities		7,582	3,573
Net (decrease)/increase in cash and cash equivalents		(346)	(3,669)
Cash and cash equivalents at the beginning of the financial half-year		7,024	11,733
Cash and cash equivalents at the end of the financial half-year		6,678	8,064

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

Note 1. General information

The financial statements cover Spirit Technology Solutions Ltd as a Consolidated Entity consisting of Spirit Technology Solutions Ltd and the entities it controlled at the end of, or during, the half-year. The financial statements are presented in Australian dollars, which is Spirit Technology Solutions Ltd's functional and presentation currency.

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

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

A description of the nature of the Consolidated Entity's operations and its principal activities are included in the Directors' Report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 23 February 2024.

Note 2. Significant accounting policies

These general purpose financial statements for the interim reporting period ended 31 December 2023 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in the annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2023 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Financial instruments - Convertible notes

During the interim reporting period ended 31 December 2023 the Company issued convertible notes. The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issue of the convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to passage of time is recognised as a finance cost. The remainder of the proceeds are allocated to the conversion option that is recognised and included in statement of changes in equity as an option premium on convertible notes, net of transaction costs. The carrying amount of the conversion option is not remeasured in the subsequent years. The corresponding interest on convertible notes is expensed to profit or loss.

New Accounting Standards and Interpretations early adopted

As noted in the 2023 annual report, the Consolidated Entity has elected to early adopt AASB 2022-6 Amendments to Australian Accounting Standards – Non-current Liabilities with Covenants, in conjunction with, AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current. The amendments within AASB 2022-6, build upon the amendments contained within AASB 2020-1 and consequently, we describe the effect of these amendments at a combined level. This adoption amends AASB 101 and improves the disclosure of liabilities arising from loan arrangements in our financial statements. By adopting these amendments early, the Company aims to enhance the information provided to our stakeholders regarding our loan arrangements and their classification as either current or non-current. This early adoption allows us to benefit from the clarity and guidance provided by AASB 2022-6 and AASB 2020-1, ensuring transparent and comprehensive reporting of our financial position. We believe that early adoption of these standards will result in more meaningful financial statements for our stakeholders.

Other than as noted above, other Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Consolidated Entity for the period ended 31 December 2023.

Going concern

The Consolidated Entity had a net current liability position as at 31 December 2023 of $1.988M (30 June 2023 net current liability position: $7.676M). This financial position needs to be considered noting the following key factors:

- Current liabilities include unearned revenue of $3.2M. This liability unwinds to revenue rather than being a cash settled liability.

- During the financial half-year period the Company renegotiated its funding facility terms which covered changes to the financial covenants and other conditions and undertakings by the Company. As part of the undertakings provided, the Company is required to make a repayment of $85,000 per month (commencing 1 July 2024) to pay down the facility over time. The duration of the monthly amortisation requirement will be reassessed at facility renewal on 1 July 2025.

- The acquisition of InfoSurety Holdings Pty Ltd (as outlined in note 18. Events after the reporting period) is expected to contribute positive earnings before interest, tax and depreciation & amortisation. It is anticipated that those earnings will be sufficient to cover the majority, if not all, of the deferred consideration obligations as they arise for that acquisition over the next 18 months.

- The Consolidated Entity continues to rationalise its operations with the primary objective of returning to positive cash flows from its operations. To achieve this there will be ongoing acceleration of initiatives within the Managed Services business segment to move that division's earnings to a positive position. These measures continue to require capital to implement, alongside management of residual deferred consideration obligations, and accordingly the Company continues to manage funding risks which includes regular communication with its financier and assessing other sources of finance in whole or in part.

- The Consolidated Entity has a portfolio of assets which it considers has significant value when benchmarked against similar observed traded assets in the market. Those assets can be leveraged as required to support ongoing liquidity and debt requirements noting the timeframes involved in divestment of those assets.

- The Consolidated Entity remains confident that it also has the ability to request additional support from existing shareholders if financial assistance is required.

Note 3. Operating segments

Identification of reportable operating segments

The Chief Operating Decision Makers ('CODM's) manage the Consolidated Entity's operations across three operating segments as outlined below. Each of those operating segments has a dedicated 'segment Chief Executive Officer' responsible for financial performance and asset allocation decisions within that segment.

- Collaboration and Communication offering award-winning voice solutions, managed service solutions, data and office technology for small business;
- Cyber Security offering specialist cyber managed services and industry leading solutions to corporate and enterprise customers delivered through a 24/7 Security Operations Centre and professional service teams. This capability also enables Spirit to put cyber security at the core of all key market solutions provided across our segments, improving the resilience and security of all our customers;
- Managed Services offering a comprehensive range of managed IT and professional services including end-user, public cloud, infrastructure and networking, data and voice solutions to SMB and mid-market customers.

