

Annual Report 2023

Secure. Sustainable. Scalable.



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A letter from

The Chairman



Dear Shareholders,

I am pleased to present our Annual Report for FY23. The past financial year was a period of reform and renewal for Spirit as we progressed towards our goal of becoming one of Australia's leading providers of modern and secure digital workplaces.

We continued directing our efforts to transition the Group away from capital intensive infrastructure to become a full spectrum technology provider focused on providing our customers with integrated innovative solutions built on service and solution delivery.

While the financial results for the year ended 30 June 2023 (FY23) were below our goals, the work undertaken by the Board and management in FY23 is expected to ensure the Group is now outwardly focused on growth with a clearly defined accountable and outcome driven set of strategic goals. As part of the work, we successfully completed the transfer of our Network Assets and progressed the restructure of our Managed Services business.

This restructure has resulted in a simplification of Spirit's sales and support processes following a reduction in our product portfolio to remove complexity and provide clarity of purpose and focus.

During the financial year, we also reshaped our vision with the launch of a new corporate strategy, formalising our transition from infrastructure to our long-term strategic focus of being a technology solutions provider.

The new strategy, which focuses on the core offerings of Secure, Sustainable and Scalable addresses a critical customer and wider market need for technology solutions that improve resilience to cyber-attacks (Secure), address climate change and reduce carbon emissions (Sustainable) and ensure responsiveness to challenging business conditions (Scalable).

The centre of our strategy is the customer not only the technology. Spirit is dedicated to building and bundling technology solutions that are aligned to each customer's journey. We have a vision to be known within the market for solving a customer's problem and securely enabling their employees.

The Board believes our strategy provides our Group a robust platform for growth going into FY24 and beyond. We are also confident it will deliver much better returns for our shareholders.

Another key focus across FY23 has been around transparency and accountability. Accountability is being embedded across the organisation culturally to underpin all deliverables to customers and stakeholders.

During the year, we also finalised the appointment of Elie Ayoub, one of the co-Managing Directors of Nexgen – Spirit's Collaboration & Communication Business – as an Executive Director.

Elie co-founded Nexgen and in this role, continues to oversee Spirit's Collaboration & Communication business growth strategy. He brings a broad range of skills and experience to the Board, and we look forward to Elie's contributions in the next stage of our growth.

On 31 August 2023, Michelle Bendschneider resigned from her role as Non-Executive Director. As previously announced on 8 June 2023, Ms. Bendschneider advised that she intended on stepping down from the Spirit Board due to other business commitments once the full-year financial statements (Appendix 4E) had been finalised and announced.

The Board is grateful for Michelle's input and enthusiasm over her time on the board, and we thank Michelle and wish her all the best for her future endeavours.



In addition, Mr. Julian Haber also tendered his resignation from his position as Non-Executive Director, effective 31 August 2023 to pursue other business interests. Mr. Haber joined Spirit as part of the Intalock acquisition (Spirit's Cyber security business) and his deep knowledge and experience in the Cyber industry have been a great asset to the Company.

The Board is appreciative of Julian's significant contributions, and we wish him all the best for his future endeavours.

We enter the new financial year (FY24) with much optimism as we work towards returning the Managed Services business back into positive earnings and as we continue to progress our goal of becoming one of Australia's leading providers of modern and secure digital workplaces.

I would like to thank our Board, Management team and employees for their hard work and dedication over the past 12 months as we have repositioned the Group for growth.

I would also like to thank shareholders for your continued support.

James Joughin
Chairman

A letter from

The Managing Director and CEO



Dear Shareholders,

It is a pleasure to be addressing you in my first full financial year as Managing Director and CEO of Spirit Technology Solutions Ltd.

Whilst the 2023 financial year has not been without its challenges, it has been a period of reset and regeneration for our Company as we focused our efforts on the restructure of our Managed Services business and launched our new go-to market strategy to focus our service offerings via the three key high-growth areas of Secure, Sustainable and Scalable.

Progress with Managed Services restructure

During FY23, we progressed the Managed Services restructure with a new leadership team in place, all previous Managed Services acquisitions integrated into a single Spirit brand and all key customers moved to our new scalable Microsoft Modern Workplace (MWP) solutions. In addition, we completed an agreement with entities associated with the principals of the Maret Group to transfer selected data centre and network assets (Network Assets) from our Managed Service business in December 2022.

The restructuring program, alongside the various divestment programs undertaken over the last two years, has redefined the strategic and customer focus of this segment. There remains more work to be done by management to ensure this operation achieves its required level of earnings returns, but we exit FY23 having undertaken the key activities required to stabilise and reset the operation for forward growth.

Launch of new go-to market strategy

In May 2023, we launched our new corporate strategy, progressing our move towards becoming one of Australia's leading providers of modern and secure digital workplaces via the provision of the following services:

- ▶ **Secure:** Helping companies create a secure organisation and reduce risks through our Cyber Security solutions.
- ▶ **Sustainable:** Working with our partners Cisco and Microsoft to provide companies with smart networks, IoT devices and carbon reporting and management models to help reduce their carbon footprint.
- ▶ **Scalable:** We help businesses to be scalable at low cost through our smart infrastructure solutions.

The strategy is designed to address the growing need of Spirit clients and the wider market for solutions that improve their resilience to cyber-attacks and climate change and ensures they are responsive to challenging business conditions.

Targeting the Group's 7,000+ customers, the strategy will also enable Spirit to offer highly relevant solutions that enable organisations to scale up or down and optimise their goals around staff and customer experience as they navigate changes in the economic environment.

Launch of new Security Operations centre

Our new Security Operations Centre (SOC) built to ASIO "Secret" standards went live in June 2023. The new facility is a key differentiator for Spirit, against generic SOC capabilities provided by other Australian managed service providers.

The facility supports our SOC services and enables the cyber team to scale and underpins the sale of security services into the Managed Services customer base and initial cross sell opportunities went live in June 2023. The SOC already manages a growing number of leading Australian organisations and enables our customers to protect \$22 billion in revenue.

Communication and Collaboration

The Collaboration & Communication business achieved record revenue performance in FY23, up 19% year-on-year due to an ongoing build in recurring and outperformance on product sales particularly in H1 FY23.

The number of business customers continued to build over the course of the financial year with the segment now servicing 6,000+ customers on average contract tenures of 4+ years.

This provides the Group with a solid foundation to sustain high levels of organic growth through sales of new products into this installed base, combined with other growth avenues such as our new Dealer program and potentially further geographic expansion.

As CISCO's #1 partner in the Asia Pacific region for their communication platform, the Collaboration & Communication team continues to grow and support thousands of Australian organisations with the best in video and calling experiences.

The offers provide a scalable and secure platform to support an organisation's transition to Work from Home / Work from Anywhere that is being adopted by many of Australia's leading companies.

Financial overview

Spirit reported Group revenue of \$127.1 million for FY23, down 6.1% on FY22 and Group Underlying EBITDA (refer to Directors' report page 14) of \$5.2 million.

The loss for the Group for FY23 after income tax was \$11.389 million, down from the \$53.166 million loss in FY22. A restructuring provision of \$1 million was recognised to provide for estimated costs associated with further Managed Services restructuring initiatives to be implemented in the six months to 31 December 2023. Cash outflows from operating activities were \$3.7 million for the year ended 30 June 2023 (FY22: cash inflows \$3.5 million). This included cash outflows associated with restructuring costs of \$1.7 million (2022: \$0.4 million). Cash obligations associated with business combination payments and business acquisition and divestment costs were largely satisfied through debt drawdowns.

Outlook

Spirit enters FY24 with a refocused Company and growth platform that is expected to drive the Managed Services business back into positive earnings.

In August, we launched several new high-growth market offers which offer a significant opportunity to drive earnings growth:

- ▶ Managed Services cyber security defence and workplace productivity offer for SME customers, to be sold into the existing SME customer base of 7,000+ customers
- ▶ Cyber managed security solution delivered from our new SOC which enables our expansion into the growing higher value defence industry supply chain
- ▶ Additional new cyber contracts signed from a number of new and renewing ASX 100 customers in the last 3 months
- ▶ Development of Spirit's Sustainable business enhanced with new high-growth AI offers targeting a number of the Group's customers

Alongside these, Spirit will continue to focus on its growth strategy through:

- ▶ Organic growth through expanding its Australian presence, signing new customers and upselling offering to existing customers
- ▶ Target acquisitions to grow further in the Secure, Sustainable and Scalable space
- ▶ Further agreements and partnerships with our leading global technology partners
- ▶ Developing unique intellectual property that supports accelerated project delivery timeframes and builds capabilities that deliver measurable outcomes for customers

I would like to thank our Board, Management team and employees for their hard work and dedication over the past 12 months as we have repositioned our Company for growth.

Thanks also to our shareholders for your continued support. I look forward to updating you on our progress towards our goal of becoming one of Australia's leading providers of modern and secure digital workplaces.

Julian Challingsworth
Managing Director and CEO



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Board of Directors



James Joughin
Chairman

James Joughin brings over 30 years of general corporate experience, having been a senior partner of Ernst & Young until 2013. He was a partner of the firm for 17 years and headed the Mergers and Acquisitions division in Melbourne.



Julian Challingsworth
Managing Director

Julian is a proven leader of ASX-listed companies, with a strong professional service and corporate finance background. He has extensive experience managing enterprise, government, and critical infrastructure clients.



Elie Ayoub
Co-CEO Nexgen &
Executive Director

Elie co-founded Nexgen in 2009 and has been jointly responsible for the growth and direction of the Company. He has 25 years' of experience in the telecommunications industry across the SME, residential, corporate and government customer segments.



Julian Haber
Non-Executive Board Member

Julian is a highly regarded leader in Cyber Security and Information Technology, having built one of Australia's most reputable Cyber Security companies, Intalock Technologies, which was acquired by Spirit in December 2020.



Michelle Bendschneider
Non-Executive Director

Michelle is an experienced executive with an impressive technology and finance background that includes stints with IBM, Telstra, and CBA.



Greg Ridder
Non-Executive Director

Greg is currently the Chairman of Kogan.com. Formerly Asia Pacific Regional President at NYSE-listed Owens-Illinois, Greg led growth and diversification from its traditional Australian base through joint ventures and acquisitions in China and Southeast Asia.



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Executive Members



Julian Challingsworth
Managing Director

Julian is a proven leader of ASX-listed companies, with a strong professional service and corporate finance background. He has extensive experience managing enterprise, government, and critical infrastructure clients.



Zoe Rosenwax
Head of People

Zoe is an experienced people and culture leader, with over 10 years experience leading the HR function for some of Australia's leading businesses.



Paul Miller
Chief Financial Officer

Paul is a Chartered Accountant with more than 25 years of financial experience. Having commenced his career with PwC in Australia and London, Paul has specialised expertise working in high growth companies.



Nathan Knox
Chief Operating Officer

Nathan joins Spirit with a wealth of experience in similar roles at leading ASX100 companies and government agencies, including Tesseract, NBN Co, Coles, and Woolworths.



James Harb
Co-CEO Nexgen

Along with Elie, James co-founded Nexgen in 2009 and has over 20 years' experience in the telco industry.



Elie Ayoub
Co-CEO Nexgen & Executive Director

Elie co-founded Nexgen in 2009 and has been jointly responsible for the growth and direction of the Company. He has 25 years' of experience in the telecommunications industry across the SME, residential, corporate and government customer segments.



Directors' Report

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 year ended 30 June 2023.

Directors

The following persons were Directors of Spirit Technology Solutions Ltd during the whole of the financial 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 - appointed 11 July 2022)

Mr Elie Ayoub (Co-CEO Nexgen and Executive Director – appointed as Executive Director on 8 June 2023)

Mr Julian Haber (Executive Director 1 April 2022 to 18 November 2022, Interim Managing Director 16 May 2022 to 11 July 2022, and Non-Executive Director from 19 November 2022)

Mr Sol Lukatsky (Managing Director - resigned 2 July 2022)

Mr Gregory Ridder (Non-Executive Director)

Ms Michelle Bendschneider (Non-Executive Director)

Principal activities

During the financial year the principal activities of the Consolidated Entity consisted of the provision of Collaboration and Communication services, Cyber Security 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 Telecommunications, Internet, Cloud, IT Managed Services and Cyber Security, backed by service excellence. The Spirit business model offers the full solution for the modern-day business to communicate with its staff and customers whilst also protecting business' 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. This shift coupled with the aim of Spirit to be a leader in the Australian cloud and cyber industry saw the Company invest in the development of a range of new product offerings during the financial year under review. Within our Managed Services division that involved the development of a 'Secure and Modern' solution for our customers to work from anywhere safely and effectively. The Company also progressed the tailoring of this mid-market solution to enable our small business customers, whom are likewise looking for cost-effective ways to adopt to the cloud. Our Collaboration & Communication division is excited at the launch of 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 at 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 4: Operating Segments of the financial statements):

- 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 (IT&T): 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.

Review of operations and financial position

The loss for the Consolidated Entity for the financial year ended 30 June 2023 ("FY23") after providing for income tax amounted to \$11.389M (30 June 2022 ("FY22"): loss \$53.166M). Total revenue and other income for the Consolidated Entity for FY23 was \$127.3M (FY22: \$138.7M). The following table summarises the key financial metrics for the financial year:

	2023 \$'000	2022 \$'000	Change \$'000
Revenue (refer Note 5 to the financial statements)	127,114	135,338	(8,224)
Other income (refer Note 6 to the financial statements)	157	3,394	(3,237)
Revenue and other income	127,271	138,732	(11,461)
Earnings before interest, taxes, depreciation & amortisation (EBITDA*)	(8,266)	(46,216)	37,950
Share-based payments***	942	721	221
Loss/(profit) on divestment of non-core assets (refer Note 6 & 7 to the financial statements)	600	(1,823)	2,423
Acquisition & divestment costs***	200	1,926	(1,726)
Restructuring costs****	2,732	1,527	1,205
Other restructuring items*****	901	-	901
Net fair value loss on remeasurement of contingent consideration on business combinations**	8,042	2,747	5,295
Impairment of non-current assets	-	48,374	(48,374)
Underlying EBITDA*	5,151	7,256	(2,105)
Depreciation and amortisation expense (exc. amortisation of customer relationships)	(2,879)	(6,461)	3,582
Finance costs (net)	(1,580)	(1,170)	(410)
Underlying Profit/(Loss) before income tax benefit/(expense)**	692	(375)	1,067
(Loss)/profit after income tax benefit/(expense)***	(11,389)	(53,166)	41,777

* 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 share-based payments, gain/(loss) on divestment of non-core assets, acquisition & divestment costs, restructuring costs, net fair value loss on remeasurement of contingent consideration on business combinations and impairment of non-current assets. Underlying EBITDA for the year to 30 June 2023 also includes a notional gross margin adjustment add back to reflect the one-off loss on customer retention initiatives – shown as 'Other restructuring items'.

** Underlying net profit/(loss) before income tax benefit/(expense) ("uNPBT") is a financial measure which is not prescribed by Australian Accounting Standards ('AAS') 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.

*** Refer Statement of profit or loss and other comprehensive income.

**** Restructuring costs encompasses:

- Product IP development costs (\$0.4M) related to costs associated with the development of the new Modern Workplace Solution ("MWS") and Small Business Managed Services ("SBMS") offerings. The portion related to the half year to 31 December 2022 ("H1 FY23") was \$0.3M and the portion related to the half year to 30 June 2023 ("H2 FY23") was \$0.1M. This represents a restatement of the normalisations reflected in the Interim Financial Report for H1 FY23.
- System reengineering costs (\$0.6M); and
- Employee redundancy costs (\$1.7M).

***** Other restructuring items covers a notional add back for professional services margin loss on customer retention migrations (\$0.9M). This relates to the assessed gross margin forgone on supporting customers to move from acquisition legacy products that were end of life to new product MWS offerings. The portion related to H1 FY23 was \$0.3M and the portion related to H2 FY23 was \$0.6M. This represents a restatement of the normalisations reflected in the Interim Financial Report for H1 FY23.

The last 18 months have been directed at transitioning the Company away from capital intensive infrastructure to become a full spectrum technology provider focused on providing our customers with integrated innovative solutions built on service and solution delivery. The consumer broadband business was divested in October 2021, the Fixed Wireless broadband business was divested in June 2022 and selected data centre and network assets were divested in December 2022. These divestments have reshaped the profit and loss of the Company (and specifically that of the Managed Services IT&T segment) in so far as a combination of a reduction in revenue (with divested customers), lowering of gross margins (associated with moving to wholesale arrangements), reduction of operating costs and a reduction of depreciation & amortisation with the sale of capital assets. To gain a more useful comparison of performance across financial years underlying Profit & Loss before income tax ("uNPBT") is considered a better indicator.

FY23 can also be summarised as a year in which the company looked inwards in so far as reshaping its strategic vision into three core forward pillars around **Secure, Sustainable** and **Scalable** as the foundation for all its customer deliverables moving forward. 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 focus for the coming financial year is to embed our outstanding cyber security capability into one third of 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.

Another key focus across FY23 has been around transparency and accountability. Accountability is being embedded across the organisation culturally to underpin all deliverables to customers and stakeholders. The Board continues to acknowledge that the financial performance at a group and individual segment level remains challenging and requires a significant uplift to meet expectations. The work undertaken by the Board and management in FY23 is expected to ensure the Group is now outward focused on growth with a clearly defined accountable and outcome driven set of strategic goals.

Below is a review of FY23 performance by segment.

Collaboration and Communication

The Collaboration and Communication segment achieved an uNPBT** for FY23 of \$8.0M (FY22: \$8.6M) on a record full year sales revenue of \$41.6M (FY22: \$35.0M).

The segment performance was mixed with a very strong performance in the six month period to 31 December 2022 ("H1 FY23") accounting for 71% of its uNPBT contribution relative to the six month period ended 30 June 2023 ("H2 FY23"). The segments performance is historically stronger in H1 relative to H2 however the drop in H2 FY23 was larger than expected and attributable to a combination of product based revenue constraints (associated with economic inflationary market factors dampening demand) combined with some margin and operating cost pressures.

Acknowledging some earnings constraints exist in short term in the context of the current inflationary environment, the segment continues to achieve solid revenue growth year on year reflecting both the demand for the products offered within the SMB market alongside a proven and well-disciplined sales methodology. The Board remains pleased with the continued performance of this segment and the forward focus is on organic growth driven by:

- Development of new market Modern Workplace Solution offering, encompassing managed services & cyber security products tailored to the small business market, that can be sold to its customer base of some 6,000 businesses.
- Sales team expansion with a scale up of a new telemarketing team in the Philippines to grow lead generation and in turn conversion success.
- Expansion via a new dealer enabled business centre offering to leverage the collaboration and communication product sets to the wider business network community.
- Ongoing collaboration with our Partners (lead by Cisco) to increase opportunities and reach to deliver market leading solutions that our customers are demanding.

Cyber Security

The Cyber Security division achieved an uNPBT** for FY23 of \$0.6M (FY22: \$2.0M) on full-year sales revenue of \$33.6M (FY22: 31.4M). This segment suffered from management disruption in H1 FY23 as a consequence of the former division CEO taking on the dual role of interim Group CEO during the transition period to find a permanent Group Managing Director. The financial outcomes reflect this distraction and also acknowledges that there was a capability gap left as a consequence of this key departure that impacted sales pipelines and delivery oversight. That capability gap was corrected during the financial year with the appointment in H2 FY23 of an experienced Chief Revenue Officer for the segment. The outcomes also reflect distractions associated with significant investment initiatives to develop new products and automation considered necessary to lay the foundation for forward growth, differentiate on customer experience and to enable cyber sales into the other Company segments. Key deliverables included:

- Development of new solutions to drive improved customer experience including the development of AI tools (Chat GBT and PIA) to automate cyber incident response capabilities.
- Development of new Microsoft Core to extend the capabilities of the Security Operations Centre ("SOC") to support Microsoft Security opportunities, which is a significant growth area.
- Building and launch of new SOC in Brisbane constructed to ASIO "Secret" standards, which now manages a growing number of leading Australian organisations. The new facility is a key differentiator against generic SOC capabilities provided by other Australian managed service providers. The new facility will support our SOC services and enable the cyber team to scale and underpins the sale of security services into the Managed Services customer base.

These investments in people, process and capability are expected to underpin forward profitability.

Managed Services (IT&T)

The Managed Services division has been a 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. The Board and management has been focused on right sizing this operation and that focus consumed resources in FY23, however the Consolidated Entity exits the financial year in a position to look outwards and leverage the outputs of the investments made.

The Managed Services segment achieved an uNPBT** loss for FY23 of (\$3.3M) (FY22 loss: \$7.0M) on full year revenue of \$52.4M (FY22: 69.6M). The revenue reduction reflects the segments divestment programs alongside its customer target and profitability refocus initiatives.

