



Appendix 4D

Half-year Report

31st December 2021

ASX:ST1



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 2021
Previous period:	For the half-year ended 31 December 2020

2. Results for announcement to the market

			\$'000
Revenue from ordinary activities	up	54% to	65,886
Underlying EBITDA*	down	5% to	4,224
Profit from ordinary activities after tax attributable to the owners of Spirit Technology Solutions Ltd	down	99% to	3
Profit for the half-year attributable to the owners of Spirit Technology Solutions Ltd	down	99% to	3

Dividends

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

Comments

The profit for the Consolidated Entity after providing for income tax amounted to \$3,000 (31 December 2020: \$508,000).

Further details of the results for 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 business acquisition, divestment & integration costs, net fair value loss on remeasurement of contingent consideration on business combinations, business restructuring costs and share-based payments. Underlying EBITDA for the half-year ended 31 December 2021 also excludes profit on divestment of consumer assets. The Directors consider that these measures are useful in gaining an understanding of the performance of the entity, consistent with internal reporting.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>(2.45)</u>	<u>0.61</u>

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

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

Previous period

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

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

9. Foreign entities

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

Not applicable.

10. Audit qualification or review

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

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

11. Attachments

Details of attachments (if any):

The Interim Report of Spirit Technology Solutions Ltd for the half-year ended 31 December 2021 is attached.

12. Signed



Signed _____

Date: 24 February 2022

James Joughin
Non-Executive Chairman

Spirit Technology Solutions Ltd

ABN 73 089 224 402

Interim Report - 31 December 2021

Spirit Technology Solutions Ltd

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Spirit Technology Solutions Ltd
Corporate directory
31 December 2021

Directors	Mr James Joughin (Chairman) Mr Sol Lukatsky (Managing Director) Mr Mark Dioguardi (Executive Director) Mr Gregory Ridder (Non-Executive Director) Ms Inese Kingsmill (Non-Executive Director) - Resigned 30 September 2021
Company secretary	Melanie Leydin
Registered office	Level 4, 100 Albert Road South Melbourne Victoria 3205
Principal place of business	Level 2, 19-25 Raglan Street South Melbourne Victoria 3205
Share register	Automic Group Level 5, 126 Phillip Street Sydney, New South Wales 2000
Auditor	PKF Melbourne Audit & Assurance Pty Ltd Level 12, 440 Collins Street Melbourne Victoria 3000
Stock exchange listing	Spirit Technology Solutions Ltd shares are listed on the Australian Securities Exchange (ASX code: ST1)

Spirit Technology Solutions Ltd
Directors' report
31 December 2021

The directors present their report, together with the financial statements, on the Consolidated Entity (referred to hereafter as the 'Consolidated Entity' or 'Spirit') consisting of Spirit Technology Solutions Ltd (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2021.

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 Sol Lukatsky (Managing Director)

Mr Mark Dioguardi (Executive Director)

Mr Gregory Ridder (Non-Executive Director)

Ms Inese Kingsmill (Non-Executive Director) - Resigned 30 September 2021

Principal activities

During the half-year ended 31 December 2021, the principal activities of the Consolidated Entity consisted of the provision of IT&T services. This includes the provision of Telecommunication services, Cloud services, Managed IT services and Cyber Security services (referred to hereafter as IT&T services).

Dividends

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

Operating and Financial Review

Entity's operations

The Consolidated Entity continued its evolution to become Australia's leading provider of modern and secure digital workplaces. During the half-year period the Company divested of its non-core consumer residential Internet business as part of its strategy to focus purely on the business-to-business market by providing a complete offering across Telecommunications, Internet, Cloud, IT Managed Services and Cyber Security. The Spirit business model offers the full solution for the modern-day business to communicate with its staff and customers whilst also protecting the business' data and infrastructure. The Company is well positioned to capitalise on the ongoing structural changes occurring to the modern workplace in terms of cyber risk, remote worker needs, demand for data, cloud and shortage of IT skills being seen by all markets through its one-stop-shop for Telco and IT offering.

The half-year period to 31 December 2021 represented a very challenging business environment disrupted by lockdowns and staff isolation requirements. The period was dominated by three months of COVID-19 related lockdowns which stretched across Sydney, Melbourne and Brisbane and constrained the ability of the Consolidated Entity to fully execute on required installations across three capital cities. This represented one of the most difficult markets seen in generations and the growth in revenue (as outlined below) reflects the strength of the business model in terms of product and geographic diversification and associated resilience.