The CODMs review these segments on an underlying basis down to the underlying (loss)/profit before income tax expense level. Underlying adjustments are reported on a consolidated group basis but attributed to the segments for disclosure purposes.

Half Year ended 31 December 2023	**Collaboration & Communication $'000**	**Cyber Security $'000**	**Managed Services $'000**	**Corporate $'000**	**Total $'000**
Sales revenue					
End customer revenue	19,784	19,072	18,150	-	57,006
Intercompany revenue	-	151	10	(161)	-
	19,784	**19,223**	**18,160**	**(161)**	**57,006**
Underlying earnings before interest, taxes, depreciation & amortisation*	**3,483**	**621**	**(2,458)**	**(1,486)**	**160**
Depreciation and amortisation expense (exc. amortisation of customer relationships)	(673)	(241)	(486)	-	(1,400)
Finance costs (net)	(30)	(20)	(48)	(1,241)	(1,339)
Underlying net profit/(loss) before income tax**	**2,780**	**360**	**(2,992)**	**(2,727)**	**(2,579)**
Underlying Adjustments:					
Share based payments	-	-	-	(668)	(668)
Acquisition and divestment costs	-	-	(12)	(480)	(492)
Restructuring & integration costs***	-	(9)	(526)	-	(535)
Other normalisation items****	(360)	-	(552)	233	(679)
Impairment of non-current assets	-	-	(1,395)	-	(1,395)
Amortisation of customer relationships	(597)	-	-	-	(597)
(Loss)/profit before income tax benefit	**1,823**	**351**	**(5,477)**	**(3,642)**	**(6,945)**
Income tax benefit					1,745
(Loss) after income tax benefit					**(5,200)**

Note 3. Operating segments (continued)

* EBITDA is a financial measure which is not prescribed by Australian Accounting Standards ('AAS') and represents the profit/(loss) under AAS adjusted for depreciation, amortisation, interest and tax. Underlying EBITDA is EBITDA adjusted to exclude acquisition & divestment costs, restructuring & integration costs, other normalisation items, net fair value loss on remeasurement of contingent consideration on business combinations, impairment of non-current assets, loss/(profit) on divestment of non-core assets and share-based payments.
** Underlying net profit/(loss) before income tax benefit/(expense) ("uNPBT") is a financial measure which is not prescribed by Australian Accounting Standards and adjusts underlying EBITDA* to deduct depreciation & amortisation (excluding amortisation of customer relationships) and finance costs (net of interest revenue). The Directors consider that these measures are useful in gaining an understanding of the performance of the entity, consistent with internal reporting.
*** Restructuring & integration costs encompasses system reengineering costs
**** Other normalisation items covers:

- a notional addback for professional services margin loss supporting customers to move from an acquired end of life product to Spirit's modern workplace solution ("MWS") (-$0.6M).
- Investments in trialling and development of new initiatives within the Collaboration & Communication segment (-$0.4M).
- Net corporate one-off benefits (+$0.2M)

31 December 2023	**Collaboration & Communication $'000**	**Cyber Security $'000**	**Managed Services $'000**	**Corporate $'000**	**Total $'000**
Total assets	73,514	27,722	10,130	8,465	119,831
Total liabilities	(11,713)	(8,853)	(11,832)	(38,592)	(70,990)
	61,801	**18,869**	**(1,702)**	**(30,127)**	**48,841**

Half Year ended 31 December 2022	**Collaboration & Communication $'000**	**Cyber Security $'000**	**Managed Services $'000**	**Corporate $'000**	**Total $'000**
Sales revenue					
End customer revenue	22,578	14,674	30,030	-	67,282
Intercompany revenue	-	172	27	(199)	-
	22,578	**14,846**	**30,057**	**(199)**	**67,282**
Underlying earnings before interest, taxes, depreciation & amortisation*	**6,382**	**259**	**(1,275)**	**(1,389)**	**3,977**
Depreciation and amortisation expense (exc. amortisation of customer relationships)	(656)	(218)	(598)	-	(1,472)
Finance costs (net)	(20)	-	(44)	(545)	(609)
Underlying net profit/(loss) before income tax**	**5,706**	**41**	**(1,917)**	**(1,934)**	**1,896**
Underlying Adjustments:					
Share based payments	-	-	-	(350)	(350)
Loss/(profit) on divestment of non-core assets	-	-	(271)	(141)	(412)
Acquisition & divestment costs	-	-	-	(133)	(133)
Restructuring & integration costs	-	-	(454)	-	(454)
Net fair value loss on remeasurement of contingent consideration on business combinations	-	-	-	(8,385)	(8,385)
Amortisation of customer relationships	(597)	-	-	-	(597)
(Loss)/profit before income tax benefit	**5,109**	**41**	**(2,642)**	**(10,943)**	**(8,435)**
Income tax benefit					649
(Loss) after income tax benefit					**(7,786)**

* & ** Refer above footnotes.

