

Verbrec Limited

ABN 90 127 897 689

Interim Financial Report 31 December 2022

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This consolidated interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2022 and any public announcements made by Verbrec Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

These consolidated interim financial statements are the consolidated interim financial statements of the consolidated entity consisting of Verbrec Limited and its subsidiaries. The consolidated interim financial statements are presented in Australian currency.

Verbrec Limited is a company limited by shares, incorporated and domiciled in Australia.

Its registered office is:

Verbrec Limited
Level 14
200 Mary Street
Brisbane QLD 4000

The consolidated interim financial statements were authorised for issue by the Directors on 28 February 2023. The Directors have the power to amend and reissue the consolidated interim financial statements.

Verbrec Limited
ABN 90 127 897 689
Directors' Report

Your Directors present their interim financial statements on Verbrec Limited ("the Company or Verbrec or VBC") and its controlled entities ("the Group") for the half-year ended 31 December 2022.

1. DIRECTORS and COMPANY SECRETARIES

The Directors of the Company in office during or since the end of the half-year ended 31 December 2022 are set out below:

Name	Position
Mr Phillip Campbell	Independent Non-Executive Chairperson
Mr Matthew Morgan	Independent Non-Executive Director
Ms Sarah Zeljko	Independent Non-Executive Director
Mr Brian O'Sullivan AM	Non-Executive Director
Mr Linton Burns	Chief Executive Officer and Managing Director

The Company Secretaries of the Company in office during or since the end of the half-year ended 31 December 2022 are set out below:

Mr Andrew Ritter	Joint Company Secretary (resigned 24 November 2022)
Mr Joel Voss	Joint Company Secretary (sole Company Secretary from 24 November 2022)

2. PRINCIPAL ACTIVITIES

Verbrec is a leading mid-tier engineering, asset management, infrastructure, and training company operating across the entire asset life cycle to a diverse range of industries including energy, mining and infrastructure. The Group has more than 700 professionals operating across Australia, New Zealand, PNG, and the Pacific Islands from 14 offices throughout Australia and New Zealand and from our project delivery site offices.

The Group has a strong position in each of our two segments being Engineering and Training Services.

Engineering Services

Verbrec provides a range of engineering and project management services with particular strengths in the following areas.

Asset Management: Specialist asset management services including maintenance and reliability engineering, asset integrity, operational readiness, material and inventory management systems that increases efficiency, reduces costs and improves productivity.

Digital Industry: Specialist engineering and project delivery services in controls and automation, data acquisition, industry digitalisation (including IIOT – Industrial Internet of Things), industrial data analytics and advanced algorithms.

Infrastructure Services: Specialist pipeline and compressor station operation and maintenance services to the gas and mining industries. We have a reputation for the highest standards in safety for our people, contractors and the general public in addition to full compliance with legislative requirements. This work is managed using a proprietary in-house 'Integrated Management and Operating System' (IMOS).

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Directors' Report (continued)

Pipeline Engineering: Specialist engineering and project delivery services including conceptual studies, engineering design, EPC delivery, commercial services and condition assessments. We specialise in gas, oil, water and hydro-transport (slurry) pipelines including all associated facilities including compressor stations, pumping stations, terminal facilities, pigging systems, metering systems, SCADA systems and tie-ins.

Power: Specialist engineering and project delivery in low voltage and high voltage electrical systems. This includes electrical distribution and reticulation, grid connections, switchboards and motor control centres, protection systems, as well as specialist expertise and electrical equipment in hazardous areas.

Process Plant: Full multi-disciplinary engineering, design and procurement capabilities for all oil and gas and chemical facilities including well-head systems, gathering networks, processing facilities (physical and chemical processing), compression and pumping facilities, tank farms and distribution systems.

Training Services

Under the Competency Training and Site Skills Training brands our Registered Training Organisation (RTO 31299) provides specialist industrial training services for the Mining, Resources, Infrastructure and Manufacturing sectors. The specialty offers an extensive range of site-specific training as well as customised competency assurance services. These services range from the development of eLearning modules through to implementation of competency management programs with integrated technology components (virtual reality). Competency Training has dedicated, fully equipped training facilities (allowing for 'hands-on' training with equipment) across Australia.

3. REVIEW OF FINANCIAL PERFORMANCE & MARKET OUTLOOK

3.1 Financial Performance Overview

The consolidated interim financial results for the half-year ended 31 December 2022 compared to the prior corresponding period ("PCP") is follows:

	31 December 2022	31 December 2021	Change to PCP
Revenue (\$'000)	63,462	60,548	2,914
Gross Margin Statutory (\$'000)	16,910	17,559	(649)
Gross Margin Statutory as a % of revenue (%)	26.6%	29.0%	(2.4%)
Gross Margin Underlying (\$'000)	20,334	21,063	(729)
Gross Margin Underlying as a % of revenue (%)	32.0%	34.8%	(2.8%)
(Loss)/profit before tax (\$'000)	(1,814)	(831)	(983)
(Loss)/profit after tax (\$'000)	(2,657)	(1,071)	(1,586)
Statutory EBITDA (\$'000)	758	1,744	(986)
Statutory EBITDA as a % of revenue (%)	1.2%	2.9%	(1.7%)
Underlying EBITDA ¹ (\$'000)	4,433	5,626	(1,193)
Underlying EBITDA as a % of revenue (%)	7.0%	9.3%	(2.3%)
Operating Cash Flow (\$'000)	(3,754)	(1,517)	(2,237)
Net Cash ² (\$'000)	(7,820)	(4,962)	(2,858)
Basic earnings per share (cents)	(1.2)	(0.5)	(0.7)

¹ Statutory EBITDA (earnings before interest, taxes, depreciation and amortization) adjusted for forgone margin on poor performing projects and one-off non-recurring expenses.

