Syft Technologies Limited

Unaudited
FY2023 Financial Statements

Unaudited consolidated income statement

For the year ended 31 March 2023

	2023	2022
	($000)	($000)
Operating revenue		
Revenue from contracts with customers for sales at a point in time	14,455	31,654
Revenue from contracts with customers for services over time	2,693	1,497
Instrument rental revenue	125	604
Total operating revenue	**17,273**	**33,755**
Cost of sales	11,461	17,024
Gross profit	**5,812**	**16,731**
Other income		
Other income	525	462
Total other income	**525**	**462**
Administration expenses	4,036	4,314
Other operating expenses	7,431	4,366
Sales & marketing costs	5,927	4,689
Research costs	3,429	2,605
Finance costs	689	774
Impairment of intangible assets	2,530	-
Total expenses	**24,042**	**16,748**
(Loss)/Profit before income tax	**(17,705)**	**445**
Income tax expense	(4,305)	491
(Loss)/Profit after income tax attributable to equity holders of the Group	**(13,400)**	**(46)**
Earnings per share for (loss)/profit attributable to the ordinary equity holders of the Company		
Basic earnings per share (cents)	(15.12)	(0.06)
Diluted earnings per share (cents)	(15.12)	(0.06)

Unaudited consolidated statement of comprehensive income

For the year ended 31 March 2023

	2023	2022
	($000)	($000)
(Loss)/Profit for the year	**(13,400)**	**(46)**
Other comprehensive income/(expense)		
Gains/(losses) on translation of foreign operations	761	500
Effective portion of changes in fair value of cashflow hedges	(1,252)	-
Income tax benefit on other comprehensive income/ (expense)	350	-
Other comprehensive income/ (expense), net of tax	**(141)**	**500**
Total comprehensive income/(expense) for the year	**(13,541)**	**454**

Unaudited consolidated statement of changes in equity

For the year ended 31 March 2023

	Share capital	Employee equity benefit reserve	Foreign currency translation reserve	Cashflow hedge reserve	Accumulated losses	Total equity
	($000)	($000)	($000)	($000)	($000)	($000)
Balance at 31 March 2021	**37,176**	**708**	**293**	**-**	**(17,001)**	**21,176**
Loss for the year	-	-	-	-	(46)	(46)
Other comprehensive income	-	-	500	-	-	500
Total comprehensive income for the year			**500**	**-**	**(46)**	**454**
Shares issued	1,867	151	-	-	-	2,018
Share based payments	-	79	-	-	-	79
Forfeited restricted shares	-	(27)	-	-	-	(27)
Cost of share issue	(33)	-	-	-	-	(33)
Balance at 31 March 2022	**39,010**	**911**	**793**	**-**	**(17,047)**	**23,667**
Loss for the year	-	-	-	-	(13,400)	(13,400)
Other comprehensive income	-	-	761	-	-	761
Effective portion of changes in fair value of cash flow hedges	-	-	-	(1,252)	-	(1,252)
Income tax impact on other comprehensive income	-	-	-	350	-	350
Total comprehensive income for the year			**761**	**(902)**	**(13,400)**	**(13,541)**
Shares issued	22,809	843	-	-	-	23,652
Share based payments	11	10	-	-	-	21
Forfeited restricted shares	-	-	-	-	-	-
Cost of share issue	(102)	-	-	-	-	(102)
Balance at 31 March 2023	**61,728**	**1,764**	**1,554**	**(902)**	**(30,447)**	**33,697**

Unaudited consolidated balance sheet

As at 31 March 2023

	2023 ($000)	2022 ($000)
Current assets		
Cash and cash equivalents	1,315	408
Trade and other receivables	4,003	6,296
Inventories	9,348	5,598
GST receivable	327	-
Current tax asset	122	-
Current derivative asset	-	51
Total current assets	**15,115**	**12,353**
Non current assets		
Property, plant and equipment	12,664	11,523
Intangible assets	10,106	8,006
Right of use assets	6,022	13,613
Deferred tax asset	6,141	1,412
Non current derivative asset	-	44
Total non current assets	**34,933**	**34,598**
Total assets	**50,048**	**46,951**
Current liabilities		
Trade and other payables	4,432	4,287
Current lease liabilities	661	618
GST payable	-	14
Current derivative liabilities	1,322	
Current tax liabilities	-	62
Provisions	384	703
Short term borrowings	1,080	975
Total current liabilities	**7,879**	**6,659**
Non current liabilities		
Non current derivative liabilities	295	-
Non current lease liabilities	6,106	13,474
Long term borrowings	2,071	3,151
Total non current liabilities	**8,472**	**16,625**
Total liabilities	**16,351**	**23,284**
Total net assets	**33,697**	**23,667**
Equity		
Share capital	61,728	39,010
Accumulated losses	(30,447)	(17,047)
Reserves	2,416	1,704
Total equity attributable to equity holders of the Group	**33,697**	**23,667**