Note 3. Operating segments (continued)

31 December 2022	**Collaboration & Communication $'000**	**Cyber Security $'000**	**Managed Services $'000**	**Corporate $'000**	**Total $'000**
Total assets	72,025	27,032	16,411	5,008	120,476
Total liabilities	(9,973)	(7,687)	(14,494)	(36,340)	(68,494)
	62,052	**19,345**	**1,917**	**(31,332)**	**51,982**

Major customers

During the half year ended 31 December 2023 no individual end customers accounted for 5% or more of sales.

Note 4. Revenue

	Consolidated	
	31 December 2023 $'000	**31 December 2022 $'000**
Sales revenue	57,006	67,282
Interest	26	7
Revenue	57,032	67,289

Disaggregation of sales revenue

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

	Consolidated	
	31 December 2023 $'000	**31 December 2022 $'000**
Major product lines		
Security services	19,411	15,148
Managed modern communications	26,320	32,266
Managed services	9,720	15,789
Cloud services	1,197	2,719
Other	358	1,360
	57,006	67,282
Geographical regions		
Australia	57,006	67,282
Timing of revenue recognition		
Goods & services transferred over time	32,962	30,649
Goods & services transferred at a point in time	24,044	36,633
	57,006	67,282

Note 5. Other income

	Consolidated 31 December 2023 $'000	31 December 2022 $'000
Government infrastructure grants	21	22
Government subsidies	-	10
Profit on sale of other assets and right of use	61	-
Other	90	6
Other income	**172**	**38**

Note 6. Trade and other receivables (current assets)

	Consolidated 31 December 2023 $'000	30 June 2023 $'000
Trade receivables	9,021	9,121
Less: Allowance for expected credit losses	(727)	(759)
	8,294	8,362
Other receivables	84	101
	8,378	**8,463**

Note 7. Other assets

	Consolidated 31 December 2023 $'000	30 June 2023 $'000
Accrued revenue	7,598	5,358
Prepayments	1,464	1,000
Employee loans	8	4
Vendor loans	49	4
Other assets	252	312
	9,371	**6,678**
Current	7,106	4,718
Non-current	2,265	1,960
	9,371	**6,678**

Note 8. Contract assets

	Consolidated	
	31 December 2023 $'000	30 June 2023 $'000
Contract assets	10,750	9,311
Accumulated release to profit and loss	(5,842)	(3,224)
	4,908	**6,087**
Current	2,146	2,595
Non-current	2,762	3,492
	4,908	**6,087**

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

	Consolidated	
	31 December 2023 $'000	30 June 2023 $'000
Opening balance	6,087	4,426
Additions	1,602	4,143
Amortisation to the profit and loss	(1,386)	(2,482)
Impairment	(1,395)	-
Closing balance	**4,908**	**6,087**

Note 9. Intangibles (non-current assets)

	Consolidated 31 December 2023 $'000	Consolidated 30 June 2023 $'000
Goodwill	63,382	63,382
Intellectual property	-	1,412
Less: Accumulated amortisation	-	(1,412)
	-	-
Software & projects	4,768	6,007
Less: Accumulated amortisation	(3,912)	(5,160)
	856	847
Brand names	4,105	4,105
Customer relationships	11,942	11,942
Less: Accumulated amortisation	(3,284)	(2,687)
	8,658	9,255
	77,001	**77,589**

Reconciliations

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

Consolidated	Goodwill $'000	Brand names $'000	Software & projects $'000	Customer relationships $'000	Intellectual property $'000	Total $'000
Balance at 1 July 2023	63,382	4,105	847	9,255	-	77,589
Additions	-	-	226	-	-	226
Amortisation expense	-	-	(217)	(597)	-	(814)
Balance at 31 December 2023	63,382	4,105	856	8,658	-	77,001

Note 10. Trade and other payables (current liabilities)