The Company continued its integration and transformation program with two previous acquisitions (Trident and Altitude IT) completing all brand, system and people consolidations.

Review of operations and financial position

The profit for the Consolidated Entity after providing for income tax amounted to \$3,000 (31 December 2020: \$508,000). Total revenue and other income for the Consolidated Entity for the financial half-year ended 31 December 2021 was \$69.6M (31 December 2020: \$44.0M). The following table summarises the key financial metrics for the period:

Spirit Technology Solutions Ltd
Directors' report
31 December 2021

	Half-year ended 31 December 2021 \$'000	Half-year ended 31 December 2020 \$'000	Change \$'000	Change %
Revenue	65,886	42,813	23,073	54%
Other income	3,711	1,219	2,492	204%
Revenue and other income	69,597	44,032	25,565	58%
Earnings before interest, taxes, depreciation & amortisation (EBITDA*)	5,466	3,375	2,091	62%
Profit on divestment of consumer assets (Refer Note 5 to the financial statements)	(2,469)	-	(2,469)	(100%)
Business acquisition, divestment and integration costs (Refer Statement of profit or loss and other comprehensive income)	831	800	31	4%
Share based payments (Refer Statement of profit or loss and other comprehensive income)	396	255	141	55%
Underlying EBITDA*	4,224	4,430	(206)	(5%)

*EBITDA is a financial measure which is not prescribed by Australian Accounting Standard ('AAS') and represents the profit under AAS adjusted for depreciation, amortisation, interest and tax. Underlying EBITDA is EBITDA adjusted to exclude business acquisition, divestment & integration costs, net fair value loss on remeasurement of contingent consideration on business combinations, business restructuring costs and share-based payments. Underlying EBITDA for the half-year ended 31 December 2021 also excludes profit on divestment of consumer assets. The Directors consider that these measures are useful in gaining an understanding of the performance of the entity, consistent with internal reporting.

Despite strong growing sales revenue (up 54% on the half-year ended 31 December 2020), underlying EBITDA was down 5%. This was driven by a combination of ongoing scaling investment in the corporate functions combined with challenging cost pressure across the business through needing to maintain staff levels during lockdowns and supply chain delays and margin pressures.

The Consolidated Entity also faced delays in fully delivering and imaging hardware as part of its annual school's notebook program as a consequence of the Omicron wave in December 2021. This impacted working capital with a build-up in inventory holdings that is due to be unwound in the first quarter of calendar 2022. The combination of market closures, cost pressures and revenue delays impacted cashflows from operations in the period to 31 December 2021. Operating cashflow was negative \$2.2M which is expected to reverse in the second half of financial year 2022.

The basic and diluted earnings per share for the financial half-year ended 31 December 2021 was \$0.000 (31 December 2020: \$0.099).

The net assets of the Consolidated Entity increased by \$1.4M to \$111.1M as at 31 December 2021 (30 June 2021: \$109.7M).

Prospects for future financial years and Business Risks

The Consolidated Entity has evolved significantly over the last 2 years as it has progressed its transition into a provider of modern and secure digital workplaces. That evolution has been accelerated through a period of acquisition and organic growth, and more recently through a divestment phase of non-core assets. Spirit is well positioned to leverage the solution and product sets it has assembled to drive future organic growth and deliver a solution focused customer experience. The Company continues to evaluate acquisition targets to achieve further scale and remains focused on investing in human capital and technology platforms to build a sustainable and profitable business generating long term shareholder returns.

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 forward 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.

Ongoing Supply Chain Disruption

As a continuing consequence of the COVID-19 pandemic there remains ongoing supply chain disruption which impacts the ability of the Company to secure product delivery on time and at guaranteed price levels. In particular there is a global microchip shortage which is a fundamental component in the value chain for PC mainframes, internet routers and other business critical infrastructure. This remains largely outside the control of the Company and has impacts on revenue recognition alongside gross margin stability. Customer contracts are typically priced and ordered in advance and due to a competitive landscape, the Company may need to absorb any price fluctuations that cannot otherwise be passed through to the customer. Management of this risk involves active communication, planning and forecasting of customer requirements and supply chain management and leverage. Spirit has invested in establishing an experienced procurement team and supply chain systems enhancements.

