

# AVADA Group Limited

ACN 648 988 783

ASX Code: AVD

## Appendix 4D for the half-year ended 31 December 2022

### RESULTS FOR ANNOUNCEMENT TO THE MARKET:

				Consolidated Half-year ended 31/12/2022 \$'000	Consolidated Half-year ended 31/12/2021 \$'000
% Change					
Total revenue from ordinary activities	Up	2778%	to	84,540	2,937
Loss from ordinary activities after tax attributable to members	Down	33%	to	(4,539)	(6,813)
Loss for the period attributable to members	Down	33%	to	(4,539)	(6,813)

The results above for AVADA Group Limited ("the Company") and its subsidiaries ("the Group") includes the recognition of a \$2.7m impairment of goodwill and intangible assets in respect of The Traffic Marshal CGU for the half-year ended 31 December 2022. This reflects a continuation of the challenging trading conditions, combined with a deterioration in operating performance which is being addressed through management and structural changes.

As advised to the market on 17 February 2023, under the terms and conditions applying to the Group's bank facilities with the Commonwealth Bank of Australia (the "Bank"), a financial covenant, requiring the Group to maintain a defined Net Leverage Ratio, has been breached at the reporting date (to the extent of less than 10% of covenant levels).

On 26 August 2022, the Company, through its subsidiary Construct Traffic No 2 Pty Ltd, announced that it acquired the business and all of the assets of Construct Traffic Pty Ltd ("Construct Traffic").

#### *Dividend details*

The Company is not proposing to pay dividends in respect of the half-year ended 31 December 2022.

### EXPLANATION OF KEY INFORMATION

#### *Composition of the condensed consolidated financial statements*

The condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the half-year ended 31 December 2022 include the results of the Group and the results of the operating subsidiaries that were acquired in December 2021, except for Construct Traffic that was acquired on 26 August 2022. For the comparative period, it represents the Company for the six months ended 31 December 2021 and the subsidiaries (excluding Construct Traffic No 2 Pty Ltd) from 16 December 2021, being the date that the Company acquired the subsidiaries, to 31 December 2021.

*Details of entities over which control has been gained or lost during the period*

Name	Date of gain of control	Profit/(Loss) for the half-year ended 31 December 2022 attributable to the Group from acquisition \$'000
Construct Traffic <sup>1</sup>	26 August 2022	786

<sup>1</sup> The Company, through its subsidiary Construct Traffic No 2 Pty Ltd, acquired the business and all of the assets of Construct Traffic.

*Net tangible assets per share*

	31/12/2022	31/12/2021
Net tangible assets per share <sup>1</sup>	<u>\$(0.08)</u>	<u>\$(0.04)<sup>2</sup></u>

<sup>1</sup> Right of use assets and liabilities have been included in the Net tangible assets per share calculation.

<sup>2</sup> On 9 November 2021, the Company split 1,100 shares into 19,880,807 shares. Shares were split in the ratio of 1:18,073.46 shares. The Net tangible assets per share calculation used the revised share numbers.

*Independent audit review report*

The independent auditor's review report is attached to the financial report for the half-year ended 31 December 2022 ("Financial Report").

The independent auditor's review report contains a Material Uncertainty Related to Going Concern.

As Note 1 of the Financial Report details, the Group's cash flow forecast depends on continued revenue growth, gross margin improvement and improved working capital management. Adverse circumstances may arise, including severe weather, ongoing inflationary impacts and deferral of planned government infrastructure spend that would negatively impact the Group's cash flows.

Management has several mitigating actions should adverse circumstances arise, including deferral of capex, additional cost savings measures and pausing strategic project spend. Whilst the Directors are confident of the Group's ability to continue as a going concern, due to the factors mentioned and detailed further in Note 1 of the Financial Report, there is a material uncertainty that may cast doubt on whether the Group will be able to continue as a going concern and therefore, whether it will realise its assets and discharge its liabilities in the normal course of business.

# AVADA Group Limited

ACN 648 988 783

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Financial report for the half-year ended  
31 December 2022

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# Directors' report

The Directors of AVADA Group Limited ("the Company") submit herewith the financial report of the Company and its subsidiaries ("the Group") for the half-year ended 31 December 2022. In order to comply with the provisions of the *Corporations Act 2001*, the Directors report as follows:

The names of the Directors of the Company who held office during or since the end of the year are:

## Name

Lance Hockridge	Chair
Ann-Maree Robertson	Non-Executive Director and Deputy Chair
Jo Willoughby	Non-Executive Director
Daniel Crowley	Managing Director
Robert Cazzolli	Executive Director

## Dividends

There were no dividends paid or declared in the current or previous financial period.

## Principal activities

The Group's principal activities were the provision of integrated traffic management services with operations throughout Queensland, New South Wales and Victoria, delivering services to major public and private sector clients.

Integrated traffic management services include the provision of plans and permits, traffic control, equipment hire, event management and incident response. Traffic management is a legislative requirement with regulations prescribing the operational requirements for work on or adjacent to roads. Traffic management is an essential service for civil infrastructure and maintenance works with consistent workflow provided by investment in new projects and recurring maintenance requirements.

The Group has an established and extensive network strategically located through Queensland, New South Wales and Victoria with the ability to share resources, service innovations and market sector expertise along with enhanced efficiencies through economies of scale and procurement.

## Review of operations

The loss for the year for the Group after providing for income tax ("net loss after tax" or "NPAT") amounted to \$4.5m.

The statutory loss includes \$1.3m of other expenses which resulted from an increase in the fair value of the contingent consideration financial liability upon the acquisition of subsidiary companies; \$2.7m impairment of intangible assets (discussed further below); and \$0.8m of costs incurred by the Company in undertaking the acquisitions of the business and the assets of Construct Traffic Pty Ltd ("Construct Traffic"). Additional costs have been incurred in undertaking reviews of other acquisition opportunities, combined with implementing the strategic plan of the Group.

FY23 to date has seen a continuation of the challenges from FY22 in respect of weather, most significantly in New South Wales and Sydney, which has recorded its wettest year on record. Inflationary pressures and wage rates present an ongoing challenge to the Group and resulted in some margin erosion. This continues to be addressed with rate negotiations being implemented with our clients combined with improved monitoring of fleet and equipment utilisation and rostering.

Trading has, however, met expectations during periods of normal weather, demonstrating the strong requirement and demand for our services. Maintaining fleet and staff levels remain a key focus to allow the Group to meet this demand and improve margins.

## **AVADA Group Limited**

### **Review of operations (cont'd)**

Management has continued to plan for the implementation of a centralised operating structure which will improve the execution of the strategic and operating plan, improve monitoring and improve efficiency of resources (including support functions). Implementation will be undertaken during quarter three, following the completion of the earnout period for the Verifact Traffic Pty Ltd and its subsidiaries ("Verifact Traffic") and D&D Services (Australia) Pty Ltd and its subsidiary ("D&D Traffic") businesses on 31 December 2022.

The completion of the earn-out periods provides the Group the flexibility to implement the operational and structural changes which the Directors are confident will support improved performance.

During the six months to 31 December 2022, Management has commenced the implementation of the Group's IT strategy, supported by the appointment of an IT partner to advise and implement systems consolidation across the Group. Building internal capability of the head office team has also been achieved with functional specialists recruited to support the operations. This included the appointment of specialists in key functional roles including People and Culture, Procurement and Group Operations.

### **Financial position and Impairment**

The net asset position of the Group decreased from \$52.1m as at 30 June 2022 to \$47.6m as at 31 December 2022. The Group acquired the business and all of the assets of Construct Traffic, including property plant and equipment of \$6.0m, right-of-use assets of \$0.8m and other intangible assets of \$5.5m related to the acquisition. Total goodwill of \$8.2m has been recognised at 31 December 2022 in relation to the acquisition. The initial accounting for the acquisition has been provisionally determined at the reporting date.

Goodwill and intangible assets with indefinite useful lives are tested annually for impairment or more regularly where indicators of impairment exist. The Directors have, in assessing impairment in accordance with AASB 136 Impairment of assets ("AASB 136"), concluded that The Traffic Marshal Pty Ltd ("The Traffic Marshal") demonstrated indicators of impairment.

The Traffic Marshal CGU operates in the Greater Sydney Area and predominantly on project work which is more susceptible to weather impacts. The business has also been impacted by changes in the management structure.