FY23 was focused on a progression of the restructuring program and initiatives that the Board implemented to drive profitability enhancement which included:

- The Segment progressed its strategy to divest non-core assets inclusive of selected data centre and network assets ("Network Assets") which was completed on 1 December 2022. This strategy focuses Managed Services on enabling organisations to transfer to secure digital work environments that underpin the connected modern workplace and less on capital intensive infrastructure. This move is a further step of simplification, focus and profitability enhancement.
- Progressed the development and implementation of Digital Modern Workplace ("MWP") as a product across our customer base. This enables customer access to improved collaboration tools that promotes greater teamwork for their employees, increases flexibility in terms of where they work, and provides a more secure environment from cyber events.
- The development of our MWP 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. Those issues reflected in significant financial credits being provided to customers to compensate for outages.

As acknowledgment of the customer impacts that these legacy products were causing, the professional services provided to move existing customers to the new MWP solutions was heavily discounted and subsidised. The uNPBT** reported includes a notional underlying adjustment addback of \$0.9M to reflect the professional services margin loss on customer retention migrations. No underlying adjustment has been reflected for the financial credits provided.

Importantly this transition process has been completed and concludes a further part of the drive to simplify the business model and delivery capabilities. The Company has been transitioning its customers off legacy solutions to more standardised Microsoft centric solutions, which benefit the customer, and present Spirit the opportunity to gain efficiencies through delivering standardised solutions at scale.

- Review of customer cohorts, and ongoing rationalisation of those cohorts, to enable concentration on a more defined profitable target base being mid-market customers where the business can target at providing secure and connected modern workplace solutions.
- Product portfolio streamlined to focus on delivering profitable products into growth segments.
- Implementation of new managed services technology platforms to leverage AI in the triage and management of service level 1 calls which will enable a further realignment of the overhead base.
- Nationalisation of the service desk, which involved combining three separate region-based support teams into one centralised Support Centre. This has significantly improved efficiencies by streamlining processes and utilising shared resources, resulting in a drastic improvement in key performance metrics and has led to increased customer satisfaction.
- Reduction of labour costs associated with a staged right sizing of the employee base following implementation of the above range of initiatives.

The Board remains very cognisant of the time and effort that has been consumed on this segment and continues to assess all options with a view to mitigating forward earnings and cashflow impacts alongside acknowledging the segments potential value and growth possibilities. The divestment during the financial year of the Network Assets removes a further layer of risk and now creates a more focused platform and streamlined operation. The segment has progressed its strategic focus on the Spirit Microsoft Core, which will accelerate its progress in deploying Microsoft Modern Workplace, Microsoft cloud and security solutions at scale. Having right sized the operations the segment now needs to scale with new customers and leverage the returns from aligning to such a high growth, market leading suite of products and technologies.

A restructuring provision of \$1M has 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 and concludes the restructuring program.

Cash outflows from operating activities were \$3.7M for the year ended 30 June 2023 (2022: cash inflows \$3.5M). This included cash outflows associated with restructuring costs of \$1.7M (2022: \$0.4M). Cash obligations associated with business combination payments and business acquisition and divestment costs were largely satisfied through debt drawdowns. Net cash outflows from investing activities were \$11.0M (2022: \$1.2M net of business divestment proceeds). During the financial year, the Company drew down net debt from its banking facility of \$12M as part of its capital management strategy.

The basic and diluted earnings per share loss for the financial year ended 30 June 2023 was 1.67 cents (2022: loss of 8.08 cents).

The net assets of the Consolidated Entity decreased by \$6.3M to \$53.1M as at 30 June 2023 (30 June 2022: \$59.4M). This decrease primarily reflects the impact of the contingent consideration increase associated with the outperformance of the collaboration and communication 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 tailored innovative customer solutions. Spirit's mission is to help our customers deliver on their strategic goals. That evolution and mission has been accelerated recently through a divestment phase of non-core legacy network assets. Spirit is 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's immediate strategic priorities remain focused on improved profitability performance across all segments, driving organic growth and returning to positive cash flows from its operations. As part of that focus, there will be ongoing acceleration of initiatives within the Managed Services (IT&T) business segment to move that division's uNPBT** to a positive position. In conjunction the Consolidated Entity needs to maintain its investment 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 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 the financial year's ended 30 June 2023 and 30 June 2022, the Company is focused on getting to an operational cashflow positive position alongside managing residual acquisition contingent consideration obligations over the ensuing 21 months. The Consolidated Entity will continue to require access to external capital in addition to its own operational cash flow generation abilities. The funding strategy includes sourcing and utilising a mix of debt funding, non-core asset divestment funding and shareholder equity. As at 30 June 2023 the Company had a net debt position of \$18M (30 June 2022: 1.3M) and net current liability position of \$7.7M (30 June 2022: \$10M) which is primarily associated with the residual business acquisition liabilities linked with the acquisitions of Intalock (Spirit) Cyber Security Pty Ltd (formerly Intalock Technologies Pty Ltd) ("Intalock") and Nexgen Investment Group Pty Ltd ("Nexgen"), alongside a component of the borrowings classified as current (noting the post balance sheet date renegotiations outlined below).

During the financial year, there were two variations to the Company's loan facility limit which is currently \$28M. The renegotiation of the facility included changes to the financial covenants (as outlined in note 22 of the financial statements) and other conditions and undertakings by the Company. As at 30 June 2023 \$25M had been drawn with a further \$3M drawn by the Company post year end. As part of the undertakings provided, the Company is required to pay down the facility to \$20M by July 2024 at the latest following a further renegotiation on the facility limit and timing that was reached after 30 June 2023. The statement of financial position reflects the circumstances that existed as at balance date (before this further amendment) with a portion of the borrowings shown as current.

As outlined in the Statement of Financial Position (within the financial statements) the future consideration payments owing are provisioned at \$7.5M. Accordingly, there are funding obligations and funding risks associated with these payments. To address those risk factors the Company has entered into an agreement with the founders of both Intalock and Nexgen to crystallise the commitments and manage the associated cashflow settlement obligations. Those cashflow obligations have been spread over the next 21 months with \$4.1M being classified as current and \$3.4M as non-current.

The Company's aim is to manage settlement of these obligations from its operating cash flows and debt facilities. That noted, the risk with respect to such preferred funding access is contingent on the Consolidated Entity's performance improvements to generate positive cashflows from operations and ongoing support from its financiers. The Company has a number of initiatives that it is currently pursuing to mitigate the risks, including regular communication with the financier and assessing other alternative sources of finance in whole or in part.

Contingent Consideration Risk

Contingent consideration risk relates to the variability of any earn-out consideration associated with acquisitions. During the financial year ended 30 June 2023, this risk was fully addressed and remaining contingent consideration obligations were crystallised as follows.

Intalock

As outlined Note 34, the acquisition of Intalock included a contingent consideration element by way of an earn-out structure based upon EBITDA performance over a 12-month period ended 30 June 2022 ("FY22"). The earnout consideration was to be settled 100% in cash. The finalised amount of contingent consideration due and payable where the FY22 target has been exceeded was \$3.476M.

During the year ended 30 June 2023, \$2.687M was settled. The remaining balance to be settled of \$0.789M is classified as a current liability as at the reporting date.

Nexgen

As outlined Note 34, the acquisition of Nexgen included a contingent consideration element by way of an earn-out structure based on performance targets for the 18 months ended 30 June 2023. The Company and the founders finalised these arrangements in their entirety in February 2023. The amount of contingent consideration included a component settled in shares of the Company totaling \$4.537M which were issued on 31 March 2023. \$6.9 million was paid in cash during the financial year ended 30 June 2023. A further cash component of \$6.737M remains to be settled as at 30 June 2023 of which \$3.3M is classified as a current liability and the remainder is classified as a non-current liability as at the reporting date.

The contingent consideration payable is higher than originally anticipated but reflects the performance of Nexgen.

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 (now known as Intalock (Spirit) Cyber Security Pty Ltd). Intalock is a leading cyber security services company and operates a Security Operations Centre providing 24/7 monitoring, technical services and support for enterprise size clients. 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.

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 on attracting and retaining the right mix of sales talent. Over the last few financial years, the Consolidated Entity has had mixed success in this regard with the Managed Services segment in particular facing significant sales staff retention and delivery execution challenges.

Labour Market and Inflationary Pressures

Access to required human capital talent within the Australian employment pool remains a key business risk although it is easing. 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 competitive and at times wage inflationary environment. Spirit has developed 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.

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 has historically pursued accelerated growth through an acquisition strategy. Acquisitions carry risk in terms of successful execution, integration and achieving pro-forma contributions of the acquired business. As Spirit moves forward it will focus more on a balanced combination of organic and inorganic growth mix.

Global Stability Risk

There remains ongoing risk associated with international stability risks. At the date of this Directors' Report, local and international markets remain in a delicate phase, tempered by inflationary pressures. Given the fluid and unpredictable nature of external factors there remains ongoing risk that 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 1 December 2022, the Consolidated Entity announced it had entered into and completed an agreement for the transfer of selected Network Assets to a Melbourne based business associated with the principals of the Maret Group which acquired Spirit's Fixed Wireless business in June 2022. The transfer is consistent with Spirit's strategy of simplifying its Managed Services (IT&T) business, reducing operating costs and sharpening its focus on target customer segments.

On 31 March 2023, the Consolidated Entity announced the issue of 70,881,125 fully paid ordinary shares for no cash consideration, issued at a fair value price of \$0.064 (6.4 cents) per fully paid ordinary share, as part of the contingent consideration in relation to the Nexgen acquisition.

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

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 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.

Likely developments and expected results of operations

Refer 'Entity's operations' and 'Prospects for future financial years'.

Environmental regulation

The Consolidated Entity is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Information on Directors

Name:	Mr James Joughin
Title:	Non-Executive Chairman
Qualifications:	Bachelor of Business, CPA, GAICD
Experience and expertise:	James Joughin brings over 31 years of general corporate experience, having been a senior partner of Ernst & Young until 2013. He was a partner of that firm for 17 years and headed the Mergers and Acquisitions division in Melbourne. James is also an experienced company Director and holds (or has held) Non-Executive Directorships of a number of private and public companies. He has wide business experience and has previously held the position of Chair of a private company and is currently Chair of a number of Risk and Audit Committees. For most of his career, James has been providing advice to Boards in relation to growth strategies, improving shareholder value, mergers and acquisitions, funding (both debt and equity) and IPO's.
Other current Directorships:	None
Former Directorships (last 3 years):	MyDeal.com.au Ltd (ASX: MYD) (resigned 23 September 2022) Bio-Gene Technology Ltd (ASX:BGT) (resigned 22 April 2023)
Special responsibilities:	Member, Audit and Risk Committee, Chair, Nomination and Remuneration Committee (Member up to 19 April 2022 and Chair from 20 April 2022)
Interests in shares:	5,459,936 fully paid ordinary shares
Interests in options:	Nil
Interests in rights:	Nil

Name:	Mr Julian Challingsworth
Title:	Managing Director and Chief Executive Officer (appointed 11 July 2022)
Qualifications:	Masters of Organisational Consulting from Ashridge Business School (UK), a Graduate Diploma in IT, Swinburne University (Aust), Bachelor of Business, Accounting, RMIT (Aust), Chartered Accountants (CAANZ), Fellow Australian CPA (FCPA), Graduate, Australian Institute of Company Directors (GAICD).
Experience and expertise:	Julian previously acted as the Co-Chief Executive Officer of Tesseract (ASX TNT). Tesseract provides cybersecurity to enterprise, government and critical infrastructure customers. Under Julian's leadership the organisation grew significantly through both acquisitive and organic means. Julian spent 3 years in the role before he resigned and stepped down from his role as Co-Chief Executive in November 2021. Julian joined Tesseract after serving as Managing Director and a Partner of The Litmus Group for over ten years and a board member and Partner of PPB Advisory. In addition to advising over twenty organisations on growth acceleration strategies in Australia, Asia and Europe, Julian was a key driver in growing Litmus in Australia and internationally before it was acquired by PPB Advisory. Julian was a Director of Cordence Worldwide, a global consulting partnership with 2,800 consultants across 60+ locations. Julian worked with the international team to develop sales and growth strategies for the 8 member firms. Julian is a proven ASX listed CEO, with a strong professional services and corporate finance background.
Other current Directorships:	None
Former Directorships (last 3 years):	Tesseract Limited (ASX: TNT) (resigned 23 November 2021)
Interests in shares:	11,646,891 fully paid ordinary shares
Interests in options:	Nil
Interests in rights:	6,250,000 Performance Rights
Name:	Mr Gregory Ridder
Title:	Non-Executive Director
Qualifications:	BBus (Acc), Grad Dip (Mktg), GAICD, CPA
Experience and expertise:	Mr Ridder is an experienced Non-Executive Director currently serving on the boards of Kogan.com, Life Without Barriers, both of which he chairs, and PNG Sustainable Development Program. Formerly Asia Pacific Regional President at NYSE-listed Owens-Illinois, he led growth and diversification from its traditional Australian base through numerous joint ventures and acquisitions.
Other current Directorships:	Chairman, Kogan.com (ASX: KGN)
Former Directorships (last 3 years):	None
Special responsibilities:	Chair, Audit and Risk Committee from 15 July 2020 Member, Nomination and Remuneration Committee from 15 July 2020
Interests in shares:	2,250,000 fully paid ordinary shares
Interests in options:	Nil
Interests in rights:	Nil

Spirit Technology Solutions Ltd
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Name:	Mr Julian Haber
Title:	Executive Director (1 April 2022 to 18 November 2022), Interim Managing Director (16 May 2022 to 11 July 2022), and Non-Executive Director (from 19 November 2022)
Qualifications:	Nil
Experience and expertise:	Julian is a highly regarded leader in Cyber Security and Information Technology, having built Intalock Technologies over the last 11 years which was acquired by Spirit in December 2020. During that time Intalock evolved from being a small start-up to providing mission critical services to Australia's largest enterprises and government departments across Australia, including Whole-of-Government cyber services protecting the G20 Brisbane summit. As CEO of Intalock (Spirit's Cyber business), Julian oversaw the strategy and growth of the company ensuring that it continues to innovate and deliver sophisticated cyber security solutions to its managed and professional services customers across varied industries. Previously at Symantec, the world's largest Information Management and Cyber Security company at the time, Julian was responsible for the Public Sector - Queensland, Northern Territory and Pacific Islands. Under his five years of leadership, this region delivered annual revenue growth of over 300% and resulted in some of the largest and most loyal customers in the ANZ region. Having a wealth of experience, Julian has been invited to sit on numerous Global and Regional Partner Advisory Boards for some of the world's largest technology companies.
Other current Directorships:	None
Former Directorships (last 3 years):	None
Interests in shares:	5,693,092 fully paid ordinary shares
Interests in options:	Nil
Interests in rights:	Nil

Name: Ms Michelle Bendschneider

Title: Non-Executive Director

Qualifications: Bachelor of Information Technology and GAICD

Experience and expertise: Michelle is an experienced Executive, with an expansive background in building growth businesses in the Technology, Professional Services and Telecommunications sectors. During her career at IBM, Michelle held multiple Senior Executive roles in Technology services including consulting, professional services, and managed services.

At Telstra, she successfully led the formation of a professional services business spanning cutting edge network services, cyber security solutions, collaboration solutions, Cloud services and IoT solutions, through a series of acquisitions and organic growth. Michelle went on to run the Product Group for Telstra Enterprise, where she led the strategy to transition and modernise legacy product portfolios to embrace Software Defined Networking, Cloud Services & Technologies, Cyber Security, IoT and Digital transformation capabilities. At CBA, Michelle led the delivery of technology enabled Security and Privacy solutions, addressing significant areas of risk for the organisation.

Other current Directorships: None

Former Directorships (last 3 years): None

Special responsibilities: Member, Nomination and Remuneration Committee from 1 April 2022
 Member, Audit and Risk Committee from 1 April 2022

Interests in shares: 465,000 fully paid ordinary shares

Interests in options: Nil

Interests in rights: Nil

Name: Mr Elie Ayoub

Title: Co-CEO Nexgen and Executive Director (appointed as Executive Director on 8 June 2023)

Qualifications: Nil

Experience and expertise: Elie is one of the co-CEO's of Nexgen – Spirit's Communication and Collaboration Business which he co-founded in 2009 and has been jointly responsible for the growth and direction of the Company. Elie has 25 years' of experience in the telecommunications industry across the SME, residential, corporate and government customer segments. Prior to co-founding Nexgen, Elie held roles at Digitel, One.tel, Macquarie Telecom and Axis Telecom. Elie has broad experience managing a number of telecommunications functions including, provisioning, project management, network solutions, billing, finance, service, sales and marketing. Elie has been instrumental in building, developing and maintaining Nexgen's sales, marketing, HR and operational processes, and in managing strategic partnerships and vendor relationships.

Other current Directorships: None

Former Directorships (last 3 years): None

Special responsibilities: None

Interests in shares: 73,985,171 fully paid ordinary shares

Interests in options: Nil

Interests in rights: Nil

Name:	Mr Sol Lukatsky
Title:	Managing Director (resigned 2 July 2022)
Qualifications:	Masters of Marketing, Bachelor of Business (Marketing)
Experience and expertise:	Mr Lukatsky is a C-Suite Executive with multiple company transactions across: ASX and Private Equity backed companies. He has over 17 years in senior leadership roles covering: marketing, sales management, digital, customer experience, big data, capital markets, innovation and operations within blue chip organisations including: Dun & Bradstreet, Challenger Financial Services and NAB. In addition, as CEO he has led two Private Equity backed companies in the online services and digital technology markets (GLS & Workstar). This included, Global P&L responsibilities, +650 team members with offices across Australia, Asia and Europe. Educated at Harvard, Melbourne Business School, RMIT and awarded a Fellowship by Leadership Victoria.
Other current Directorships:	None
Former Directorships (last 3 years):	None
Interests in shares:	3,354,421 fully paid ordinary shares (held at date of cessation on 2 July 2022)
Interests in options:	3,000,000 unlisted options, vesting on 1 July 2022, exercisable at \$0.15 (15 cents) per option, expiring 1 July 2023 (held at date of cessation on 2 July 2022) 3,000,000 unlisted options, vesting on 1 July 2022, exercisable at \$0.18 (18 cents) per option, expiring 1 July 2023 (held at date of cessation on 2 July 2022) 3,000,000 unlisted options, vesting on 1 July 2022, exercisable at \$0.215 (21.5 cents) per option, expiring 1 July 2023 (held at date of cessation on 2 July 2022)
Interests in rights:	2,905,102 Performance Rights (relates to balance retained at cessation on 2 July 2022)

'Other current Directorships' quoted above are current Directorships for listed entities only and excludes Directorships of all other types of entities, unless otherwise stated.

'Former Directorships (last 3 years)' quoted above are Directorships held in the last 3 years for listed entities only and excludes Directorships of all other types of entities, unless otherwise stated.

Company secretary

Ms Melanie Leydin, BBus (Acc. Corp Law) CA FGIA

Melanie Leydin has over 30 years' experience in the accounting profession and over 20 years' experience as a Company Director, including as nominated Company Secretary of ASX listed entities. She has extensive experience in relation to public company responsibilities, including ASX and ASIC compliance, control and implementation of corporate governance, statutory financial reporting, reorganization of Companies, initial public offerings, secondary raisings and shareholder relations.

Melanie holds a Bachelor of Business majoring in Accounting and Corporate Law. She is a Member of the Institute of Chartered Accountants, a Fellow of the Governance Institute of Australia and is a Registered Company Auditor. Melanie founded and was principal of a renowned Australian professional services firm from February 2000. In November 2021 Vistra Group acquired that business and Melanie is now Vistra Australia's Managing Director.

Meetings of Directors

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2023, and the number of meetings attended by each Director were:

	Full Board		Nomination and Remuneration Committee		Audit and Risk Committee	
	Attended	Held	Attended	Held	Attended	Held
Mr James Joughin	12	12	5	5	2	2
Mr Julian Challingsworth*	12	12	-	-	-	-
Mr Elie Ayoub**	1	1	-	-	-	-
Mr Julian Haber	11	12	-	-	-	-
Mr Gregory Ridder	12	12	5	5	2	2
Ms Michelle Bendschneider	10	12	5	5	2	2
Mr Sol Lukatsky***	-	-	-	-	-	-

Held: represents the number of meetings held during the time the Director held office or was a member of the relevant committee.

* Mr Julian Challingsworth was appointed to the Board effective 11 July 2022.

** Mr Elie Ayoub was appointed to the Board effective 8 June 2023.

*** Mr Sol Lukatsky resigned from the Board effective 2 July 2022.

Remuneration Report (audited)

The Remuneration Report details the key management personnel remuneration arrangements for the Consolidated Entity, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all Directors.

