

IMDEX Limited
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8 February 2021

ASX Limited
Company Announcements Office
Exchange Centre
20 Bridge Street
SYDNEY NSW 2001

BY ELECTRONIC LODGEMENT

Dear Sir / Madam

ASX APPENDIX 4D AND INTERIM FINANCIAL REPORT FOR THE HALF YEAR ENDED 31 DECEMBER 2020.

Please find attached IMDEX Limited's Appendix 4D and Interim Financial Report for the Half Year Ended 31 December 2020, inclusive of the Auditors Review Report and Independence Declaration.

Yours faithfully
IMDEX Limited

A handwritten signature in blue ink, appearing to be "Paul Evans", written over a light blue horizontal line.

Paul Evans
Company Secretary

These have been approved for lodgement by the IMDEX Board of Directors.

IMDEX LIMITED

ABN 78 008 947 813

ASX Appendix 4D “Half Year” Report and Interim Directors’ Report and Financial Report

for the Half Year ended 31 December 2020

The ASX Appendix 4D “Half Year” Report is provided to ASX in accordance with Listing Rule 4.2A for announcement to the market.

Current Reporting Period: 31 December 2020

Previous Corresponding Reporting Period: 31 December 2019

The Financial Report has been subject to review and is not subject to dispute or qualification. The auditor’s review report is included herein.

The interim Financial Report has been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The interim Financial Report does not include all the notes of the type normally included in an Annual Financial Report and hence should be read in conjunction with the latest annual report of IMDEX Limited, being for the financial year ended 30 June 2020.

In addition, reference should be made to any public announcements made by IMDEX Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001 (Cth).

IMDEX LIMITED
and its controlled entities

APPENDIX 4D HALF YEAR REPORT 31 DECEMBER 2020

			Consolidated	
	Notes	% Change Up / (Down)	Half Year Ended 31 Dec 2020 \$'000	Half Year Ended 31 Dec 2019 \$'000
Revenue from ordinary activities	(i)	(2.7%)	124,393	127,882
Net profit for the period	(i)	(26.0%)	13,476	18,221
Net profit attributable to members	(i)	(26.0%)	13,476	18,221
Interim dividend (cents per share)	(ii)	-	1.0	1.0
Net tangible assets per ordinary security (cents)		(14.1%)	36.14	42.08

- (i) The announcement made to ASX on 8 February 2021 provides an explanation of the Group's financial results and operating performance for the half year ended 31 December 2020.
- (ii) The FY21 interim fully franked dividend was declared on 5 February 2021 with a record date of 9 March 2021 and a payment date of 23 March 2021. There are no dividend reinvestment plans in operation.

IMDEX LIMITED

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DIRECTORS' REPORT FOR THE HALF YEAR ENDED 31 DECEMBER 2020

The Directors of IMDEX Limited submit herewith the financial report of IMDEX Limited and its subsidiaries (the Group or Consolidated Entity) for the half year ended 31 December 2020. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

Directors

The Directors of the Company during or since the end of the Half Year are:

Name	Period of Directorship
Mr Anthony Wooles, Non-Executive Chairman	Appointed 1 July 2016
Mr Kevin Dundo, Non-Executive Director	Appointed 14 January 2004
Mr Ivan Gustavino, Non-Executive Director	Appointed 3 July 2015
Ms Sally-Anne Layman, Non-Executive Director	Appointed 6 February 2017
Mr Bernie Ridgeway, Managing Director	Retired 1 July 2020

Review of Operations

	Consolidated Half Year Ended 31 Dec 2020 \$'000	Consolidated Half Year Ended 31 Dec 2019 \$'000
Total Revenue from ordinary activities	124,393	127,882
Profit from ordinary activities after tax for the half year	13,476	18,221
Total Profit after tax for the half year	13,476	18,221
Basic earnings per share (cents)	3.42	4.75

The profit after tax for the half year ended 31 December 2020 was \$13.5 million (31 December 2019: Profit \$18.2 million) The result was achieved on total revenue of \$124.4 million (31 December 2019: \$127.9 million).