As part of the Group's focus on improvement in performance and given the underperformance of Traffic Marshal CGU, the business recently transitioned to a centralised operating and management structure within the New South Wales operations.

An impairment expense of \$2.7m in respect of the goodwill and intangible assets of Traffic Marshal CGU has been recorded in the half-year financial report for the six months to 31 December 2022.

The Group confirmed that under the terms and conditions applying to the Group's bank facilities with the Commonwealth Bank of Australia ("the Bank"), a financial covenant, requiring the Group to maintain a defined Net Leverage Ratio, has been breached (to the extent of less than 10% of covenant levels) principally due to the delay in debtor recovery.

The Bank has confirmed in writing its position, subsequent to 31 December 2022, not to exercise its rights relating to the breach and has waived its rights for future actions relating to the Group's financial reporting period for December 2022. The Bank reserves the right to exercise its rights relating to any breach/es of the facility arrangements in the future.

Notwithstanding the waiver from the Bank, the effect of the breach requires the Group, in accordance with Australian Accounting Standards, to reflect the debt owing to the Bank to be reclassified as a current liability, rather than non-current liability, as at 31 December 2022. As a result of the waiver, the debts owing to the Bank which were classified as current liabilities as at 31 December 2022 will be reclassified as non-current liabilities for balance sheet dates subsequent to the waiver and subject to future covenant testing in accordance with the facility agreement. The Directors remain confident that the Group will be compliant with covenant requirements at 30 June 2023.

This accounting treatment has not changed the terms and conditions of the facility arrangements with the Bank, including in relation to any schedule for repayment of the facility.

## AVADA Group Limited

### Going Concern

The financial report has been prepared on the going concern basis which assumes the continuity of normal business activities and the realisation of assets, and the settlement of liabilities in the ordinary course of business.

The Group incurred a net loss after tax of \$4.5m during the 6 months ended 31 December 2022 compared to a net loss after tax of \$6.8m in the comparative period. The net loss for the six-month period includes an impairment of goodwill and other intangible assets of \$2.7m, \$1.3m expense in relation to an uplift in the contingent consideration financial liability due to a change in fair value and \$0.8m of costs in respect of the acquisition of Construct Traffic.

The Group generated negative cash flows from operating activities of \$3.5m during the 6 months ended 31 December 2022 compared to net cash outflows from operating activities of \$1.9m in the comparative period. Negative net cash flows include \$0.8m of costs in respect of the acquisition of Construct Traffic along with \$3.2m of working capital absorption for Construct Traffic.

As at 31 December 2022, the Group had a net current liability of \$22.6m due to the reclassification of non-current borrowings of \$28.4m which has been classified as current liabilities to comply with AASB 101 *Presentation of Financial Statements* as the consolidated entity was in breach (to the extent of less than 10% of covenant levels) of a financial covenant, requiring the Group to maintain a defined net leverage ratio in relation to the Group's banking facilities with the Bank at the reporting date. As discussed in note 15, the Group received a waiver from the Bank with respect to the covenant breach as at 31 December 2022. The Group's current assets would have exceeded current liabilities by \$5.8m, had the non-current portion of bank borrowings not required reclassification to current liabilities to comply with Australian Accounting Standards as a result of the covenant breach at 31 December 2022.

The results for the six months ended 31 December 2022 have been adversely impacted by ongoing weather and inflationary pressures and the continued underperformance of The Traffic Marshal CGU.

The Group's cash flow forecast for the relevant reporting period, being 12 months from the signing date of these condensed consolidated financial statements projects that the Group expects to generate sufficient operating cashflows through which to pay all debts as and when they fall due, and to comply with bank covenants during this period.

The Group's cash flow forecast is dependent on continued revenue growth, gross margin improvement through the successful implementation of cost saving measures across the Group, improved fleet and equipment utilisation and improved working capital management. Additionally, for FY24 and beyond, successful rate negotiations are required to ensure that any cost escalations due to inflationary pressure is mitigated. The outdoor nature of the Group's services can result in the deferral of work due to severe weather impacts, along with other disruptions related to deferral of planned government infrastructure work which may have a negative impact on the Group's cash flow forecast.

Management has several mitigating actions available, should any adverse conditions arise, including the deferral of payments and capital expenditure, implementation of cost savings initiatives and pausing strategic project spend as required. Enhanced monitoring and debtor collection processes are also expected to mitigate any future deterioration in collections.

Whilst the Directors are confident of the Group's ability to continue as a going concern, due to the factors mentioned above, there is a material uncertainty that may cast doubt whether the Group will be able to continue as a going concern and therefore, whether it will realise its assets and discharge its liabilities in the normal course of business.

The condensed consolidated financial statements do not include adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

### Outlook

The current level and pipeline for civil services work remain strong given the recurring maintenance requirements of essential infrastructure and government funding of new infrastructure projects and bringing infrastructure projects forward, particularly in response to the COVID-19 pandemic. Additional funding in response to flood damage in New South Wales and Queensland in 2022 is also expected to support future industry revenue into FY23.

## **AVADA Group Limited**

### **Outlook (cont'd)**

The current low unemployment rate and disruption in supply chains does however present ongoing challenges to the Group (and all operators in the traffic management industry and civil construction sectors) to expand the available workforce and fleet to meet the increased demand. Ongoing inflation has also led to an increase in interest rates and therefore cost of existing debt. Whilst acknowledging the strong pipeline of infrastructure spend, the Directors also acknowledge the substantial challenges that are beyond the Group's control, in particular, the weather, workforce and inflationary pressures. As part of the Group's focus on improvement in performance the transition to a centralised operating and management structure will improve the capability of the Group to respond to challenges and capitalise on opportunities.

The pipeline of infrastructure spend announced by federal and state governments in the 2022/2023 budget announcements, along with additional spend in response to flood damage in 2022 provides a positive outlook for FY23 and the medium term. Geographic expansion, including through the acquisition of Construct Traffic will also provide diversification of the Group's revenue base.

### **Details of acquisitions**

On 26 August 2022, the Company, through its subsidiary Construct Traffic No 2 Pty Ltd, announced it acquired the business and the assets of Construct Traffic.

Construct Traffic No 2 Pty Ltd is incorporated and operates in Australia and is involved in the provision of traffic management services as its principal activity. Refer to Note 17 for further details.

### **Events after the reporting period**

Under the terms and conditions applying to the Company's bank facilities, a financial covenant, requiring the Company to maintain a defined Net Leverage Ratio, has been breached at the reporting date (to the extent of less than 10% of covenant levels).

The Bank has confirmed in writing its position not to exercise its rights relating to the breach and has waived its rights relating to the Company's financial reporting period for December 2022. Refer to Note 15 for further details.

The Directors of the Group are not aware of any other matter or circumstances that have arisen since the end of the financial reporting period which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial periods.

### **Auditor's independence declaration**

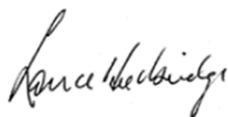
The auditor's independence declaration is included on page 6 of the Interim Financial Report.

### **Rounding off amounts**

The Company is a company of the kind referred to in *ASIC Corporations (Rounding in Financials/Directors Reports) Instrument 2016/191*, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in this Directors' report and financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

Signed in accordance with a resolution of Directors made pursuant to s.306(3) of the *Corporations Act 2001*.

On behalf of the Directors



Lance Hockridge  
Chairman

Brisbane, 27 February 2023



27 February 2023

The Board of Directors  
AVADA Group Limited  
Level 2, 116 Ipswich Road  
Woolloongabba, QLD 4102  
Australia

Dear Board Members

## **Auditor's Independence Declaration to AVADA Group Limited**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the Board of Directors of AVADA Group Limited.

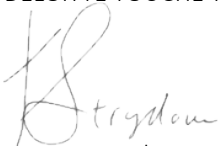
As lead audit partner for the review of the half-year financial report of AVADA Group Limited for the half-year ended 31 December 2022, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Jacques Strydom  
Partner  
Chartered Accountants  
Brisbane  
27 February 2023

## Independent Auditor's Review Report to the Members of AVADA Group Limited

### *Conclusion*

We have reviewed the half-year financial report of AVADA Group Limited (the "Company") and its subsidiaries (the "Group"), which comprises the condensed consolidated statement of financial position as at 31 December 2022, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration as set out on pages 9 to 35.