The Remuneration Report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional information
- Additional disclosures relating to key management personnel

Principles used to determine the nature and amount of remuneration

The objective of the Consolidated Entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency

The Board is responsible for determining and reviewing remuneration arrangements for its Directors and executives. The performance of the Consolidated Entity depends on the quality of its Directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

The reward framework is designed to align executive reward to shareholders' interests. The Board has considered that it should seek to enhance shareholders' interests by:

- having economic profit as a core component of plan design
- focusing on sustained growth in shareholder wealth, particularly growth in share price, and delivering constant or increasing return on capital as well as focusing the executive on key non-financial drivers of value
- attracting and retaining high calibre executives

Additionally, the reward framework should seek to enhance executives' interests by:

- rewarding capability and experience
- reflecting competitive reward for contribution to growth in shareholder wealth
- providing a clear structure for earning rewards

In accordance with best practice corporate governance, the structure of Non-Executive Director and Executive Director remuneration is separate.

Non-Executive Directors remuneration

The annual Non-Executive Director Chairman fees are \$120,000 per annum, which took effect from 1 July 2021.

The annual Non-Executive Director member fees are \$75,000 per annum, which took effect from 1 July 2021.

The annual Chair Fee for the Chair of the Audit and Risk Committee and Nomination and Remuneration Committee are \$10,000 per annum, which took effect from 1 July 2021. Committee members do not currently receive any additional fees.

Under the Constitution the Directors decide the total amount paid to each Director as remuneration for their services. Under ASX Listing Rules, the total amount paid to all Non-Executive Directors must not exceed in total in any financial year the amount fixed at the annual general meeting of the Company held on 13 October 2020, which is presently \$500,000. Remuneration must not include a commission on, or a percentage of, the profits or income of the Company.

Non-Executive Directors' fees and payments are reviewed annually by the Board. The Board may, from time to time, receive advice from independent remuneration consultants to ensure Non-Executive Directors' fees and payments are appropriate and in line with the market. The Chairman's fees are determined independently of the fees of other Non-Executive Directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to the determination of his own remuneration.

Directors may also be reimbursed for travel and other expenses incurred in attending to the Company's affairs.

Non-Executive Directors may be paid such additional or special remuneration as the Directors decide is appropriate where a Director performs extra work or services which are not in the capacity as a Director of the Company.

There are no proposed retirement benefit schemes for Directors other than statutory superannuation contributions.

Executive remuneration

The Consolidated Entity aims to reward executives based on their position and responsibility with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits
- short-term performance incentives
- long-term incentives in the form of share-based payments
- other remuneration such as superannuation and long service leave

The combination of these comprises the executive's total remuneration.

Fixed remuneration consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Nomination and Remuneration Committee based on individual and business unit performance, the overall performance of the Consolidated Entity and comparable market remunerations.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the Consolidated Entity and provides additional value to the executive.

Use of remuneration consultants

The Company engages the services of independent and specialist remuneration consultants from time to time to benchmark the remuneration of Directors and Key Management Personnel, and to assist the Company in ensuring that its remuneration arrangements remain competitive. During the year ended 30 June 2023, the Company engaged a specialist remuneration consultant, SLM Corporate to provide advice in relation to recommendations regarding the remuneration package of the Managing Director and CEO, and recommendations in relation to the LTI framework of the Company. The amount paid for this advice and recommendations during the financial year ended 30 June 2023 amounted to \$27,500 (2022: \$31,350).

The Board was satisfied that the advice received was free from any undue influence by the KMP to whom the advice may relate, because protocols were observed and complied with regarding any interaction between SLM Corporate and management, and because all remuneration advice was provided to the Remuneration and Nomination Committee.

Consolidated Entity performance and link to remuneration

Currently, the Consolidated Entity assesses its performance from achievement of operational goals and shareholder value. The performance measures for both the Company's Short-term Incentive Plan (STI Plan) and Long Term Incentive Plan (LTI Plan) are tailored to align at-risk remuneration and performance hurdle thresholds to the delivery of the Consolidated Entity's operational and financial objectives and sustained shareholder value growth.

This is achieved through certain executives being entitled to both short-term and long-term incentives. The STI Plan primarily incorporates operational and financial performance objectives into its hurdles. The LTI Plan generally incorporates into its performance measures, Relative Total Shareholder Return (Relative TSR) and Absolute Total Shareholder Return (Absolute TSR) hurdles.

The LTI Plan is part of the Company's remuneration strategy and is designed to align the interests of management and shareholders (Total Shareholder Return measurement) and assist the Company to attract, motivate and retain executives. In particular, the LTI Plan is designed to provide relevant directors, key employees and other selected personnel with an incentive to remain with Spirit and contribute to the future performance of the Group over the long term. Further details on the LTI Plan are presented in Share Based Compensation of this Directors' report.

Voting and comments made at the Company's 17 November 2022 Annual General Meeting ('AGM')

At the 17 November 2022 AGM, 96.95% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2022. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration

The key management personnel of the Consolidated Entity consisted of the following Directors and other executives of Spirit Technology Solutions Ltd:

- James Joughin, Non-Executive Chairman
- Julian Challingsworth, Managing Director (appointed 11 July 2022)
- Julian Haber, Executive Director (1 April 2022 to 18 November 2022), Interim Managing Director (16 May 2022 to 11 July 2022), and Non-Executive Director (from 19 November 2022)
- Gregory Ridder, Non-Executive Director
- Michelle Bendschneider, Non-Executive Director
- Elie Ayoub, Co-CEO Nexgen and Executive Director (appointed as a member of key management personnel effective, 1 February 2023 and appointed as an Executive Director on 8 June 2023)
- Sol Lukatsky, Managing Director (resigned 2 July 2022)
- Mark Dioguardi, Chief Technology Officer (ceased as a member of key management personnel effective 15 August 2022)
- Nathan Knox, Chief Operating Officer (appointed as a member of key management personnel effective 15 August 2022)
- James Harb, Co-CEO Nexgen (appointed as a member of key management personnel effective 1 February 2023)
- Paul Miller, Chief Financial Officer

Amounts of remuneration

Details of the remuneration of key management personnel of the Consolidated Entity are set out in the following tables.

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
	Cash salary and fees	Cash bonus	Other payments	Super-annuation	Long service leave	Equity-settled	Total
	\$	\$	\$	\$	\$	\$	\$
2023							
<i>Non-Executive Directors:</i>							
James Joughin	118,181	-	-	12,409	-	-	130,590
Gregory Ridder	85,000	-	-	-	-	-	85,000
Michelle Bendschneider [^]	68,182	-	33,139	7,159	-	-	108,480
Julian Haber [*]	37,500	-	-	-	-	-	37,500
<i>Executive Directors:</i>							
Julian Challingsworth ^{**}	389,487	-	-	40,896	586	108,286	539,255
Julian Haber [*]	133,632	-	-	9,273	(3,929)	-	138,976
Elie Ayoub ^{***}	253,682	-	-	24,981	13,436	-	292,099
Sol Lukatsky ^{****}	1,538	-	153,035	15,023	(26,942)	145,937	288,591
<i>Other Key Management Personnel:</i>							
Nathan Knox [#]	231,074	-	-	24,263	381	25,138	280,856
James Harb ^{##}	241,460	-	-	23,770	10,653	-	275,883
Mark Dioguardi ^{###}	41,250	-	-	4,331	-	19,028	64,609
Paul Miller [†]	300,000	50,000	-	36,750	3,057	67,972	457,779
	1,900,986	50,000	186,174	198,855	(2,758)	366,361	2,699,618

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- [^] Ms Michelle Bendschneider provided strategic consultancy services to the Company and was paid a fee of \$33,139 during the year ended 30 June 2023. This payment is shown in 'Other Payments'.
- ^{*} Mr Julian Haber was appointed to the Board in an Executive Director capacity effective 1 April 2022. He moved into a Non-Executive capacity effective 19 November 2022. The remuneration noted above reflects the apportionment for these two positions.
- ^{**} Mr Julian Challingsworth was appointed as Managing Director effective 11 July 2022.
- ^{***} Mr Elie Ayoub was appointed as a member of key management personnel ("KMP") effective, 1 February 2023 and appointed as an Executive Director on 8 June 2023. The remuneration disclosed represents his remuneration for the period 1 July 2022 to 30 June 2023. The total remuneration component related to his period as a KMP was \$129,764 and the total remuneration component related to his period as an executive director was \$25,118.
- ^{****} Mr Sol Lukatsky resigned from the Board on 2 July 2022. The balance shown in 'Other' relates to termination payments. The share-based payments represents the full year expense for the performance rights that remain on foot.
- [#] Mr Nathan Knox commenced with the Company on 15 August 2022 and was appointed as a member of key management personnel effective from that date.
- ^{##} Mr James Harb was appointed as a member of key management personnel effective, 1 February 2023. The remuneration disclosed represents his remuneration for the period 1 July 2022 to 30 June 2023. The total remuneration component related to his period as a KMP was \$139,964.
- ^{###} Mr Mark Dioguardi ceased as a member of key management personnel effective 15 August 2022. The remuneration disclosed represents his remuneration for the period 1 July 2022 to 15 August 2022.
- ⁺ Mr Paul Miller was awarded a cash retention bonus in respect of his FY23 remaining tenure, paid in FY23.

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
	Cash salary and fees	Cash bonus	Non-monetary	Super-annuation	Long service leave	Equity-settled	Total
	\$	\$	\$	\$	\$	\$	\$
2022							
<i>Non-Executive Directors:</i>							
James Joughin	110,856	-	-	11,085	-	-	121,941
Gregory Ridder	85,000	-	-	-	-	-	85,000
Michelle Bendschneider [*]	17,045	-	-	1,705	-	-	18,750
Inese Kingsmill ^{**}	21,250	-	-	-	-	-	21,250
<i>Executive Directors:</i>							
Julian Haber ^{***}	172,532	-	-	17,253	3,929	-	193,714
Sol Lukatsky ^{****+}	378,461	35,000	-	57,821	26,942	272,239	770,463
Mark Dioguardi ^{##}	330,000	55,989	-	47,844	15,051	336,812	785,696
<i>Other Key Management Personnel:</i>							
Paul Miller ⁺	291,250	37,500	-	39,688	6,407	54,017	428,862
	1,406,394	128,489	-	175,396	52,329	663,068	2,425,676

- ^{*} Ms Michelle Bendschneider was appointed to the Board effective 1 April 2022.
- ^{**} Ms Inese Kingsmill resigned from the Board effective 30 September 2021.
- ^{***} Mr Julian Haber was appointed to the Board effective 1 April 2022. The remuneration disclosed represents his remuneration for the period 1 July 2021 to 30 June 2022. The amounts he received pre-1 April 2022 in his capacity as CEO of Intalock Technologies Pty Ltd was \$118,740 and post 1 April 2022 in his capacity as Executive Director was \$74,974.
- ^{****} Mr Sol Lukatsky resigned from the Board on 2 July 2022.
- [#] Mr Mark Dioguardi resigned from the Board on 1 April 2022. The amounts he received pre-1 April 2022 in his capacity as Executive Director was \$540,739 and post 1 April 2022 in his capacity as Chief Technology Officer was \$244,957.
- ⁺ Mr Lukatsky, Mr Dioguardi and Mr Miller were awarded cash bonuses in respect of their FY22 performance, determined and paid in FY23. In addition to statutory superannuation on base salary and the FY22 cash bonus, the superannuation for Mr Lukatsky, Mr Dioguardi and Mr Miller also includes statutory superannuation on the FY21 cash bonus.

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The proportion of remuneration linked to performance and the fixed proportion are as follows:

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2023	2022	2023	2022	2023	2022
<i>Non-Executive Directors:</i>						
James Joughin	100%	100%	-	-	-	-
Gregory Ridder	100%	100%	-	-	-	-
Michelle Bendschneider	100%	100%	-	-	-	-
Julian Haber	100%	-	-	-	-	-
<i>Executive Directors:</i>						
Julian Challingsworth	80%	-	-	-	20%	-
Julian Haber	100%	100%	-	-	-	-
Elie Ayoub	100%	100%	-	-	-	-
Sol Lukatsky	49%	60%	-	5%	51%	35%
<i>Other Key Management Personnel:</i>						
Nathan Knox	91%	-	-	-	9%	-
James Harb	100%	100%	-	-	-	-
Mark Dioguardi	71%	50%	-	7%	29%	43%
Paul Miller	85%	78%	-	9%	15%	13%

Service agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Name:	Julian Challingsworth
Title:	Managing Director (appointed 11 July 2022)
Agreement commenced:	11 July 2022
Term of agreement:	No fixed term. Ongoing until terminated by either party with three months written notice.
Details:	Effective 11 July 2022, fixed remuneration of \$400,000 per annum, plus statutory superannuation.

Mr Challingsworth will be entitled to a potential short-term incentive (STI) of up to \$100,000 per annum, representing 25% of his base remuneration. The STI is subject to achievement of Key Performance Indicators (KPIs) to be determined from time to time by the Board.

On commencement, Mr Challingsworth received an initial long-term incentive (LTI) grant of 6,250,000 Performance Rights, vesting over a three-year period (1 July 2022 to 30 June 2025) subject to continued employment and satisfaction of a relative Total Shareholder Return performance hurdles measured against a comparator group of companies. After the initial LTI detailed above for FY2023, from FY2024 Mr. Challingsworth will be entitled to an annual allocation of Performance Rights pursuant to the terms of the Company's Employee Incentive Plan (EIP). An LTI entitlement of 75% of Annual Base Salary can be paid to him from FY2024. Subject to shareholder approval, the LTI will be granted on an annual basis from FY2024, and vesting will be contingent on the achievement of specific performance hurdles.

Mr. Challingsworth has agreed to purchase at least \$75,000 each year of shares. He must ensure that he complies with the terms of the Securities Trading Policy before doing so.

The Company has also implemented a Loan Funded Share Plan which was approved by shareholders at the Annual General Meeting held on 17 November 2022, where Mr. Challingsworth was invited to obtain a loan from the Company to purchase or reimburse him for purchases of up to \$380,000 worth of shares on 2 separate occasions, no later than 15 months after the date of shareholder approval.

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Name: Julian Haber

Title: Executive Director (1 April 2022 to 18 November 2022), Interim Managing Director (16 May 2022 to 11 July 2022), and Non-Executive Director (from 19 November 2022)

Agreement commenced: 16 May 2022

Term of agreement: No fixed term. Ongoing until terminated by either party with three months written notice.

Details: As Chief Executive Officer of Intalock Technologies Pty Ltd, fixed remuneration of \$137,662 per annum, plus statutory superannuation. Effective 16 May 2022, Mr. Haber was appointed as Interim Managing Director pending a permanent replacement. He held this position until 11 July 2022 when Mr. Julian Challingsworth was appointed in that role. During this period Mr. Haber's fixed remuneration increased to \$400,000 per annum, plus statutory superannuation. In the 2023 financial year, Mr. Haber was entitled to a potential short-term incentive (STI) of up to \$200,000 per annum (pro-rated from the commencement date of Mr. Haber's Interim Managing Director role to its conclusion), representing 50% of his base remuneration. No long-term incentive (LTI) will be awarded given the interim nature of the role.

Name: Sol Lukatsky

Title: Managing Director (resigned 2 July 2022)

Agreement commenced: 23 April 2018; terms revised on 27 July 2020

Term of agreement: 4 years and termination provisions will be a period of 12 weeks' notice by the employee and 26 weeks' notice by the Company or payment in lieu of notice.

Details: Effective 1 July 2020, fixed remuneration of \$400,000 per annum, plus statutory superannuation. Mr Lukatsky will be entitled to a potential short-term incentive (STI) of up to \$200,000, representing 50% of his base remuneration. Mr Lukatsky was also entitled to a long-term incentive (LTI) of up to \$200,000, representing 50% of his base remuneration (excluding superannuation), which was approved by shareholders at the Annual General Meeting held on 13 October 2020.

Name: Mr Mark Dioguardi

Title: Chief Technology Officer (ceased as a member of key management personnel effective 15 August 2022)

Agreement commenced: 7 November 2018, terms revised on 27 July 2020

Term of agreement: No fixed term. Ongoing until terminated by either party with three months written notice.

Details: Effective 1 July 2020, fixed remuneration of \$330,000 per annum, plus statutory superannuation up to the date of ceasing to be a member of key management personnel. Post 15 August 2022, Mr Dioguardi's remuneration arrangement changed in line with his change of roles and responsibilities within the Company.

Name: Mr Elie Ayoub

Title: Collaboration & Communication – Co Chief Executive Officer & Executive Director (appointed as Executive Director on 8 June 2023)

Agreement commenced: 1 April 2021, terms revised on 1 January 2023, 1 April 2023 and 1 July 2023

Term of agreement: No fixed term. Ongoing until terminated by either party with three months written notice.

Details: As co-CEO of Nexgen, Spirit's Communication and Collaboration Business, Mr Ayoub's base salary is \$335,000 per annum, plus statutory superannuation and car allowance. Effective 1 July 2023, Mr Ayoub's base salary increased to \$380,000 per annum, plus statutory superannuation and car allowance. There is no contractual short-term incentive or long-term incentive.

Name: Mr James Harb

Title: Collaboration & Communication – Co Chief Executive Officer

Agreement commenced: 1 April 2021, terms revised on 1 January 2023 and 1 July 2023

Term of agreement: No fixed term. Ongoing until terminated by either party with three months written notice.

Details: As co-CEO of Nexgen, Spirit's Communication and Collaboration Business, Mr Harb's base salary is \$285,000 per annum, plus statutory superannuation and car allowance. Effective 1 July 2023, Mr Harb's base salary increased to \$380,000 per annum, plus statutory superannuation and car allowance. There is no contractual short-term incentive or long-term incentive.

Name: Mr Nathan Knox

Title: Chief Operating Officer – Spirit Group

Agreement commenced: 15 August 2022, terms revised on 1 November 2022

Term of agreement: No fixed term. Ongoing until terminated by either party with two months written notice.

Details: Effective 1 November 2022, fixed remuneration of \$275,000 per annum, plus statutory superannuation. In 2023 financial year Mr Knox is entitled to a potential short-term incentive (STI) of up to \$50,000 (inclusive of superannuation) prorated for commencement date. In the 2023 financial year, Mr Knox was issued an LTI in the form of 1,558,000 Performance Rights, vesting on satisfaction of performance hurdles, over a performance period commencing on 10 February 2023 and ending on 30 June 2025.

Name: Mr Paul Miller

Title: Chief Financial Officer

Agreement commenced: 25 November 2019, terms revised on 1 October 2021

Term of agreement: No fixed term. Ongoing until terminated by either party with three months written notice.

Details: Effective 1 October 2021, fixed remuneration of \$300,000 per annum, plus statutory superannuation. In 2023 financial year Mr Miller is entitled to a potential short-term incentive (STI) of up to \$75,000, representing 25% of his base remuneration (excluding superannuation). In the 2023 financial year, Mr Miller was issued an LTI in the form of 1,640,000 Performance Rights, vesting on satisfaction of performance hurdles, over a performance period commencing on 10 February 2023 and ending on 30 June 2025.

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

Share-based compensation

Issue of shares

Mr Julian Challingsworth, Managing Director and Chief Executive Officer is party to a Loan Share Plan that was approved by Shareholders on 17 November 2022. Pursuant to the terms of the Plan he is able to finance the market value acquisition of Spirit shares on the ASX by way of a limited recourse loan or use the loan to reimburse Spirit share purchases to a value of up to \$760,000.

The loan will become repayable if Mr Challingsworth ceases to be an employee of the Company and in other circumstances set out in the Plan. The loan is limited recourse, meaning that it can be satisfied in full by selling shares the subject of the loan. If the market value of the shares at that time is below the amount of the loan, Mr Challingsworth will not be required to pay the difference in value. To access the shares (for example, if Mr Challingsworth wanted the ability to sell the shares) he will first have to repay the cash amount of the loan. Escrow may also apply to shares in excess of the loan amount.

The loan is subject to interest at the 2-year Bank Bill Swap Rate to be determined at the date of the loan. Interest will be capitalised on the loan amount on a quarterly basis and on repayment will be added to the amount of the loan.

As at 30 June 2023 the loan amount is \$374,653.

There were no other shares issued to Directors and other key management personnel as part of compensation during the year ended 30 June 2023.

Options

The terms and conditions of each grant of options over ordinary shares affecting remuneration of Directors and other key management personnel in this financial year or future reporting years are as follows:

Grant date	Vesting date and exercisable date	Expiry date	Exercise price	Fair value per option at grant date
14 May 2019	1 July 2022	1 July 2023	\$0.150	\$0.0780
14 May 2019	1 July 2022	1 July 2023	\$0.180	\$0.0690
14 May 2019	1 July 2022	1 July 2023	\$0.215	\$0.0600

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Name	Number of options granted	Grant date	Vesting date and exercisable date	Expiry date	Exercise price	Fair value per option at grant date
Sol Lukatsky	3,000,000	14 May 2019	1 July 2022	1 July 2023	\$0.150	\$0.0780
Sol Lukatsky	3,000,000	14 May 2019	1 July 2022	1 July 2023	\$0.180	\$0.0690
Sol Lukatsky	3,000,000	14 May 2019	1 July 2022	1 July 2023	\$0.215	\$0.0600
Mark Dioguardi	3,000,000	14 May 2019	1 July 2022	1 July 2023	\$0.150	\$0.0780
Mark Dioguardi	3,000,000	14 May 2019	1 July 2022	1 July 2023	\$0.180	\$0.0690
Mark Dioguardi	3,000,000	14 May 2019	1 July 2022	1 July 2023	\$0.215	\$0.0600

Options granted carry no dividend or voting rights.