Profit per share from total operations was 3.42 cents per share (31 December 2019: Profit of 4.75 cents per share).

Further details on the operations and overall results are contained in the Financial Report and the announcement made to the ASX on 8 February 2021 regarding the Group's financial results and operating performance for the half year ended 31 December 2020.

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DIRECTORS' REPORT FOR THE HALF YEAR ENDED 31 DECEMBER 2020

Auditor's Independence Declaration

Section 307C of the Corporations Act 2001 requires the auditor, Deloitte Touche Tohmatsu, to provide the Directors of IMDEX Limited with an Independence Declaration in relation to the review of the Half Year Financial Report. The Independence Declaration is on the next page.

Rounding Off of Amounts

The amounts contained in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) where noted (\$'000) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which this legislative instrument applies.

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

Dated at PERTH, Western Australia, 7 February 2021

A handwritten signature in black ink, appearing to read 'Anthony Wooles', with a long horizontal flourish extending to the right.

Anthony Wooles
Chairman

The Board of Directors
Imdex Limited
216 Balcatta Rd
Balcatta WA 6021

7 February 2021

Dear Directors

Auditor's Independence Declaration to IMDEX Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of IMDEX Limited.

As lead audit partner for the review of the financial statements of IMDEX Limited for the half year ended 31 December 2020, 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

D K Andrews
Partner
Chartered Accountants

Independent Auditor's Review Report to the members of IMDEX Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of IMDEX Limited (the "Company") and its subsidiaries (the "Group"), which comprises the condensed consolidated statement of financial position as at 31 December 2020, and 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 6 to 18.

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 2020 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.

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 2020 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



D K Andrews

Partner

Chartered Accountants

Perth, 7 February 2021

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DIRECTORS' DECLARATION

The Directors declare that:

- (a) in the Directors' opinion, 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) in the Directors' opinion, the attached Financial Report 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 the Directors made pursuant to s. 303(5) of the Corporations Act 2001.

Dated at PERTH, Western Australia, 7 February 2021

A handwritten signature in black ink, appearing to read 'Anthony Wooles', with a long horizontal flourish extending to the right.

Anthony Wooles
Chairman

IMDEX LIMITED
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**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2020**

	Notes	Half Year Ended	
		31 Dec 2020 \$'000	31 Dec 2019 \$'000
Revenue from sale of goods and rentals		124,336	127,747
Other revenue from operations		57	135
Total revenue		124,393	127,882
Raw materials and consumables used		(38,870)	(41,445)
Employee benefit expense		(33,267)	(33,319)
Depreciation and amortisation expense		(15,017)	(10,736)
Finance costs		(1,505)	(1,020)
Other expenses		(19,062)	(21,684)
Fair value gain on Flexidrill deferred consideration	7	2,232	-
Gain on sale of investment		-	3,625
Profit for the period before tax		18,904	23,303
Income tax expense		(5,428)	(5,082)
Profit for the period		13,476	18,221
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences arising on the translation of foreign operations		(4,565)	(900)
Other comprehensive income for the period, net of income tax		(4,565)	(900)
Total comprehensive income for the period		8,911	17,321
Profit attributable to owners of the parent		13,476	18,221
Total comprehensive income attributable to owners of the parent		8,911	17,321
Earnings per share			
From continuing operations			
Basic earnings per share (cents)		3.42	4.75
Diluted earnings per share (cents)		3.34	4.61

The Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	Notes	31 Dec 2020 \$'000	30 Jun 2020 \$'000
Current Assets			
Cash and Cash Equivalents		59,778	38,263
Trade Receivables		40,636	43,520
Inventories		37,524	41,161
Current Tax Assets		1,609	3,155
Other		4,524	4,001
Total Current Assets		144,071	130,100
Non-Current Assets			
Property, Plant and Equipment		42,146	43,143
Right-of-Use Assets		33,297	36,489
Deferred Tax Assets		25,331	24,808
Intangible Assets	5	91,055	83,582
Other Receivables		3,600	-
Total Non-Current Assets		195,429	188,022
Total Assets		339,500	318,122
Current Liabilities			
Trade and Other Payables		28,689	26,876
Lease Liabilities		4,571	6,385
Deferred Consideration	7	5,610	107
Current Tax Liabilities		5,669	2,382
Provisions		4,077	4,621
Total Current Liabilities		48,616	40,371
Non-Current Liabilities			
Lease Liabilities		34,093	35,132
Deferred Consideration	7	9,379	14,619
Borrowings	8	12,776	6,115
Provisions		287	253
Total Non-Current Liabilities		56,535	56,119
Total Liabilities		105,151	96,490
Net Assets		234,349	221,632
Equity			
Issued Capital	2	169,078	158,697
Reserves		(3,900)	4,464
Retained Earnings		69,171	58,471
Total Equity		234,349	221,632

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 31 DECEMBER 2020

	Reserves						
	Shares reserved for Performance Rights Plan	Foreign Currency Translation Reserve	Employee Equity- Settled Benefits Reserve	Reserves Total	Fully Paid Ordinary Shares	Retained Earnings	Total Attributable to Equity Holders of the Entity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2019	-	(2,261)	9,081	6,820	156,483	53,811	217,114
Exchange differences on translation of foreign operations after taxation	-	(900)	-	(900)	-	-	(900)
Profit for the period	-	-	-	-	-	18,221	18,221
Total comprehensive income for the period	-	(900)	-	(900)	-	18,221	17,321
Share based payments - performance rights	-	-	(2,214)	(2,214)	2,214	-	-
Granting/settlement of performance rights	-	-	1,280	1,280	-	-	1,280
Dividends paid	-	-	-	-	-	(13,194)	(13,194)
Balance at 31 December 2019	-	(3,161)	8,147	4,986	158,697	58,838	222,521
Balance at 1 July 2020	(129)	(5,438)	10,031	4,464	158,697	58,471	221,632
Exchange differences on translation of foreign operations after taxation	-	(4,565)	-	(4,565)	-	-	(4,565)
Profit for the period	-	-	-	-	-	13,476	13,476
Total comprehensive income for the period	-	(4,565)	-	(4,565)	-	13,476	8,911
Share based payments - performance rights	(77)	-	(5,304)	(5,381)	5,381	-	-
Granting/settlement of performance rights	-	-	1,582	1,582	-	-	1,582
Issue of shares relating to acquisition of AusSpec	-	-	-	-	5,000	-	5,000
Dividends paid	-	-	-	-	-	(2,776)	(2,776)
Balance at 31 December 2020	(206)	(10,003)	6,309	(3,900)	169,078	69,171	234,349

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2020**

	Notes	Half Year Ended	
		31 Dec 2020 \$'000	31 Dec 2019 \$'000
Cash Flows From Operating Activities			
Receipts from customers		138,433	140,835
Payments to suppliers and employees		(103,847)	(111,087)
Interest and other costs of finance paid		(196)	(273)
Income tax paid		(1,178)	(4,621)
Net cash provided by Operating Activities		33,212	24,854
Cash Flows From Investing Activities			
Interest received		57	135
Payment for property, plant and equipment		(10,781)	(11,389)
Acquisition of AusSpec	6	(1,004)	-
Acquisition of Flexidrill		-	(1,098)
Proceeds on sale of investment		-	6,362
Net cash used in Investing Activities		(11,728)	(5,990)
Cash Flows From Financing Activities			
Repayment of borrowings		(6,129)	-
Proceeds from borrowings		13,363	-
Dividends paid		(2,775)	(13,194)
Repayment of lease liabilities		(3,332)	(3,232)
Net cash used in Financing Activities		1,127	(16,426)
Net increase in Cash and Cash Equivalents Held		22,611	2,438
Cash and Cash Equivalents At The Beginning Of The Period		38,263	29,476
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		(1,096)	(183)
Cash and Cash Equivalents At The End Of The Period		59,778	31,731

The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

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NOTES TO THE FINANCIAL REPORT

1. Summary of Significant Accounting Policies

Statement of Compliance

The half year report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 "Interim Financial Reporting". Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting". The half year financial 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 half year condensed consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2020, except for the adoption of new amendments to existing standards, as set out below.