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

- a) giving a true and fair view of the Group's financial position as at 31 December 2022 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

### *Basis for Conclusion*

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the Auditor's Responsibilities for the Review of the Half-year Financial Report section of our report. We are independent of the Group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the "Code") that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

### *Material Uncertainty Related to Going Concern*

We draw attention to Note 1 in the half-year financial report, which indicates that the Group incurred a net loss after tax of \$4.5 million during the six months ended 31 December 2022 and, as of that date, the Group's current liabilities exceeded its current assets by \$22.6 million. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

### *Directors' Responsibilities for the Half-year Financial Report*

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

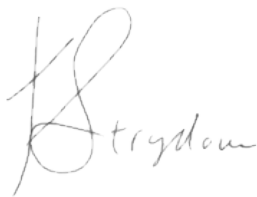
## *Auditor's Responsibilities for the Review of the Half-year Financial Report*

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2022 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*.

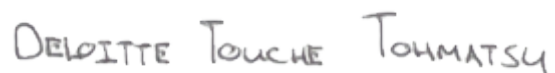
A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards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



DELOITTE TOUCHE TOHMATSU



Jacques Strydom  
Partner  
Chartered Accountants  
Brisbane, 27 February 2023



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Partner  
Chartered Accountants  
Brisbane, 27 February 2023

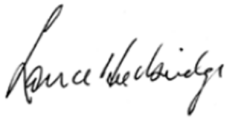
## Directors' declaration

The Directors of AVADA Group Limited declare that:

- (a) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- (b) the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of Directors made pursuant to s.305(5) of the *Corporations Act 2001*.

On behalf of the Directors

A handwritten signature in black ink, appearing to read 'Lance Hockridge', written in a cursive style.

Lance Hockridge  
Chairman

Brisbane, 27 February 2023

# Condensed consolidated statement of profit or loss and other comprehensive income

for the half-year ended 31 December 2022

	Note	Consolidated Half- Year ended 31/12/2022 \$'000	Consolidated Half-Year ended 31/12/2021 \$'000
Revenue	5	84,540	2,937
Other income		111	12
Depreciation and amortisation expense		(4,914)	(374)
Direct equipment hire and consumables		(9,121)	(317)
Direct wages and salaries		(59,037)	(2,074)
Non-direct wages and salaries		(6,596)	(815)
Administrative expenses	6	(2,462)	(7,274)
Impairment of intangible assets	7	(2,733)	-
Other expenses	8	(3,500)	(203)
Finance costs		(1,063)	(21)
<b>Loss before income tax</b>		<b>(4,775)</b>	<b>(8,129)</b>
Income tax benefit	9	236	1,316
<b>Loss for the period</b>		<b>(4,539)</b>	<b>(6,813)</b>
<b>Other comprehensive income, net of tax</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive loss for the period</b>		<b>(4,539)</b>	<b>(6,813)</b>
<b>Loss attributable to:</b>			
Owners of the parent		(4,539)	(6,813)
		<b>(4,539)</b>	<b>(6,813)</b>
<b>Total comprehensive loss attributable to:</b>			
Owners of the parent		(4,539)	(6,813)
		<b>(4,539)</b>	<b>(6,813)</b>
<b>Loss per share</b>			
Basic (cents per share)	10	(6)	(28)
Diluted (cents per share)	10	(6)	(28)

The condensed consolidated financial statements should be read in conjunction with the accompanying notes.

# Condensed consolidated statement of financial position

as at 31 December 2022

	Note	31/12/2022 \$'000	30/06/2022 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		4,275	2,751
Trade and other receivables		22,659	18,264
Current tax assets		1,528	1,278
Other current assets		3,581	570
<b>Total current assets</b>		<b>32,043</b>	<b>22,863</b>
<b>Non-current assets</b>			
Property, plant and equipment	11	22,013	18,229
Right-of-use assets	12	5,141	4,149
Goodwill	13	31,024	23,824
Other intangible assets	14	22,661	20,605
Other non-current assets		139	143
<b>Total non-current assets</b>		<b>80,978</b>	<b>66,950</b>
<b>Total assets</b>		<b>113,021</b>	<b>89,813</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables		13,433	12,840
Lease liabilities		955	995
Borrowings	15	35,133	3,931
Provisions		2,670	2,534
Other financial liabilities	16	2,464	1,210
<b>Total current liabilities</b>		<b>54,655</b>	<b>21,510</b>
<b>Non-current liabilities</b>			
Lease liabilities		4,316	3,237
Borrowings	15	-	7,057
Deferred tax liabilities		6,096	5,455
Provisions		408	469
<b>Total non-current liabilities</b>		<b>10,820</b>	<b>16,218</b>
<b>Total liabilities</b>		<b>65,475</b>	<b>37,728</b>
<b>Net Assets</b>		<b>47,546</b>	<b>52,085</b>
<b>Equity</b>			
Share capital		51,160	51,160
Reserves		13,875	13,875
Accumulated losses		(17,489)	(12,950)
<b>Total equity</b>		<b>47,546</b>	<b>52,085</b>

The condensed consolidated financial statements should be read in conjunction with the accompanying notes.

# Condensed consolidated statement of changes in equity

for the half-year ended 31 December 2022

Consolidated		Share capital	Share-based payments reserve	Acquisition reserve	Accum. losses	Total equity
	Note	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Balance as at 1 July 2022</b>		51,160	3,700	10,175	(12,950)	52,085
Loss for the period		-	-	-	(4,539)	(4,539)
Other comprehensive income for period		-	-	-	-	-
<b>Total comprehensive loss for the period</b>		-	-	-	(4,539)	(4,539)
Issue of share capital		-	-	-	-	-
Share issue costs		-	-	-	-	-
Amounts recognised in business combinations		-	-	-	-	-
Share-based payments		-	-	-	-	-
<b>Total transactions with owners</b>		-	-	-	-	-
<b>Balance as at 31 December 2022</b>		51,160	3,700	10,175	(17,489)	47,546

Consolidated		Share capital	Share-based payments reserve	Acquisition reserve	Accum. losses	Total equity
	Note	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Balance as at 1 July 2021</b>		1	150	-	(415)	(264)
Loss for the period		-	-	-	(6,813)	(6,813)
Other comprehensive income for period		-	-	-	-	-
<b>Total comprehensive loss for the period</b>		-	-	-	(6,813)	(6,813)
Issue of share capital		32,543	-	-	-	32,543
Share issue costs		(1,993)	-	-	-	(1,993)
Shares issued as consideration in business combinations		20,595	-	10,175	-	30,770
Share-based payments		-	3,550	-	-	3,550
<b>Total transactions with owners</b>		51,145	3,550	10,175	-	64,870
<b>Balance as at 31 December 2021</b>		51,146	3,700	10,175	(7,228)	57,793

The condensed consolidated financial statements should be read in conjunction with the accompanying notes.

# Condensed consolidated statement of cash flows

for the half-year ended 31 December 2022

	Note	Consolidated Half-year ended 31/12/2022 \$'000	Consolidated Half-year ended 31/12/2021 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers (including GST)		88,911	6,095
Payments to suppliers and employees (including GST)		(90,632)	(7,896)
Interest and other finance costs paid		(800)	(9)
Interest received		4	-
Income taxes paid		(992)	(126)
<b>Net cash outflow from operating activities</b>		<b>(3,509)</b>	<b>(1,936)</b>
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment	11	(597)	(23)
Proceeds from sale of property, plant and equipment		22	8
Acquisition of subsidiaries (net of cash acquired)	17	(17,976)	(30,419)
<b>Net cash outflow from investing activities</b>		<b>(18,551)</b>	<b>(30,434)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		23,112	6,520
Repayments of borrowings		(1,402)	-
Repayments of related party borrowings		-	(351)
Proceeds from asset finance borrowings		5,135	-
Repayments of asset finance borrowings		(499)	-
Repayment of lease liabilities		(560)	(8)
Proceeds on issue of shares (net of transaction costs)		-	28,173
<b>Net cash inflow from financing activities</b>		<b>25,786</b>	<b>34,334</b>
<b>Net increase in cash and cash equivalents</b>		<b>3,726</b>	<b>1,964</b>
Cash and cash equivalents at beginning of the period		549	192
<b>Cash and cash equivalents at the end of the period</b>		<b>4,275</b>	<b>2,156<sup>1</sup></b>

<sup>1</sup> Cash and cash equivalents at the end of the comparative period do not reconcile to cash and cash equivalents on the condensed consolidated statement of financial position due to the bank overdraft which is within Borrowings (see Note 15).