There were no options over ordinary shares granted to or vested by Directors and other key management personnel as part of compensation during the year ended 30 June 2023.

Performance Rights

The terms and conditions of each grant of Performance Rights over ordinary shares affecting remuneration of Directors and other key management personnel in this financial year or future reporting years are as follows:

Grant date	Vesting date and exercisable date	Expiry date	Share price hurdle for vesting	Fair value per right at grant date
22 April 2020	1 July 2022	22 April 2023	\$0.00	\$0.1084
22 April 2020	1 July 2022	30 June 2024	\$0.00	\$0.1250
13 October 2020	30 June 2023	12 November 2023	\$0.00	\$0.3417
13 October 2020	1 July 2023	12 November 2023	\$0.30	\$0.3661
13 October 2020	30 June 2023	12 November 2023	\$0.00	\$0.3700
11 June 2021	30 June 2023	11 June 2024	\$0.00	\$0.1815
11 June 2021	30 June 2023	11 June 2024	\$0.00	\$0.2800
29 November 2021	30 June 2024	7 April 2025	\$0.33	\$0.0970
29 November 2021	30 June 2024	7 April 2025	\$0.00	\$0.0540
11 March 2022	30 June 2024	7 April 2025	\$0.33	\$0.0720
11 March 2022	30 June 2024	7 April 2025	\$0.00	\$0.0160
11 July 2022	30 June 2025	30 June 2026	\$0.00	\$0.0519
10 February 2023	30 June 2024	10 February 2026	\$0.093	\$0.0482
10 February 2023	30 June 2024	10 February 2026	\$0.124	\$0.0346
10 February 2023	30 June 2024	10 February 2026	\$0.155	\$0.0245
10 February 2023	30 June 2025	10 February 2026	\$0.093	\$0.0547
10 February 2023	30 June 2025	10 February 2026	\$0.124	\$0.0453
10 February 2023	30 June 2025	10 February 2026	\$0.155	\$0.0376

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Name	Number of rights granted	Grant date	Vesting date and exercisable date	Expiry date	Share price hurdle for vesting	Fair value per right at grant date
Paul Miller	164,634	22 April 2020	1 July 2022	22 April 2023	\$0.00	\$0.1084
Paul Miller	164,634	22 April 2020	1 July 2022	30 June 2024	\$0.00	\$0.1250
Sol Lukatsky	457,457	13 October 2020	30 June 2023	12 November 2023	\$0.00	\$0.3417
Sol Lukatsky	457,456	13 October 2020	1 July 2023	12 November 2023	\$0.30	\$0.3661
Sol Lukatsky	457,456	13 October 2020	30 June 2023	12 November 2023	\$0.00	\$0.3700
Mark Dioguardi	251,601	13 October 2020	30 June 2023	12 November 2023	\$0.00	\$0.3417
Mark Dioguardi	356,816	13 October 2020	1 July 2023	12 November 2023	\$0.30	\$0.3661
Mark Dioguardi	251,601	13 October 2020	30 June 2023	12 November 2023	\$0.00	\$0.3700
Paul Miller	154,391	11 June 2021	30 June 2023	11 June 2024	\$0.00	\$0.1815
Paul Miller	154,392	11 June 2021	30 June 2023	11 June 2024	\$0.00	\$0.2800
Sol Lukatsky	3,000,000	29 November 2021	30 June 2024	7 April 2025	\$0.33	\$0.0970
Sol Lukatsky	3,000,000	29 November 2021	30 June 2024	7 April 2025	\$0.00	\$0.0540
Mark Dioguardi	2,500,000	29 November 2021	30 June 2024	7 April 2025	\$0.33	\$0.0970
Mark Dioguardi	2,500,000	29 November 2021	30 June 2024	7 April 2025	\$0.00	\$0.0540
Paul Miller	750,000	11 March 2022	30 June 2024	7 April 2025	\$0.33	\$0.0720
Paul Miller	750,000	11 March 2022	30 June 2024	7 April 2025	\$0.00	\$0.0160
Julian Challingsworth	6,250,000	11 July 2022	30 June 2025	30 June 2026	\$0.00	\$0.0519
Paul Miller	546,667	10 February 2023	30 June 2025	10 February 2026	\$0.093	\$0.0547
Paul Miller	546,667	10 February 2023	30 June 2025	10 February 2026	\$0.124	\$0.0453
Paul Miller	546,666	10 February 2023	30 June 2025	10 February 2026	\$0.155	\$0.0376
Nathan Knox	519,333	10 February 2023	30 June 2025	10 February 2026	\$0.093	\$0.0547
Nathan Knox	519,333	10 February 2023	30 June 2025	10 February 2026	\$0.124	\$0.0453
Nathan Knox	519,334	10 February 2023	30 June 2025	10 February 2026	\$0.155	\$0.0376

Performance Rights granted carry no dividend or voting rights.

The Performance Rights were issued for \$Nil consideration, and the vesting of the rights is contingent on the Company achieving certain hurdles over a three-year performance period, and in some cases share price performance hurdles.

The performance hurdles for the Performance Rights issued in February 2023 are as follows:

Absolute TSR

100% of the Performance Rights vest based on absolute total shareholder return ("**Absolute TSR**") performance of the Company, and service conditions outlined below.

The vesting schedule is set out below:

- One-third of the Performance Rights vest when the Company's 30-trading day Volume Weighted Average Price (VWAP) is equal to or greater than **\$0.0930** at any time between grant and 30 June 2025.
- One-third of the Performance Rights vest when the Company's 30-trading day Volume Weighted Average Price (VWAP) is equal to or greater than **\$0.1240** at any time between grant and 30 June 2025.
- One-third of the Performance Rights vest when the Company's 30-trading day Volume Weighted Average Price (VWAP) is equal to or greater than **\$0.1550** at any time between grant and 30 June 2025.

The vesting conditions above are also subject to the following conditions. For each of the three Tranches above, 50% of the Performance Rights in each tranche will only vest if the participant remains employed with the Company until 31 December 2023 and the vesting conditions for each tranche above have been met, with the remaining 50% of the Performance Rights in each tranche, subject to remaining employed with the Company until 31 December 2024 and the vesting conditions for each tranche above being met.

The performance hurdles for the Performance Rights issued to Julian Challingsworth in July 2022, are as follows:

Relative TSR

100% of the Performance Rights are subject to a Relative TSR performance hurdle and will be eligible to vest and become exercisable into Shares, assuming the relevant performance hurdles are met at the end of the Performance Period.

The vesting schedule is set out below:

- If the TSR is at the 50th percentile of the peer group, 65% of the rights will vest;
- If the TSR is at the 90th percentile of the peer group, 100% of the rights will vest; and
- If the TSR is between the 50th and 90th percentile, a pro rata number of rights will vest.

Measurement

The number of Performance Rights which vest is determined by assessing the performance of the Company, as measured by TSR relative to a comparator group of companies. The VWAP of the Shares in the one-month preceding the Performance Date compared to the VWAP of the Shares in the one month preceding the commencement of the Performance Period (which commenced on 1 July 2022), will be used in calculating TSR over the Performance Date. The TSR incorporates capital returns as well as dividends notionally reinvested and is considered the most appropriate means of measuring the Company's performance.

The performance hurdles for 2022 are based on the Company's TSR performance:

(a) 50% of the Performance Rights that are subject to the Relative TSR performance hurdle will be eligible to vest and become exercisable into Shares, assuming the relevant performance hurdles are met, at the end of year 2, and the balance at the end of year 3 (with the opportunity for a catch up at the end of year 3 if the milestones are not met at the end of the second year but are met at the end of the third year).

The Relative TSR would only be achieved subject to a minimum share price of \$0.33 (33 cents). The vesting schedule would be as set out below:

- If the TSR is at the 50th percentile of the peer group, 65% of the rights will vest;
- If the TSR is at the 90th percentile of the peer group, 100% of the rights will vest; and
- If the TSR is between the 50th and 90th percentile, a pro rata number of rights will vest.

Measurement

The number of Performance Rights which vest is determined by assessing the performance of the Company, as measured by TSR relative to a comparator group of companies. The VWAP of the Shares in the one-month preceding the Performance Dates compared to the VWAP of the Shares in the one month preceding the commencement of the Performance Period, will be used in calculating TSR over the Performance Dates. The TSR incorporates capital returns as well as dividends notionally reinvested and is considered the most appropriate means of measuring the Company's performance.

Absolute TSR

(b) 50% of the Performance Rights that are subject to the Absolute TSR performance hurdle will be eligible to vest and become exercisable into Shares, assuming the relevant performance hurdles are met, at the end of year 2, and the balance at the end of year 3 (with the opportunity for a catch up at the end of year 3 if the milestones are not met at the end of the second year but are met at the end of the third year). The portion of Performance Rights that are subject to the Absolute TSR will only vest and become exercisable into Shares as per the vesting schedule set out below:

- 50% at 33 cents
- 100% at 40 cents
- The difference between 50% and 100% based on a sliding scale between 33 cents and 40 cents.

Measurement

The number of Performance Rights which vest is determined by assessing the Share price performance of the Company. The VWAP of the Shares in the one-month preceding the Performance Dates will be used in calculating Share price performance over the Performance Dates.

The Nomination and Remuneration Committee will test performance against the Performance Hurdles to determine whether the Performance Rights are eligible to vest shortly after the end of Performance Dates.

If the Performance Hurdles are not satisfied by the end of the Performance Period, the Performance Rights will lapse unless the Nomination and Remuneration Committee exercises its discretion to waive the Performance Hurdle in whole or in part.

For the Performance Rights granted during FY20 and FY21, 30% of the maximum amount of Performance Rights that may vest are at risk, if appropriate behaviors, as measured by a 360-degree feedback review are not met. An overall 75% of agreed or strongly agreed needs to be achieved in the 360-degree feedback result. At the Annual General Meeting held on 29 November 2021, the Board sought to change the terms of previously issued Performance Rights to remove the Return on Invested Capital (ROIC) vesting condition and replace it with the TSR performance hurdles as outlined above. The Board considered that the previous ROIC hurdle was no longer fit for purpose or relevant to the Company, as the cost of capital on which the ROIC was based has changed significantly over the years, and establishing the appropriate capital base for the determination of ROIC is challenging considering the business strategy has changed.

The number of Performance Rights over ordinary shares granted to and vested by Directors and other key management personnel as part of compensation during the year ended 30 June 2023 are set out below:

Name	Number of rights granted during the year 2023	Number of rights granted during the year 2022	Number of rights vested during the year 2023	Number of rights vested during the year 2022
Julian Challingsworth	6,250,000	-	-	-
Nathan Knox	1,558,000	-	-	-
Paul Miller	1,640,000	1,500,000	-	-
Sol Lukatsky	-	6,000,000	-	49,338
Mark Dioguardi	-	5,000,000	-	103,844

Additional information

The earnings of the Consolidated Entity for the five years to 30 June 2023 are summarised below:

	2023 \$'000	2022 \$'000	2021 \$'000	2020 \$'000	2019 \$'000
Revenue and other income	127,271	138,732	104,469	34,874	17,452
Net (loss)/profit before tax	(13,919)	(55,041)	1,345	(2,043)	(1,009)
Net (loss)/profit after tax	(11,389)	(53,166)	1,157	(1,515)	(824)
Share price	\$0.050	\$0.053	\$0.26	\$0.24	\$0.26

Additional disclosures relating to key management personnel

Shareholding

The number of shares in the Company held during the financial year by each Director of the Company and other members of key management personnel of the Consolidated Entity, including their personally related parties, is set out below:

	Balance at the start of the year	Balance on the date of becoming a KMP	Additions	Disposals/ other	Balance at the end of the year
<i>Ordinary shares</i>					
James Joughin	4,764,936	-	695,000	-	5,459,936
Julian Challingsworth*	-	-	11,646,891	-	11,646,891
Julian Haber	5,693,092	-	-	-	5,693,092
Sol Lukatsky**	3,354,421	-	-	(3,354,421)	-
Mark Dioguardi***	1,547,972	-	-	(1,547,972)	-
Gregory Ridder	1,750,000	-	500,000	-	2,250,000
Michelle Bendschneider	-	-	465,000	-	465,000
Elie Ayoub****	-	38,544,609	35,440,562	-	73,985,171
James Harb*****	-	32,120,299	38,440,563	-	70,560,862
Nathan Knox*****	-	-	-	-	-
Paul Miller	196,127	-	-	-	196,127
	17,306,548	70,664,908	87,188,016	(4,902,393)	170,257,079

* Mr Julian Challingsworth was appointed to the Board effective 11 July 2022. Upon appointment, Mr Challingsworth had no shareholding in the Company.

** Mr Sol Lukatsky resigned from the Board on 2 July 2022. The balance disclosed in the "Disposals/other" column represents his shareholding on the date of resignation.

*** Mr Mark Dioguardi resigned from the Board on 1 April 2022 and ceased to be a member of key management personnel on 15 August 2022. The balance disclosed in the "Disposals/other" column represents his shareholding on the date of ceasing to be a member of key management personnel.

**** Mr Elie Ayoub was appointed as a member of Key Management Personnel effective 1 February 2023 (and was appointed to the Board effective 8 June 2023). Upon appointment as a member of KMP, Mr Ayoub held 38,544,609 shares in the Company. On 31 March 2023, Mr Ayoub was issued 35,440,562 shares as part consideration for the Nexgen Group Milestone Incentive Consideration.

***** Mr James Harb was appointed as a member of Key Management Personnel effective 1 February 2023. Upon appointment as a member of KMP, Mr Harb held 32,120,299 shares in the Company. On 31 March 2023, Mr Harb was issued 35,440,563 shares as part consideration for the Nexgen Group Milestone Incentive Consideration.

***** Mr Nathan Knox was appointed as a member of Key Management Personnel effective 15 August 2022. Upon appointment, Mr Knox had no shareholding in the Company.

Option holding

The number of options over ordinary shares in the Company held during the financial year by each Director and other members of key management personnel of the Consolidated Entity, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
<i>Options over ordinary shares</i>					
Sol Lukatsky	9,000,000	-	-	(9,000,000)	-
Mark Dioguardi**	9,000,000	-	-	(9,000,000)	-
	18,000,000	-	-	(18,000,000)	-

* Mr Sol Lukatsky resigned from the Board effective 2 July 2022. The balance disclosed in "Expired/forfeited/other" column represents his option holding on the date of resignation.

** Mr Mark Dioguardi was no longer considered a member of key management personnel effective 15 August 2022. The balance disclosed in the "Expired/forfeited/other" column represents his option holding on the date of ceasing to be a member of key management personnel.

Performance Rights holding

The number of Performance Rights over ordinary shares in the Company held during the financial year by each Director and other members of key management personnel of the Consolidated Entity, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Vested/ exercised	Expired/ forfeited/ other	Balance at the end of the year
<i>Performance Rights over ordinary shares</i>					
Julian Challingsworth*	-	6,250,000	-	-	6,250,000
Sol Lukatsky**	7,372,369	-	-	(7,372,369)	-
Mark Dioguardi***	5,860,018	-	-	(5,860,018)	-
Nathan Knox****	-	1,558,000	-	-	1,558,000
Paul Miller	2,138,051	1,640,000	-	(164,634)	3,613,417
	15,370,438	9,448,000	-	(13,397,021)	11,421,417

* Mr Julian Challingsworth was appointed to the Board effective 11 July 2022. Mr Challingsworth was issued with an initial LTI in the form of 6,250,000 Performance Rights for FY2023 as part of his employment agreement as announced on 7 July 2022.

** Mr Sol Lukatsky resigned from the Board on 2 July 2022. On cessation Mr Lukatsky retained a pro-rata portion of Performance Rights based on the proportion of the relevant vesting period that Mr Lukatsky was an employee up to the date of cessation. A total of 4,467,267 Performance Rights were forfeited, with the balance of 2,905,102 Performance Rights retained and continue on-foot as per the terms of the applicable employee incentive plan and offer letter.

*** Mr Mark Dioguardi was no longer considered a member of key management personnel effective 15 August 2022. On cessation of employment, Mr Dioguardi retained a pro-rata portion of Performance Rights based on the proportion of the relevant vesting period that Mr Dioguardi was an employee up to the date of cessation. A total of 2,646,121 Performance Rights were forfeited, with the balance of 3,213,897 Performance Rights retained and continue on-foot as per the terms of the applicable employee incentive plan and offer letter.

**** Mr Nathan Knox was appointed as a member of Key Management Personnel effective 15 August 2022.

This concludes the Remuneration Report, which has been audited.

Shares under option

There were no unissued ordinary shares of Spirit Technology Solutions Ltd under option at the date of this report.

Shares under Performance Rights

Unissued ordinary shares of Spirit Technology Solutions Ltd under Performance Rights at the date of this report are as follows:

Grant date	Expiry date	Number under rights
22 April 2020	30 June 2024	326,972
13 October 2020	12 November 2023	1,605,312
11 June 2021	11 June 2024	534,378
29 November 2021	7 April 2025	4,513,686
11 March 2022	7 April 2025	1,694,799
11 July 2022	30 June 2026	6,250,000
10 February 2023	10 February 2026	11,847,000
		<u>26,772,147</u>

No person entitled to exercise the Performance Rights had or has any right by virtue of the performance right to participate in any share issue of the Company or of any other body corporate.

Shares issued on the exercise of options

There were no ordinary shares of Spirit Technology Solutions Ltd issued on the exercise of options during the year ended 30 June 2023 and up to the date of this report.

Shares issued on the exercise of Performance Rights

The were no ordinary shares of Spirit Technology Solutions Ltd issued on exercise of performance rights during the year ended 30 June 2023 and up to the date of this report.

Indemnity and insurance of officers

The Company has indemnified the Directors and executives of the Company for costs incurred in their capacity as a Director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year the Company paid a premium in respect of a contract to insure the Directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

The Company has not during or since the end of the financial year indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in Note 30 to the financial statements.

The Directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The Directors are of the opinion that the services as disclosed in Note 30 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Officers of the Company who are former partners of PKF Melbourne Audit & Assurance Pty Ltd

There are no officers of the Company who are former partners of PKF Melbourne Audit & Assurance Pty Ltd.

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 '000 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.

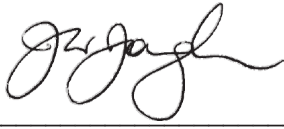
Auditor

PKF Melbourne Audit & Assurance Pty Ltd continues in office in accordance with section 327 of the Corporations Act 2001.

Spirit Technology Solutions Ltd
Directors' report
30 June 2023

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the Directors



James Joughin
Non-Executive Chairman

30 August 2023



Auditor's Independence Declaration

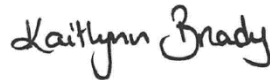
AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF SPIRIT TECHNOLOGY SOLUTIONS LTD

In relation to our audit of the financial report of Spirit Technology Solutions Ltd for the year ended 30 June 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.