Unaudited consolidated cashflow statement

For the year ended 31 March 2023

	2023 ($000)	2022 ($000)
Cash flows from/(used in) operating activities		
Receipts from customers	20,017	29,899
Interest received/(paid)	(11)	(206)
Grants received	159	136
Tax refunds/(payments)	(568)	2
Payments to suppliers and employees	(30,451)	(27,250)
Net cash flows from/ (used in) operating activities	**(10,854)**	**2,581**
Cash flows from/(used in) investing activities		
Payment of security deposit	-	(13)
Sale of fixed assets	-	187
Purchase of fixed assets	(2,399)	(3,773)
Purchase of intangible assets	(6,448)	(5,018)
Net cash flows used in investing activities	**(8,847)**	**(8,617)**
Cash flows from/(used in) financing activities		
Net proceeds from shares issued	22,716	1,835
Proceeds from borrowings	-	5,000
Repayment of borrowings	(975)	(874)
Lease payments	(1,173)	(1,048)
Net cash flows provided by/(used in) financing activities	**20,568**	**4,913**
Net decrease in cash and cash equivalents	**867**	**(1,123)**
Cash and cash equivalents at the beginning of the year	408	1,573
Effects of exchange rates on cash and cash equivalents	40	(42)
Cash and cash equivalents at the end of the year	**1,315**	**408**

Material uncertainty related to going concern

Certain events and conditions exist which may cast doubt over the Group's ability to continue as a going concern are outlined in this note to the accounts.

The Directors of the Group have prepared the financial statements on a going concern basis, and expect the Group to be able to realise its assets and meet its financial obligations in the normal course of business.

However, in FY2023, a significant reduction in revenue from one of the Group's major customers has resulted in a loss before tax for the year ended 31 March 2023 of $17.7 million (2022 $0.4 million profit), and operating cash outflows of $10.9 million (2022: cash inflow of $2.6 million).

As at 31 March 2023, the Group held Cash and Cash Equivalents of $1.3 million (2022 $0.4 million). The Group successfully raised capital of $22.7 million (net of capital raise expenses) in April 2022. This capital raise has supported the business through the long lead sales cycles as the Group diversifies its current customer/revenue concentration in semiconductor. Post year end, while customers have placed a number of orders, with the current cost levels, it has become necessary for the Group to raise additional funding to meet its upcoming working capital requirements, undertake a strategic review of all options for the business, and as a result be able to continue as a going concern for the foreseeable future.
Recognising the current financial position, the Directors having considered a range of funding options, including a rights issue, share placement and further debt funding, and concluded that a convertible note would provide funding in the time frame required.

On 25 June 2023, final terms were agreed with Ampersand 2020 Limited Partnership (Ampersand) to effectively underwrite a funding round of $5.5 million in the form of a convertible note. Accident Compensation Corporation (ACC) also signed an agreement on 25 June 2023 to participate in the funding round up to $2.03 million of the $5.5 million. The $5.5 million convertible notes have warrants stapled to them. Warrants provide the holder the option to purchase additional ordinary shares at a conversion of 4.5 warrants to one ordinary share, at an exercise price of $0.01 per share. The convertible notes receive interest at 12% compounding daily which is added to the amount owing under the note. The convertible notes and compounding interest are repayable on 31 December 2023, or may be extended until 30 June 2024, or the Convertible Notes (and any interest accrued) may be converted into Second Ranking Preference Shares at a rate of $0.30 per share.

The agreement has the following conditions attached:
- Syft obtaining the required approvals of its shareholders (including approval of the Ampersand / ACC Allotment under the Takeovers Code)
- Syft appointing an investment bank/ adviser by 10 July 2023 to consider strategic options (including the potential sale of the Syft business or all of the Company's shares). This condition was met on 10 July 2023.