² Cash on hand less borrowings and lease liabilities.

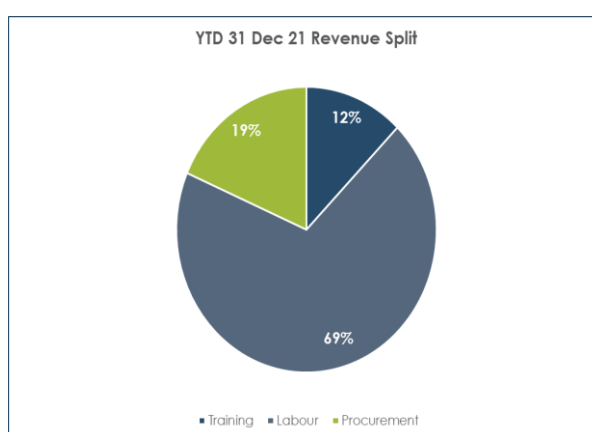
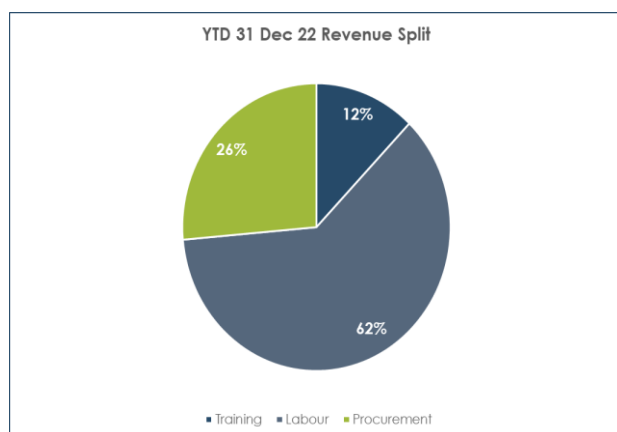
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Directors' Report (Continued)

3.1 REVIEW OF FINANCIAL PERFORMANCE (CONTINUED)

A reconciliation of Statutory Gross Margin and EBITDA and to Underlying Gross Margin and EBITDA is provided as follows:

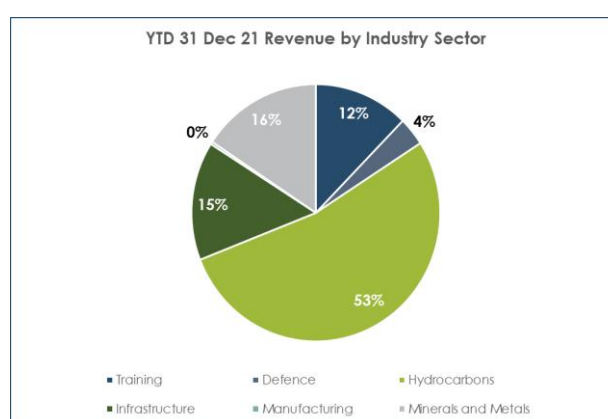
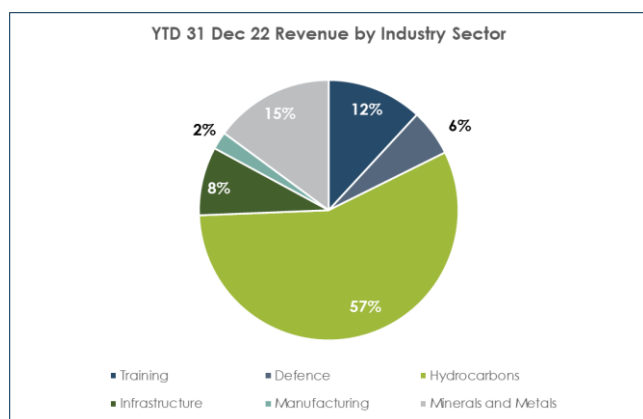
		31 December 2022 \$'000	31 December 2021 \$'000	Change to PCP
	Notes			
Gross Margin				
Gross Margin Statutory (\$'000)		16,910	17,559	(649)
Impact of poor performing projects		3,424	3,504	(81)
Gross Margin Underlying (\$'000)		20,334	21,063	(730)
EBITDA				
Statutory EBITDA (\$'000)	5	758	1,744	(986)
Impact of poor performing projects		3,424	3,504	(81)
Impact of non-recurring items	6(c)	251	377	(126)
Underlying EBITDA (\$'000)		4,433	5,626	(1,193)

For the half-year ended 31 December 2022, the Group reported revenues of \$63.5m, up 4.8% or an increase of \$2.9m from \$60.6m reported in the prior corresponding period. The composition of the current year half-year revenue has seen a significant increase in procurement revenues with a corresponding shift from labour revenues. As a result of the higher procurement component, the gross margin percentage has fallen for the period as margins that can be generated from procurement are significantly lower than those that can be generated from labour revenues. Training revenues continue to account for 12% of all revenue recorded.