Labour Market Shortages and Inflationary Pressures

As a further continuing consequence of the COVID-19 pandemic, 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, like all companies, is not immune to the ongoing challenges in sourcing and retaining skilled staff in a wage inflationary environment. Mitigation of this risk is largely only possible through immigration and broader opening of international borders.

In addition, during periods of Statewide lockdowns, the Company made the decision (for the majority of its workforce) to limit any stand-down of employees for the combined benefits of staff wellbeing and retention. The culmination of these factors has been, and is likely in the short to medium term, to be increased cost pressures that may impact on shareholders returns.

Spirit has developed strategies to retain and grow 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.

Funding Risk

The Company remains in a high growth phase and to achieve its stated objectives requires access to external capital in addition to its own operational cashflow generation abilities. The capital funding strategy implemented by the Company includes utilising and sourcing a mix of shareholder equity and debt funding. As at 31 December 2021 the Company had a net current liability position of \$23.4M (30 June 2021 net current liability position: \$13.5M) which was primarily associated with the classification of the borrowings of \$25M as a current liability on the basis that the Banking Facility expires in July 2022. At the date of signing this Directors Report, the Company has received approval (subject to completion of standard bank documentation) to extend the existing facilities by a further three years on similar terms and conditions.

Spirit is now in an exclusive period of due diligence with the preferred buyer of its Fixed Wireless Tower assets after receiving and considering multiple all cash offers. The divestment would lead to a material return of capital to Spirit, however there is no guarantee this transaction will be completed as at the date of the report. The Consolidated Entity remains confident that it has the ability to request additional support from existing shareholders if financial assistance is required.

Cyber Risks

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 high. Accordingly, as a material business risk it requires constant management and risk mitigation. In December 2020 Spirit acquired Intalock Technologies Pty Ltd. Intalock is one of Australia's leading cyber security services companies and operates a Security Operations Centre providing 24/7 monitoring, technical services and support for enterprise size clients including banks and other similar high risk profile organisations. Intalock also provides internal support services for Spirit. The Consolidated Entity therefore has the internal capability of this 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.

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 Corporate personnel, marketing/branding and systems enhancements.

Spirit will also continue to pursue accelerated growth through an acquisition strategy. Acquisitions carry risk in terms of successful execution, integration and achieving pro-forma contributions of the acquired business. It also carries cultural integration risk. Spirit has a well-defined standard operating environment ("SOE") and a proven history of integrating acquired operations into that SOE to leverage operational efficiencies.

Pandemic Risk

There remains ongoing risk associated with the COVID-19 global pandemic. At the date of this Directors' Report, local and international markets are in recovery mode. That stated, given the fluid and unpredictable nature of the pandemic to-date there remains ongoing risk that further disruptions may occur that impact the ability of the Consolidated Entity to achieve its stated forward objectives.

Significant changes in the state of affairs

On 9 September 2021, the Consolidated Entity announced the results of earn out incentives for performance of businesses acquired by the Consolidated Entity.

The total incentive payments in respect of the period ended 30 June 2021 in relation to the acquisitions of Trident Technology Solutions, Altitude IT, Beachhead Group and Reliance IT was \$1,940,241 in cash and equity in the amount of \$675,721, to be issued in the Company's fully paid ordinary shares, in accordance with the terms of the respective Share Purchase Agreement for each acquisition.

Additionally, Beachhead Group and Intalock Technologies both had deferred consideration amounts payable which totals \$3,773,264 in cash and an additional \$318,785 in shares, in accordance with the terms of the respective Share Purchase Agreements for each acquisition. All payments were factored into Spirit's FY22 contingent and deferred consideration liabilities as recorded in the 30 June 2021 audited accounts.

On 9 September 2021, the Consolidated Entity announced the issue of 4,059,173 fully paid ordinary shares for no cash consideration, of which:

- 1,024,218 fully paid ordinary shares, issued at a fair value price of \$0.245 (24.5 cents) per fully paid ordinary share were issued in relation to Target 2 Incentive Shares associated with the Trident acquisition;
- 1,648,142 fully paid ordinary shares at a fair value issue price of \$0.245 (24.5 cents) per fully paid ordinary share in relation to deferred consideration and incentive payments to Beachhead Group; and
- 1,386,813 fully paid ordinary shares at a fair value issue price of \$0.245 (24.5 cents) per fully paid ordinary share in relation to Incentive payments for Reliance IT and Altitude IT.