(a) Amendments to existing standards effective and adopted from 1 July 2020 but not relevant or significant to the Group

Amendments to AASB 2020-4	COVID-19 Related Rent Concessions
Amendments to IAS 1 and IAS 8	Definition of material

(b) New standards and amendments to standards that have been issued but not yet effective or early adopted by the Group. These are not expected to be significant to the Group.

AASB 17	Insurance Contracts
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Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other relevant factors. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

- Significant judgement and estimates applied by management in assessing recoverability of non-financial assets have been disclosed in note 5.
- Income tax expense is recognised based on management's best estimate of the weighted average effective annual income tax rate expected for the full financial year, consistent with AASB 134.28.
- A deferred consideration liability has been recognised in respect of the acquisition of Flexidrill (completed in January 2020). The fair value of the deferred consideration includes the estimated fair value of the revenue-based instalments, determined after estimating the fair value of the dividend and share price appreciation components of the deferred consideration. The valuation requires management to make certain assumptions about the model inputs, including forecast cash flows, the discount rate, future dividends, future share prices of IMDEX, future AUD/NZD exchange rates and volatility. Further details are disclosed in note 7.

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NOTES TO THE FINANCIAL REPORT

2. Issued Capital

	Notes	31 Dec 2020 \$'000	30 Jun 2020 \$'000
Issued and Paid Up Capital - Fully paid ordinary shares	(i)	169,078	158,697

	31 Dec 2020		30 Jun 2020	
	Number	\$'000	Number	\$'000
Issued and Paid Up Capital - Fully paid ordinary shares				
Balance at beginning of the financial year	388,057,257	158,697	378,825,085	156,483
Issue of shares relating to acquisition of AusSpec (ii)	4,438,851	5,000	-	-
Issue of shares under performance rights	3,956,292	5,381	9,232,172	2,214
Closing balance at end of the financial year	396,452,400	169,078	388,057,257	158,697

- (i) Fully paid ordinary shares carry one vote per share and the right to dividends.
(ii) During the period the Company issued 4,438,851 ordinary shares in connection with the acquisition of AusSpec International Limited. Refer to note 6.

3. Dividends

	Half Year Ended 31 Dec 2020		Half Year Ended 31 Dec 2019	
	Cents per share	\$'000	Cents per share	\$'000
Recognised amounts				
Fully paid ordinary shares – final dividend franked to 30%	0.7	2,775	1.4	5,433
Fully paid ordinary shares – special dividend franked to 30%	-	-	2.0	7,761
Unrecognised amounts				
Fully paid ordinary shares – interim dividend franked to 30%	1.0	3,965	1.0	3,881

The FY21 interim fully franked dividend was declared on 5 February 2021 with a record date of 9 March 2021. The financial effect of the dividend has not been recognised in the financial statements at 31 December 2020.

4. Segment Information

The primary means by which the Board view the business and make key decisions is based on geographical lines.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group), whose operating results are regularly reviewed by the Group's Chief Operating Decision Maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. Management will also consider other factors in determining operating segments such as the existence of a regional general manager and the level of segment information presented to the Board of Directors.

Information reported to the CODM for the purposes of resource allocation and assessment of segment performance focuses on the regions serviced. The Directors of the Company have chosen to organise the Group around different geographical markets serviced by the entity's products and services.