	Consolidated 31 December 2023 $'000	Consolidated 30 June 2023 $'000
Trade payables	8,878	9,901
GST payable	374	495
Other payables	6,819	4,933
	16,071	**15,329**

Note 11. Deferred consideration

	Consolidated	
	31 December 2023 $'000	30 June 2023 $'000
Deferred consideration	**5,695**	**7,526**
Current	4,407	4,089
Non-current	1,288	3,437
	5,695	**7,526**

Note 12. Borrowings

	Consolidated	
	31 December 2023 $'000	30 June 2023 $'000
Bank loans	**28,000**	**25,000**
Current	510	5,000
Non-current	27,490	20,000
	28,000	**25,000**

Total secured liabilities

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

Bank loans	28,000	25,000

Assets pledged as security

The bank loan of $28M (2023: $25M) is secured over the assets and undertakings of Spirit Technology Solutions Ltd and its wholly owned subsidiaries.

During the financial half-year period the Company renegotiated its funding facility terms which covered changes to the financial covenants and other conditions and undertakings by the Company. As part of the undertakings provided, the Company is required to make a repayment of $85,000 per month (commencing 1 July 2024) to pay down the facility over time. The duration of the monthly amortisation requirement will be reassessed at facility renewal on 1 July 2025.

Note 13. Convertible Notes

	Consolidated	
	31 December 2023 $'000	30 June 2023 $'000
The Convertible Notes are presented in the statement of financial position as follows:		
Proceeds from issue of Convertible Notes (net of raising costs)	5,539	-
Liability component at the date of issue	(4,972)	-
Equity component at the date of issue	**567**	**-**
Classification of liability component at the end of the period:		
Current	-	-
Non-current	4,983	-
	4,983	**-**
Liability component at the beginning of the period	-	-
Net proceeds from issue of Convertible Notes during the period	5,539	
Equity component at the date of issue	(567)	-
Payments for Convertible Notes redeemed	-	-
Interest expense for the period calculated at the effective interest rate	65	-
Finance costs paid	-	-
Conversion of Convertible Notes into ordinary shares	(54)	-
Liability component at the end of the period	**4,983**	**-**

During the period Spirit issued convertible notes with a face value of $5,765,000 and a nominal interest rate of 8% and incurred transaction costs of $225,600. The notes are convertible at any time by the holder but if converted within the first 18 months the conversion price is AUD0.045 (after this time the conversion price is AUD0.09). In addition, the holder receives one conversion option per two notes converted if the notes are converted within the first twelve months (the conversion options have a fixed exercise price of $0.09). Spirit also has an early redemption right. Whilst this is a call option there was also a put option granted to the holder which by design is in the money. These rights are not closely related however, the put option is not a present obligation as it first requires action by Spirit and the delivery of shares in accordance with the already established terms and conditions for conversion. As such, there is no derivative which needs to be recognised.

Spirit has assessed that these notes meet the fixed-for-fixed condition under AASB 132 and therefore contains an underlying host liability (which will be accounted for at amortised cost using the effective interest method) with an initial value of $4,972,000 and equity component including an equity derivative of $567,000. The fair value of the host financial instrument was determined based on discounting the cash flows using an interest rate for a comparable financial liability without the conversion features at an effective interest rate of 13.54% (in arriving at this rate the Company considered previous commercial borrowings and discount rates used to estimate the cost of capital).

Note 13. Convertible Notes (continued)

Whilst the number of shares to be delivered changes (including the conversion options) over the life of the contract these are predetermined at the inception of the contract and the events are mutually exclusive (each event on its own results in a fixed amount of shares being delivered and meeting the equity classification). In addition, the change in conversion terms represents a passage over time adjustment.

There is currently diversity in practice with regard to how to apply the fixed-for-fixed condition under AASB 132. The IASB has recently issued an exposure draft proposing amendments to clarify the requirements and underlying principles in IAS 32 for classifying financial instruments. Were these notes to be assessed as not meeting the fixed-for-fixed condition under AASB 132 then a derivative liability would have resulted from that analysis which would have been required to be accounted for at fair value through the profit and loss.