In terms of revenue by industry sector, revenues continue to be generated in similar proportions to the prior year. There has year to date been an increase in revenues generated from hydrocarbons as a result of the high oil and gas prices and a reduction in infrastructure work due to one of the prior poor performing infrastructure projects being closed out in FY22.

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Directors' Report (Continued)



As a result of the last remaining legacy poor performing project and the percentage of revenue from procurement increasing, the statutory gross margin fell to 26.6% down from 29.0% in the prior corresponding period. Allowing for the write-back of the impact of the last legacy poor performing project and one-off's, the underlying margin for the half-year was 32.0%. Statutory EBITDA decreased to \$0.76m, down from \$1.7m. Half-year statutory EBITDA margin as a percentage of revenue was 1.2%, whilst the underlying EBITDA margin decreased from 9.3% for the half-year in 2022 to 7.0%.

BALANCE SHEET

The Group signed new finance facilities with the Westpac Banking Corporation on 25th August 2022. Details of the facilities can be found in note 11 to the financial statements. As a result of the legacy poor performing project, the 31 December 2022 banking covenants have been breached and those parts of the facility that are subject to covenant testing have been disclosed as being current in the balance sheet. The first instalment was paid for the acquisition of the Site Training assets during the half-year with the final instalment due to be paid in H1FY24.

Net cash fell from \$5.7m as at 30 June 2022 to (\$7.8m). The reduction is predominately as a result of the increase in borrowings under the new Westpac facility and cash outflows from the last legacy poor performing project which are yet to be recovered.

CASH FLOW

Closing cash for the half-year was \$6.8m compared to \$6.4m as at 30 June 2022. The \$6.8m balance includes \$2.9m in restricted cash that is required to be held under the Westpac facility as part security for the issuance of bank guarantees. The closing cash balance was impacted by the legacy poor performing project. Verbrec intends to vigorously pursue all monies owed to it over the coming months.

3.2 MARKET OUTLOOK

The markets in which Verbrec operates remain strong after the lows during the COVID-19 pandemic. Commodity prices continue to trade at long term elevated levels which in turn provides free cash flow for our clients to invest in new production capacity, and sustaining capital projects, as well as projects to improve safety and operating efficiency. Improved energy efficiency is also a recurring theme. This trading environment will support strong ongoing demand for Verbrec's services. The significant capital investment underway in our key traditional markets particularly energy, resources and digital transformations is very encouraging. New projects driven by investment in alternative energy are providing exciting new customer opportunities.

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Directors' Report (Continued)

Our work in hand number continues to remain healthy at \$70.8m which compares to \$77.4m as at August 2022 (values exclude the Training business unit). The group also continues to focus on recurring revenue agreements which are under-pinned by:

- 41 (up from 26) Master Service Agreements with Tier 1 companies
- 10 (up from 8) Operations and Maintenance Agreements with Tier 1 companies
- 6 Training Master Service Agreements
- Rate increases and rise and fall mechanisms to mitigate cost escalation pressures

As advised to the Australian Securities Exchange (ASX) on 24 January 2023, Service Stream Utilities Pty Ltd issued a notice to terminate the contract between Verbrec Australia Pty Ltd (a wholly owned subsidiary of Verbrec Limited) and themselves. The termination of the last poor performing legacy project was effective 24 January 2023. Verbrec delivered; is vigorously pursuing the recovery of over \$7million in fees and associated costs related to this project. As a result of the termination of the contract, Verbrec staff are now deployed on higher margin projects that will contribute to underlying and statutory margins being more closely aligned in future.

The labour shortages in many parts of the economy are providing excellent opportunities for Verbrec Industry Training. Student participation in training is now at post COVID highs across all sectors. The infrastructure sector capacity report is forecasting that as many as 105,000 jobs could remain unfulfilled by mid-2023. To help meet demand, our training business is working with industry to upskill current employees as well as new employees utilising Federal and State (VET) funding.

Our Asset Management business has continued to expand during the first half year while maintaining strong EBITDA performance. The diversified client base has contributed to half yearly revenue increasing year-on-year by more than 30%. The team have experienced growth across all target industry sectors with highlights including the award of a contract with a tier one client to deliver Operational Readiness Services across their Yarwun Facility and a CSG Field Optimisation Study for a Tier 1 operator in Queensland. In line with Verbrec's overall strategic objectives around clean energy transition, the Asset Management business successfully led the Reliability Study for the proposed Green Conversion of the Gibson Island Ammonia Facility.

On the back of continued growth in the Resources and Oil and Gas developments in Australia, the Infrastructure Services business continues to expand throughout the country, providing services in the NT, QLD, VIC, SA and recently to WA. This growth is largely linked to long term contracts with recurring revenues. Meanwhile, the team continues to deliver for our existing clients with a recent 3+3 year extension awarded for the O&M contract for the Breamar 1 Pipeline, and a 1 year extension for the Roma Gas Pipeline.