The condensed consolidated financial statements should be read in conjunction with the accompanying notes.



# Notes to the condensed consolidated financial statements

## 1. General information

AVADA Group Limited ("the Company") is a company domiciled in Australia. It was incorporated on 25 March 2021 and undertook an initial public offering and was listed on the Australian Securities Exchange on 17 December 2021.

The condensed consolidated financial statements of the Company for the half-year ended 31 December 2022 comprises the Company and its subsidiaries (together referred to as "the Group").

### Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and *AASB 134 Interim Financial Reporting ("AASB 134")*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard Accounting Standard *IAS 34 Interim Financial Reporting*. The half-year report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report.

### Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for, where applicable, the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's annual financial report for the financial year ended 30 June 2022. The accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

### Rounding off amounts

The Company is a company of the kind referred to in *ASIC Corporations (Rounding in Financial/Directors Reports) Instrument 2016/191*, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the half-year financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

### Going concern

The financial report has been prepared on the going concern basis which assumes the continuity of normal business activities and the realisation of assets, and the settlement of liabilities in the ordinary course of business.

The Group incurred a net loss after tax of \$4.5m during the 6 months ended 31 December 2022 compared to a net loss after tax of \$6.8m in the comparative period. The net loss for the six-month period includes an impairment of goodwill and other intangible assets of \$2.7m, \$1.3m expense in relation to an uplift in the contingent consideration financial liability due to a change in fair value and \$0.8m of costs in respect of the acquisition of Construct Traffic.

The Group generated negative cash flows from operating activities of \$3.5m during the 6 months ended 31 December 2022 compared to net cash outflows from operating activities of \$1.9m in the comparative period. Negative net cash flows include \$0.8m of costs in respect of the acquisition of Construct Traffic along with \$3.2m of working capital absorption for Construct Traffic.

## 1. General information (cont'd)

### Going concern (cont'd)

As at 31 December 2022, the Group had a net current liability of \$22.6m due to the reclassification of non-current borrowings of \$28.4m which has been classified as current liabilities to comply with AASB 101 *Presentation of Financial Statements* as the consolidated entity was in breach (to the extent of less than 10% of covenant levels) of a financial covenant, requiring the Group to maintain a defined net leverage ratio in relation to the Group's banking facilities with The Commonwealth Bank of Australia ("the Bank") at the reporting date. As discussed in note 15, the Group received a waiver from the Bank with respect to the covenant breach as at 31 December 2022. The Group's current assets would have exceeded current liabilities by \$5.8m, had the non-current portion of bank borrowings not required reclassification to current liabilities to comply with Australian Accounting Standards as a result of the covenant breach at 31 December 2022.

The results for the six months ended 31 December 2022 have been adversely impacted by ongoing weather and inflationary pressures and the continued underperformance of The Traffic Marshal CGU.

The Group's cash flow forecast for the relevant reporting period, being 12 months from the signing date of these condensed consolidated financial statements projects that the Group expects to generate sufficient operating cashflows through which to pay all debts as and when they fall due, and to comply with bank covenants during this period.

The Group's cash flow forecast is dependent on continued revenue growth, gross margin improvement through the successful implementation of cost saving measures across the Group, improved fleet and equipment utilisation and improved working capital management. Additionally, for FY24 and beyond, successful rate negotiations are required to ensure that any cost escalations due to inflationary pressure is mitigated. The outdoor nature of the Group's services can result in the deferral of work due to severe weather impacts, along with other disruptions related to deferral of planned government infrastructure work which may have a negative impact on the Group's cash flow forecast.

Management has several mitigating actions available, should any adverse conditions arise, including the deferral of payments and capital expenditure, implementation of cost savings initiatives and pausing strategic project spend as required. Enhanced monitoring and debtor collection processes are also expected to mitigate any future deterioration in collections.

Whilst the Directors are confident of the Group's ability to continue as a going concern, due to the factors mentioned above, there is a material uncertainty that may cast doubt whether the Group will be able to continue as a going concern and therefore, whether it will realise its assets and discharge its liabilities in the normal course of business.

The condensed consolidated financial statements do not include adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

## 2. Adoption of new and revised Australian Accounting Standards

### (a) New and amended Accounting Standards that are effective for the current period

The Group has adopted all new and revised Standards and Interpretations issued by the Australian Accounting Standards Board ("the AASB") that are relevant to their operations and effective for the current year.

The Directors of the Company do not anticipate that the amendments will have a material impact on the Group.

### (b) New and amended Accounting Standards and Interpretations on issue that are not yet effective

At the date of authorisation of the condensed consolidated financial statements, the Group has not applied the following new and revised Australian Accounting Standards, Interpretations and amendments that have been issued but are not yet effective:

## 2. Adoption of new and revised Australian Accounting Standards (cont'd)

### (b) New and amended Accounting Standards and Interpretations on issue that are not yet effective (cont'd)

Standard/amendment	Effective for annual reporting periods beginning on or after
AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current, AASB 2020-6 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current – Deferral of Effective Date and IASB amendment Non-current Liabilities with Covenants (Amendments to IAS 1)	1 January 2024
AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, AASB 2015-10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128, AASB 2017-5 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections, AASB 2021-7 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections	1 January 2023 and 1 January 2025
AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates	1 January 2023
AASB 2021-5 Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
AASB 2022-1 Amendments to Australian Accounting Standards – Initial Application of AASB17 and AASB9 Comparative Information	1 January 2023

The Directors of the Company do not anticipate that the amendments will have a material impact on the Group but may change the disclosure of accounting policies included in the financial statements.

## 3. Significant Changes from the annual financial statements

Significant changes which have occurred since the annual financial statements were provided in the Annual Report for the year ended 30 June 2022 are:

### (a) Acquisition of Construct Traffic

On 26 August 2022, the Company, through its subsidiary Construct Traffic No 2 Pty Ltd, announced it acquired the business and assets of Construct Traffic.

Construct Traffic No 2 Pty Ltd is incorporated and operates in Victoria, Australia and is involved in the provision of traffic management services as its principal activity. Consideration of \$18.0m was settled in cash and has resulted in a provisionally determined goodwill on acquisition of \$8.2m. Refer to Note 17 for further details.

### (b) Additional financing facilities

The Group has obtained additional financing facilities from the Commonwealth Bank of Australia, increasing total facility limits to \$40m from \$15.2m. Refer to Note 15 for further details.

### (c) Impairment of intangible assets

Goodwill and intangible assets with indefinite useful lives are tested annually for impairment or more regularly where indicators of impairment exist. The Directors have, in assessing indicators of impairment in accordance with AASB 136 *Impairment of Assets* ("AASB 136"), concluded that The Traffic Marshal CGU ("TTM CGU") demonstrated indicators of impairment.

### 3. Significant Changes from the annual financial statements (cont'd)

#### (c) Impairment of intangible assets (cont'd)

Ongoing weather and inflationary pressures, combined with necessary changes in the operating team has resulted in the continued underperformance of TTM CGU. TTM CGU is the Group's smallest CGU and operates in the Greater Sydney Area, predominantly on project-based work which is the most susceptible to deferrals for poor weather. Integration of the operations into the New South Wales structure has been accelerated to address this underperformance. The Directors have, given the ongoing performance, undertaken a full impairment assessment of the TTM CGU in accordance with AASB 136. An impairment charge of \$2.7m has been reflected in consideration of these matters.

#### (d) Finalisation of contingent consideration

The contingent consideration assessments relating to the acquisition of Verifact Traffic Pty Ltd and its subsidiaries ("Verifact Traffic") and D&D Services (Australia) Pty Ltd and its subsidiary ("D&D Traffic") have now been finalised. An amount of \$2.5m is due and payable to Verifact Traffic Pty Ltd (the vendor of Verifact Traffic) March 2023 as a combination of cash and equity. Refer to Note 16 for further details.

#### (e) New premises lease

On 27 July 2022, AVADA Group Limited entered into a 5-year lease to rent property at Woolloongabba, which had not commenced by 30 June 2022 and, as a result, a lease liability and right-of-use asset had not been recognised at 30 June 2022.

During the six-month period ended 31 December 2022, the Group recognised a lease liability and corresponding right of use asset in the amount of \$0.7m.

The aggregate future cash outflows to which the Group is exposed in respect of this contract is fixed payments of \$0.1m per year, for the next five years. There are three renewal options on this lease for a total five-year extension on the lease.