If shareholder approval and cash from the convertible note is not obtained on 21 July 2023, this will have severe adverse effects on the Group, including the potential for the Group to remain solvent.

The money raised from this convertible note will be used to fund the operations of the business in the foreseeable future. It is expected to provide sufficient cash until the business has returned to delivering positive net operating cash flows. However, operating cash flows are unlikely to be sufficient to repay the note in full on its repayment date of 31 December 2023 (if not extended). Therefore, prior to the repayment date, one of the following events will need to occur: (a) Ampersand and ACC agree to extend the repayment date until such time as it can be repaid through operating cash flows (which is forecast to be achievable within the 6 month extension permitted); (b) Ampersand and ACC agree to convert the Note into Second Ranking Preference Shares, as permitted under the terms; or (c) the Company enters into a subsequent transaction to secure permanent funding and repay the Convertible Note (plus interest), potentially including the sale of the business.

Assuming the repayment of the convertible note is extended to 30 June 2024, the Directors believe that this convertible note, combined with the approved FY24 Annual Budget (factoring in an extension of the financial forecast to July 2024), results in sufficient funds to be able to satisfy all forecast financial obligations which arise in the 16 months following balance date. However, these projections are subject to a number of uncertainties as outlined below:

a) Completion of convertible note and receipt of funds
The Directors' financial forecast assumes the successful completion of the convertible notes funding on 28 July 2023. A Special Meeting of shareholders to obtain approval for the transaction is scheduled for 21 July 2023. This requires a majority vote by shareholders to pass (greater than 50% of those who vote on the day).

b) Level and timing of instrument sales and achievement of FY24 targeted revenue growth.
FY24 sales are forecast to increase from FY23, returning to trading levels of previous years. Existing key customers account for approximately 40% of the targeted FY24 instrument sales, of which the Company has already received a number of orders. Forecast service revenue is largely expected to come from renewal of contracts from existing customers and therefore are highly predictable.

However, while the Directors are confident with the strength of the forecast sales pipeline, uncertainty remains around the timing of conversion of future sales.

c) Banking covenants
The Group has EBIT and Equity covenants associated with the current debt and working capital financing. In an instance where the results for FY24 breach these covenants, the bank can recall the debt. The Directors' cash flow forecast does not assume repayment of existing borrowings. While the Group has consistently had sufficient headroom to meet the Equity covenant, the EBIT covenant has required a waiver for the prior two periods, to which the Directors would need to seek again if required. The need for this is dependent on trading results and the success of other key assumptions noted above.

d) Repayment of the convertible note
As per the terms of the convertible note, this debt is to be repaid prior to 31 December 2023. Operating cash flows are unlikely to be sufficient to repay the note in full on its repayment date (if not extended). As outlined above, the Directors have identified there are a number of possible alternatives available to the Group. These alternatives are not entirely under the Group's control. However, the Directors consider that the Group has reasonable prospects of achieving one of these outcomes and have appointed an independent advisor to carry out a strategic review.

The assumptions above have also been stress tested against a range of scenarios including a reduction in revenue, without commensurate cost savings, and the inability to extend the convertible note to 30 June 2024. This demonstrates that the financial and cash flow forecasts are sensitive to changes as outlined in the material uncertainties above in points a – d and could result in the Group being unable to continue as a going concern.

These events and conditions identified indicate that material uncertainties exist that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Directors have concluded that, whilst material uncertainties exist, it remains appropriate to continue to prepare the financial statements on a going concern basis as:
- The first quarter of FY24 has seen a recovery with several customers having placed orders;
- Large and growing semiconductor and life sciences markets and, whilst purchasing cycles were delayed, the Group has strengthened products, sales pipeline, and brand awareness in those markets;
- There are mitigating strategies under a downside revenue scenario that the Group could implement to reduce costs;
- The Directors expect to be able to extend the convertible note to 30 June 2024 if required; and
- Appropriate steps have been taken to ensure the necessary investment, including the appointment of a strategic advisor to assess the best strategic outcome for the business.

These financial statements do not include any adjustments that may be necessary should the Company and Group not be able to continue as a going concern and realise the value of their assets and discharge their liabilities in the ordinary course of business.

In preparing the unaudited financial statements the Directors have made a number of judgements and assumptions with respect to going concern (as outlined above) and asset valuations. It is anticipated that due to the effect of the multiple uncertainties noted above the auditor's opinion will be modified with respect to the going concern assumption and valuation of the assets.