Infrastructure Services initially grew by securing clients with smaller infrastructure assets, with a plan to enter the larger infrastructure market. The recent win of a material new pipeline O&M contract with a Tier 1 Miner in WA is testament to our success in implementing this growth strategy

Verbrec has not been immune to the widespread challenges of recruiting and retaining talented employees which has been, and is still being experienced, by many in our industry. People shortages, as well as wage pressures, have made it imperative that we find ways to be more cost competitive. Offshoring certain overhead functions and tapping the pool of technical talent in countries to our north has been on our radar for some time. This has been a successful strategy for many of our larger competitors. Our new ERP system provides the platform required to easily manage an offshoring strategy. Therefore, Verbrec intends to offshore certain administrative functions as a first step.

For some years Verbrec has been supporting the development of the Mid West Shared Infrastructure Project aimed at helping bringing to market, the vast magnetite deposits in the Yilgarn region of WA.. The project involves miners, gas, hydro-transport, power, renewable energy and water infrastructure businesses all aimed

Verbrec Limited
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Directors' Report (Continued)

at producing a low cost, decarbonised, internationally tradeable magnetite ore. Magnetite itself producing less CO₂ in the steel making process than does hematite from the Pilbara. The project has taken a step forward with the support of an international infrastructure company. Verbrec has recently been awarded the basis of design engineering which in time should lead to a full pre-feasibility study.

Verbrec continues to review the market for bolt on merger and acquisition opportunities. Bolt on acquisitions will add scale, technical capability and improved geographic coverage to the group. Acquisitions will only be undertaken where we can extract cost saving synergies (notably overhead cost recovery) and where an opportunity for higher margin work exists.

Finally, the restoration of a dividend remains a fundamental objective of the group with a target payout figure of between 30-60% of net profit after tax. With the three poor performing legacy projects complete and carried forward tax losses of \$34.2m, we expect operating cashflows to stage a turnaround resulting in the generation of free cashflow to fund dividends. The group also carries \$5.7m in franking credit which will be distributed once dividends resume.

DIVIDENDS

The Board has elected not to declare an interim dividend for the period ended 31 December 2022.

AFTER BALANCE DATE EVENTS

The Directors are not aware of any other matters or circumstances not otherwise dealt with in this report or the interim financial statements that have, or may, significantly affect the operations or state of affairs of the Group in future years. As advised to the Australian Securities Exchange (ASX) on 24 January 2023, Service Stream Utilities Pty Ltd issued a notice to terminate the contract between Verbrec Australia Pty Ltd (a wholly owned subsidiary of Verbrec Limited) and themselves. The termination of the last legacy poor performing project was effective 24 January 2023. As a result of the termination of the contract, Verbrec staff are now deployed on higher margin projects that will contribute to underlying and statutory margins more closely aligned in future. Verbrec intends to vigorously pursue the recovery of over \$7 million in fees related to the project.

ROUNDING OF AMOUNTS

The Group is of the kind referred to in Australian Securities and Investments Commission (ASIC) Corporations Instruments 2016/191 dated 24 March 2016 pursuant to s.341(1) of the *Corporations Act 2001*, relating to the 'rounding off' of amounts in the Directors' Report and Consolidated Interim Financial Statements. In accordance with that legislative instrument, amounts in the Consolidated Interim Financial Statements have been rounded to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Verbrec Limited
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Directors' Report (Continued)

RESOLUTION APPROVING DIRECTORS' REPORT

This Directors' Report is made in accordance with a resolution of the Directors.

The auditor's independence declaration as required under s.307C of the *Corporations Act 2001* is set out on page 9.

A handwritten signature in black ink, appearing to read 'Phillip Campbell', with a horizontal line drawn underneath it.

Phillip Campbell
Chairperson

Brisbane
28 February 2023

Grant Thornton Audit Pty Ltd
King George Central
Level 18
145 Ann Street
Brisbane QLD 4000
GPO Box 1008
Brisbane QLD 4001
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Auditor's Independence Declaration

To the Directors of Verbrec Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001* and APES 110 *Code of Ethics for Professional Accountants*, as lead auditor for the review of Verbrec Limited for the half-year ended 31 December 2022, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the *Corporations Act 2001* and APES 110 *Code of Ethics for Professional Accountants* in relation to the review; and
- b no contraventions of any applicable code of professional conduct in relation to the review.