### 4. Operating segments

#### Identification of reportable operating segments

The Group is organised into three operating segments, based on the internal reports that are reviewed and used by the Chief Executive Officer (who is identified as the Chief Operating Decision Maker ("CODM")) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The Group's reportable segments under AASB 8 *Operating Segments* ("AASB 8") are as follows:

Queensland Traffic Management	– contains entities which operate in the Queensland geography
New South Wales Traffic Management	– contains entities which operate in the New South Wales geography
Victoria Traffic Management	– contains entities which operate in the Victorian geography

Victoria Traffic Management is a new segment arising from the acquisition of Construct Traffic. Reportable segments are based on the internal reports that are reviewed and used by the Chief Executive Officer (who is identified as the CODM) in assessing performance and in determining the allocation of resources. The internal reporting requirements are currently based upon aggregated geographic (state) locations.

The Group offers integrated traffic management services including planning and permit, traffic control, equipment hire, event management and incident response. The Group's client portfolio includes government clients at state and local council levels, federally funded contractors and major contractors in the utilities, infrastructure, construction and other industrial sectors.

The following is an analysis of the Group's revenue and results by reportable operating segment for the half-year ended 31 December 2022:

#### 4. Operating segments (cont'd)

##### Identification of reportable operating segments (cont'd)

	Half-year ended 31/12/2022				
	QLD Traffic Management \$'000	NSW Traffic Management \$'000	VIC Traffic Management \$'000	Unallocated \$'000	Total \$'000
<b>Revenue</b>					
Sales to external customers	50,340	23,705	10,495	-	84,540
<b>Total revenue</b>	50,340	23,705	10,495	-	84,540
Other income	88	16	7	-	111
Segment operating expenses	(45,615)	(21,287)	(9,180)	(4,634)	(80,716)
Impairment of intangible assets	-	(2,733)	-	-	(2,733)
<b>EBITDA</b>	4,813	(299)	1,322	(4,634)	1,202
Depreciation and amortisation expense	(2,673)	(1,680)	(522)	(39)	(4,914)
<b>EBIT</b>	2,140	(1,979)	800	(4,673)	(3,712)
Finance costs	(130)	(62)	(14)	(857)	(1,063)
<b>Loss before income tax</b>	2,010	(2,041)	786	(5,530)	(4,775)
Income tax benefit	-	-	-	236	236
<b>Loss after tax for the period</b>	2,010	(2,041)	786	(5,294)	(4,539)

	Half-year ended 31/12/2021				
	QLD Traffic Management \$'000	NSW Traffic Management \$'000	VIC Traffic Management \$'000	Unallocated \$'000	Total \$'000
<b>Revenue</b>					
Sales to external customers	1,984	953	-	-	2,937
<b>Total revenue</b>	1,984	953	-	-	2,937
Other income	12	-	-	-	12
Segment operating expenses	(1,867)	(1,174)	-	(7,642)	(10,683)
Impairment of intangible assets	-	-	-	-	-
<b>EBITDA</b>	129	(221)	-	(7,642)	(7,734)
Depreciation and amortisation expense	(234)	(139)	-	(1)	(374)
<b>EBIT</b>	(105)	(360)	-	(7,643)	(8,108)
Finance costs	(4)	(3)	-	(14)	(21)
<b>Loss before income tax</b>	(109)	(363)	-	(7,657)	(8,129)
Income tax benefit	(1)	53	-	1,264	1,316
<b>Loss after tax for the period</b>	(110)	(310)	-	(6,393)	(6,813)

The revenue reported above represents revenue generated from external customers. The Group does not have any customers which provide more than 10% of its external revenue. Each segment is not reliant on any of the Group's major customers. There were no intersegment sales during the half-year. The accounting policies of the reportable segments are the same as the Group's accounting policies.

Segment loss represents the loss generated by each segment without allocation of central administration costs including Directors' salaries, finance income, non-operating gains and losses in respect of financial instruments and finance costs, and income tax benefit. This is the measure reported to the Group's CODM for the purpose of resource allocation and assessment of segment performance.

#### 4. Operating segments (cont'd)

##### Identification of reportable operating segments (cont'd)

The following is an analysis of the Group's assets and liabilities by reportable operating segment:

	Half-year ended 31/12/2022				
	QLD Traffic Management \$'000	NSW Traffic Management \$'000	VIC Traffic Management \$'000	Unallocated \$'000	Total \$'000
Current assets	16,241	7,331	5,377	3,094	32,043
Non-current assets	45,687	14,499	19,999	793	80,978
<b>Total assets</b>	<b>61,928</b>	<b>21,830</b>	<b>25,376</b>	<b>3,887</b>	<b>113,021</b>
Current liabilities	12,934	4,825	1,849	35,047	54,655
Non-current liabilities	5,567	2,636	1,891	726	10,820
<b>Total Liabilities</b>	<b>18,501</b>	<b>7,461</b>	<b>3,740</b>	<b>35,773</b>	<b>65,475</b>
<b>Net assets</b>	<b>43,427</b>	<b>14,369</b>	<b>21,636</b>	<b>(31,886)</b>	<b>47,546</b>

	Period ended 30/06/2022				
	QLD Traffic Management \$'000	NSW Traffic Management \$'000	VIC Traffic Management \$'000	Unallocated \$'000	Total \$'000
Current assets	13,554	8,116	-	1,193	22,863
Non-current assets	48,791	18,130	-	29	66,950
<b>Total assets</b>	<b>62,345</b>	<b>26,246</b>	<b>-</b>	<b>1,222</b>	<b>89,813</b>
Current liabilities	11,368	4,980	-	5,162	21,510
Non-current liabilities	9,518	3,510	-	3,190	16,218
<b>Total Liabilities</b>	<b>20,886</b>	<b>8,490</b>	<b>-</b>	<b>8,352</b>	<b>37,728</b>
<b>Net assets</b>	<b>41,459</b>	<b>17,756</b>	<b>-</b>	<b>(7,130)</b>	<b>52,085</b>

For the purposes of monitoring segment performance and allocating resources between segments the Group's Chief Executive Officer monitors the tangible, intangible and financial assets attributable to each segment. Goodwill has been allocated to reportable segments. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments.

## 5. Revenue

The Group derives its revenue from contracts with customers for the transfer of goods and services over time and at a point in time in the following geographies and customer types. The disclosure of revenue by geography is consistent with the revenue information that is disclosed for each reportable segment under AASB 8. Refer Note 4 for further details.

### Disaggregation of revenue

	Half-year ended 31/12/2022 \$'000	Half-year ended 31/12/2021 \$'000
<b>External revenue by geography and customer type</b>		
<b>Queensland</b>		
Government (incl. councils)	31,397	1,154
Non-Government	18,943	830
	<u>50,340</u>	<u>1,984</u>
<b>New South Wales</b>		
Government (incl. councils)	7,282	424
Non-Government	16,423	529
	<u>23,705</u>	<u>953</u>
<b>Victoria</b>		
Government (incl. councils)	3,015	-
Non-Government	7,480	-
	<u>10,495</u>	<u>-</u>
<b>Total Revenue</b>	<u>84,540</u>	<u>2,937</u>
<b>External revenue by service line</b>		
Traffic control services	71,645	2,438
Equipment hire	11,161	404
Plans and permits	1,661	76
Training	43	12
Security guard services	30	7
	<u>84,540</u>	<u>2,937</u>
<b>External revenue by timing of revenue</b>		
Services transferred over time	82,836	2,849
Services transferred at a point in time	1,704	88
	<u>84,540</u>	<u>2,937</u>

Plans and permits and training are the only services provided at a point in time. All other services are provided over time.

## 6. Administrative expenses

	Half-year ended 31/12/2022 \$'000	Half-year ended 31/12/2021 \$'000
Professional fees	1,390	127
IPO listing costs	-	3,659
Acquisition related costs – share-based payments	-	3,450
Acquisition related costs	815	-
Rent and other occupancy expenses	216	14
Other administrative expenses	41	24
	<u>2,462</u>	<u>7,274</u>

For the half-year ended 31 December 2021, a total of \$6.5m of listing and transaction costs were excluded from the consideration transferred upon acquisition of subsidiaries. \$3.7m was recognised as an administrative expense and \$2.8m (\$2.0m net of tax) was offset against equity.