On 10 September 2021, the Consolidated Entity issued 49,338 fully paid ordinary shares to Mr Sol Lukatsky in relation to the exercise of vested performance rights.

On 29 October 2021, the Consolidated Entity announced the completion of the sale of its non-core consumer residential Internet business to Melbourne based broadband and telecommunications provider DGtek Pty Ltd (DGtek) for a transaction value of \$5.1M. Under the agreement, DGtek acquired the consumer business including the customer base and relevant infrastructure assets.

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 31 January 2022, the Consolidated Entity announced that it was in an exclusive period of due diligence with the preferred buyer of its Fixed Wireless Tower assets after receiving and considering multiple all cash offers. As at the date of signing this Directors Report the Company remains in negotiations to effect the sale.

On 22 February 2022, the Company has received approval (subject to completion of standard bank documentation) to extend the existing facilities by a further three years on similar terms and conditions.

No matter or circumstance has arisen since 31 December 2021 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

24 February 2022

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 2021, 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.

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



PKF
Melbourne, 24 February 2022



Steven Bradby
Partner

Spirit Technology Solutions Ltd
Statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2021

		Consolidated	
	Note	31 December 2021	31 December 2020
		\$'000	\$'000
Revenue	4	65,886	42,813
Other income	5	3,711	1,219
Cost of sales		(32,949)	(22,691)
Expenses			
Employee benefits expense		(20,787)	(11,040)
Share based payments		(396)	(255)
Administration and corporate expenses		(7,648)	(4,701)
Business acquisition, divestment & integration costs		(831)	(800)
Selling		(617)	(582)
Marketing		(903)	(588)
Depreciation and amortisation expense		(4,522)	(2,810)
Finance costs		(555)	(287)
Profit before income tax (expense)/benefit		389	278
Income tax (expense)/benefit		(386)	230
Profit after income tax (expense)/benefit for the half-year attributable to the owners of Spirit Technology Solutions Ltd		3	508
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		3	508
		Cents	Cents
Earnings per share attributable to the owners of Spirit Technology Solutions Ltd			
Basic earnings per share	17	0.000	0.099
Diluted earnings per share	17	0.000	0.099

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 2021

		Consolidated	
	Note	31 December 2021 \$'000	30 June 2021 \$'000
Assets			
Current assets			
Cash and cash equivalents		10,431	8,493
Trade and other receivables	6	13,131	12,784
Inventories		6,257	2,577
Accrued revenue		3,267	2,513
Contract assets		762	143
Other	7	2,611	1,617
Non-current assets classified as held for sale		-	1,301
Total current assets		36,459	29,428
Non-current assets			
Deposits and other receivables		509	1,375
Accrued revenue		453	-
Contract assets		2,014	1,544
Property, plant and equipment		14,410	13,895
Right-of-use assets		3,248	3,891
Intangibles	8	123,934	119,403
Deferred tax assets		2,745	2,619
Total non-current assets		147,313	142,727
Total assets		183,772	172,155
Liabilities			
Current liabilities			
Trade and other payables	9	15,264	16,142
Borrowings	10	25,000	-
Lease liabilities		1,836	2,004
Contract liabilities	12	6,032	3,655
Provisions	13	3,762	3,444
Contingent consideration		523	2,399
Deferred consideration		7,482	15,327
Total current liabilities		59,899	42,971
Non-current liabilities			
Borrowings	11	-	10,000
Lease liabilities		1,704	2,016
Deferred tax liabilities		945	712
Contract liabilities	12	1,022	2,823
Provisions	13	521	352
Contingent consideration		8,610	3,603
Total non-current liabilities		12,802	19,506
Total liabilities		72,701	62,477
Net assets		111,071	109,678

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

Spirit Technology Solutions Ltd
Statement of financial position
As at 31 December 2021

		Consolidated	
	Note	31 December 2021 \$'000	30 June 2021 \$'000
Equity			
Issued capital	14	113,683	112,689
Reserves		1,583	1,187
Accumulated losses		<u>(4,195)</u>	<u>(4,198)</u>
Total equity		<u><u>111,071</u></u>	<u><u>109,678</u></u>