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NOTES TO THE FINANCIAL REPORT

4. Segment Information (continued)

No operating segments have been aggregated in arriving at the reportable segments of the Group. All segments are in the business of the manufacture and sale/rental of products and software to the mining sector along the following geographical lines:

AM - Americas

APAC - Asia Pacific

AE – Africa / Europe

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise deferred tax assets, treasury cash, net financing costs for the Group and the corporate portion of head office costs. Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period. The following is an analysis of the revenue and results for the year, analysed by reportable segment. This is consistent with the segment reporting presented in the most recent Annual Financial Report.

	Half Year Ended	
	31 Dec 20	31 Dec 19
	\$'000	\$'000
(a) Segment Revenues		
AM - Americas	51,697	55,653
APAC – Asia Pacific	40,583	41,334
AE – Africa / Europe	32,056	30,760
Total of all segments	124,336	127,747
Unallocated revenue	57	135
Total revenue	124,393	127,882

(b) Segment Results

AM - Americas	10,077	9,525
APAC – Asia Pacific	10,955	14,103
AE – Africa / Europe	10,404	9,996
Total of all segments	31,436	33,624
Engineering and Product Development Costs (i)	(9,284)	(9,198)
Central Administration Costs (ii)	(3,975)	(3,728)
Finance costs	(1,505)	(1,020)
Fair value gain on revaluation of Flexidrill deferred consideration	2,232	-
Gain on sale of investment	-	3,625
Profit before income tax expense (iii)	18,904	23,303
Income tax expense	(5,428)	(5,082)
Profit attributable to ordinary equity holders of IMDEX Limited	13,476	18,221

- (i) Engineering and Product Development consists of costs directly associated with the Company's development of products. This includes materials, personnel and related costs (including salaries and benefits) and an allocation of overhead costs.
- (ii) Central Administration Costs comprise the corporate portion of head office costs. Head office costs attributable to operations are allocated to reportable segments in proportion to the revenues earned from those segments.
- (iii) During the half year, the Group received \$0.4 million of COVID-19 related overseas government grants. These have been offset against employee benefits expense.

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NOTES TO THE FINANCIAL REPORT

4. Segment Information (continued)

	Assets		Liabilities	
	31 Dec 20 \$'000	30 Jun 20 \$'000	31 Dec 20 \$'000	30 Jun 20 \$'000
(c) Segment Assets/ Liabilities				
AM - Americas	90,902	99,327	18,403	24,850
APAC – Asia Pacific	129,736	129,341	63,948	56,252
AE – Africa / Europe	52,071	50,362	10,024	9,273
Total of all segments	272,709	279,030	92,375	90,375
Unallocated	66,791	39,092	12,776	6,115
Consolidated	339,500	318,122	105,151	96,490

For the purposes of monitoring segment performance and allocating resources between segments:

- All assets are allocated to reportable segments other than deferred tax assets and treasury cash.

Certain prior year disclosures have been reclassified for consistency with the current year presentation. These reclassifications are not material to the half year financial report.

5. Intangible Assets

	\$'000
Goodwill	
Net book amount 1 July 2020	57,784
Acquisition of subsidiary (note 6)	4,094
Effect of foreign exchange movements	(203)
Net book amount 31 Dec 2020	61,675
Intangible Assets	
Net book amount 1 July 2020	25,798
Acquisition of subsidiary (note 6)	5,500
Amortisation expense	(1,913)
Effect of foreign exchange movements	(5)
Net book amount 31 Dec 2020	29,380

IMDEX assesses impairment at the Operating Segment level for Goodwill and at the Cash Generating Unit (CGU) level for fixed assets and other intangible assets. A CGU being the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGUs identified are at a lower level than each Operating Segment (based on regional hubs).

Goodwill and intangible assets not yet available for use are not amortised but tested for impairment annually and whenever there is an indication that the asset may be impaired.

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets (other than goodwill) at the CGU level to determine whether there is any indication that those assets may have suffered an impairment loss.

Where an indication of impairment exists, a formal estimate of the recoverable amount is made at the reporting period. Indicators of impairment were noted for the South America (SAM) CGU, due to below plan performance, impacted by COVID-19 disruptions. No impairment indicators were noted in respect of other CGUs.