## 7. Impairment of intangible assets

		Half-year ended 31/12/2022 \$'000	Half-year ended 31/12/2021 \$'000
	Note		
Impairment of goodwill	13	961	-
Impairment of other intangibles	14	1,772	-
		<u>2,733</u>	<u>-</u>

## 8. Other expenses

		Half-year ended 31/12/2022 \$'000	Half-year ended 31/12/2021 \$'000
Business operating expenses		1,692	140
Movement in contingent consideration	16	1,254	-
Staff amenities and safety equipment		367	58
Indirect travel and accommodation		187	5
		<u>3,500</u>	<u>203</u>



## 9. Income tax benefit

Income tax benefit comprises current and deferred tax. Current and deferred tax is recognised in the condensed consolidated statement of profit and loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity or in other comprehensive income.

The major components of income tax are:

### Numerical reconciliation between tax benefit and pre-tax accounting loss

	Half-year ended 31/12/2022	Half-year ended 31/12/2021
	\$'000	\$'000
Accounting loss from continuing operations before tax	4,775	8,129
Prima facie tax benefit on loss before income tax at 30%	1,432	2,439
Non-deductible expenses	(1,196)	(1,181)
Adjustment in respect of the previous year	-	58
Income tax benefit	236	1,316

## 10. Loss per share

	Half-year ended 31/12/2022	Half-year ended 31/12/2021
	\$'000	\$'000
<b>Loss</b>		
Loss for the purposes of basic and diluted earnings per share being net loss attributable to owners of the Company	(4,539)	(6,813)
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	73,268,358	24,166,761 <sup>1</sup>
Basic loss per share (cents)	(6)	(28)
Diluted loss per share (cents) <sup>2</sup>	(6)	(28)

<sup>1</sup> On 9 November 2021, the Company split 1,100 shares into 19,880,807 shares. Shares were split in the ratio of 1:18,073.46 shares. The Loss per share calculations have used the revised share numbers.

<sup>2</sup> Potential ordinary shares which may be issued in settlement of the contingent consideration are considered antidilutive given their conversion would decrease the loss per share.

## 11. Property, plant and equipment

	31/12/2022 \$'000	30/06/2022 \$'000
<b>Traffic control equipment</b>		
Traffic control equipment – at cost	2,568	1,809
Less accumulated depreciation	(589)	(253)
	<u>1,979</u>	<u>1,556</u>
<b>Motor vehicles</b>		
Motor vehicles – at cost	23,985	18,566
Less accumulated depreciation	(4,208)	(2,001)
	<u>19,777</u>	<u>16,565</u>
<b>Office equipment</b>		
Office equipment – at cost	319	130
Less accumulated depreciation	(70)	(26)
	<u>249</u>	<u>104</u>
<b>Leasehold improvements</b>		
Leasehold improvements – at cost	9	5
Less accumulated depreciation	(1)	(1)
	<u>8</u>	<u>4</u>
<b>Total property, plant and equipment</b>	<u>22,013</u>	<u>18,229</u>

### Movements in carrying amounts

		31/12/2022 \$'000				
	Note	Traffic control equipment	Motor vehicles	Office equipment	Leasehold improvements	Total
<b>Cost</b>						
At 1 July 2022		1,809	18,566	130	5	20,510
Additions from acquisitions of subsidiaries	17	370	5,539	125	-	6,034
Additions		389	140	64	4	597
Disposals		-	(260)	-	-	(260)
At 31 December 2022		2,568	23,985	319	9	26,881
<b>Depreciation</b>						
At 1 July 2022		253	2,001	26	1	2,281
Charge for the period		336	2,222	44	-	2,602
Disposals		-	(15)	-	-	(15)
At 31 December 2022		589	4,208	70	1	4,868
<b>Carrying amount</b>						
At 31 December 2022		1,979	19,777	249	8	22,013

## 11. Property, plant and equipment (cont'd)

### Movements in carrying amounts (cont'd)

	30/06/2022 \$'000				
	Traffic control equipment	Motor vehicles	Office equipment	Leasehold improvements	Total
<b>Cost</b>					
At 1 July 2021	-	-	-	-	-
Additions from acquisitions of subsidiaries	1,269	17,817	104	5	19,195
Additions	552	1,058	26	-	1,636
Disposals	(12)	(309)	-	-	(321)
At 30 June 2022	1,809	18,566	130	5	20,510
<b>Depreciation</b>					
At 1 July 2021	-	-	-	-	-
Charge for the period	254	2,036	26	1	2,317
Disposals	(1)	(35)	-	-	(36)
At 30 June 2022	253	2,001	26	1	2,281
<b>Carrying amount</b>					
At 30 June 2022	1,556	16,565	104	4	18,229

### Assets pledged as security

During the half-year, the Group drew down \$5.1m from the asset finance facility to purchase motor vehicles and plant and equipment. The draw down from the asset finance facility is secured against these specific assets (refer Note 15).

The Group is not allowed to pledge these specific assets as security for other borrowings or to sell them to another entity.

The Commonwealth Bank of Australia also holds a general security over all assets of the Group against the borrowing facilities provided.

## 12. Right-of-use assets

	31/12/2022 \$'000	30/06/2022 \$'000
<b>Buildings</b>		
Buildings – right-of-use assets	4,410	2,871
Less accumulated depreciation	(692)	(338)
	3,718	2,533
<b>Motor vehicles</b>		
Motor vehicles – right-of-use assets	1,885	1,854
Less accumulated depreciation	(478)	(238)
	1,407	1,616
<b>Equipment</b>		
Equipment – right-of-use assets	17	-
Less accumulated depreciation	(1)	-
	16	-
<b>Total right-of-use assets</b>	5,141	4,149

## 12. Right-of-use assets (cont'd)

### Movements in carrying amounts

	Note	31/12/2022 \$'000			
		Buildings	Motor Vehicles	Equipment	Total
<b>Cost</b>					
At 1 July 2022		2,871	1,854	-	4,725
Additions from acquisitions of subsidiaries	17	782	-	-	782
Additions		757	42	17	816
Disposals		-	(11)	-	(11)
At 31 December 2022		4,410	1,885	17	6,312
<b>Depreciation</b>					
At 1 July 2022		338	238	-	576
Charge for the period		354	241	1	596
Disposals		-	(1)	-	(1)
At 31 December 2022		692	478	1	1,171
<b>Carrying amount</b>					
At 31 December 2022		3,718	1,407	16	5,141

	Note	30/06/2022 \$'000			
		Buildings	Motor Vehicles	Equipment	Total
<b>Cost</b>					
At 1 July 2021		-	-	-	-
Additions from acquisitions of subsidiaries		2,871	1,177	-	4,048
Additions		-	677	-	677
Disposals		-	-	-	-
At 30 June 2022		2,871	1,854	-	4,725
<b>Depreciation</b>					
At 1 July 2021		-	-	-	-
Charge for the period		338	238	-	576
Disposals		-	-	-	-
At 30 June 2022		338	238	-	576
<b>Carrying amount</b>					
At 30 June 2022		2,533	1,616	-	4,149

The Group's leased assets include buildings, motor vehicles and equipment. The average lease term is 4 years. The Group's obligations are secured by the lessors' title to the leased assets for such leases.

The total cash outflow for leases amounted to \$0.6m for the half-year ended 31 December 2022.

### 13. Goodwill

	Note	31/12/2022 \$'000	30/06/2022 \$'000
<b>Gross carrying amount</b>			
Balance at beginning of the period		23,824	-
Amounts recognised from business combinations occurring during the period	17	8,161	38,178
Impairment losses for the period	7	(961)	(14,354)
Balance at end of the period		31,024	23,824

#### Impairment of Assets

Goodwill and 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.

The Directors have, in assessing impairment in accordance with AASB 136, concluded that TTM CGU demonstrated indicators of impairment. Therefore, the Directors have performed impairment testing on TTM CGU as follows.

The recoverable amount of the CGU to which goodwill and other indefinite life intangible assets is allocated is determined based on the greater of its value-in-use and its fair value less costs of disposal. The value-in-use assessment has been conducted using a discounted cash flow ("DCF") methodology requiring the Directors to estimate the future cash flows expected to arise from the CGUs and then applying a discount rate to calculate the present value.

The Group acknowledges in its forecasting that the existing industry and general market conditions are currently challenging with recent significant weather events impacting the regions in which it operates, inflationary pressures and increasing interest rates.

#### Key assumptions used for value-in-use calculations

Key assumptions are those to which the recoverable amount of the CGU is most sensitive.