PKF
Melbourne, 30 August 2023



Kaitlynn Brady
Partner

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Statement of Profit or Loss and Other Comprehensive Income

Spirit Technology Solutions Ltd
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2023

		Consolidated	
	Note	2023	2022
		\$'000	\$'000
Revenue	5	127,114	135,338
Other income	6	157	3,394
Cost of sales		(65,594)	(67,523)
Expenses			
Employee benefits expense	7	(44,849)	(47,008)
Share-based payments	40	(942)	(721)
Administration and corporate expenses		(10,449)	(12,224)
Selling		(993)	(1,199)
Marketing		(1,694)	(1,699)
Acquisition and divestment costs		(200)	(1,926)
Restructuring costs	7	(2,732)	(1,527)
Net fair value loss on remeasurement of financial liabilities		(8,042)	(2,747)
Impairment of non-current assets	7	-	(48,374)
Depreciation and amortisation expense	7	(4,073)	(7,655)
Finance costs	7	(1,622)	(1,170)
Loss before income tax benefit		(13,919)	(55,041)
Income tax benefit	8	2,530	1,875
Loss after income tax benefit for the year attributable to the owners of Spirit Technology Solutions Ltd		(11,389)	(53,166)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year attributable to the owners of Spirit Technology Solutions Ltd		<u>(11,389)</u>	<u>(53,166)</u>
		Cents	Cents
Earnings per share for loss attributable to the owners of Spirit Technology Solutions Ltd			
Basic earnings per share	39	(1.67)	(8.08)
Diluted earnings per share	39	(1.67)	(8.08)

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

Statement of Financial Position

Spirit Technology Solutions Ltd
Statement of financial position
As at 30 June 2023

		Consolidated	
	Note	2023	2022
		\$'000	\$'000
Assets			
Current assets			
Cash and cash equivalents	9	7,024	11,733
Trade and other receivables	10	8,463	11,575
Inventories	11	2,789	4,281
Contract cost assets	13	2,313	1,222
Other assets	12	5,000	4,342
Total current assets		<u>25,589</u>	<u>33,153</u>
Non-current assets			
Contract cost assets	13	3,305	2,893
Property, plant and equipment	14	1,003	1,415
Right-of-use assets	15	4,429	2,577
Intangible assets	16	77,589	78,859
Deferred tax	17	5,118	4,086
Other assets	12	2,147	528
Total non-current assets		<u>93,591</u>	<u>90,358</u>
Total assets		<u>119,180</u>	<u>123,511</u>
Liabilities			
Current liabilities			
Trade and other payables	18	15,329	15,632
Lease liabilities	19	1,771	1,661
Provisions	20	3,944	5,583
Unearned revenue	24	3,132	6,028
Borrowings	22	5,000	-
Deferred consideration	21	-	2,611
Contingent consideration	34	4,089	11,660
Total current liabilities		<u>33,265</u>	<u>43,175</u>
Non-current liabilities			
Borrowings	22	20,000	13,000
Lease liabilities	19	2,673	1,369
Deferred tax	23	4,200	5,544
Provisions	20	2,005	583
Unearned revenue	24	467	422
Contingent consideration	34	3,437	-
Total non-current liabilities		<u>32,782</u>	<u>20,918</u>
Total liabilities		<u>66,047</u>	<u>64,093</u>
Net assets		<u>53,133</u>	<u>59,418</u>
Equity			
Issued capital	25	119,411	114,874
Reserves	26	2,393	1,826
Accumulated losses		<u>(68,671)</u>	<u>(57,282)</u>
Total equity		<u>53,133</u>	<u>59,418</u>

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



Statement of Changes in Equity

Spirit Technology Solutions Ltd
Statement of changes in equity
For the year ended 30 June 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 benefit for the year	-	-	(11,389)	(11,389)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(11,389)	(11,389)
<i>Transactions with owners in their capacity as owners:</i>				
Share-based payments (Note 40)	-	567	-	567
Issue of shares to vendor as earnout consideration in relation to the Nexgen acquisition (Note 25)	4,537	-	-	4,537
Balance at 30 June 2023	<u>119,411</u>	<u>2,393</u>	<u>(68,671)</u>	<u>53,133</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
Loss after income tax benefit for the year	-	-	(53,166)	(53,166)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(53,166)	(53,166)
<i>Transactions with owners in their capacity as owners:</i>				
Share-based payments (Note 40)	-	721	-	721
Transfers	-	(82)	82	-
Issue of shares to the vendor as part of the earnout consideration in relation to the Trident acquisition	251	-	-	251
Issue of shares to the vendor as part of the earnout consideration in relation to the Altitude IT acquisition	77	-	-	77
Issue of shares to the vendor as part of the earnout consideration in relation to the Beachhead acquisition	404	-	-	404
Issue of shares to the vendor as part of the earnout consideration in relation to the Reliance IT acquisition	262	-	-	262
Issue of shares to vendor as part of deferred consideration in relation to the Nexgen acquisition	1,191	-	-	1,191
Balance at 30 June 2022	<u>114,874</u>	<u>1,826</u>	<u>(57,282)</u>	<u>59,418</u>

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



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Statement of Cash Flows

Spirit Technology Solutions Ltd
Statement of cash flows
For the year ended 30 June 2023

		Consolidated	
	Note	2023	2022
		\$'000	\$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		136,810	151,085
Government grants received	6	45	1,184
Payments to suppliers and employees (inclusive of GST)		(137,226)	(147,540)
Restructuring costs		(1,708)	(389)
Loan funded share plan		(375)	-
Deposits refunded		175	136
Interest received	6	42	-
Interest and other finance costs paid	7	(1,493)	(980)
Net cash (used in)/from operating activities	38	(3,730)	3,496
Cash flows from investing activities			
Payments for property, plant and equipment	14	(374)	(3,004)
Payments for intangibles	16	(324)	(1,373)
Cash payments to acquire businesses, net of cash acquired	34	(10,350)	(14,128)
Acquired income tax liabilities refunded/(paid)		186	(427)
Acquisition and divestment costs		(200)	(853)
Proceeds from disposal of assets and right of use		37	18,536
Net cash used in investing activities		(11,025)	(1,249)
Cash flows from financing activities			
Proceeds from borrowings		12,000	21,000
Repayment of borrowings		-	(18,000)
Repayment of lease liabilities		(1,954)	(2,007)
Net cash from financing activities		10,046	993
Net (decrease)/increase in cash and cash equivalents		(4,709)	3,240
Cash and cash equivalents at the beginning of the financial year		11,733	8,493
Cash and cash equivalents at the end of the financial year	9	<u>7,024</u>	<u>11,733</u>

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



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Notes to the Financial Statements

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 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 30 August 2023. The Directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

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

New or amended Accounting Standards and Interpretations adopted

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

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.

Basis of preparation

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

Historical cost convention

The financial statements have been prepared under the historical cost convention.

Note 2. Significant accounting policies (continued)

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Consolidated Entity has adequate resources and strategic initiatives in place to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

The Consolidated Entity has a net current liability position as at 30 June 2023 of \$7.676M (30 June 2022 net current liability position: \$10.022M). This financial position needs to be considered noting the following key factors:

- Current liabilities includes unearned revenue of \$3.1M. This liability unwinds to revenue rather than being a cash settled liability.
- During the financial year, there were two variations to the Company's loan facility limit which is currently \$28M. The renegotiation of the facility included changes to the financial covenants (as outlined in note 22 of the financial statements) and other conditions and undertakings by the Company. As at 30 June 2023 \$25M had been drawn with a further \$3M drawn by the Company post year end. As part of the undertakings provided, the Consolidated Entity is required to reduce the facility to \$20M by July 2024 at the latest (following a post year end amendment noted below).
- A further renegotiation on the facility limit and timing was reached after 30 June 2023 however the statement of financial position reflects the circumstances that existed as at balance date with a portion of the borrowings (\$5M) shown as current. Had the changes occurred before 30 June 2023, the borrowings would have been classified all as non-current and the net current liability position as at 30 June 2023 would have been \$2.676M as opposed to \$7.676M.
- The Consolidated Entity continues to rationalise its operations with the primary focus on returning to positive cash flows from its operations. To achieve this there will be ongoing acceleration of initiatives within the Managed Services (IT&T) business segment to move that division's earnings to a positive position. These measures continue to require capital to implement, alongside management of residual contingent 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.
- As outlined in the Directors Report, the Consolidated Entity's Cyber Security segment is expected to return to its historic earnings trends, noting the financial performance issues and corrective measures that occurred in the year ended 30 June 2023. The Consolidated Entity remains of the view that its Collaboration & Communication segment will maintain its growth ambitions across the medium term, acknowledging some earnings constraints exist in short term in the context of the current inflationary environment.
- 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.

Critical accounting estimates

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

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Consolidated Entity only. Supplementary information about the parent entity is disclosed in Note 33.

Note 2. Significant accounting policies (continued)

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Spirit Technology Solutions Ltd ('Company' or 'parent entity') as at 30 June 2023 and the results of all subsidiaries for the year then ended. Spirit Technology Solutions Ltd and its subsidiaries together are referred to in these financial statements as the 'Consolidated Entity'.

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

Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODMs'). The CODMs are responsible for the allocation of resources to operating segments and assessing their performance. Refer Note 4 Operating segments.

Revenue recognition

Revenue is recognised and measured in accordance with the principles of AASB 15 Revenue from contracts with customers at the fair value of the consideration received or receivable, after taking into account any trade discounts and volume rebates allowed, to the extent that it is probable that economic benefit will flow to the Consolidated Entity and the revenue can be reliably measured.

Revenue from contracts with customers

Revenue is recognised at an amount that reflects the consideration to which the Consolidated Entity is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the Consolidated Entity: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are recognised as a refund liability.

Recurring revenue

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

Non-recurring revenue

Call charges, professional services, time and materials billings, hardware and software sales and set-up charges are recognised in the period in which the services or goods are delivered.

Note 2. Significant accounting policies (continued)

Grants

Grants received on the condition that specified services are delivered, or conditions are fulfilled, are initially recognised as a liability, and revenue is recognised as services are performed or conditions fulfilled. Grants related to assets are presented in the statement of financial position either as deferred income or by deducting the relevant amount in determining the carrying amount of the asset.

Interest

Interest revenue is recognised as interest accrues using the effective interest method.

Other revenue

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

Income tax

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

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

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

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

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

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

Current and non-current classification

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

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

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

Note 2. Significant accounting policies (continued)

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

Cash and cash equivalents

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

Trade and other receivables

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

The Consolidated Entity has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance which is applied at the operating segment level. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Contract cost assets

Contract assets are recognised when the Consolidated Entity has transferred goods or services to the customer but where the Consolidated Entity is yet to establish an unconditional right to consideration. Contract assets are treated as financial assets for impairment purposes.

The contract cost assets relate to costs incurred to both obtain or fulfil a contract with a customer. Costs typically included sales commissions, customer contract buy-out costs and costs related directly to fulfilling a customer contract such as direct labour. The contract assets are amortised to cost of sales over the average contract life which is assessed to be in the range of 3 – 4 years. There are management judgements required in assessing both the types of costs capitalised and amortisation periods as outlined.

Inventories

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

Financial assets

Financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Consolidated Entity has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

Financial assets at amortised cost

A financial asset is measured at amortised cost only if both of the following conditions are met: (i) it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and (ii) the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

Impairment of financial assets

The Consolidated Entity recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the Consolidated Entity's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Note 2. Significant accounting policies (continued)

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the 'probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets mandatorily measured at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income with a corresponding expense through profit or loss. In all other cases, the loss allowance reduces the asset's carrying value with a corresponding expense through profit or loss.

Property, plant and equipment

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

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

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

Leasehold improvements	3 – 5 years
Plant and equipment*	2 – 7 years
Motor vehicles	4 – 5 years
Furniture and fixtures	3 – 7 years
Right of use assets	1 – 5 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date to ensure it is not in excess of the assets recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Consolidated Entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Right-of-use assets

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

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

Note 2. Significant accounting policies (continued)

Intangible assets

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

Goodwill

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

Goodwill is subsequently measured at cost less any impairment losses.

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

Intellectual property

Significant costs associated with intellectual property are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 7 years.

Brand names

Acquired brand names are stated at cost less any impairment.

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

Customer relationships

Customer relationships acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years.

Software

Significant costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit being their finite life of 3-5 years.

Other intangible assets

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

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or CGU to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a CGU.

Note 2. Significant accounting policies (continued)

Trade and other payables

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

Borrowings

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

Lease liabilities

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

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

Provisions

Provisions are recognised when the Consolidated Entity has a present (legal or constructive) obligation as a result of a past event, it is probable the Consolidated Entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Employee benefits

Short-term employee benefits

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

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

Other long-term employee benefits

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

Defined contribution superannuation expense

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

Note 2. Significant accounting policies (continued)

Share-based payments

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

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services.

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

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

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

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

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

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

Business combinations

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

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

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

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

Note 2. Significant accounting policies (continued)

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

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

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

Earnings per share

Basic earnings per share

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

Diluted earnings per share

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

Basic and diluted earnings per share from operations has been presented in the statement of profit or loss and other comprehensive income. Basic and diluted earnings is presented in Note 39 to the financial statements.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

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

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

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

Note 2. Significant accounting policies (continued)

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 '000 dollars, or in certain cases, the nearest dollar.

Note 3. Critical accounting judgements, estimates and assumptions

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

Revenue recognition

The Consolidated Entity's contracts are recognised as and when performance obligations are met. Identifying performance obligations, allocating the transaction price to performance obligations, and determining the timing of revenue recognition of these contracts at times requires the application of judgement due to the complexity and nature of the customer arrangements. The assumptions made in the estimates are based on the information available to Management at the reporting date. A change in the estimated stage of completion could have an impact on the timing of the revenue recognition. Refer to Note 2 for further information on revenue recognition.

Allowance for expected credit losses

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each customer. These assumptions include recent sales experience and historical collection rates.

Goodwill and other indefinite life intangible assets

The Consolidated Entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in Note 2. The recoverable amounts of each CGU have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows. Refer Note 16.

Impairment of property, plant and equipment

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

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the Consolidated Entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Noting that the Consolidated Entity has incurred losses in the current and previous financial years, the expectation is that future taxable earnings will be generated sufficient to utilise the deferred tax assets.

Note 4. Operating segments

Identification of reportable operating segments

The Chief Operating Decision Makers ('CODM's) manage the Consolidated Entities 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 (IT&T) 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.

Year ended 30 June 2023	Collaboration & Communication	Cyber Security	Managed Services (IT&T)	Corporate	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue					
End customer revenue	41,588	33,192	52,334	-	127,114
Intercompany revenue	-	416	37	(453)	-
	41,588	33,608	52,371	(453)	127,114
Underlying earnings before interest, taxes, depreciation & amortisation*	9,474	963	(2,141)	(3,145)	5,151
Depreciation and amortisation expense	(1,436)	(387)	(1,056)	-	(2,879)
Finance costs (net of interest income)	(42)	19	(64)	(1,493)	(1,580)
Underlying net profit/(loss) before income tax**	7,996	595	(3,261)	(4,638)	692
Underlying Adjustments:					
Share based payments	-	-	-	(942)	(942)
Loss on divestment of selected data centre & network assets	-	-	(600)	-	(600)
Acquisition and divestment costs	-	-	(104)	(96)	(200)
Restructuring costs***	-	(103)	(2,529)	(100)	(2,732)
Other restructuring items****	-	-	(901)	-	(901)
Net fair value loss on remeasurement of contingent consideration on business combinations	-	-	-	(8,042)	(8,042)
Amortisation of customer relationships	(1,194)	-	-	-	(1,194)
(Loss)/profit before income tax benefit	6,802	492	(7,395)	(13,818)	(13,919)
Income tax benefit					2,530
(Loss) after income tax benefit					(11,389)

* 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 share-based payments, gain/(loss) on divestment of non-core assets, acquisition & divestment costs, restructuring costs, net fair value loss on remeasurement of contingent consideration on business combinations and impairment of non-current assets. Underlying EBITDA for the year to 30 June 2023 also includes a notional gross margin adjustment add back to reflect the one-off loss on customer retention initiatives – shown as 'Other restructuring items'.

Note 4. Operating segments (continued)

** Underlying net profit/(loss) before income tax benefit/(expense) ("uNPBT") is a financial measure which is not prescribed by Australian Accounting Standards ('AAS') 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 costs encompasses:

- Product IP development costs (\$0.4M) related to costs associated with the development of the new Modern Workplace Solution ("MWS") and Small Business Managed Services ("SBMS") offerings. The portion related to the half year to 31 December 2022 ("H1 FY23") was \$0.3M and the portion related to the half year to 30 June 2023 ("H2 FY23") was \$0.1M. This represents a restatement of the normalisations reflected in the Interim Financial Report for H1 FY23.
- System reengineering costs (\$0.6M); and
- Employee redundancy costs (\$1.7M).

**** Other restructuring items covers a notional addback for professional services margin loss on customer retention migrations (\$0.9M). This relates to the assessed gross margin forgone on supporting customers to move from acquisition legacy products that were end of life to new product MWS offerings. The portion related to H1 FY23 was \$0.3M and the portion related to H2 FY23 was \$0.6M. This represents a restatement of the normalisations reflected in the Interim Financial Report for H1 FY23.

30 June 2023	Collaboration & Communication	Cyber Security	Managed Services (IT&T)	Corporate	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Total assets	72,437	30,191	10,709	5,843	119,180
Total liabilities	(10,739)	(11,391)	(12,034)	(31,883)	(66,047)
Net assets	61,698	18,800	(1,325)	(26,040)	53,133

Year ended 30 June 2022	Collaboration & Communication	Cyber Security	Managed Services (IT&T)	Corporate	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue					
End customer revenue	34,982	30,899	69,457	-	135,338
Intercompany revenue	-	498	158	(656)	-
	34,982	31,397	69,615	(656)	135,338
Underlying earnings before interest, taxes, depreciation & amortisation*	9,885	2,432	(2,154)	(2,907)	7,256
Depreciation and amortisation expense	(1,238)	(447)	(4,776)	-	(6,461)
Finance costs (net of interest income)	(61)	(26)	(103)	(980)	(1,170)
Underlying net (loss)/profit before income tax**	8,586	1,959	(7,033)	(3,887)	(375)
Underlying Adjustments:					
Share based payments	-	-	-	(721)	(721)
Profit on divestment of consumer & fixed wireless assets	-	-	1,823	-	1,823
Acquisition and divestment costs	-	-	-	(1,926)	(1,926)
Restructuring costs	-	-	(275)	(1,252)	(1,527)
Net fair value loss on remeasurement of contingent consideration on business combinations	-	-	-	(2,747)	(2,747)
Impairment of non-current assets	-	-	(48,374)	-	(48,374)
Amortisation of customer relationships	(1,194)	-	-	-	(1,194)
(Loss)/profit before income tax benefit	7,392	1,959	(53,859)	(10,533)	(55,041)
Income tax benefit					1,875
(Loss) after income tax benefit					(53,166)

* & ** Refer above footnotes.

Spirit Technology Solutions Ltd
Notes to the financial statements
30 June 2023

30 June 2022	Collaboration & Communication	Cyber Security	Managed Services (IT&T)	Corporate	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Total assets	72,938	27,186	17,805	5,582	123,511
Total liabilities	(11,316)	(7,541)	(19,549)	(25,687)	(64,093)
Net assets	61,622	19,645	(1,744)	(20,105)	59,418

Major customers

During the year ended 30 June 2023 there are no individual customers which accounted for 5% or more of sales.

Note 5. Revenue

Consolidated
2023 **2022**
\$'000 **\$'000**

Sales revenue	127,114	135,338
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Disaggregation of revenue

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

Major product lines

Managed services	27,655	38,866
Internet and data services	19,133	23,148
Security services	34,138	33,207
Voice services	39,599	33,180
Cloud services	4,668	5,921
Other	1,921	1,016
	127,114	135,338

Geographical regions

Australia	127,114	135,338
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Timing of revenue recognition

Goods and services transferred at a point in time	69,852	74,038
Services transferred over time	57,262	61,300
	127,114	135,338

Note 6. Other income

Consolidated
2023 **2022**
\$'000 **\$'000**

Government infrastructure grants	35	394
Government subsidies	10	1,078
Profit on divestment of consumer & fixed wireless assets*	-	1,823
Profit on sale of other assets and right of use	28	39
Miscellaneous income	42	60
Interest income	42	-
	157	3,394

* Refer Note 35

Note 7. Expenses

	Consolidated	
	2023	2022
	\$'000	\$'000
Loss before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Leasehold improvements	170	179
Plant and equipment	404	2,832
Motor vehicles	109	113
Furniture and fixtures	94	85
Total depreciation (refer Note 14)	777	3,209
<i>Amortisation</i>		
Right-of-use assets	1,702	1,983
Customer relationships	1,194	1,194
Software and projects	400	1,128
Intellectual property	-	141
Total amortisation (refer Notes 15 and 16)	3,296	4,446
Total depreciation and amortisation	4,073	7,655
<i>Finance costs</i>		
Borrowings	1,493	980
Finance leases	129	190
Finance costs expensed	1,622	1,170
<i>Employee benefits expense excluding superannuation</i>		
Employee benefits expense excluding superannuation	43,582	45,453
Employee benefits included in other disclosures		
Acquisition and divestment expenses	-	(431)
Loss/(Gain) on divestment of business assets	(110)	(370)
Redundancy expense	(1,704)	(1,413)
System reengineering expense	(419)	(114)
Product IP development expense	(427)	-
	40,922	43,125
<i>Superannuation expense</i>		
Defined contribution superannuation expense	3,927	3,883
	44,849	47,008
<i>Impairment of receivables</i>		
Bad and doubtful debts expense*	869	669

*The Consolidated Entity has recognised a loss of \$869,000 in profit or loss in respect of impairment of receivables for the year ended 30 June 2023 (2022: \$669,000), including bad debts expense of \$602,000 (2022: \$517,000).