Grant Thornton Audit Pty Ltd
Chartered Accountants



CDJ Smith
Partner – Audit & Assurance
Brisbane, 28 February 2023

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Verbrec Limited
ABN 90 127 897 689
**Condensed consolidated statement of profit
or loss and other comprehensive income**
For the half-year ended 31 December 2022

		31 December 2022 \$'000	31 December 2021 \$'000
	Notes		
Revenue	5	63,462	60,548
Cost of providing services	6(a)	(46,552)	(42,989)
Gross profit		16,910	17,559
Other income		55	302
Other operating expenses	6(b)	(18,380)	(18,323)
(Loss)/profit from operating activities		(1,415)	(462)
Finance expense		(399)	(369)
(Loss)/profit before income tax		(1,814)	(831)
Income tax (expense) / benefit	7	(843)	(240)
(Loss)/profit for the half-year attributable to owners of the Company		(2,657)	(1,071)
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Foreign currency translation differences		99	16
Other comprehensive income for half-year, net of tax		99	16
Total comprehensive (loss)/profit for the half-year attributable to owners of the Company		(2,558)	(1,055)
Earnings per share			
Basic earnings per share (cents per share)		(1.2)	(0.5)
Diluted earnings per share (cents per share)		(1.2)	(0.5)

Verbrec Limited
ABN 90 127 897 689
**Condensed consolidated statement
of financial position**
As at 31 December 2022

		31 December 2022 \$'000	30 June 2022 \$'000
	Notes		
Assets			
Cash and cash equivalents		6,763	6,415
Trade and other receivables		18,612	18,579
Contract assets		8,734	6,879
Current tax assets		208	140
Total current assets		34,317	32,013
Property, plant and equipment	8	1,604	1,532
Right-of-Use Assets		5,938	6,425
Deferred tax assets		6,645	7,485
Intangible assets	9	14,281	14,612
Total non-current assets		28,468	30,054
Total assets		62,785	62,067
Liabilities			
Trade and other payables		13,690	14,425
Contract liabilities		6,393	7,074
Borrowings	11	7,340	680
Lease liabilities		2,741	2,482
Other financial liabilities	12	1,198	605
Current tax liability		277	269
Employee benefits		5,084	5,688
Provisions	10	352	588
Total current liabilities		37,075	31,811
Employee benefits		796	694
Borrowings	11	-	57
Lease liabilities		4,502	5,267
Other financial liabilities	12	-	1,161
Provisions	10	442	552
Total non-current liabilities		5,740	7,731
Total liabilities		42,815	39,542
Net assets		19,970	22,525
Equity			
Share capital	13	24,267	24,267
Reserves		329	226
Retained earnings		(4,626)	(1,968)
Total equity attributable to owners of the Company		19,970	22,525

Verbrec Limited
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**Condensed consolidated statement
of changes in equity**
For the half-year ended 31 December 2022

	Attributable to owners of Verbrec			
	Share Capital	Reserves	Retained earnings	Total
	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2021	24,134	203	1,169	25,506
Profit for the half-year	-	-	(1,071)	(1,071)
Other comprehensive income	-	16	-	16
Total comprehensive income for the half-year	-	16	(1,071)	(1,055)
Exercise of Options	133	-	-	133
Share based payment	-	12	-	12
Balance at 31 December 2021	24,267	231	98	24,596
Balance at 30 June 2022	24,267	226	(1,969)	22,524
Profit for the half-year	-	-	(2,657)	(2,657)
Other comprehensive income	-	99	-	99
Total comprehensive income for the half-year	-	99	(2,657)	(2,558)
Share based payment expense	-	84	-	84
Balance at 31 December 2022	24,267	409	(4,626)	20,050

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Condensed consolidated statement
cash flows
For the half-year ended 31 December 2022

	31 December 2022 \$'000	31 December 2021 \$'000
Cash flows from operating activities		
Receipts from customers (including GST)	68,703	68,260
Payments to suppliers and employees (including GST)	(72,132)	(69,526)
	(3,429)	(1,266)
Interest received	21	5
Interest paid	(346)	(256)
Net cash outflow from operating activities	(3,754)	(1,517)
Cash flow from investing activities		
Proceeds from sale of property, plant and equipment	-	53
Payment for acquisition of subsidiary, net of cash acquired	(558)	-
Acquisition of property, plant and equipment and intangibles	(521)	(442)
Net cash outflow from investing activities	(1,079)	(389)
Cash flow from financing activities		
Payments for shares bought back	-	133
Proceeds from borrowings	6,736	2,059
Repayment of borrowings	(133)	(1,386)
Principal elements of lease payments	(1,440)	(1,295)
Net cash outflow from financing activities	5,163	(489)
Net increase / (decrease) in cash and cash equivalents	330	(2,395)
Cash and cash equivalents at the beginning of the year	6,415	8,337
Effects of exchange rate changes on cash and cash equivalents	18	9
Cash and cash equivalents at the end of the half-year	6,763	5,951

Verbrec Limited
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Notes to the Financial Statements
For the half-year ended 31 December 2022

1 General information

Verbrec Limited (the “Company”) or (“Verbrec”) is a company domiciled in Australia. The address of the Company’s registered office is Level 14, 200 Mary Street, Brisbane, Australia. The consolidated interim financial statements of the Company for the six months ended 31 December 2022 comprises the Company and its subsidiaries (together referred to as “the Group” and individually as “Group entities”) and the Group’s interest in associates and jointly controlled entities.

The Group operates two segments being engineering and training. The engineering segment encompasses service lines in asset management, digital industry, infrastructure services, pipeline engineering, power and process plant across the hydrocarbons, mining and infrastructure industry sectors, with a focus on Australia, New Zealand, Papua New Guinea and the Pacific Islands. The training segment offers technical training and compliance services.

The consolidated interim financial statements were approved by the Board of Directors on 28 February 2023.