The key assumptions used in the DCF model and value-in-use calculation include the post-tax discount rate, the projected revenue growth rate, the terminal growth rate and gross margin.

The forecast revenue growth rate and terminal growth rate have been based on a consideration of historical performance and the expected future operating conditions.

The forecast gross margin is based on historical averages and also factor in current economic considerations.

### 13. Goodwill (cont'd)

#### Key assumptions used for value-in-use calculations (cont'd)

	The Traffic Marshal
Discount rate used in impairment calculation	11.5%
<b>Growth rates:</b>	
Revenue for Year 1	(6.5%)
Revenue for Year 2 – Year 5	0%
Annual growth for terminal value	0%

As disclosed above, gross margin has been identified as a key assumption but is not disclosed as management considers it to be commercially sensitive.

#### Impairment of intangible assets

Impairment testing identified that the carrying value of TTM CGU exceeded the recoverable amount. A \$2.7m impairment expense was recognised in the current year with \$0.9m applied against goodwill allocated to the CGU and \$1.8m applied against Customer list intangible assets. The impairment expense reflects ongoing weather and inflationary pressures that have resulted in the continued underperformance of TTM CGU. TTM CGU is the Group's smallest CGU and operates in the Greater Sydney Area, predominantly on project based work which is the most susceptible to deferrals for poor weather. Integration of the operations into the New South Wales structure has been accelerated to address this underperformance.

#### Sensitivity analysis

Any reasonably possible change in the key assumptions would lead to an additional impairment. Below we have quantified the impact of any reasonably possible change in key assumptions.

	Increase/ (decrease) %	The Traffic Marshal CGU \$'000
<b>Change in terminal value rate</b>	0.5% (0.5%)	22 (20)
<b>Change in discount rate</b>	1% (1%)	(19) 23
<b>Change in revenue growth rate In Year 1</b>	5% (5%)	332 (320)
<b>Change in revenue growth rate in Years 2 - 5</b>	5% (5%)	984 (858)

Gross margin has been identified as a key assumption, however, has not been disclosed as it is commercially sensitive. A change in gross margin will materially impact the CGUs recoverable amount.

## 14. Other intangible assets

	31/12/2022 \$'000	30/06/2022 \$'000
<b>Customer lists</b>		
Customer lists – at cost	25,619	21,205
Less accumulated impairment	(2,240)	(468)
Less accumulated amortisation	(3,452)	(1,736)
	<u>19,927</u>	<u>19,001</u>
<b>Brands</b>		
Brands – at cost	2,869	1,739
Less accumulated impairment	(135)	(135)
	<u>2,734</u>	<u>1,604</u>
<b>Total other intangible assets</b>	<b><u>22,661</u></b>	<b><u>20,605</u></b>

### Movements in carrying amounts

		31/12/2022 \$'000		
	Note	Customer lists	Brands	Total
Carrying amount at beginning of the period		19,001	1,604	20,605
Additions from acquisitions of subsidiaries	17	4,414	1,130	5,544
Less Amortisation for the period		(1,716)	-	(1,716)
Less Impairment loss during the period		(1,772)	-	(1,772)
Carrying amount at end of the period		<u>19,927</u>	<u>2,734</u>	<u>22,661</u>

		30/06/2022 \$'000		
		Customer lists	Brands	Total
Carrying amount at beginning of the period		-	-	-
Additions from acquisitions of subsidiaries		21,205	1,739	22,944
Less Amortisation for the period		(1,736)	-	(1,736)
Less Impairment loss during the period		(468)	(135)	(603)
Carrying amount at end of the period		<u>19,001</u>	<u>1,604</u>	<u>20,605</u>

The customer lists are amortised over their useful lives which has been determined to be 4 - 7 years. This useful life is based off a pool of 500+ customers, with the majority of the customers being repeat customers year on year. Brands are indefinite life and are not amortised.

## 15. Borrowings

	31/12/2022 \$'000	30/06/2022 \$'000
<b>Current</b>		
<i>Unsecured</i>		
Premium funding	1,239	-
Related parties <sup>1</sup>	1,250	1,250
<i>Secured</i>		
Bank overdraft	-	2,201
Working capital loan <sup>2</sup>	15,971	-
Bank loan (term facility) <sup>2</sup>	9,500	-
Asset finance facility <sup>2</sup>	2,453	480
Stand-alone asset finance facility <sup>2</sup>	4,720	-
	<b>35,133</b>	<b>3,931</b>
<b>Non-current</b>		
<i>Secured</i>		
Bank loan (term facility) <sup>2</sup>	-	5,000
Asset finance facility <sup>2</sup>	-	2,057
	<b>-</b>	<b>7,057</b>
<b>Total borrowings</b>	<b>35,133</b>	<b>10,988</b>

<sup>1</sup>Acquired on acquisition of subsidiaries and is payable on demand.

<sup>2</sup>Bank loans (including Working capital and Asset finance facilities) have been classified as current liabilities due to the Group being in breach of its banking covenants for which the lender has provided a waiver of breach notification.

### Description of the Banking facilities

The Group has its banking facilities with the Commonwealth Bank of Australia in respect of the provision of a term facility, an asset finance facility, and a working capital facility. The Group's financing arrangements in place as at 31 December 2022 are set out below:

Facility	Facility Limit \$'000	Drawn Amount as at 31 December 2022 \$'000	Term
Term Facility	9,500	9,500	Three years
Multi-option working capital facility			
- Overdraft Facility	2,500	-	Annually reviewed and renewed
- Working capital loan	17,500	15,971	Three years <sup>1</sup>
Asset Finance Facility	5,000	2,453	Annually reviewed and renewed <sup>2</sup>
Stand-alone Asset Finance Facility	5,000	4,720	Annually reviewed and renewed
Bank Guarantees	250	186	Annually reviewed and renewed
Corporate Credit Cards <sup>3</sup>	250	65	Annually reviewed and renewed

<sup>1</sup> Draw down and repayment is subject to a monthly assessment of Total Eligible Receivables as defined in the facility agreement.

<sup>2</sup> The undrawn amount is annually reviewed and renewed.

<sup>3</sup> Corporate credit cards are reflected in Trade and other payables.



## 15. Borrowings (cont'd)

### Description of the Banking facilities (cont'd)

Facility	Facility Limit	Drawn Amount as at 30 June 2022	Term
	\$'000	\$'000	
Term Facility	5,000	5,000	Three years
Asset Finance Facility	5,000	2,538	Annually reviewed and renewed
Overdraft Facility	4,750	2,201	Annually reviewed and renewed
Bank Guarantees	250	105	Annually reviewed and renewed
Corporate Credit Cards	200	40	Annually reviewed and renewed

The key terms of the banking facilities are:

- The term facility can be used for financing of acquisitions and earn-out payments. Interest is payable monthly with principal payable at maturity. Interest is charged at 1.60% above the base rate (referencing 90-day BBSY rate). The facility has an establishment fee of 0.75% of the facility limit and a line fee of 1.6%. Security is provided in the form of a first ranking general security interest from each obligor in respect of each of their present and after acquired property.
- The asset finance facility can be used to fund motor vehicle acquisitions or leases. Interest and principal is payable on a per contract basis. Additionally, the facility has an establishment fee of 0.75% of the facility limit payable at financial close. The term is reviewed annually. Security is provided over each asset acquired under the facility.
- The overdraft facility can be used to fund working capital. Interest is charged quarterly at the lenders Overdraft Index Rate minus a margin of 3.68%. The facility has an establishment fee of 0.75% of the facility limit payable at financial close and a line fee of 0.75%. The term is reviewed annually. Security is provided in the form of a first ranking general security interest from each obligor in respect of each of their present and after acquired property.
- The working capital loan facility can be used to fund working capital and for funding the acquisition of Construct Traffic and any other Permitted Acquisition as agreed by the Lender from time to time. The facility has a line fee of 1.4% and interest is charged monthly. Drawdown and repayment is subject to monthly assessment of Total Eligible Receivables as defined in the facility agreement. The term is renewable every 3 years.

### Bank covenants

Under the terms and conditions applying to the Company's bank facilities, a financial covenant, requiring the Group to maintain a defined Net Leverage Ratio, has been breached (to the extent of less than 10% of covenant levels) principally due to the delay in debtor recovery.

The Bank, has confirmed in writing its position not to exercise its rights relating to the breach and has waived its rights for future actions relating to the Group's financial reporting period for December 2022.