Note 7. Expenses (continued)

	Consolidated	
	2023	2022
	\$'000	\$'000
<i>Restructuring costs</i>		
Employee redundancy expense	1,704	1,413
System reengineering expense	601	114
Product IP development expense	427	-
	<u>2,732</u>	<u>1,527</u>
<i>Loss on sale of business assets</i>		
Loss on divestment of selected data centre & network assets (refer Note 35)	600	-
<i>Impairment of non-current assets</i>		
Property, plant and equipment (refer Note 14)	-	2,214
Right-of-use assets (refer Note 15)	-	357
Intangibles (refer Note 16)	-	45,803
	<u>-</u>	<u>48,374</u>

Note 8. Income tax (benefit)/expense

	Consolidated	
	2023	2022
	\$'000	\$'000
Numerical reconciliation of income tax (benefit)/expense & tax at the statutory rate		
(Loss) before income tax benefit/(expense)	<u>(13,919)</u>	<u>(55,041)</u>
Tax at the statutory tax rate of 30.0% (30.0% at 30 June 2022)	(4,176)	(16,512)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Acquisition related	2,423	824
Share options and employee share scheme	283	216
Impairment of goodwill and other non-tax deductible assets	-	13,499
Other differences	<u>(1,060)</u>	<u>98</u>
Income tax (benefit)/expense	<u><u>(2,530)</u></u>	<u><u>(1,875)</u></u>

Note 9. Current assets – cash and cash equivalents

	Consolidated	
	2023	2022
	\$'000	\$'000
Cash at bank	<u><u>7,024</u></u>	<u><u>11,733</u></u>

Note 10. Current assets – trade and other receivables

	Consolidated	
	2023	2022
	\$'000	\$'000
Trade receivables	9,121	11,870
Less: Allowance for expected credit losses	(759)	(707)
	8,362	11,163
Other receivables	101	412
	8,463	11,575

The ageing of trade receivables are as follows:

	Consolidated	
	2023	2022
	\$'000	\$'000
Current	5,955	6,960
1 to 30 days overdue	1,790	3,135
31 to 60 days overdue	275	722
61 to 90 days overdue	319	231
Over 90 days overdue	782	822
	9,121	11,870

Allowance for expected credit losses

The Consolidated Entity retains a provision of \$759,000 in respect of impairment of receivables for the year ended 30 June 2023 (2022: \$707,000).

The ageing of the receivables and allowance for expected credit losses provided for above are as follows:

	Consolidated	
	2023	2022
	\$'000	\$'000
1 to 3 months overdue	165	140
4 to 6 months overdue	223	463
Over 6 months overdue	371	104
	759	707

Movements in the allowance for expected credit losses are as follows:

	Consolidated	
	2023	2022
	\$'000	\$'000
Opening balance	707	487
Additions and releases	52	220
	759	707

Note 11. Current assets – inventories

	Consolidated	
	2023	2022
	\$'000	\$'000
Stock on hand – at cost	3,359	4,670
Less: Provision for impairment	(570)	(389)
	2,789	4,281

Note 12. Other assets

	Consolidated	
	2023	2022
	\$'000	\$'000
Accrued revenue	5,358	2,988
Prepayments	1,469	1,475
Employee loans	4	-
Vendor loans	4	150
Other assets	312	257
	7,147	4,870
Current	5,000	4,342
Non-current	2,147	528
	7,147	4,870

Note 13. Contract cost assets

	Consolidated	
	2023	2022
	\$'000	\$'000
Contract cost assets	8,539	5,168
Accumulated release to profit and loss	(2,921)	(1,053)
	5,618	4,115
Current	2,313	1,222
Non-current	3,305	2,893
	5,618	4,115

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

	Consolidated	
	2023	2022
	\$'000	\$'000
Opening balance	4,115	1,687
Additions	3,371	3,287
Release to the profit and loss	(1,868)	(859)
Closing balance	5,618	4,115

Note 14. Non-current assets – property, plant and equipment

	Consolidated	
	2023	2022
	\$'000	\$'000
Leasehold improvements – at cost	813	813
Less: Accumulated depreciation and impairment	(776)	(606)
	<u>37</u>	<u>207</u>
Plant and equipment at cost	6,943	6,936
Less: Accumulated depreciation and impairment	(6,313)	(6,162)
	<u>630</u>	<u>774</u>
Motor vehicles – at cost	533	671
Less: Accumulated depreciation	(427)	(456)
	<u>106</u>	<u>215</u>
Furniture & Fixtures at Cost	936	848
Less: Accumulated depreciation	(706)	(629)
	<u>230</u>	<u>219</u>
	<u>1,003</u>	<u>1,415</u>

Reconciliations

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

Consolidated	Leasehold improvements	Plant and equipment	Motor vehicles	Furniture & Fixtures	Work in progress	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 30 June 2021	404	13,120	55	267	49	13,895
Adjustments through business combinations (Note 34)	(105)	27	298	10	-	230
Additions/transfers	217	2,809	-	27	(49)	3,004
Transfers from held for sale	-	100	-	-	-	100
Disposals on asset divestment (Note 35)	-	(10,347)	-	-	-	(10,347)
Disposals – Other	-	(19)	(25)	-	-	(44)
Depreciation expense	(179)	(2,832)	(113)	(85)	-	(3,209)
Impairment expense	(130)	(2,084)	-	-	-	(2,214)
Balance at 30 June 2022	207	774	215	219	-	1,415
Additions/transfers	-	267	2	105	-	374
Disposals – Other	-	(7)	(2)	-	-	(9)
Depreciation expense	(170)	(404)	(109)	(94)	-	(777)
Balance at 30 June 2023	<u>37</u>	<u>630</u>	<u>106</u>	<u>230</u>	<u>-</u>	<u>1,003</u>

Note 15. Non-current assets – right-of-use assets

	Consolidated	
	2023	2022
	\$'000	\$'000
Right-of-use assets	7,188	6,379
Less: Accumulated amortisation and impairment	(2,759)	(3,802)
	4,429	2,577

Reconciliations

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

	Consolidated	
Consolidated	2023	2022
	\$'000	\$'000
Opening balance	2,577	3,891
Additions	3,612	1,598
Disposals on asset divestment (Note 35)	-	(325)
Disposals – Other	(58)	(247)
Amortisation expense	(1,702)	(1,983)
Impairment expense	-	(357)
	4,429	2,577

Note 16. Non-current assets – intangibles

	Consolidated	
	2023	2022
	\$'000	\$'000
Goodwill – at cost	63,382	63,382
Intellectual property – at cost	1,412	1,412
Less: Accumulated amortisation and impairment	(1,412)	(1,412)
	-	-
Software	6,007	5,635
Less: Accumulated amortisation and impairment	(5,160)	(4,712)
	847	923
Brand names – at cost	4,105	4,105
Customer relationships	11,942	11,942
Less: Accumulated amortisation	(2,687)	(1,493)
	9,255	10,449
	77,589	78,859

Note 16. Non-current assets – intangibles (continued)

Reconciliations

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

	Goodwill at cost \$'000	Brand names at cost \$'000	Software & projects at cost \$'000	Customer relationships at cost \$'000	Intellectual property at cost \$'000	Total \$'000
Consolidated						
Balance at 30 June 2021	105,245	4,105	3,051	11,643	517	124,561
Additions through business combinations (Note 34)*	6,286	-	-	-	-	6,286
Additions	-	-	523	-	850	1,373
Disposals on asset divestment (Note 35)	(5,093)	-	-	-	-	(5,093)
Disposals – Other	-	-	(2)	-	-	(2)
Amortisation expense	-	-	(1,128)	(1,194)	(141)	(2,463)
Impairment expense	(43,056)	-	(1,521)	-	(1,226)	(45,803)
Balance at 30 June 2022	63,382	4,105	923	10,449	-	78,859
Additions	-	-	324	-	-	324
Disposals – Other	-	-	-	-	-	-
Amortisation expense	-	-	(400)	(1,194)	-	(1,594)
Balance at 30 June 2023	63,382	4,105	847	9,255	-	77,589

Goodwill, Brand Names & Intangible Assets with Indefinite Lives

Goodwill and brand names, including those acquired during the year, are allocated to the segment cash-generating units (CGU). The recoverable amount of each CGU is determined based on a value-in-use model which uses cash flow projections based on the financial budget for the 12 months immediately following the reporting date, and cash flows beyond 12 months extrapolated through a 5-year outlook.

The assumptions used for the current reporting period may differ from the assumptions in the past or next reporting period as internal and external circumstances and expectations change. The Consolidated Entity has applied the following assumptions in the 30 June 2023 calculation of value-in-use.

Operating Segment	Goodwill & Brand Names \$'000	Years 1 – 3 Average Revenue Annual Growth Rate	Years 4 & 5 Growth Rate	Terminal Growth Rate	Post Tax Discount Rate
Collaboration and Communication	50,136	11%	10%	3%	13.5%
Cyber Security	17,351	14%	10%	3%	13.5%

Sensitivity analysis on the key assumptions employed in the value-in-use calculations has been performed by Management. The sensitivities applied were decreasing sales and associated cost of goods sold by 10% throughout the model period (whilst holding operating costs stable), increasing the post-tax discount rate by 2 percentage points and reducing the terminal value growth rate by half.

In the prior financial year ended 30 June 2022, upon applying the value-in-use calculations and sensitivity tests across the asset bases, including goodwill, it was determined that the carrying amounts allocated to the Managed Services (IT&T) operating segment exceeded their recoverable amount giving rise to an impairment expense as at 30 June 2022 of \$45.8M (of which \$43.1M was directly related to goodwill).

Note 17. Non-current assets – deferred tax

	Consolidated	
	2023	2022
	\$'000	\$'000
<i>Deferred tax asset comprises temporary differences attributable to:</i>		
Amounts recognised in profit or loss:		
Employee benefits	1,173	1,136
Expenses deductible in future periods	359	545
Other provisions/accruals	1,500	2,334
Right of Use Assets	147	-
Property Plant & Equipment	274	-
Tax losses	1,665	71
Deferred tax asset	5,118	4,086

Note 18. Current liabilities – trade and other payables

	Consolidated	
	2023	2022
	\$'000	\$'000
Trade payables	9,901	9,450
GST payable	495	562
Other payables	4,933	5,620
	15,329	15,632

Refer to Note 28 for further information on financial instruments.

Note 19. Lease liabilities

	Consolidated	
	2023	2022
	\$'000	\$'000
Lease liability	4,444	3,030
Current	1,771	1,661
Non-current	2,673	1,369
	4,444	3,030

Refer to Note 28 for further information on financial instruments.

Note 20. Provisions

	Consolidated	
	2023	2022
	\$'000	\$'000
Annual leave	1,960	2,377
Long service leave	1,395	1,409
Provision for income tax	-	(31)
Restructuring	1,024	1,138
Lease make good	497	200
Other provisions	1,073	1,073
	5,949	6,166
Current	3,944	5,583
Non-current	2,005	583
	5,949	6,166

Reconciliations

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

	Annual leave	Long service leave	Provision for income tax	Restructure	Lease make good	Other provisions good	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Consolidated							
Balance at 30 June 2021	1,999	1,271	478	-	48	-	3,796
Additional provisions recognised during the year	3,073	433	-	1,138	152	1,073	5,869
Credited to profit or loss	-	-	(82)	-	-	-	(82)
Payments during the year	(2,695)	(295)	(427)	-	-	-	(3,417)
Balance at 30 June 2022	2,377	1,409	(31)	1,138	200	1,073	6,166
Additional provisions recognised during the year	2,318	131	-	1,024	297	-	3,770
Credited to profit or loss	-	-	(155)	-	-	-	(155)
Refunds/(Payments) during the year	(2,735)	(145)	186	(1,138)	-	-	(3,832)
Balance at 30 June 2023	1,960	1,395	-	1,024	497	1,073	5,949

Note 21. Current liabilities – deferred consideration

	Consolidated	
	2023	2022
	\$'000	\$'000
Deferred consideration	-	2,611

Refer to Note 34 for further information on deferred consideration.

Note 22. Borrowings

	Consolidated	
	2023	2022
	\$'000	\$'000
Bank loans	<u>25,000</u>	<u>13,000</u>
Current	5,000	-
Non-current	<u>20,000</u>	<u>13,000</u>
	<u>25,000</u>	<u>13,000</u>

Refer to Note 28 for further information on financial instruments, including the loan repayment maturity profile.

Assets pledged as security

The bank loan of \$25M (2022: \$13M) has a first ranking security over the assets and undertakings of Spirit Technology Solutions Ltd and its wholly owned subsidiaries.

On 22 June 2022, the Consolidated Entity executed a facility renewal with its banker for a further term of 3 years expiring 1 July 2025. On 4 November 2022 and 28 June 2023, the Consolidated Entity executed Amending Deeds to vary the Facility Agreement. The renegotiation of the facility included changes to the facility limit (currently \$28M), financial covenants (as outlined below) and other conditions and undertakings by the Company. As at 30 June 2023 \$25M had been drawn with a further \$3M drawn by the Company post year end. As part of the undertakings provided, the Consolidated Entity is required to pay down the facility to \$20M by July 2024 at the latest (refer Note 28) following a further renegotiation on the facility limit and timing that was reached after 30 June 2023. The statement of financial position reflects the circumstances that existed as at balance date (before this further amendment) with a portion of the borrowings (\$5M) shown as current.

The Company's loan facility is subject to compliance with the following financial covenants during the financial year ended 30 June 2024 and 30 June 2025:

- **Net Leverage Ratio (NLR):** expressed as a ratio of (A) the aggregate outstanding accommodation of the Group (as defined within the facility documents) less the aggregate amount of cash held by the group as at the Calculation Date; and (B) the Group EBITDA (as defined within the facility documents). For the remaining term of the facility the Calculation Date means 31 March 2024, 30 June 2024, 30 September 2024, 31 December 2024, 31 March 2025 and 30 June 2025. The NLR must at the calculation date be less than or equal to the agreed ratio for that calculation date (which is stepped down over the next 18 months).
- **Minimum Net Worth (MNW):** expressed as Total Assets less Total Liabilities. The MNW is assessed on a quarterly basis commencing 30 June 2024 and must at the calculation date be equal to or more than the agreed benchmark for that calculation date.

In accordance with the provisions of the covenants and undertakings given, non-compliance can trigger a Review Event of the facility which is generally a standing right under normal commercial loan facilities. Such review events may include a requirement to pay down in part or in whole the loan facility and other conditions as agreed with the funder.

Note 23. Non-current liabilities - deferred tax

	Consolidated	
	2023	2022
	\$'000	\$'000
Deferred tax liability comprises temporary differences attributable to:		
Property, plant and equipment	84	386
Identifiable intangible assets	4,116	5,158
Deferred tax liability	4,200	5,544

Note 24. Unearned revenue

	Consolidated	
	2023	2022
	\$'000	\$'000
Customer contract unearned revenue	3,599	6,450
Current	3,132	6,028
Non-current	467	422
	3,599	6,450

Reconciliations

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

	Customer contract unearned revenue	Government infrastructure grants	Total
Consolidated	\$'000	\$'000	\$'000
Balance at 30 June 2021	4,964	1,514	6,478
Additions on asset divestment (Note 35)	720	-	720
Disposals on asset divestment (Note 35)	-	(1,189)	(1,189)
Net other movements	766	(325)	441
Balance at 30 June 2022	6,450	-	6,450
Net other movements	(2,851)	-	(2,851)
Balance at 30 June 2023	3,599	-	3,599

Note 25. Equity - issued capital

	2023 Shares	Consolidated 2022 Shares	2023 \$'000	2022 \$'000
Ordinary shares - fully paid	<u>735,604,704</u>	<u>664,723,579</u>	<u>119,411</u>	<u>114,874</u>

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Balance	30 June 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	49,338	\$0.000	-
Conversion of vested performance rights	11 January 2022	103,844	\$0.000	-
Issue of shares to vendor as part of deferred consideration in relation to the Nexgen acquisition	31 March 2022	<u>8,219,178</u>	\$0.145	<u>1,191</u>
Balance	30 June 2022	664,723,579		114,874
Issue of shares to vendor as earnout consideration in relation to the Nexgen acquisition	31 March 2023	<u>70,881,125</u>	\$0.064	<u>4,537</u>
Balance	30 June 2023	<u>735,604,704</u>		<u>119,411</u>

Movements in unquoted options

Details	Date	Options	\$'000
Balance	30 June 2022	<u>18,000,000</u>	-
Balance	30 June 2023	<u>18,000,000</u>	-

Note 25. Equity - issued capital (continued)

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.

Capital risk management

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

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

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

The Consolidated Entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current Company's share price at the time of the investment.

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

The capital risk management policy remains unchanged from the 30 June 2022 Annual Report.

Note 26. Equity - reserves

	Consolidated	
	2023	2022
	\$'000	\$'000
Share-based payments reserve	2,387	1,820
Capital reserve	6	6
	<u>2,393</u>	<u>1,826</u>

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and Directors as part of their remuneration, and other parties as part of their compensation for services.

Note 26. Equity - reserves (continued)

Movements in reserves

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

Consolidated	Capital reserve \$'000	Share- based payments reserve \$'000	Total \$'000
Balance at 30 June 2021	6	1,181	1,187
Share-based payments expense (Note 40)	-	721	721
Transfers		(82)	(82)
Balance at 30 June 2022	6	1,820	1,826
Share-based payments expense (Note 40)	-	567	567
Balance at 30 June 2023	6	2,387	2,393

Note 27. Equity - dividends

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

Note 28. Financial instruments

Financial risk management objectives

The Consolidated Entity's activities expose it to a variety of financial risks as set out below.

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

Market risk

Foreign currency risk

The Consolidated Entity undertakes transactions denominated in foreign currencies and therefore has exposure to foreign currency risk. Offshore Customer Care, Service Delivery, Technology and Finance teams are located in the Philippines and costs the Consolidated Entity around \$1,540 USD per week. The Consolidated Entity also sources security-based software products and spends approximately \$4.9M USD per annum. Conversion is at the applicable exchange rate at the time the transaction is authorised or at an agreed exchange rate that is fixed at the time of sales order acceptance by the customer using an appropriate hedging product (on a case by case basis).

Price risk

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

Note 28. Financial instruments (continued)

Interest rate risk

The Consolidated Entity's main interest rate risk arises from long-term borrowings. Borrowings obtained at variable rates expose the Consolidated Entity to interest rate risk. Borrowings obtained at fixed rates expose the Consolidated Entity to fair value interest rate risk. The entire facility is exposed to variable interest rates. The Consolidated Entity paid \$1,493,000 in interest during the 2023 financial year (2022: \$980,000).

The facility is structured such that a line fee is payable on the facility limit (\$28M), a usage fee payable on funds drawn and an interest charge based on BBSY plus a margin. As at the reporting date the Consolidated Entity had the following variable rate borrowings. The net weighted average interest rate detailed below is calculated on the aggregation of the usage fee and interest charge for the year ended 30 June 2023 of \$945,000 (2022: \$449,000) over the average balance drawn down during the year ended 30 June 2023 of \$18.2M (2022: \$22.1M). The line fee for the year ended 30 June 2023 was \$517,000 (2022: \$531,000).

	2023		2022	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Consolidated				
Bank loan	5.18%	25,000	2.03%	13,000
Net exposure to cash flow interest rate risk		<u>25,000</u>		<u>13,000</u>

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

For the Consolidated Entity the bank loans outstanding, totalling \$25M (2022: \$13M), are interest bearing loans. On 22 June 2022, the Consolidated Entity executed a facility renewal with its banker for a further term of 3 years expiring 1 July 2025. On 4 November 2022 and 28 June 2023, the Consolidated Entity executed Amending Deeds to vary the Facility Agreement. The renegotiation of the facility included changes to the financial covenants (as outlined in Note 22) and other conditions and undertakings by the Company. As at 30 June 2023 \$25M had been drawn with a further \$3M drawn by the Company post year end. As part of the undertakings provided, the Consolidated Entity is required to pay down the facility to \$20M by July 2024 at the latest (refer contractual maturity profile below) following a further renegotiation on the facility limit and timing that was reached after 30 June 2023. The statement of financial position reflects the circumstances that existed as at balance date (before this further amendment) with a portion of the borrowings (\$5M) shown as current.

Refer Note 22.

Credit risk

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

The Consolidated Entity has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. The credit loss model takes into consideration the industry dynamics and exposures of the customer base.

Note 28. Financial instruments (continued)

With regards to Debtors, amounts older than 90 days owing are reviewed and where appropriate taken up as a provision for doubtful debts. This process is completed monthly. As at 30 June 2023 \$759,000 was booked as an allowance for expected credit losses against the total amount owed by debtors. There are no guarantees against this receivable but management closely monitors the receivable balance on a monthly basis and is in regular contact with its customers to mitigate risk.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

Liquidity risk

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

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

Remaining contractual maturities

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

	Less than 6 months	6 -12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Remaining contractual maturities
Consolidated - 2023	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Non-derivatives						
<i>Non-interest bearing</i>						
Trade and other payables	15,329	-	-	-	-	15,329
Contingent consideration	1,882	2,207	3,437	-	-	7,526
<i>Interest-bearing - variable</i>						
Bank loan* +	-	-	5,000	20,000	-	25,000
Lease liability**	932	839	1,067	1,224	382	4,444
Total non-derivatives	18,143	3,046	9,504	21,224	382	52,299

* Weighted average interest rate of 5.18%

** Weighted average interest rate of 5.27%

+ As outlined in Note 2 and Note 28, post balance sheet date (30 June 2023) a further renegotiation on the facility limit and timing was reached with the Financier and the above maturity profile reflects that updated position as opposed to the statement of financial position which reflects the circumstances that existed as at balance date with a portion of the borrowings (\$5M) shown as current.

