

THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION FOR THE PURPOSES OF ARTICLE 7 OF THE UK VERSION OF REGULATION (EU) NO 596/2014 WHICH IS PART OF UK LAW BY VIRTUE OF THE EUROPEAN UNION (WITHDRAWAL) ACT 2018, AS AMENDED. UPON THE PUBLICATION OF THIS ANNOUNCEMENT VIA A REGULATORY INFORMATION SERVICE, THIS INSIDE INFORMATION IS NOW CONSIDERED TO BE IN THE PUBLIC DOMAIN.

Spectra Systems Corporation

Audited results for the twelve months ended 31 December 2024

Spectra Systems Corporation (the "Company"), a leader in machine-readable high speed banknote authentication, brand protection technologies, and gaming security software, is pleased to announce its results for the twelve months ended 31 December 2024.

Financial highlights (Including the consolidations of Cartor Security Printers ("CSP"), a wholly owned foreign subsidiary acquired in December 2023):

- Revenue of 49,191k (2023: 20,288k) up 142.5%
- Adjusted EBITDA¹ up 77.9% at 14,929k (2023: 8,394k)
- Adjusted PBTA¹ up 46.6% to 12,064k (2023: 8,231k)
- Adjusted earnings per share² up 36% to US 18.9 cents (2023: US 13.9 cents)
- Cash generated from operations of 9,899k (2023: 7,524k)
- Cash³ of 13,354k (2023: 13,253k) and debt⁴ of 4,359k (2023 5,583k) at 31 December
- The Board are declaring an annual dividend of 0.116 per share (2023: US 0.116) to be paid in June 2025

1 Before stock compensation expense and excludes non-controlling interest

2 Before amortization and stock compensation expense, excludes non-controlling interest

3 Excludes approximately 2 million (2023: 513k) of restricted cash and investments

4 Cartor Holding Limited debt acquired on 21 December 2023 as part of the CSP acquisition

Operational highlights:

- Sensor manufacturing contract signed on July 15, 2024
- Sensor development program transitioning to manufacturing in Q3 2025
- Central bank materials order for 2023-2024 period completed on schedule
- Final third-party component test with middle eastern central bank successfully passed resulting in approval of our substrate with this security feature
- Successful print trials with a major tax stamp partner for newest version of smartphone authentication

Commenting on the results, Nabil Lawandy, Chief Executive Officer, said:

"The Company has significantly increased revenue, adjusted profit before tax and amortization and adjusted EBITDA, which are all ahead of the prior year and in line with market expectations driven primarily through the executed sensor manufacturing contract. EPS has increased 36% from the prior year, including the issuance of additional shares to Cartor Security Printers as part of the acquisition cost. Our cash position remains strong after the CSP acquisition. Cash generation was driven by sensor development milestone payments, a 9.4M sensor manufacturing prepayment, expected strong pre-Covid 19 level sales of covert materials to a central bank, and strong optical materials sales. With respect to raw materials used in our security products, they are outside the target list of current tariffs and hence will not affect our margins on sales of optical materials.

The acquisition of CSP is transformative and brings security printing and polymer substrate printing into the core capabilities of the Company. Through efforts at CSP, we have continued our progress with a major central bank to achieve qualification and eventual near-term participation in a tender for polymer banknote substrates. CSP also brings many optical materials opportunities through their existing sales pipelines and has provided Spectra with rapid access to a number of large corporate partners which can effectively adopt and drive sales of our cutting-edge authentication technologies.

The combination of the sensor revenues expected with the execution of the manufacturing contract, the expected sensor maintenance contract in 2025, the increased opportunities for optical materials with smartphone verification, and downstream polymer substrate sales, give the board confidence for significant increases in revenues, cash generation, and continued long-term growth.

The Board therefore believes that the Company is on track to achieve record earnings in 2025"

Spectra Systems Corporation
Dr. Nabil Lawandy, Chief Executive Officer

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The person responsible for arranging the release of this announcement on behalf of the Company is Dr. Nabil Lawandy, Chief Executive Officer of the Company.

Chief Executive Officer's statement

Introduction

We are delighted to report that we outperformed the 2023 earnings results with revenue for the year up 142.5% at 49,191k (2023: 20,288k), primarily driven by pre-production development contracts as well as strong demand for our materials to meet production requirements of our long-standing central bank customer, as well as the acquisition of CSP into our operations.

As a result of the increased revenue, adjusted EBITDA (before stock compensation expense) for the year increased 77.9% to 14,929k compared to the prior year of 8,394k.