Notwithstanding the waiver from the Bank, the effect of the breach requires the Group, in accordance with Australian Accounting Standards, to reclassify the debt owing to the Bank and reflect the debt as a current liability, rather than non-current liability, at 31 December 2022.

This accounting treatment has not changed the terms and conditions of the facility arrangements with the Bank, including in relation to any schedule for repayment of the facility.

The loan covenants are assessed on a rolling 12-month basis every six months and are:

- Net Leverage Ratio – no more than 2.5 times; and
- Debt Service Cover Ratio – more than 2.5 times.

## 16. Other financial liabilities

	31/12/2022	30/06/2022
	\$'000	\$'000
<b>Current</b>		
Contingent consideration	2,464	1,210

The earn-out measurement period for the contingent consideration payable for the acquisition of Verifact Traffic and D&D Traffic ended at 31 December 2022. The contingent consideration is due and payable in March 2023 and is expected to be paid through cash and equity.

There has been a fair value movement since 30 June 2022 of \$1.3m resulting from the improved trading performance of the related subsidiaries during the half-year period to 31 December 2022. The increase of \$1.3m in the financial liability has been recorded in other expenses, refer Note 8.

As at 30 June 2022, the contingent consideration was revalued based on actual monthly trading to 30 June 2022 and future expected EBITDA based on a probability weighting of two different scenarios and a 11% discount rate. Based on the above forecast methodology, a contingent consideration amount of \$1.2m had been estimated.

## 17. Business combination

### Details of business combination

On 26 August 2022, the Company announced that it had acquired the business and all of the assets of Construct Traffic. Consideration was settled by way of cash payment.

### Consideration transferred

	31/12/2022
	\$'000s
Cash to settle	17,976
Contingent consideration <sup>1</sup>	-
Total consideration	17,976

<sup>1</sup> Consideration also contains an "earn out" component based on trading performance for the 12 months post completion of the acquisition subject to certain hurdles being met. At the date of acquisition and at the half-year end, the fair value of contingent consideration was determined to be zero.

## 17. Business combination (cont'd)

### Assets acquired and liabilities assumed at the date of acquisition

The provisional amounts recognised in respect of the identifiable assets acquired and liabilities assumed at the date of acquisition are as follows:

		<b>31/12/2022</b>
	<b>Note</b>	<b>\$'000</b>
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment	11	6,034
Right-of-use assets	12	782
Other intangible assets	14	5,544
<b>Total non-current assets</b>		<u>12,360</u>
<b>Total assets</b>		<u>12,360</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Lease liabilities		61
Employee related provisions		109
<b>Total current liabilities</b>		<u>170</u>
<b>Non-current liabilities</b>		
Employee related provisions		33
Lease liabilities		721
Deferred tax liabilities		1,621
<b>Total non-current liabilities</b>		<u>2,375</u>
<b>Total liabilities</b>		<u>2,545</u>
<b>Net Assets</b>		<u>9,815</u>

The initial accounting for the acquisition has been provisionally determined at the end of the half-year. At the date of completion of this half-year financial report, the necessary market valuations and related tax calculations along with the determination of the consideration paid and the fair value of the identifiable assets acquired and liabilities assumed has not been formalised. The Company will perform a final assessment to finalise the necessary market valuations and other calculations along with the fair value of the plant and equipment, associated deferred tax liabilities, as well as intangible assets and goodwill. The final assessment is required to be performed within 12 months from the date of acquisition and will reflect the value of completion adjustments which have not been formalised at 31 December 2022.

### Goodwill arising on acquisition

		<b>31/12/2022</b>
	<b>Note</b>	<b>\$'000</b>
Consideration transferred		17,976
Less: Total of identifiable net assets acquired		9,815
<b>Goodwill arising on acquisition</b>	13	<u>8,161</u>

The goodwill is attributable to workforce, business processes, know-how and synergies on combination of the Group. These assets could not be separately recognised from goodwill because they are not capable of being separated from the Group and sold, transferred, licensed, rented, or exchanged, either individually or together with any related contracts. Customer lists and brand names which are separately identifiable are accounted for as intangible assets.

## 17. Business combination (cont'd)

### Net cash outflow arising on acquisition

	31/12/2022 \$'000
Consideration paid in cash	17,976
	<u>17,976</u>

## 18. Financial risk management

The Group's activities expose it to market risk (including interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimise any adverse effects from the unpredictability of financial markets on the Group's financial performance.

The Board of Directors are responsible for setting the objectives and underlying principles of financial risk management for the Group. The Audit and Risk Management Committee ("ARM") then establishes the detailed policies such as authority levels, oversight responsibilities, risk identification and measurement, exposure limits and hedging strategies, in accordance with the objectives and underlying principles approved by the Board of Directors. Financial risk management is carried out by the finance function in accordance with the policies set by the ARM.

### Interest rate risk

The Group's main exposure to interest rate risk is long-term borrowings. Interest rate risk is the risk that the fair value or future cash flows of a financial asset or financial liability will change as a result of changes in market interest rates. The Group is exposed to interest rate risk through its Banking Facilities, which include floating rate facilities. The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates.

#### *Interest rate risk management*

The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The Group is exposed to BBSY in respect of interest rate benchmarks for borrowings. The Group does not currently have any hedging activities or interest rate swaps implemented.

#### *Interest rate sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the reporting date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the reporting date was outstanding for the whole year. A one per cent increase or decrease is used when reporting interest rate risk internally to key management personnel and represents the Director's assessment of the reasonably possible change in interest rates.

If interest rates had been 1% higher/lower and all other variables were held constant, the Group's loss for the half-year ended 31 December 2022 would decrease/increase by \$0.1m. This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

### Liquidity risk

Liquidity risk is the risk that the Group will not have sufficient funds to meet its financial commitments as and when they fall due.

## 18. Financial risk management (cont'd)

### Liquidity risk (cont'd)

#### *Liquidity risk management*

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has established an appropriate liquidity risk management framework for management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. Details of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk are set out in Note 15.

#### *Financing facilities*

The Group has access to financing facilities as described in Note 15, of which \$6.8m were unused at the reporting date. The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

### Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group is exposed to counterparty credit risk arising from its operating activities, primarily from trade receivables.

#### *Credit risk management*

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group. Credit risk is managed through the maintenance of procedures such as the utilisation of systems for the approval, granting and renewal of credit limits, regular monitoring of exposures against such limits and monitoring of the financial stability of significant customers and counterparties; ensuring to the extent possible that customers and counterparties to transactions are of sound credit worthiness. Such monitoring is used in assessing receivables for impairment.

Where the Group is unable to ascertain a satisfactory credit risk profile in relation to a customer or counterparty, these customers may be required to pay upfront, or the risk may be further managed through obtaining security by way of personal or commercial guarantees over assets of sufficient value which can be claimed against in the event of any default.

The maximum exposure to credit risk at the end of the reporting period is equivalent to the carrying amount of trade receivables and cash and cash equivalents. The Group does not consider there to be any significant concentration of credit risk with any single or group of customers.

## 19. Related party balances or transactions

There have been no significant related party transactions during the period.

However, the following amounts are owing to or owed from related parties that are considered to be significant:

Related party	Purpose	Half-year ended 31/12/2022	Full-year ended 30/06/2022
		Amounts owed/ (receivable) to/ (from) related parties \$'000s	Amounts owed/ (receivable) to/ (from) related parties \$'000s
Verifact Investigations Pty Ltd	Liability assumed on acquisition	1,250	1,250
Verifact Investigations Pty Ltd	Insurance	200	615
Verifact Pty Ltd	Working capital credit	(301)	(301)
Verifact Pty Ltd	Contingent consideration	2,464	-
Rodeca Pty Ltd	Contingent consideration	-	401
Rodeca Pty Ltd	Completion payment	-	92

For details on related party balances and transaction for the year ended 30 June 2022, refer to the Annual Report.

## 20. Events occurring after the reporting date

Under the terms and conditions applying to the Company's bank facilities, a financial covenant, requiring the Group to maintain a defined Net Leverage Ratio, has been breached (to the extent of less than 10% of covenant levels).

The Bank has confirmed in writing its position not to exercise its rights relating to the breach and has waived its rights for future actions relating to the Group's financial reporting period at 31 December 2022. Refer to Note 15 for further details.

The Directors of the Group are not aware of any other matter or circumstances that have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial periods.