2 Basis of preparation

The consolidated interim financial statements for the half-year reporting period 31 December 2022 has been prepared in accordance with the Corporations Act 2001, Accounting Standard AASB 134 Interim Financial Reporting and International Financial Reporting Standards (IFRS) as applicable for a for-profit entity.

The consolidated interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2022 and any public announcements made by Verbrec Limited during the interim reporting period in accordance with the continuous disclosure requirement of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

3 Estimates

The preparation of consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing the consolidated interim financial statements, the significant judgements made by management in applying the Group’s accounting policies, and the key sources of estimation uncertainty, were the same as those applied to the consolidated interim financial statements for the year ended 30 June 2022.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

4 Summary of Significant Accounting Policies

The accounting policies are consistent with those of the previous financial year and corresponding interim reporting period.

(a) Basis of measurement and presentation currency

The Consolidated Interim Financial statements have been prepared on the historical cost basis and are presented in Australian dollars, which is the Company’s functional currency.

Verbrec Limited
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Notes to the Financial Statements
For the half-year ended 31 December 2022

4 Summary of Significant Accounting Policies (continued)

(b) Going concern

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

For the period ended 31 December 2022, the Group incurred a loss before income tax of \$1.8m (1H FY22: \$0.8m); experienced net cash outflows from operations of \$3.8m (1H FY22: outflows of \$1.5m), had a deficiency of current assets of \$2.8m (1H FY22: surplus of \$0.2m); and was in breach of its lending facility covenants. As described in the Directors' Report, this is primarily due to the adverse financial impact of the final poor performing legacy project. Prima facie, these factors represent a material uncertainty in respect of the Group's ability to continue as a going concern.

In the directors' opinion, the going concern basis of preparation remains appropriate because:

- As of January 2023, the Group had in excess of \$70m of contracted work,
- The markets in which the Group operates continue to be at buoyant levels,
- The impact of the poor performing legacy projects have ceased over the next year with the last remaining of the projects having been closed out at the end of January 2023. The closure was announced in the Company's announcement to the Stock Exchange on the 24th of January 2023 and Verbrec intends to vigorously pursue the recovery of approximately \$6.7 million in fees related to the project.
- The Directors anticipate the ongoing support of the Group's financiers and note that the bank has indicated that no action will be taken at this time in respect of the covenant breach at 31 December 2022.

The directors are of the view, given the circumstances as outlined above, that the Group will be able to continue to satisfy its capital and operating commitments as and when they fall due.

The financial report does not include any 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 entity not continue as a going concern.

For a detailed discussion about the Group's performance and financial position, please refer to our review and results of operations on pages 2 to 6.

Verbrec Limited
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Notes to the Financial Statements
For the half-year ended 31 December 2022

5 Segment and revenue information

The Group has two reportable segments in which it operates, being Engineering and Training. This is based on information that is internally provided to the executive group for assessing performance and making operating decisions.

The Group is domiciled in Australia, with operations predominantly across Australia, New Zealand, Papua New Guinea and the Pacific Islands. Revenue is attributed to the reportable segments based on the revenue owned by the subsidiaries domiciled in each region and are as follows:

Segment information provided to the Board of Directors and other executives within the business:

	Australia	New Zealand	Papua New Guinea	Total
31 December 2022	\$'000	\$'000	\$'000	\$'000
Engineering services				
- Services revenue	55,697	-	30	55,727
Training services	7,676	59	-	7,735
Total revenue from external parties	63,373	59	30	63,462
Timing of revenue recognition				
Point in time	498	-	-	498
Over time	62,875	59	30	62,964
	63,373	59	30	63,462

	Australia	New Zealand	Papua New Guinea	Total
31 December 2021	\$'000	\$'000	\$'000	\$'000
Engineering services				
- Services revenue	46,949	5,660	483	53,092
Training services	7,389	67	-	7,456
Total revenue from external parties	54,338	5,727	483	60,548
Timing of revenue recognition				
Point in time	310	-	-	310
Over time	54,028	5,727	483	60,238
	54,338	5,727	483	60,548

A reconciliation of EBITDA to operating profit before income tax is provided as follows:

	31 December 2022	31 December 2021
	\$'000	\$'000
EBITDA		
Engineering services	934	2,568
Training services	(176)	(824)
	758	1,744
EBITDA	758	1,744
Finance cost	(399)	(369)
Depreciation and amortisation	(2,173)	(2,206)
(Loss)/profit before income tax from continuing operations	(1,814)	(831)

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6 Profit and loss information

(a) Cost of Sales

	31 December 2022 \$'000	31 December 2021 \$'000
Personnel expenses	24,692	26,756
Contractor expenses	5,086	7,056
Project expenses (including procurement)	16,774	9,177
	46,552	42,989

(b) Other Operating Expenses

	31 December 2022 \$'000	31 December 2021 \$'000
Salaries and wages	9,951	9,795
Other employment related expenses	554	398
General outgoings	920	1,094
Subscriptions, licenses and memberships	1,115	1,119
Consulting	1,025	1,347
Depreciation and amortisation	2,173	2,206
Insurance	950	838
Other administrative expenses	1,692	1,526
	18,380	18,323

(c) Significant items

	31 December 2022 \$'000	31 December 2021 \$'000
Profit for the half-year includes the following items that are unusual because of their nature, size or incidence:		
One-off (income) / expenses		
Restructuring costs	126	135
Contingent consideration fair value adjustment	(91)	(223)
Poor performing projects (legal costs)	8	317
Re-financing costs	150	-
Other	58	148
	251	377

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7 Income Tax Expense

(a) Income Tax

The difference between the actual income tax expense and the income tax expense using the Company's domestic rate of 30% is mainly attributable to current tax losses not recognized.