Note 28. Financial instruments (continued)

	Less than 6 months	6 -12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Remaining contractual maturities
Consolidated - 2022	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Non-derivatives						
<i>Non-interest bearing</i>						
Trade and other payables	15,632	-	-	-	-	15,632
Contingent consideration	-	11,660	-	-	-	11,660
Deferred consideration	2,611	-	-	-	-	2,611
<i>Interest-bearing - variable</i>						
Bank loan*	-	-	-	13,000	-	13,000
Lease liability**	830	831	1,369	-	-	3,030
Total non-derivatives	19,073	12,491	1,369	13,000	-	45,933

* Weighted average interest rate of 2.03%

** Weighted average interest rate of 5.27%

Fair value of financial instruments

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

Note 29. Key management personnel disclosures

Directors

The following persons were Directors of Spirit Technology Solutions Ltd during the financial year and up to the date of the financial statements:

Mr James Joughin (Non-Executive Chairman)
Mr Julian Challingsworth (Managing Director and Chief Executive Officer - appointed 11 July 2022)
Mr Julian Haber (Executive Director 1 April 2022 to 18 November 2022, Interim Managing Director 16 May 2022 to 11 July 2022, and Non-Executive Director from 19 November 2022)
Mr Elie Ayoub (Co-CEO Nexgen and Executive Director – appointed as Executive Director on 8 June 2023)
Mr Sol Lukatsky (Managing Director - resigned 2 July 2022)
Mr Gregory Ridder (Non-Executive Director)
Ms Michelle Bendschneider (Non-Executive Director - appointed 1 April 2022)

Other key management personnel

The following persons also had the authority and responsibility for planning, directing and controlling the major activities of the Consolidated Entity, directly or indirectly, during the financial year:

Mr James Harb (Collaboration & Communication – Co Chief Executive Officer)
Mr Nathan Knox (Chief Operating Officer – Spirit Group)
Mr Paul Miller (Chief Financial Officer)

Note 29. Key management personnel disclosures (continued)

Compensation

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

	Consolidated	
	2023	2022
	\$	\$
Short-term employee benefits	2,137,160	1,534,883
Post-employment benefits	198,855	175,396
Long-term benefits	(2,758)	52,329
Share-based payments	366,361	663,068
	<u>2,699,618</u>	<u>2,425,676</u>

Note 30. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by PKF Melbourne Audit & Assurance Pty Ltd, the auditor of the Company, and its related practices:

	Consolidated	
	2023	2022
	\$	\$
<i>Audit and assurance services - PKF Melbourne Audit & Assurance Pty Ltd</i>		
Audit or review of the financial statements	180,000	172,000
Assurance related services in respect of earnout accounting	20,000	-
<i>Other services – PKF Melbourne</i>		
Tax compliance services	32,750	25,000
Tax advisory and due diligence services	-	38,250
Corporate advisory and due diligence services	7,000	45,350
	<u>239,750</u>	<u>280,600</u>

Note 31. Contingent liabilities

There were no contingent liabilities at 30 June 2023 and 30 June 2022.

Note 32. Related party transactions

Parent entity

Spirit Technology Solutions Ltd is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in Note 36.

Note 32. Related party transactions (continued)

Key management personnel

Disclosures relating to key management personnel are set out in Note 29 and the remuneration report included in the Directors' report.

Transactions with related parties

Mr Julian Haber, Executive Director (1 April 2022 to 18 November 2022), Interim Managing Director (16 May 2022 to 11 July 2022), and Non-Executive Director (from 19 November 2022), is also the co-founder of Intalock (Spirit) Cyber Security Pty Ltd (formerly known as Intalock Technologies Pty Ltd) ("Intalock"). As outlined in Note 34, the acquisition of Intalock included a contingent consideration element by way of an earn-out structure based upon EBITDA performance over a 12-month period ended 30 June 2022 ("FY22"). The earnout consideration was to be settled 100% in cash. The finalised amount of contingent consideration due and payable where the FY22 target has been exceeded was \$3.476M.

During the year ended 30 June 2023, \$2.687M was settled. The remaining balance to be settled of \$0.789M is classified as a current liability as at the reporting date.

Mr Elie Ayoub, Executive Director, and Mr James Harb, Collaboration & Communication – Co CEO, were the co-founders of Nexgen Australia Group Pty Ltd ("Nexgen"). As outlined in Note 34, the acquisition of Nexgen included a contingent consideration element by way of an earn-out structure based on performance targets for the 18 months ended 30 June 2023. The Company and the founders finalised these arrangements in their entirety in February 2023. The amount of contingent consideration included a component settled in shares of the Company totaling \$4.537M which were issued on 31 March 2023. \$6.9 million was paid in cash during the financial year ended 30 June 2023. A further cash component of \$6.737M remains to be settled as at 30 June 2023 of which \$3.3M is classified as a current liability and the remainder is classified as a non-current liability as at the reporting date.

The Consolidated Entity rents a premises in Sydney that is owned by Mr Elie Ayoub and Mr James Harb. The monthly rent is presently \$27,392 plus associated outgoings. The lease is rolling month to month and is in the process of being renewed.

Ms Michelle Bendschneider (Non-Executive Director) provided strategic consultancy services to the Company and was paid a fee of \$33,139 during the year ended 30 June 2023.

There were no other transactions with related parties during the current and previous financial year.

Receivable from and payable to related parties

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

Loans to/from related parties

Mr Julian Challingsworth, Managing Director and Chief Executive Officer is party to a Loan Share Plan that was approved by Shareholders on 17 November 2022. Pursuant to the terms of the Plan he is able to finance the market value acquisition of Spirit shares on the ASX by way of a limited recourse loan or use the loan to reimburse Spirit share purchases to a value of up to \$760,000.

The loan will become repayable if Mr Challingsworth ceases to be an employee of the Company and in other circumstances set out in the Plan. The loan is limited recourse, meaning that it can be satisfied in full by selling shares the subject of the loan. If the market value of the shares at that time is below the amount of the loan, Mr Challingsworth will not be required to pay the difference in value. To access the shares (for example, if Mr Challingsworth wanted the ability to sell the shares) he will first have to repay the cash amount of the loan. Escrow may also apply to shares in excess of the loan amount.

The loan is subject to interest at the 2-year Bank Bill Swap Rate to be determined at the date of the loan. Interest will be capitalised on the loan amount on a quarterly basis and on repayment will be added to the amount of the loan.

Note 32. Related party transactions (continued)

As at 30 June 2023 the loan amount is \$374,653. There were no other loans to or from related parties at the current and previous reporting date.

Note 33. Legal parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent	
	2023	2022
	\$'000	\$'000
Profit/(Loss) after income tax	621	(61,830)
Total comprehensive income	621	(61,830)

Statement of financial position

Total current assets	945	1,543
Total assets	82,450	82,371
Total current liabilities	740	1,252
Total liabilities	40,327	45,973
Equity		
Issued capital	119,411	114,874
Reserves (Note 26)	2,393	1,826
Accumulated losses	(79,681)	(80,302)
Total equity	42,123	36,398

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The bank loan facility of \$28M is secured first over the assets and undertakings of Spirit Technology Solutions Ltd and its wholly owned subsidiaries.

The parent entity had no other guarantees in relation to the debts of its subsidiaries as at 30 June 2023 and 30 June 2022.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2023 and 30 June 2022.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2023 and 30 June 2022.

Note 33. Legal parent entity information (continued)

Significant accounting policies

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

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

Note 34. Business combinations

Acquisition of Intalock Technologies during the previous financial years

The Company acquired 100% of Intalock (Spirit) Cyber Security Pty Ltd (formerly known as Intalock Technologies Pty Ltd) ("Intalock"), with effective control on 1 December 2020. The acquisition has been accounted for as a Business Combination under AASB 3. Intalock is a leading cyber security services business with a market leading and sophisticated full Security Operations Centre. This acquisition allows Spirit to cross sell and deliver highly secure bundled Cyber Security Services with Data, Cloud and Voice.

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

	Fair value \$'000
Cash and cash equivalents	2,575
Trade and other receivables	2,237
Prepayments	143
Deposits	235
Plant and equipment	150
Right-of-use assets	733
Intangible assets	191
Trade payables	(2,194)
GST payables	(56)
Unearned revenue	(1,200)
Provision for income tax	(279)
Employee entitlements	(275)
Make good provision	(45)
Lease liabilities	(755)
Net assets acquired	1,460
Goodwill	17,351
Net fair value gain on remeasurement of financial liabilities	2,676
Acquisition-date fair value of the total consideration transferred	<u>21,487</u>
Cash used to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	21,487
Less: contingent consideration (remaining to be settled)	(789)
Less: shares issued by Company as part of consideration	<u>(2,457)</u>
Net cash used	<u>18,241</u>

Note 34. Business combinations (continued)

i. Consideration transferred

Acquisition-related costs amounting to \$190,000 are not included as part of the consideration for the acquisition and were recognised as transaction costs in the profit and loss statement.

ii. Identifiable net assets

The fair value of the trade receivables acquired as part of the business combination amounted to \$2,237,000. As of the acquisition date, the Company's best estimate was that this asset would be fully realised.

iii. Goodwill

Goodwill of \$17,351,000 was primarily related to the Company's growth expectations through customer expansion. As outlined in Note 4, Intalock forms its own operating segment (Cyber Security) and goodwill on acquisition has been allocated to that segment.

iv. Deferred consideration

The acquisition of Intalock included a deferred consideration element to be settled by 31 August 2021. The deferred consideration is to be settled 100% in cash capped at \$3,000,000. This amount was settled in full in FY22.

v. Contingent consideration

The acquisition of Intalock included a contingent consideration element by way of an earn-out structure based upon EBITDA performance over a 12-month period ended 30 June 2022 (FY22). The earnout consideration is to be settled 100% in cash.

The FY22 earnout structure facilitated a scaled achievement of the FY22 target whereby the contingent consideration is payable in a range exceeding 105% of the FY22 Target. At the date of acquisition, the Board and management assessed the likelihood of achieving the relevant EBITDA performance targets at the 105% level with \$800,000 of contingent consideration recognised. Subsequent to the assessment date of 30 June 2021, the amount of contingent consideration payable where the FY22 EBITDA was likely to exceed the performance target was estimated to be \$623,000. The finalised amount of contingent consideration due and payable where the FY22 target has been exceeded was \$3.476M in cash.

During the year ended 30 June 2023, \$2.687M was settled in cash. The remaining balance to be settled of \$0.789M is classified as a current liability as at the reporting date.

vi. Contribution to the Consolidated Entity's results

Intalock's contribution to the Consolidated Entity's results as disclosed in Note 4 Operating segments are as follows:

	FY23 \$'000	FY22 \$'000
Revenue	33,608	31,397
Underlying earnings before interest, taxes, depreciation & amortisation*	963	2,432
Underlying net profit before income Tax*	595	1,959

* Refer Note 4 for definitions.

Note 34. Business combinations (continued)

Acquisition of Nexgen during the previous financial year

The Company acquired 100% of Nexgen Australia Group Pty Ltd ("Nexgen"), with effective control on 1 April 2021. Nexgen sells a range of high growth Data, Security & Voice products. The acquisition brings over 5,000 new B2B clients and some one hundred new sales people to Spirit to drive organic growth, complementary products and scale.

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

	Fair value \$'000
Cash and cash equivalents	20
Trade and other receivables	271
Inventories	681
Accrued revenue	1,713
Deposits	148
Property, plant and equipment	797
Deferred tax assets	382
Right-of-use assets	1,567
Brand names	4,105
Customer Relationships	11,942
Other intangible assets	1,145
Trade and other payables	(2,969)
GST payables	(106)
Provision for income tax	(167)
Deferred tax liability	(5,158)
Employee benefits	(886)
Lease liability	(1,567)
Net assets acquired	11,918
Goodwill	46,031
Net fair value gain on remeasurement of financial liabilities	7,716
Acquisition-date fair value of the total consideration transferred	<u>65,665</u>
Cash used to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	65,665
Less: contingent consideration (remaining to be settled)	(6,737)
Less: shares issued by Company as part of consideration	(17,892)
Net cash used	<u>41,036</u>

i. Consideration transferred

Acquisition-related costs amounting to \$517,000 are not included as part of the consideration for the acquisition and were recognised as transaction costs in the 30 June 2021 (\$423,000) and 30 June 2022 (\$94,000) profit and loss statement.

ii. Identifiable net assets

The fair value of the trade receivables acquired as part of the business combination amounted to \$271,000. As of the acquisition date, the Company's best estimate was that this asset would be fully realised.

Note 34. Business combinations (continued)

iii. Goodwill

Goodwill of \$46,031,000 was primarily related to the Company's growth expectations through customer expansion. As outlined in Note 4, Nexgen forms its own operating segment (Collaboration & Communication) and goodwill on acquisition has been allocated to that segment.

iv. Deferred consideration

The acquisition of Nexgen included an initial deferred consideration of \$11,137,000 which was revised to \$12,216,000. The equity component of the deferred consideration was settled in shares of the Company issued on 31 March 2022 (at a fair value of \$1,191,000) and the remaining component settled (or to be settled) in cash (being \$11,025,000). As at 30 June 2022, \$2,611,000 remains as a current liability. During the financial year ended 30 June 2023 \$762,000 was settled in cash and the remainder was written back to the profit & loss as a net fair value gain on remeasurement of financial liabilities.

v. Contingent consideration

The acquisition of Nexgen included a contingent consideration element by way of an earn-out structure based upon Milestone Incentives available based on performance targets for FY22 and FY23. The earnout consideration is to be settled 30% in shares of the Company and 70% in cash.

The earnout structure facilitated a scaled achievement of the FY22 and FY23 targets whereby the contingent consideration is payable based on the achievement of the relevant EBTDA performance targets. At the date of acquisition, the Board and management assessed the likelihood of achieving the relevant EBITDA performance targets and accordingly recognised total contingent consideration of \$2,980,000, all of which was classified as non-current. Subsequent to the assessment date of 1 April 2021, the amount of contingent consideration payable where the FY22 and HY23 EBITDA is likely to exceed the performance target was amended to reflect new information obtained about facts and circumstances at the acquisition date that, if known, would have affected the measurement of the contingent consideration. Accordingly, the amended contingent consideration totalling \$8,610,000 was recorded and classified as a current liability as at 30 June 2022.

As a consequence of the ongoing impact of Covid lockdowns during the early part of FY22, it was agreed with the Nexgen founders to amend the earnout measurement periods from the 12 months ended 30 June 2022 (FY22) and 6 months ended 31 December 2022 (HY23) respectively to the twelve months ended 31 December 2022 (CY22) and 6 months ended 30 June 2023 (H223). There was no impact on deferred consideration amounts noted above.

The Company and the founders finalised these arrangements in their entirety in February 2023. The amount of contingent consideration included a component settled in shares of the Company totalling \$4.537M which were issued on 31 March 2023. \$6.9 million was paid in cash during the financial year ended 30 June 2023. A further cash component of \$6.737M remains to be settled as at 30 June 2023 of which \$3.3M is classified as a current liability and the remainder is classified as a non-current liability as at the reporting date.

The contingent consideration payable is higher than originally anticipated but reflects the strong performance of Nexgen.

vi. Contribution to the Consolidated Entity's results

Nexgen's contribution to the Consolidated Entity's results as disclosed in Note 4 Operating segments are as follows:

	FY23	FY22
	\$'000	\$'000
Revenue	41,588	34,982
Underlying earnings before interest, taxes, depreciation & amortisation*	9,474	9,885
Underlying net profit before income Tax*	7,996	8,586

* Refer Note 4 for definitions.

Note 35. Asset Divestments

Divestment of Network Assets during the current financial year

On 1 December 2022, the Company completed the transfer of selected data centre and network assets ("Network Assets") to a Melbourne based business associated with the principals of the Maret Group which acquired Spirit's Fixed Wireless business in June 2022. The transfer is consistent with Spirit's strategy of simplifying its Managed Services (IT&T) business, reducing operating costs and sharpening focus on target customer segments. The transfer was completed for nominal consideration.

	Fair value \$'000
Cash proceeds on completion	-
Gross proceeds on sale	-
The fair values of the identifiable net assets disposed:	
Inventories	(80)
Other net working capital adjustments	(95)
	(175)
Plus: divestment related costs	(425)
	(600)
Loss on divestment	(600)

i. Wholesale Supply Agreement

Spirit is party to a Wholesale Supply Agreement ("WSA") that was amended as part of the Network Asset divestment. The agreement acknowledges that the acquirer of the Network Assets reserved capacity on its Network for Spirit on the basis that Spirit will purchase Wholesale Services at least equal to the Take or Pay Amount. The Take or Pay Period is the period of time from the Commencement Date (being 1 December 2022) until the earlier of: (a) 18 months after the Commencement Date; or (b) when the amount of all charges for any Wholesale Service supplied after the Commencement Date meets an agreed aggregate threshold.

Note 35. Asset Divestments (continued)

Divestment of Consumer Assets during the previous financial year

On 29 October 2021, the Company completed 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 sale agreement, DGtek acquired the consumer business including the customer base and relevant infrastructure assets.

The divestment was in line with the Company's strategy to focus on being a leading and fully integrated technology provider of modern digital workplaces to the business market, from SMB to corporates. The consumer internet business was not critical to future operations and represented less than 2% of the Consolidated Entity's revenue.

	Fair value \$'000
Cash proceeds on completion	4,900
Contingent consideration	<u>200</u>
Gross proceeds on sale	5,100
The fair values of the identifiable net assets disposed:	
Assets held for sale	(1,120)
Intangible assets	<u>(1,200)</u>
	(2,320)
Plus: divestment related costs	<u>(411)</u>
	<u>(2,731)</u>
Profit on divestment	<u><u>2,369</u></u>

i. Allocation basis of goodwill on disposal

The goodwill disposed originally arose from the acquisition of the LinkOne Group of companies on 1 April 2019. The goodwill allocated to the divested CGU assets of \$1.2M represented the proportion of the consumer assets acquired relative to the total fair value of the assets on that acquisition.

ii. Contingent consideration

The sale included contingent consideration of \$200,000 which was released based on customer migration milestones being achieved. During the financial year ended 30 June 2023 \$100,000 was received and the remaining \$100,000 was written back to the profit & loss as a net fair value loss on remeasurement of financial liabilities.

Note 35. Asset Divestments (continued)

Divestment of Fixed Wireless Wholesale Assets during the previous financial year

On 1 June 2022, the Company completed the sale of its fixed wireless infrastructure assets to Melbourne based Maret Infrastructure Pty Ltd ("Maret Group") for \$15M upfront consideration. Under the sale agreement, Maret Group acquired the infrastructure assets with Spirit retaining the business customer relationships and revenues. The Maret Group will charge Spirit wholesale services fees for connected services under a wholesale services agreement between the parties.

	Fair value \$'000
Cash proceeds on completion	14,989
Network and NOC "as a service" fee	<u>(720)</u>
Gross proceeds on sale	14,269
The fair values of the identifiable net assets disposed:	
Inventories	(475)
Other assets	(87)
Plant and equipment	(10,347)
Right-of-use assets	(325)
Intangible assets	(3,893)
Unearned revenue	1,189
Employee benefits	<u>95</u>
	(13,843)
Plus: divestment related costs	<u>(972)</u>
	<u>(14,815)</u>
Loss on divestment	<u><u>(546)</u></u>

i. Allocation basis of goodwill on disposal

The goodwill disposed originally arose from the acquisition accounting associated with Anttel Communications Group Pty Ltd, Building Connect Pty Ltd, Wells Research Pty Ltd and World Without Wires Pty Ltd. The total goodwill booked on those acquisitions totalled \$7.8M. As outlined in Note 3 (Critical accounting judgements, estimates and assumptions) the allocation of goodwill on divested asset groups requires the application of judgement. On the basis that the sale structure involved Spirit retaining the business customer relationships and revenues it was determined that 50% of the goodwill was related to the infrastructure assets (representing \$3.9M) and the residual to the forward customer cash flows retained.

ii. Network and NOC "as a service" fee

As part of the associated Spirit Wholesale Services Agreement with the Maret Group, there is provision for a Network and Network Operations Centre ("NOC") "as a service" fee which commences in month 13 after the completion date. This fee was provided at a 100% discount for the first 12 months as part of the agreed upfront sale price and equated to approximately \$60,000 per month. Under AASB 3 *Business Combinations* this component of the transaction price is to be accounted for under AASB 15 *Revenue from Contracts with Customers* and according was allocated to unearned revenue.