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 2021

Consolidated	Issued capital \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2020	42,852	567	(5,355)	38,064
Profit after income tax benefit for the half-year	-	-	508	508
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	508	508
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs	22,262	-	-	22,262
Share-based payments	-	255	-	255
Transfers	-	(1)	1	-
Issue of shares to the vendors on business combinations	12,566	-	-	12,566
Balance at 31 December 2020	<u>77,680</u>	<u>821</u>	<u>(4,846)</u>	<u>73,655</u>
Consolidated	Issued capital \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2021	112,689	1,187	(4,198)	109,678
Profit after income tax expense for the half-year	-	-	3	3
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	3	3
<i>Transactions with owners in their capacity as owners:</i>				
Share-based payments	-	396	-	396
Issue of shares to vendors as part earn out consideration	994	-	-	994
Balance at 31 December 2021	<u>113,683</u>	<u>1,583</u>	<u>(4,195)</u>	<u>111,071</u>

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 2021

		Consolidated	
	Note	31 December 2021	31 December 2020
		\$'000	\$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		72,007	45,134
Payments to suppliers and employees (inclusive of GST)		(75,034)	(40,028)
		(3,027)	5,106
Interest received		-	1
Deposit refunded		98	8
Interest and other finance costs paid		(448)	(219)
Government infrastructure grants received		43	47
Government subsidies		1,124	-
Other receipts		8	364
Net cash (used in) / from operating activities		(2,202)	5,307
Cash flows from investing activities			
Payments for property, plant and equipment		(2,292)	(1,425)
Payments for intangibles	8	(651)	(751)
Cash payments to acquire business, net of cash acquired		(10,449)	(19,757)
Acquired income tax liabilities paid		(212)	(213)
Business acquisition, divestment and integration costs		(831)	(800)
Net cash proceeds from divestment of business assets		4,656	-
Proceeds from investments		(19)	1
Proceeds from disposal of plant and equipment		-	500
Net cash used in investing activities		(9,798)	(22,445)
Cash flows from financing activities			
Proceeds from issue of shares		-	23,242
Share issue transaction costs		-	(980)
Proceeds from borrowings		15,000	5,000
Repayment of borrowings		-	(3,000)
Repayment of lease liabilities		(1,062)	(622)
Net cash from financing activities		13,938	23,640
Net increase in cash and cash equivalents		1,938	6,502
Cash and cash equivalents at the beginning of the financial half-year		8,493	6,400
Cash and cash equivalents at the end of the financial half-year		10,431	12,902

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

Level 4, 100 Albert Road
South Melbourne Victoria 3205

Principal place of business

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 24 February 2022.

Note 2. Significant accounting policies

These general purpose financial statements for the interim reporting period ended 31 December 2021 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 2021 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.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Consolidated Entity for the period ended 31 December 2021.

The Consolidated Entity has a net current liability position as at 31 December 2021 of \$23.4M (30 June 2021 net current liability position: \$13.5M). This financial position needs to be considered noting the following key factors:

- Current liabilities includes borrowings of \$25M on the basis that the Banking Facility expires in July 2022. At the date of signing the Directors' Declaration, the Company has received approval (subject to completion of standard bank documentation) to extend the existing facilities by a further three years on similar terms and conditions.
- Current liabilities includes deferred and contingent consideration payable of \$8.0M. The estimated cash component of this consideration totals \$5.0M. The balance is to be settled in equity.
- Current liabilities includes unearned revenue (contract liabilities) of \$6.0M. This liability unwinds to revenue rather than being a cash settled liability.
- The Consolidated Entity has announced that Spirit is in an exclusive period of due diligence with the preferred buyer of its Fixed Wireless Tower assets after receiving and considering multiple all cash offers. A successful divestment will yield additional working capital back into the Company.
- The Consolidated Entity remains confident that it has the ability to request additional support from existing shareholders if financial assistance is required.

Spirit Technology Solutions Limited
Notes to the financial statements
31 December 2021

Note 3. Operating segments

Identification of reportable operating segments

The Consolidated Entity is organised into one operating segment, being the provision of IT&T services. This included the provision of Telecommunication services, Cloud services, Managed IT services and Cyber Security services to small, medium and enterprise size businesses.

Major customers

During the half-year ended 31 December 2021 there are no individual customers which account for 5% or more of sales.