	31 December 2022 \$'000	31 December 2021 \$'000
<i>Numerical reconciliation between tax expense and pre-tax accounting profit</i>		
(Loss)/profit before income tax	(1,814)	(831)
Income tax using the Company's domestic tax rate of 30% (2021 - 30%)	(539)	(277)
Withholding taxes paid	-	-
Non-deductible expenses	70	29
Current year deferred tax movements not recognised	1,295	443
Other current year movements	17	(12)
Income tax expense attributable to current half-year	<u>843</u>	<u>183</u>
Adjustments for current tax of prior periods	-	127
Adjustments for deferred tax of prior periods	-	(70)
Income tax expense attributable to prior periods	<u>-</u>	<u>57</u>
Total income tax expense	<u><u>843</u></u>	<u><u>240</u></u>

(b) Tax losses

	31 December 2022 \$'000	30 June 2022 \$'000
Unused tax losses	<u>34,219</u>	<u>29,905</u>
Potential tax benefit @ 30%	<u><u>10,266</u></u>	<u><u>8,971</u></u>

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year applied to the pre-tax income of the interim period.

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8 Property, plant and equipment

	Plant and equipment \$'000	Motor vehicles \$'000	Total \$'000
As at 30 June 2022			
Cost	15,836	1,558	17,394
Accumulated depreciation	(14,444)	(1,418)	(15,862)
Net book amount	1,392	140	1,532
Half-year Ended 31 December 2022			
Opening net book amount	1,392	140	1,532
Additions	423	-	423
Disposals	-	-	-
Depreciation charge	(314)	(37)	(351)
Closing net book amount	1,501	103	1,604
At 31 December 2022			
Cost	16,259	1,558	17,817
Accumulated depreciation	(14,758)	(1,455)	(16,213)
Net book amount	1,501	103	1,604

9 Intangible assets

	Goodwill \$'000	Application Software \$'000	Development Costs \$'000	Brand Names \$'000	Customer Contracts \$'000	Total \$'000
As at 30 June 2022						
Cost	10,634	1,015	344	343	5,454	17,790
Accumulated amortisation	-	(957)	(99)	(41)	(2,081)	(3,178)
Net book amount	10,634	58	245	302	3,373	14,612
Half-year Ended 31 December 2022						
Opening net book amount	10,634	58	245	302	3,373	14,612
Additions	-	-	109	2	-	111
Disposals	-	-	-	-	-	-
Amortisation charge	-	(16)	(2)	(17)	(407)	(442)
Closing net book amount	10,634	42	352	287	2,966	14,281
At 31 December 2022						
Cost	10,634	1,015	453	345	5,454	17,901
Accumulated amortisation	-	(973)	(101)	(58)	(2,488)	(3,620)
Net book amount	10,634	42	352	287	2,966	14,281

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10 Provisions

	31 December 2022			30 June 2022		
	Current	Non-current	Total	Current	Non-current	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Bonus provision	121	-	121	215	-	215
Make good provision	118	442	560	251	552	803
Service warranties	113	-	113	113	-	113
Restructuring/ Redundancy costs	-	-	-	9	-	9
Total	352	442	794	588	552	1,140

The movement in provisions for the period is shown below:

	Bonus provision	Make good provision	Service warranties	Restructuring/ Redundancy costs	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying amount at 1 July 2022	215	803	113	9	1,140
Charged/(credited) to profit or loss	100	-	-	-	100
addition provisions recognised		9	-	-	9
unused amounts reversed	(95)	-	-	-	(95)
Amounts used during the half-year	(99)	(252)	-	(9)	(360)
Carrying amount at 31 December 2022	121	560	113	-	794

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11 Borrowings

	31 December 2022			30 June 2022		
	Current \$'000	Non-current \$'000	Total \$'000	Current \$'000	Non-current \$'000	Total \$'000
Secured						
Bank loans	4,906	-	4,906	600	-	600
Equipment loans	966	-	966	80	57	137
	5,872	-	5,872	680	57	737
Unsecured						
Insurance premium financing	1,468	-	1,468	-	-	-
Total borrowings	7,340	-	7,340	680	57	737

The movement in borrowings for the period is shown below:

	Bank loans \$'000	Equipment finance loan \$'000	Insurance premium funding \$'000	Total \$'000
Carrying amount at 1 July 2022	600	137	-	737
Additional borrowings	5,000	-	1,736	6,736
Repayments during the half-year	(694)	829	(268)	(133)
Carrying amount at 31 December 2022	4,906	966	1,468	7,340

On the 25th of August, the Group's financing facilities transferred from the National Australia Bank to the Westpac Banking Corporation. The new facility and usage as at 31 December 2022 was as follows:

Facility	Term	Value \$000	Drawn Down 31 December 2022 \$000	Available 31 December 2022 \$000
Business Loan	10 years	5000	4,906	-
Invoice Finance	Ongoing, at call	8000	7	7,993
Flexible Options - Bank Guarantee *	Ongoing, at call	6000	5,130	870
Flexible Options - Overdraft *	Ongoing, at call	3000	-	3,000
Equipment Finance	Ongoing, at call	1500	357	1,143
Business Credit Card	Ongoing, at call	300	265	35
		23,800	10,665	13,041

* The total of the Flexible Options Facility totals \$9.0m and can be varied to suit the Group's working capital requirements.