Note 35. Asset Divestments (continued)

iii. Contingent consideration

The sale agreement included up to \$6M in earn-out payments over two years, subject to revenue targets being achieved. As part of the sale of business agreement for the Network Assets on 1 December 2022, a variation to the Fixed Wireless Network business agreement was entered into that varied the original earn-out agreement. Spirit can receive up to \$3M in earn-out payments over two years, subject to revenue targets being achieved.

The variable consideration is accounted for in accordance with AASB 15 *Revenue from Contracts with Customers* which dictates that the amount can only be recognised to the extent that it is highly probable of being earned. As at the reporting date of 30 June 2023 (and prior period reporting date of 30 June 2022), the Company was not in a position to determine the amount with the level or certainty required under the accounting standard.

Note 36. Interests in subsidiaries

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

Name	Principal place of business / Country of incorporation	Ownership interest	
		2023 %	2022 %
Spirit Technology Services Pty Ltd	Australia	100%	100%
(previously Spirit Telecom (Australia) Pty Ltd)	Australia	100%	100%
Phone Name Marketing Australia Pty Ltd	Australia	100%	100%
World Without Wires Pty Ltd	Australia	100%	100%
Anttel Communications Group Pty Ltd	Australia	100%	100%
Ignite Broadband Pty Ltd	Australia	100%	100%
LinkOne Pty Ltd	Australia	100%	100%
Wells Research Pty Ltd	Australia	100%	100%
Building Connect Pty Ltd	Australia	100%	100%
Bigscreensound Pty Ltd, trading as Arinda IT	Australia	100%	100%
Phoenix Austec Group Pty Ltd	Australia	100%	100%
Trident Computer Services Pty Ltd	Australia	100%	100%
Neptune Managed Services Pty Ltd	Australia	100%	100%
VPDA Group Holdings Limited	Australia	100%	100%
Voice Print and Data Australia Pty Ltd	Australia	100%	100%
Live Call Pty Ltd	Australia	100%	100%
Now IT Solutions Pty Ltd	Australia	100%	100%
Ancore Pty Ltd, trading as Altitude IT	Australia	100%	100%
Beachhead Group Pty Ltd	Australia	100%	100%
Reliance Technology Pty Ltd	Australia	100%	100%
Intalock (Spirit) Cyber Security Pty Ltd	Australia	100%	100%
(previously Intalock Technologies Pty Ltd)	Australia	100%	100%
Nexgen Capital Pty Ltd	Australia	100%	100%
Nexgen Investment Group Pty Ltd	Australia	100%	100%
Business Telecom Australia Pty Ltd	Australia	100%	100%
Spirit Business Centre Pty Ltd	Australia	100%	-
Spirit Capital Pty Ltd	Australia	100%	-

For the purposes of this note the parent entity has been deemed as the legal parent entity Spirit Technology Solutions Ltd.

Note 37. Events after the reporting period

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

	Consolidated	
	2023	2022
	\$'000	\$'000
Loss after income tax benefit/(expense) for the year	(11,389)	(53,166)
Adjustments for:		
Depreciation and amortisation expense	4,073	7,655
Impairment of non-current assets	-	48,374
Net loss/(gain) on disposal of property, plant and equipment	268	(1,862)
Share-based payments	567	721
Acquisition and divestment costs	(200)	853
Net fair value loss on remeasurement of financial liabilities	8,042	2,747
Interest and other finance costs paid	129	190
Change in operating assets and liabilities:		
Decrease in trade and other receivables	3,112	1,089
Decrease/(Increase) in inventories	1,492	(2,179)
(Increase)/Decrease in other assets	(2,277)	667
(Increase) in contract assets	(1,503)	(2,428)
(Increase) in deferred tax assets (net)	(2,376)	(1,793)
(Decrease) in trade and other payables	(303)	(182)
(Decrease)/Increase in provisions	(514)	2,309
(Decrease)/Increase in unearned revenue	(2,851)	501
Net cash (used in)/from operating activities	<u>(3,730)</u>	<u>3,496</u>

Note 39. Earnings per share

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	682,589,506	657,644,431
Weighted average number of ordinary shares used in calculating diluted earnings per share	682,589,506	657,644,431
	2023	2022
	Total	Total
	\$'000	\$'000
Loss attributable to the owners of Spirit Technology Solutions Ltd	(11,389)	(53,166)
	2023	2022
	Total	Total
	Cents	Cents
Basic earnings per share	(1.67)	(8.08)
Diluted earnings per share	(1.67)	(8.08)

Note 40. Share-based payments

During the financial year ended 30 June 2023, 6,250,000 Performance Rights were granted by the Company to key management personnel with a vesting period ending 30 June 2025, of which 6,250,000 Performance Rights have a Relative Total Shareholder Return ("Relative TSR") performance hurdle measured against a peer group.

During the financial year ended 30 June 2023, 11,668,000 Performance Rights were granted by the Company to key management personnel and certain employees with a vesting period ending 30 June 2025, which vest subject to Absolute TSR performance hurdles being met, as outlined below.

Also, during the financial year ended 30 June 2023, 179,000 Performance Rights were granted by the Company to certain employees with a vesting period ending 30 June 2024, which vest subject to Absolute TSR performance hurdles being met, as outlined below.

Absolute TSR

100% of the Performance Rights vest based on absolute total shareholder return ("**Absolute TSR**") performance of the Company, and service conditions outlined below.

The vesting schedule is set out below:

- One-third of the Performance Rights vest when the Company's 30-trading day Volume Weighted Average Price (VWAP) is equal to or greater than **\$0.0930** at any time between grant and 30 June 2025.
- One-third of the Performance Rights vest when the Company's 30-trading day Volume Weighted Average Price (VWAP) is equal to or greater than **\$0.1240** at any time between grant and 30 June 2025.
- One-third of the Performance Rights vest when the Company's 30-trading day Volume Weighted Average Price (VWAP) is equal to or greater than **\$0.1550** at any time between grant and 30 June 2025.

The vesting conditions above are also subject to the following conditions. For each of the three Tranches above, 50% of the Performance Rights in each tranche will only vest if the participant remains employed with the Company until 31 December 2023 and the vesting conditions for each tranche above have been met, with the remaining 50% of the Performance Rights in each tranche, subject to remaining employed with the Company until 31 December 2024 and the vesting conditions for each tranche above being met.

Note 40. Share-based payments (continued)

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

Set out below are summaries of options granted under the Spirit Technology Solutions Ltd Long Term Incentive Plan:

2023

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
14/05/2019	01/07/2023	\$0.150	6,000,000	-	-	-	6,000,000
14/05/2019	01/07/2023	\$0.180	6,000,000	-	-	-	6,000,000
14/05/2019	01/07/2023	\$0.215	6,000,000	-	-	-	6,000,000
			18,000,000	-	-	-	18,000,000

2022

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
14/05/2019	01/07/2023	\$0.150	6,000,000	-	-	-	6,000,000
14/05/2019	01/07/2023	\$0.180	6,000,000	-	-	-	6,000,000
14/05/2019	01/07/2023	\$0.215	6,000,000	-	-	-	6,000,000
			18,000,000	-	-	-	18,000,000

Weighted average exercise price	\$0.182	-	-	-	\$0.182
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The weighted average remaining contractual life of options outstanding at the end of the financial year was Nil year (2022: 1 year).

Note 40. Share-based payments (continued)

Set out below are summaries of Performance Rights granted under the plan:

2023						
Grant date	Expiry date	Balance at the start of the year	Granted	Exercised	Forfeited	Balance at the end of the year
22/04/2020	30/06/2024	653,943	-	-	(326,971)	326,972
13/10/2020	12/11/2023	2,232,387	-	-	(627,075)	1,605,312
11/06/2021	11/06/2024	620,685	-	-	(86,307)	534,378
29/11/2021	07/04/2025	11,000,000	-	-	(6,486,314)	4,513,686
11/03/2022	07/04/2025	2,000,000	-	-	(305,201)	1,694,799
11/07/2022	30/06/2026	-	6,250,000	-	-	6,250,000
10/02/2023	10/02/2026	-	11,847,000	-	-	11,847,000
		16,507,015	18,097,000	-	(7,831,868)	26,772,147
2022						
Grant date	Expiry date	Balance at the start of the year	Granted	Exercised	Forfeited	Balance at the end of the year
12/09/2018	12/09/2021	247,059	-	(49,338)	(197,721)	-
18/02/2019	18/02/2023	520,000	-	(103,844)	(416,156)	-
22/04/2020	22/04/2023	653,943	-	-	-	653,943
13/10/2020	12/11/2023	2,232,387	-	-	-	2,232,387
11/06/2021	11/06/2024	620,685	-	-	-	620,685
29/11/2021	07/04/2025	-	11,000,000	-	-	11,000,000
11/03/2022	07/04/2025	-	2,000,000	-	-	2,000,000
		4,274,074	13,000,000	(153,182)	(613,877)	16,507,015

The weighted average remaining contractual life of Performance Rights outstanding at the end of the financial year was 1.19 years (2022: 2.47 years).

For the Performance Rights granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Share price at grant date	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
11/07/2022	30/06/2026	\$0.056	65%	-	3.19%	\$0.0519
10/02/2023	10/02/2026	\$0.065	65%	-	3.20%	\$0.0547
10/02/2023	10/02/2026	\$0.065	65%	-	3.20%	\$0.0453
10/02/2023	10/02/2026	\$0.065	65%	-	3.20%	\$0.0376
10/02/2023	10/02/2026	\$0.065	65%	-	3.20%	\$0.0482
10/02/2023	10/02/2026	\$0.065	65%	-	3.20%	\$0.0346
10/02/2023	10/02/2026	\$0.065	65%	-	3.20%	\$0.0245

Note 40. Share-based payments (continued)

	Consolidated	
	2023	2022
	\$	\$
Share-based payments expense reconciliation		
Issue of share options to Directors and employees under incentive option scheme	1	396
Issue of Performance Rights to Directors and employees under Performance Rights plan	566	325
	567	721
Loan Share Plan	375	-
Total share-based payments expense reconciliation	942	721



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Directors' Declaration

Spirit Technology Solutions Ltd
Directors' declaration
30 June 2023

In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Consolidated Entity's financial position as at 30 June 2023 and of its performance for the financial 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.

The Directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of Directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the Directors



James Joughin
Non-Executive Chairman

30 August 2023



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Independent Auditor's Report

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

Report on the Financial Report

Auditor's Opinion

We have audited the accompanying financial report of Spirit Technology Solutions Ltd (the Company) and its controlled entities (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2023, 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 year then ended, notes to the financial statements, including material accounting policy information and the Directors' Declaration of the Company and of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

In our opinion, the financial report of Spirit Technology Solutions Ltd is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group's financial position as at 30 June 2023 and of its financial performance for the year ended on that date; and
- complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the 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 financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

Key audit matter	How our audit addressed this matter
Impairment of goodwill and indefinite life intangible assets As at 30 June 2023, the carrying value of goodwill and indefinite life intangibles totalled \$67,487,000 (2022: \$67,487,000), as disclosed in note 16 of the financial report. The accounting policy in respect of these assets is outlined in note 2 <i>Intangible Assets</i>. An annual impairment test for goodwill and other indefinite life intangibles is required under AASB 136 <i>Impairment of Assets</i>. Management's testing has been performed using a discounted cash flow model (Impairment Model) to estimate the value-in-use of each Cash-Generating Unit (CGU) to which these intangible assets have been allocated. The evaluation of the recoverable amount requires the Group to exercise significant judgement in determining key assumptions in respect of each CGU, which include: 5-year cash flow forecast; - growth rate and terminal growth factor; and - discount rate.	Our procedures included, but were not limited to, assessing and challenging: - the appropriateness of Management's determination of each CGU to which goodwill and indefinite life intangible assets are allocated; - the application of an indefinite useful life to these intangible assets; - the integrity and mathematical accuracy of the Impairment Model; - the reasonableness of the financial year 2024 budget by CGU approved by the Directors, comparing to current actual results, and considering trends, strategies and outlooks; - the testing of inputs used in the Impairment Model, including the approved budget; - the determination of the discount rate applied in the Impairment Model, comparing to available industry data; - the short to medium term growth rates applied in the forecast cash flow, considering historical results and available industry data;

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Key audit matter	How our audit addressed this matter
Impairment of goodwill and indefinite life intangible assets The outcome of the impairment assessment could vary if different assumptions were applied. The evaluation of the recoverable amount of goodwill and indefinite life intangible assets is an area of significant Management estimation and judgement, and a Key Audit Matter.	• Management's sensitivity analysis around the key assumptions within the cash flow projections, to consider the likelihood of such movements occurring sufficient to give rise to impairment beyond the level recognised; and • the appropriateness of the disclosures including those relating to sensitivities in assumptions used in note 16

Key audit matter	How our audit addressed this matter
Classification and disclosure of financial liabilities As outlined in Note 22 the Group held a market rate loan facility of \$28m and had utilised \$25m at 30 June 2023, which is presented as a \$5m current liability and a \$20m non-current liability at balance date. The Group have early adopted the principles of AASB 2020-1 and AASB 2022-6 which have amended AASB 101 in relation to non-current liabilities with covenants. The disclosures relating to this facility are outlined within the commentary in the Directors' report, Note 22 and 28. The disclosures outline the conditions of the facility and the effect of amendments to this facility subsequent to year end. Due to the materiality of the facility and judgement required to consider the accuracy of the classification and completeness of disclosures in relation to the financial liabilities, we have considered this a Key Audit Matter.	Our procedures included, but were not limited to, the following: • Confirmed the loan balance held through direct third-party confirmation from the lender. • Reviewed and considered the quality and timing of the documentation and related audit evidence supporting the classification of the borrowings as current and non-current liabilities as at 30 June 2023 and events subsequent to the financial year. • Reviewed the accuracy and adherence to covenant reporting requirements during and subsequent to the financial year. • Reviewed the disclosures within the financial report to validate accuracy and completeness of such.

Other Information

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2023 but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report.

In connection with our audit of the financial report, our responsibility is to read the other information and in doing so, we consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If based on the work we have performed, we conclude that there is a material misstatement of this information, we are required to report that fact. We have nothing to report in this regard.

Directors' Responsibilities for the Financial Report

The Directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individual or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and other related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Group financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Auditor's Opinion

We have audited the Remuneration Report included in the Directors' report for the year ended 30 June 2023.

In our opinion, the Remuneration Report of the Company for the year ended 30 June 2023, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

PKF

PKF
Melbourne, 30 August 2023

Kaitlynn Brady

Kaitlynn Brady
Partner





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Additional Shareholder Information

The shareholder information set out below was applicable as at 15 September 2023.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

	Number of holders of ordinary shares	Number of ordinary shares	% of ordinary shares	Number of holders of performance rights	Number of performance rights	% of Performance rights
1 to 1,000	190	24,820	0.00%	-	-	-
1,001 to 5,000	794	2,317,641	0.32%	-	-	-
5,001 to 10,000	538	4,270,476	0.58%	-	-	-
10,001 to 100,000	1,008	37,319,767	5.07%	-	-	-
100,001 and over	349	691,672,000	94.03%	17	26,772,147	100.00%
	2,879	735,604,704	100.00%	17	26,772,147	100.00%
Holding less than a marketable parcel	1,601	7,512,265	1.02%	-	-	-

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares Number held	% of total shares issued
MR PETER DIAMOND & MRS DIANA DIAMOND <P & D DIAMOND SUPER FUND A/C>	85,000,000	11.56
UBS NOMINEES PTY LTD	66,886,908	9.09
MARQUEE HOLDINGS PTY LTD <E&R FAMILY A/C>	55,988,507	7.61
CITICORP NOMINEES PTY LIMITED	41,983,852	5.71
HARB HOLDINGS PTY LTD <THE HARB FAMILY A/C>	35,440,563	4.82
WARBONT NOMINEES PTY LTD <UNPAID ENTREPOT A/C>	27,192,668	3.70
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	21,946,141	2.98
HARB HOLDINGS PTY LTD <THE HARB FAMILY A/C>	20,547,945	2.79
BUTTONWOOD NOMINEES PTY LTD	18,751,858	2.55
HURACAN HOLDINGS PTY LTD <THE HURACAN FAMILY A/C>	17,996,664	2.45
CRAZY DIAMOND PTY LTD	15,000,000	2.04
QUANTUM 777 PTY LTD <THE QUANTUM 777 FAMILY A/C>	13,508,095	1.84
BRIGGS GROUP CONSULTING PTY LTD <L & C BRIGGS FAMILY A/C>	12,606,789	1.71
WADE TECHNOLOGIES PTY LTD <WADE FAMILY A/C>	12,578,750	1.71
B & R JAMES INVESTMENTS PTY LIMITED <JAMES SUPERANNUATION A/C>	10,000,000	1.36
MR JULIAN GORDON CHALLINGSWORTH	8,727,483	1.19
NIKALA HABER <THE NUMBER ONE FAMILY A/C>	5,693,092	0.77
SEABIRD INVESTMENTS (WA) PTY LTD <THE JA SUPERANNUATION A/C>	5,500,000	0.75
PENBURY GRANGE PTY LTD <JOUGHIN FAMILY S/F A/C>	5,459,936	0.74
MDJD PTY LTD <MARK DIAMOND SUPER FUND A/C>	5,000,000	0.68
LPB CORPORATE PTY LTD	5,000,000	0.68
CHEMBANK PTY LIMITED <CABAC SUPER FUND A/C>	5,000,000	0.68
	495,809,251	67.40

Unquoted equity securities

	Number on issue	Number of holders
Performance rights over ordinary shares on issue	26,772,147	17

Substantial holders

Substantial holders in the Company, as disclosed in substantial holding notices given to the Company, are set out below:

	Ordinary shares Number held	% of total shares issued
CRAZY DIAMOND PTY LTD / PETER + DIANA DIAMOND ATF (PETER + DIANA DIAMOND SUPER FUND)	103,000,000	14.00
ELIE AYOUB / MARQUEE HOLDINGS PTY LTD <E&R FAMILY A/C> / HURACAN HOLDINGS PTY LTD <THE HURACAN FAMILY A/C>	73,985,171	10.06
JAMES HARB / HARB HOLDINGS PTY LTD <THE HARB FAMILY A/C> / QUANTUM 777 PTY LTD < THE QUANTUM 777 FAMILY A/C>	67,560,862	9.18
TIGA TRADING PTY LTD / THORNEY OPPORTUNITIES LTD / THORNEY TECHNOLOGIES LTD	52,141,281	7.84
REGAL FUNDS MANAGEMENT PTY LTD	47,978,201	6.52
BANK OF AMERICA CORPORATION AND ITS RELATED BODIES CORPORATE	38,198,820	5.19

Voting rights

The voting rights attached to each class of equity security are set out below:

Ordinary shares

All issued shares carrying voting rights on a one-for-one basis.

Unquoted options

There are no voting rights attached to unquoted options.

Performance rights

There are no voting rights attached to performance rights.

There are no other classes of equity securities.

Corporate Governance Statement

The Company's 2023 Corporate Governance Statement is available on the Company's website at: <https://www.spirit.com.au/investor-centre/>

Annual General Meeting

Spirit Technology Solutions Ltd advises that its Annual General Meeting will be held on Wednesday, 22 November 2023. The time and other details relating to the meeting will be advised in the Notice of Meeting to be sent to all shareholders and released to ASX in due course. In accordance with ASX Listing Rules and the Company's Constitution, the closing date for receipt of nominations for the position of Director are required to be lodged at the registered office of the Company by 5.00pm (AEDT) on 11 October 2023.

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Corporate Directory

Directors

James Joughin (Non-Executive Chairman)
Julian Challingsworth (CEO & Managing Director)
Julian Haber (Executive Director)
Elie Ayoub (Executive Director)
Gregory Ridder (Non-Executive Director)
Michelle Bendschneider (Non-Executive Director)

Company secretary

Melanie Leydin

Registered office

Level 4, 100 Albert Road
South Melbourne, Victoria 3205
Phone: 03 9692 7222

Principal place of business

Level 2, 19-25 Raglan Street
South Melbourne, Victoria 3205
Phone: 1300 007 001

Share register

Automic Group
Level 5, 126 Phillip Street
Sydney, New South Wales 2000
Phone: 1300 288 664 (within Australia)
+61 (0) 2 9698 5414 (International)

Auditor

PKF Melbourne Audit & Assurance Pty Ltd
Level 12, 440 Collins Street
Melbourne, Victoria 3000

Stock exchange listing

Spirit Technology Solutions Ltd securities are listed on the Australian Securities Exchange
(ASX code: ST1)
ACN 089 224 402

Website

spirit.com.au

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