Having generated cash from operations of 9,899k (2023: 7,524k), cash at the end of the period was 13,354k (2023: 13,253k), excluding approximately 2M of restricted cash and investments (2023: 513k). This also follows the 5,595k paid to shareholders during June in the form of the Company's dividend of 0.116 per share.

Review of Operations

Physical and Software Authentication Business

The Physical and Software Authentication Systems business generated revenue of 30,958k (2023: 18,164k) and Adjusted EBITDA of 13,299k (2023: 8,005k). Authentication Systems revenues were driven by strong pre-Covid 19 levels of covert materials sales, continuing funding for sensor development by our customer and sensor manufacturing revenues. Of particular importance for future high margin revenues is CSP's support of industrial scale testing of our optical materials as well as production of our polymer substrate for qualification and marketing needs.

Our optical materials business received orders from a new K-cup customer in 2024 and has significantly grown the potential of this side of the business around the enhanced and upgraded smartphone technology which has been validated on an industrial scale by CSP.

On the software security side of the Company's business, the Secure Transactions Group generated an Adjusted EBITDA of (8)k (2023: 132k) on revenue of 1,956k (2023: 1,670k). The 2024 results are higher in revenue but not in line with earnings expectations. The earnings are lower due to hedging on staffing with expensive contract employees which in hindsight could have been converted to employees. We expect 2025 to achieve higher revenues and significantly positive earnings associated with this software operation.

Security Printing Business (CSP)

CSP generated revenue of 16,277k and adjusted EBITDA of 1,638k for the period ending 31 December 2024. During 2024, additional development expenses of 265,000 were required to complete all the substrate requirements, including the incorporation of third-party security feature which was the last outstanding requirement and not under our control. We expect that in 2025, we will receive full qualification by a central bank that has been evaluating our substrate for over two years.

Within a year, after a smooth and successful integration, key CSP staff as well as our UK based sales director have daily calls with the Spectra materials and business development team in Rhode Island. Discussions take place on all aspects of the business with a focus on polymer substrate qualification and scale-up printing of our newest

smartphone materials and technology which has resulted in strong traction with corporate partners important for commercial success.

On the back of a full polymer substrate qualification, we will implement an already planned reduction of workforce at CSP UK and France to both improve productivity and restructure the business around polymer substrate production and a select group of customers in areas where contracts are long term and Spectra's technology can be the differentiating factor to win new business and increase margins.

Prospects

The Company continues to have number of new short-term and long-term prospects. The short-term opportunities are expected in the 2025-2027 period and the long-term opportunities are expected in the 2027-2030 time frame.

The short-term opportunities include:

- Execution of a new maintenance agreement for sensors currently being manufactured
- Delivery of all sensors to our customer to increase cash to the highest levels in company history
- Full qualification of our Fusion polymer substrate with a major central bank
- Sales of Fusion polymer substrate to a central bank and an invitation to tender for another
- Provide laminate printing including Spectra optical materials for a major Asian passport authority
- Swiss Post postage stamp contract
- Adoption of our smartphone technology and sale of our materials for several billion tax stamps per annum with a corporate partner
- Adoption of our covert technology in an EU passport

Long-term opportunities include:

- Further increase of covert authentication material sales by a central bank
- customer
- Covert materials sales for passports
- Two additional central bank tenders
- Sale of covert machine -readable polymer substrate to a central bank
- Spirits tracking with two-level continuous ink jet materials developed for major
- player in tax and revenue stamps

The combination of these prospects generated directly by Spectra Systems Rhode Island and CSP independently and collaboratively, has positioned the Company to accelerate its revenue and earnings growth over the coming years. We continue to develop cutting edge technologies with our expanded security printing capabilities and expertise to remain a technology leader in the authentication industry and to offer our shareholders growth through innovation and dedication, serving both new and existing customers.

Dividend

With the Company having a ninth year of sustainable profits, reaching their highest levels ever, and having sufficient resources to execute on its growth plans with its existing cash reserves, the Board is delighted to again issue a dividend. Our dividend policy takes account of the Group's profitability, underlying growth, and maintenance of sufficient cash reserves. The Board therefore intends to pay an annual dividend of 0.116 per share on June 27, 2025 to shareholders of record as of June 13, 2025.