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NOTES TO THE FINANCIAL REPORT

5. Intangible Assets (continued)

The recoverable amount of each CGU is estimated based on its “Value in Use”, which is consistent with the approach from the prior year. For Value in Use calculations, cash flow projections are based on IMDEX’s corporate plans and business forecasts prepared by management and approved by the Board for the 2021 financial year.

The key assumptions impacting the discounted cash flow models used to determine the Value in Use for the SAM CGU include:

- Revenue growth for the 2021 financial year onwards has taken into account the uncertainty around the economic impact and duration that COVID-19 related issues will have on the markets in which the CGU operates. Growth rates in the initial years reflect an expected return to pre-COVID-19 activity levels by 2023, followed by growth that reflects IMDEX’s forecast demand with growth rates ranging between 2% to 5%.
- Cash flows beyond the five-year period are extrapolated using an estimated growth rate of 2.0%, which is based on Group estimates taking into consideration historical performance as well as expected long-term operating conditions to arrive at a terminal value. Growth rates do not exceed the consensus forecasts of the long-term average growth rate for the industry in which the CGU operates.
- Capital investment for the 2021 financial year is based on the forecasted numbers approved by the Board of Directors. Going forward to terminal date, capital investment gradually increases each year so that it equals the replacement cost of assets by terminal date;
- Tax rates used were those applicable to countries in the region;
- Post-tax discount rates used were country risk adjusted and based on data supplied by external sources (11.41%).

The impairment assessment of the SAM CGU at 31 December 2020 did not result in the recognition of impairment.

Increases in discount rates or changes in other key assumptions, such as operating conditions or financial performance, may cause the recoverable amounts to fall below carrying values. The main sensitivities where a reasonably possible change could lead to further impairment have been considered, with no reasonably possible changes made to these key assumptions giving rise to an impairment. However, forward looking estimation of this nature is inherently uncertain and the outcomes of these sensitivities may vary in the future.

Intangible assets relate primarily to intellectual property acquired in the acquisitions of Flexidrill (completed January 2020) and AusSpec International Limited (completed July 2020). The Group continues to progress the development of the associated Maghammer, Corevibe and aiSIRIS-X technologies. Management assesses the recoverability of the associated intangible assets at each reporting date as these technologies progress towards commercialisation.

6. Acquisition of Subsidiaries

On 22 July 2020, the Group acquired 100 per cent of the issued share capital of AusSpec International Limited (“AusSpec”), incorporated in New Zealand and operating out of premises located in New Zealand. AusSpec is a leading provider of spectral mineralogy through its unique aiSIRIS platform – Artificial Intelligence (AI) Spectral InfraRed Interpretation System. The AusSpec acquisition enhances IMDEX’s rock knowledge offering with spectral mineralogy and AI technologies.

The agreed acquisition price was \$8.5 million. The Group paid \$1.0 million in cash and issued IMDEX Limited ordinary shares to the value \$5.0 million on the settlement date. The balance of the agreed acquisition price will be settled through:

- The payment of \$1.0 million cash in July 2021 on the achievement of certain new revenue-generating contracts;
- The payment of \$1.0 million cash and the issue of \$0.5 million of IMDEX Limited ordinary shares in July 2022 on the achievement of certain new revenue-generating contracts.

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6. Acquisition of Subsidiaries (continued)

Assets acquired and liabilities assumed at the date of acquisition:

	\$'000
Cash	11
Receivables (i)	130
Other assets	177
Property, plant & equipment	3
Intangibles	5,500
Payables	(150)
Deferred tax liability	(1,650)
Net assets acquired	<u>4,021</u>

(i) The fair value of the receivables of \$0.1 million equals the gross contractual value of \$0.1 million.