Note 4. Revenue

	Consolidated	
	31 December 2021	31 December 2020
	\$'000	\$'000
Sales revenue	65,886	42,812
Other revenue		
Interest	-	1
Revenue	<u>65,886</u>	<u>42,813</u>

Disaggregation of revenue

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

	Consolidated	
	31 December 2021	31 December 2020
	\$'000	\$'000
<i>Major product lines</i>		
Managed services	20,147	26,958
Internet and data services	11,411	8,154
Security services	16,054	2,284
Voice services	15,159	3,099
Cloud services	2,620	1,998
Other	495	319
	<u>65,886</u>	<u>42,812</u>
<i>Geographical regions</i>		
Australia	<u>65,886</u>	<u>42,812</u>
<i>Timing of revenue recognition</i>		
Goods & services transferred over time	34,268	20,658
Goods & services transferred at a point in time	31,618	22,154
	<u>65,886</u>	<u>42,812</u>

Spirit Technology Solutions Limited
Notes to the financial statements
31 December 2021

Note 5. Other income

	Consolidated	
	31 December 2021	31 December 2020
	\$'000	\$'000
Government infrastructure grants	337	323
Government subsidies	897	305
Profit on divestment of consumer assets	2,469	-
Profit on sale of other assets and right of use	1	526
Miscellaneous	7	65
	<u>3,711</u>	<u>1,219</u>
Other income		

Note 6. Current assets - trade and other receivables

	Consolidated	
	31 December 2021	30 June 2021
	\$'000	\$'000
Trade receivables	13,600	13,270
Less: Allowance for expected credit losses	(471)	(487)
	<u>13,129</u>	<u>12,783</u>
Other receivables	2	1
	<u>13,131</u>	<u>12,784</u>

Note 7. Current assets - other

	Consolidated	
	31 December 2021	30 June 2021
	\$'000	\$'000
Prepayments	1,927	1,079
Vendor loans	452	532
Other current assets	232	6
	<u>2,611</u>	<u>1,617</u>

Note 8. Non-current assets - intangibles

	Consolidated	
	31 December	30 June
	2021	2021
	\$'000	\$'000
Goodwill	105,174	100,087
Intellectual property - at cost	935	561
Less: Accumulated amortisation	(100)	(44)
	835	517
Software	5,500	5,305
Less: Accumulated amortisation	(2,726)	(2,254)
	2,774	3,051
Brand names – at cost	4,105	4,105
Customer relationships	11,942	11,942
Less: Accumulated amortisation	(896)	(299)
	11,046	11,643
	123,934	119,403

Reconciliations

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

	Goodwill	Intellectual	Software	Brand names	Customer	Total
Consolidated	\$'000	property	\$'000	\$'000	relationships	\$'000
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2021	100,087	517	3,051	4,105	11,643	119,403
Additions	6,287	374	277	-	-	6,938
Disposed on asset divestment	(1,200)	-	-	-	-	(1,200)
Amortisation expense	-	(56)	(554)	-	(597)	(1,207)
Balance at 31 December 2021	105,174	835	2,774	4,105	11,046	123,934

The addition to goodwill during the half-year ended 31 December 2021 of \$6.3M was related to measurement period adjustments in regards to the acquisition accounting for the Nexgen Australia Group Pty Ltd which was acquired 1 April 2021. As at 30 June 2021 the foundation calculation for the Net Debt Working Capital and baseline EBITDA calculations had not concluded sufficiently to form the basis of completing the calculations of deferred and contingent consideration on acquisition. These calculations were completed in the half-year to 31 December 2021.

Spirit Technology Solutions Limited
Notes to the financial statements
31 December 2021

Note 9. Current liabilities - trade and other payables

	Consolidated	
	31 December	30 June
	2021	2021
	\$'000	\$'000
Trade payables	8,054	9,431
GST payable	550	706
Other payables	6,660	6,005
	<u>15,264</u>	<u>16,142</u>

Note 10. Current liabilities - borrowings

	Consolidated	
	31 December	30 June
	2021	2021
	\$'000	\$'000
Bank loans	<u>25,000</u>	<u>-</u>

Note 11. Non-current liabilities - borrowings

	Consolidated	
	31 December	30 June
	2021	2021
	\$'000	\$'000
Bank loans	<u>-</u>	<u>10,000</u>

Total secured liabilities

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

	Consolidated	
	31 December	30 June
	2021	2021
	\$'000	\$'000
Bank loans	<u>25,000</u>	<u>10,000</u>

Assets pledged as security

The bank loan of \$25M (2020: \$10M) is secured over the assets and undertakings of Spirit Technology Solutions Ltd and its wholly owned subsidiaries.