Nabil M. Lawandy
Chief Executive Officer
March 26, 2025

Consolidated statements of income
for the years ended 31 December:

	2024 Audited USD '000	2023 Audited USD '000
Revenue		
Product	43,052	13,401
Service	6,139	6,453
License and royalty	-	434
Total revenues	49,191	20,288
Cost of sales	25,702	6,664

Gross profit	23,489	13,624
Operating expenses		
Research and development	2,161	1,450
General and administrative	8,392	4,198
Sales and marketing	1,457	824
Total operating expenses	<u>12,010</u>	<u>6,472</u>
Operating profit	11,479	7,152
Interest income	150	376
Interest expense	(198)	-
Foreign currency income (loss)	(127)	(73)
Profit before taxes	11,304	7,455
Income tax expense	<u>2,802</u>	<u>1,430</u>
Net income	8,502	6,025
Net loss attributable to noncontrolling interest	(18)	(23)
Net income attributable to Spectra Systems Corporation	<u>8,520</u>	<u>6,048</u>
Earnings per share		
Basic	0.18	0.13
Diluted	0.17	0.12

All of the Group's operations are continuing

Consolidated statements of comprehensive income for the years ended 31 December:

	2024 Audited USD '000	2023 Audited USD '000
Net income	8,502	6,025
Other comprehensive income (loss)		
Unrealized loss on currency exchange	(294)	(110)
Reclassification for realized loss in net income	<u>127</u>	<u>73</u>
Total other comprehensive loss	<u>(167)</u>	<u>(37)</u>
Comprehensive income	<u>8,335</u>	<u>5,988</u>
Net loss attributable to non-controlling interest	<u>(18)</u>	<u>(23)</u>
Comprehensive income attributable to Spectra Systems Corporation	<u>8,353</u>	<u>6,011</u>

Consolidated balance sheets as of 31 December:

	2024 Audited USD '000	2023 Audited USD '000
Current assets		
Cash and cash equivalents	13,354	13,253
Trade receivables, net of allowance	3,000	3,777
Unbilled and other receivables	4,597	1,394
Inventory	6,206	6,507
Prepaid expenses	1,152	1,207
Total current assets	<u>28,309</u>	<u>26,138</u>

Total current assets	20,000	20,100
Non-current assets		
Property, plant and equipment, net	9,048	11,098
Operating lease right of use assets, net	5,684	6,308
Intangible assets, net	13,511	13,514
Investments	95	95
Restricted cash	2,063	513
Deferred tax assets, net	2,093	1,844
Other assets	171	586
Total non-current assets	32,665	33,958
Total assets	60,974	60,096
Current liabilities		
Accounts payable	3,631	2,753
Accrued expenses and other liabilities	1,034	813
Line of credit	453	561
Operating lease liabilities, short term	798	1,107
Taxes payable	1,423	514
Third party loans	2,851	1,454
Deferred revenue	4,967	6,058
Total current liabilities	15,157	13,260
Non-current liabilities		
Operating lease liabilities, long term	4,969	5,275
Third party loans	1,508	4,129
Contingent consideration	2,513	3,819
Deferred revenue	499	1,500
Total non-current liabilities	9,489	14,723
Total liabilities	24,646	27,983
Stockholders' equity		
Common stock	482	460
Additional paid in capital - common stock	57,605	56,152
Accumulated other comprehensive loss	(378)	(211)
Accumulated deficit	(21,936)	(24,861)
Total Spectra Systems stockholders' equity	35,773	31,540
Non-controlling interest	555	573
Total liabilities and stockholders' equity	60,974	60,096

Statements of cash flows
for the year ended 31 December:

	2024 Audited USD '000	2023 Audited USD '000
Cash flows from operating activities		
Net income	8,502	6,025
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,194	1,055
Stock-based compensation expense	192	180
Lease expense	11	18
Deferred taxes	(228)	(886)
Changes in operating assets and liabilities		
Accounts receivables	752	2,092
Unbilled and other receivables	(3,200)	245
Inventory	258	(1,470)
Prepaid expenses and other assets	445	(450)
Accounts payable	912	(345)
Accrued expenses and other liabilities	1,140	(190)
Deferred revenue	(2,079)	1,250
Net cash provided by operating activities	9,899	7,524
Cash flows from investing activities		
Restricted cash and investments	(1,550)	-
Payment of patent and trademark costs	(689)	(332)
Proceeds from sale of equipment	-	9
Acquisition of Cartor Holdings Limited, net of Acquired Cash		(6,201)

Purchases of property, plant and equipment		(151)
Net cash used in investing activities	(745)	(6,675)
Cash flows from financing activities		
Dividends paid	(5,595)	(5,182)
Repurchase of shares	-	-
Third party loan principle payment	(1,129)	(31)
Line of credit		113
Net cash used in financing activities	(139)	(5,100)
Effect of exchange rate on cash and cash equivalents		8
Net increase (decrease) in cash and cash equivalents	49	
Cash and cash equivalents, beginning of year	101	(4,243)
Cash and cash equivalents, end of year	13,253	17,496
	13,354	13,253

Non-cash investing activities

Contingent consideration	-	3,819
Equity used for investment on CPS	1,278	2,805

Notes to financial information

1. Basis of preparation

This report was approved by the Directors on the 26th day of March 2025.