Note 14. Unearned revenue

	Consolidated	
	31 December 2023 $'000	30 June 2023 $'000
Customer contract unearned revenue	**3,595**	**3,599**
Current	3,247	3,132
Non-current	348	467
	3,595	**3,599**

Reconciliations

Reconciliations of the movements at the beginning and end of the current and previous financial year are set out below:

	Total $'000
Balance at 30 June 2023	3,599
Net movements	(4)
Balance at 31 December 2023	3,595

Note 15. Provisions

	Consolidated	
	31 December 2023 $'000	30 June 2023 $'000
Annual leave	1,665	1,960
Long service leave	1,361	1,395
Provision for income tax	-	-
Restructuring	372	1,024
Lease make good	495	497
Other provisions	1,073	1,073
	4,966	**5,949**

Note 15. Provisions (continued)

	Consolidated 31 December 2023 $'000	Consolidated 30 June 2023 $'000
Current	2,987	3,944
Non-current	1,979	2,005
	4,966	**5,949**

Note 16. Equity - issued capital

	Consolidated 31 December 2023 Shares	30 June 2023 Shares	31 December 2023 $'000	30 June 2023 $'000
Ordinary shares - fully paid	736,938,037	735,604,704	120,032	119,411

Movements in ordinary share capital

Details	**Date**	**Shares**	**Issue price**	**$'000**
Balance	1 July 2023	735,604,704		119,411
Movements				
Convertible notes issued	16 October 2023	-		117
Convertible notes issued	11 December 2023	-		473
Convertible note raising cost		-		(23)
Conversion of convertible notes into ordinary shares	24 October 2023	1,333,333	$0.41	54
Balance	31 December 2023	736,938,037		120,032

Ordinary shares

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

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

Share buy-back

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

Note 17. Equity - dividends

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

Note 18. Events after the reporting period

On the 7th February 2024 the Company announced the fully funded acquisition of InfoSurety Holdings Pty Ltd (InfoTrust), a fast growing and profitable cyber security business for a total consideration of $34.6M. InfoTrust provides a range of cyber security services via strategy, solution design, project management, implementation, change management, training and premium support via its CISO Services Retainer, which allows companies to leverage the support of an entire cyber security team.

- The total consideration of $34.6M, comprises:
  - $14.0M in cash on completion;
  - $14.0M in Spirit shares at 4.6c per share, totaling 304.3M shares; and
  - $6.6M in deferred consideration to be paid in cash (being $1.5M on the 6-month anniversary of the completion date; $1.5M on the 12-month anniversary of the completion date and $3.6 million on the 18-month anniversary of the completion date).
- The acquisition and associated costs are to be funded by:
  - A Placement, to 263 Finance Pty Ltd, a significant shareholder and an associate of Non-Executive Director Shan Kanji to raise $16 million at 5.0c per share (being 320 million shares);
  - 304.3M Spirit shares issued to InfoTrust shareholders with an implied value of $14.0 million; and
  - $6.6M in Deferred Consideration, to be satisfied using combined group earnings and/or existing cash.

No other matter or circumstance has arisen since 31 December 2023 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 19. Earnings per share

	Consolidated	
	31 December 2023 $'000	**31 December 2022 $'000**
(Loss)/Profit after income tax attributable to the owners of Spirit Technology Solutions Ltd	(5,200)	(7,786)
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	736,104,704	664,723,579
Weighted average number of ordinary shares used in calculating diluted earnings per share	736,104,704	664,723,579
	Cents	**Cents**
Basic earnings per share	(0.71)	(1.17)
Diluted earnings per share	(0.71)	(1.17)

Spirit Technology Solutions Ltd
Directors' declaration
31 December 2023

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes give a true and fair view of the Consolidated Entity's financial position as at 31 December 2023 and of its performance for the financial half-year ended on that date; and

- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

On behalf of the directors

James Joughin
Non-Executive Chairman

23 February 2024

PKF Melbourne Audit & Assurance Pty Ltd
ABN 75 600 749 184
L15, 500 Bourke Street
Melbourne, Victoria 3000
T: +61 3 9679 2222 F: +61 3 9679 2288
info@pkf.com.au
pkf.com.au

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF SPIRIT TECHNOLOGY SOLUTIONS LTD

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Spirit Technology Solutions Ltd (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Spirit Technology Solutions Limited is not in accordance with the Corporations Act 2001 including:

(a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2023, and of its consolidated financial performance for the half-year ended on that date; and

(b) complying with the Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001.*

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Half year Financial Report* section of our report.

We are independent of the Group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's review report.

Directors' Responsibility for the Half-Year Financial Report

The directors' of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with the Australian Accounting Standards and the Corporations Regulations 2001 and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility for the Review of the Half-Year Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2023 and its performance for the half year ended on that date, and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

PKF

PKF

Melbourne, 23 February 2024

Kaitlynn Brady

Kaitlynn Brady

Partner

Spirit

Secure. Sustainable. Scalable.

E sales@spirit.com.au P 1300 007 001 W spirit.com.au/contact-us