Note 12. Contract liabilities

	Consolidated	
	31 December	30 June
	2021	2021
	\$'000	\$'000
Customer contract unearned revenue	5,606	4,964
Government grants	1,448	1,514
	7,054	6,478

The classification of contract liabilities into current and non-current is set out below:

	31 December	30 June
	2021	2021
	\$'000	\$'000
Current	6,032	3,655
Non-current	1,022	2,823
	7,054	6,478

Note 13. Provisions

	Consolidated	
	31 December	30 June
	2021	2021
	\$'000	\$'000
Annual leave	2,215	1,999
Long service leave	1,475	1,271
Provision for income tax	544	478
Lease make good	49	48
	4,283	3,796

The classification of provisions into current and non-current is set out below:

	31 December	30 June
	2021	2021
	\$'000	\$'000
Current	3,762	3,444
Non-current	521	352
	4,283	3,796

Note 14. Equity - issued capital

	31 December 2021 Shares	Consolidated 30 June 2021 Shares	31 December 2021 \$'000	30 June 2021 \$'000
Ordinary shares - fully paid	<u>656,400,557</u>	<u>652,292,046</u>	<u>113,683</u>	<u>112,689</u>

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Balance	1 July 2021	652,292,046		112,689
Issue of shares to the vendor as part of the earnout consideration in relation to the Trident acquisition	9 September 2021	1,024,218	\$0.245	251
Issue of shares to the vendor as part of the earnout consideration in relation to the Altitude IT acquisition	9 September 2021	315,773	\$0.245	77
Issue of shares to the vendor as part of the earnout consideration in relation to the Beachhead acquisition	9 September 2021	1,648,142	\$0.245	404
Issue of shares to the vendor as part of the earnout consideration in relation to the Reliance IT acquisition	9 September 2021	1,071,040	\$0.245	262
Conversion of vested performance rights	10 September 2021	<u>49,338</u>	<u>\$0.000</u>	<u>-</u>
Balance	31 December 2021	<u>656,400,557</u>		<u>113,683</u>

Ordinary shares

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

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

Share buy-back

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

Note 15. Equity - dividends

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

Note 16. Events after the reporting period

On 31 January 2022, the Consolidated Entity announced that it was in an exclusive period of due diligence with the preferred buyer of its Fixed Wireless Tower assets after receiving and considering multiple all cash offers. As at the date of signing this Directors Report the Company remains in negotiations to effect the sale.

On 22 February 2022, the Company has received approval (subject to completion of standard bank documentation) to extend the existing facilities by a further three years on similar terms and conditions.

No matter or circumstance has arisen since 31 December 2021 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 17. Earnings per share

	Consolidated	
	31 December 2021	31 December 2020
	\$'000	\$'000
Profit after income tax attributable to the owners of Spirit Technology Solutions Ltd	<u>3</u>	<u>508</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>654,837,268</u>	<u>514,100,819</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>654,837,268</u>	<u>514,100,819</u>
	Cents	Cents
Basic earnings per share	0.000	0.099
Diluted earnings per share	0.000	0.099

Spirit Technology Solutions Ltd
Directors' declaration
31 December 2021

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 2021 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

24 February 2022

Independent Auditor's Review Report to the Members of Spirit Technology Solutions Ltd

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 statement of financial position as at 31 December 2021, the statement of profit or loss and other comprehensive income, statement of changes in equity, and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group 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 2021 and of its consolidated financial performance for the half-year ended on that date; and
- (b) complying with 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* (ASRE 2410). 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 auditor independence requirements of the *Corporations Act 2001* and 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.

Directors' responsibilities for the half-year financial report

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

Auditor's responsibilities 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. ASRE 2410 requires us to conclude whether we have become aware of any matter that causes us to 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 consolidated financial position as at 31 December 2021 and its consolidated financial performance for the half-year ended on that date, and complying with 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
Melbourne, 24 February 2022



Steven Bradby
Partner