This financial information has been prepared using the recognition and measurement principles of US Generally Accepted Accounting Principles. The Group has not elected to apply IAS 34 Interim Financial Reporting.

The principal accounting policies used in preparing the interim results are those the Company expects to apply in its financial statements for the year ending 31 December 2024 and are unchanged from those disclosed in the Company's Annual Report for the year ended 31 December 2023.

2. Earnings per share

The calculation of basic earnings per share is based on the net income divided by the weighted average number of common shares outstanding. Diluted earnings per share is calculated by considering the dilutive impact of common stock equivalents under the treasury stock method as if they were converted into common stock as of the beginning of the period or as of the date of grant, if later. Excluded from the calculation of diluted earnings per common share for the years ended 31 December 2024 and 2023 were 0 and 132,000 shares, respectively, related to stock options because their exercise prices would render them anti-dilutive. The following table shows the calculation of basic and diluted earnings per common share.

	Full Year to 31 Dec 2024	Full Year to 31 Dec 2023
Numerator:		
Net income	8,520,046	6,047,921
Denominator:		
Weighted average common shares	48,023,360	45,074,264
Effect of dilutive securities:		
Stock Options	935,229	3,687,690
Diluted weighted average common shares	48,958,589	48,761,954
Earnings per common share:		
Basic:	0.18	0.13
Diluted:	0.17	0.12

3. Copies of this statement are available to the public on the Company's website at <http://www.spvy.com>.

4. Reclassification: Certain reclassifications have been made to prior period amounts in order to confirm to current period presentation.

5. CSP acquisition - On December 21, 2023, the Company acquired 100% of the shares of Cartor Holdings Limited ("Cartor") in a cash and stock deal for a maximum consideration of £10.5 million. At completion, the Company paid £5.5 million in cash, issued 947,494 new shares of common stock of 0.01, at an issue price of £2.11 per share, and assumed £5.5 million in third party loans. Another £3 million of shares will be issued to the seller subject to certain

assumed 25.0 million in third party loans. Another 25 million of shares will be issued to the seller subject to certain contingent contract and milestone performance in the first 18 months post-acquisition. Total consideration was approximately 13.4 million.

6. Nature of financial information

The Preliminary Announcement set out above is an extract from the forthcoming Annual Report and Accounts and does not represent statutory accounts for Spectra Systems Corporation. The statutory accounts of Spectra Systems Corporation in respect of the period ended 31 December 2024 will be delivered to the Registrars of Companies before the Company's Annual General Meeting.

It is anticipated that the Annual Report and Accounts will be circulated to shareholders of Spectra Systems Corporation by April 2025.

Appendix - Reconciliation of Non-GAAP measures

The Company publishes certain additional information in a non-statutory format in order to provide readers with an increased insight into the underlying performance of the business. Reconciliations to the GAAP measures are shown in the following tables:

	2024 USD '000	2023 USD '000
Adjusted earnings before interest, taxes, depreciation and amortization (EBITDA):		
Operating profit	11,479	7,152
Depreciation	2,690	466
Amortization	560	584
Stock compensation	182	180
Operating loss - noncontrolling interest	18	23
Stock compensation - noncontrolling interest	(10)	(11)
Adjusted EBITDA	<hr/> 14,919	<hr/> 8,394
Adjusted profit before taxes and amortization (PBTA):		
Profit before taxes	11,304	7,455
Amortization	560	584
Stock compensation	182	180
Operating loss - noncontrolling interest	18	23
Stock compensation - noncontrolling interest	(10)	(11)
Adjusted PBTA	<hr/> 12,054	<hr/> 8,231
Adjusted earnings per share:		
Adjusted PBTA	12,054	8,231
Income tax expense	(2,802)	(1,430)
Adjusted earnings	<hr/> 9,252	<hr/> 6,801
Diluted weighted average common shares	48,958,589	48,761,954
Adjusted earnings per share	0.189	0.139

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