Satisfied by:

Cash	1,015
Equity instruments (4,438,851 ordinary shares of IMDEX Limited)	5,000
Contingent and deferred consideration arrangements	2,100
Fair value of consideration paid/payable	<u>8,115</u>

Goodwill arising on acquisition:

Estimated purchase consideration	8,115
Less: fair value of identifiable net assets acquired	(4,021)
Goodwill arising on acquisition	<u>4,094</u>

Goodwill of \$4.1 million arose on the acquisition of AusSpec (including goodwill of \$1.6 million associated with recognition of deferred tax liabilities in relation to identified intangible assets). The goodwill recognised reflects the growth potential and synergies arising from the acquisition.

Net cash outflow arising on acquisition:

Cash consideration	1,015
Less: cash and cash equivalent balances acquired	(11)
Net cash outflow	<u>1,004</u>

Included in the profit for the half-year is a loss after tax of \$0.5 million in relation to AusSpec. Revenue for the half-year includes \$0.4 million in respect of AusSpec. Had the acquisition occurred on 1 July 2020, the Group's financial performance for the period would not be significantly different.

7. Deferred Consideration

	31 Dec 2020 \$'000	30 Jun 2020 \$'000
Current deferred consideration		
Deferred consideration (i)	5,610	107
Non-current deferred consideration		
Deferred consideration (ii)	9,379	14,619

(i) Current deferred consideration includes an amount of \$1.0 million in relation to the acquisition of AusSpec, payable at 1 July 2021 on the achievement of certain new revenue-generating contracts. The balance of the current deferred consideration relates to the acquisition of Flexidrill, including the issue of NZ\$2.5 million of

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7. Deferred Consideration (continued)

IMDEX Limited ordinary shares and the payment of NZ\$2.5 million cash upon the successful commercialisation of Maghammer.

- (ii) Non-current deferred consideration includes the non-current portion of the consideration for AusSpec, which includes the payment of \$1.0 million cash and the issue of \$0.5 million of IMDEX Limited ordinary shares in July 2022 on the achievement of certain new revenue-generating contracts.

The balance of non-current deferred consideration relates to the acquisition of Flexidrill, representing the estimated fair value of the revenue-based instalments, determined after estimating the fair value of the dividend and share price appreciation components of the deferred consideration. The value to be attributed to the dividend and share-price appreciation component of the deferred consideration has been determined using a Monte Carlo Option Pricing Model. The estimated fair value of the deferred consideration at 31 December 2020 resulted in recognition of a fair value gain of \$2.2 million in the profit and loss for the period.

8. Borrowings

	31 Dec 2020 \$'000	30 Jun 2020 \$'000
Non-current borrowings		
Secured		
Bank borrowings, net	12,776	6,115

On 29 September 2020, the Group replaced the previous Bankwest facility with a new facility from the Commonwealth Bank of Australia. The maximum limit of the facility is \$30 million. The effective interest rate at 31 December 2020 was 2.77% (30 June 2020: 2.11%). The facility has no repayment requirements other than at expiry. As a result, the borrowings have been presented as non-current. The facility is due to expire on 1 July 2023.

9. Contingent Liabilities and Contingent Assets

The Group is party to legal proceedings and claims which arise in the normal course of business. Any liabilities may be mitigated by legal defences, insurance, and third-party indemnities. Unless recognised as a provision, management do not consider it to be probable that they will require settlement at the Group's expense.

(i) Contingent Liabilities

A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in extremely rare cases where there is a liability that cannot be recognised because it cannot be measured reliably. The Group does not recognise a contingent liability but discloses its existence in the financial statements.

The Group had no material contingent liabilities to disclose at 31 December 2020.

(ii) Contingent Assets

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group. The Group does not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

A subsidiary of the Group (Australian Mud Company Pty Ltd or "AMC") is currently a party to litigation in relation to infringement of patents by a third party. The courts have found in favour of AMC on the matter, and the company is awaiting an outcome on the quantum of the financial settlement.

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10. Subsequent Events

No matters or circumstances have arisen since the end of the half-year which will significantly affect or may significantly affect the state of affairs or operations of the reporting entity in future financial periods.