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11 Borrowings (continued)

Covenants imposed by Westpac include a Financial Debt to Adjusted EBITA ratio to be less than 3.50 times and an Adjusted Equity Ratio greater than or equal to 40%. Financial debt is financial liabilities excluding IFRS 16 Lease Liabilities specific to property leases. Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation, minus lease payment which are longer accounted for as a lease expense due to IFRS 16 application. Adjusted equity ratio means the percentage calculated by dividing the sum of total shareholder funds plus/minus net intercompany loans, by total assets excluding IFRS 16 Right to Use Assets specific to property leases.

The Group has breached both covenants under its finance agreement as of 31 December 2022. The breach relates to the requirement to maintain a Financial Debt to Adjusted EBITA to be less than 3.5 times (31 December 2022 – minus 9.2 times) and the Adjusted Equity Ratio to be greater than or equal to 40% (31 December 2022 – 35%). The breaches are as a result of the performance of the final poor performing project during the half year ended 31 December 2022.

Whilst the Business Loan is not subject to the covenant agreement, the outstanding balance on the has been classified as current as covenant agreement allows Westpac to exercise is rights in regards to making a call against the facility.

The Group expects Westpac will issue a Covenant Breach Notice which will either require the Group to remedy the breach within a given set period of time or allow the breach to continue without remedy or further action without waving the Bank's rights to enforce the covenant in the future.

12 Other financial liabilities

The movement in other financial liabilities for the period is shown below:

	Contingent consideration		Total
	Current	Non-current	
	\$'000	\$'000	\$'000
Carrying amount at 1 July 2022	605	1,161	1,766
Charged/(credited) to profit or loss			
unwinding of discount	-	81	81
gain on fair value changes	-	(91)	(91)
Amounts settled during the half-year	(558)	-	(558)
Reclassification between current and Non-current	1,151	(1,151)	-
Carrying amount at 31 December 2022	1,198	-	1,198

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12 Other financial liabilities (continued)

The Group's contingent consideration is as a result of the legal acquisition of all operational assets of Site Skill Training Assets ("SST") on 12 April 2021. Under the terms of the contract, in the event that certain pre-determined sales volumes are achieved by SST for the year ended 30 June 2022 and 30 June 2023, contingent consideration of \$1.0 million and \$1.5 million will be payable in cash in September 2022 and September 2023 respectively. During the half year, an amount of \$558,015 was paid to the seller to extinguish the amount payable in respect of the first tranche. As at 31 December 2022, the present value of current contingent consideration is \$1.20 million (30 June 2022: \$0.61 million) and non-current contingent consideration is \$Nil (30 June 2022: \$1.16 million).

13 Share capital

	Shares '000	\$'000
Opening balance 1 July 2021	221,476	24,267
Balance 30 June 2022	221,476	24,267
On issue at 31 December 2022 - fully paid	221,476	24,267

14 Impairment

Financial assets

The Group has two types of financial assets, trade receivables and contract assets, that are subject to impairment assessment using the expected credit loss model.

Non-financial assets

Testing for impairment

The Group tests non-financial assets for impairment:

- At least annually for indefinite life intangible assets and goodwill; and
- Where there is an indication that the asset may be impaired (which is assessed at least each reporting period); or
- Where there is an indication that previously recognised impairment (on assets other than goodwill) may have changed.

If any such indication exists then the asset's recoverable amount is estimated, being the greater of its value in use and its fair value less costs to sell.

At 31 December 2022 there were some indicators of impairment so impairment tests were conducted.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The identified Cash Generating Unit's ("CGU") for the Group are the Training Services and Engineering Services CGU's.

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14 Impairment (continued)

Inputs to impairment calculations

The Group tests whether goodwill has suffered any impairment as a minimum on an annual basis. When assessing for impairment the recoverable amount of the CGUs is determined based on value-in-use calculation which require the use of assumptions. The calculations use cash flow projections based on financial budgets or forecasts approved by management and the board after making adjustments to reflect current conditions of each CGU.

Expected future profits are based on projected revenues and EBITDA margins utilising the budget or forecasts which reflects the expected performance of the Group for that period and which considers current market conditions and expected performance of current projects. Revenues are projected for the five-year forecast based on expected growth of the Company and considers the market sector growth rates over the longer term.

The projected EBITDA margins over the five-year period and beyond are adjusted back to the historical averages.

Cash flow projections beyond the five-year period, which are based on Group estimates, take into consideration historical performance as well as expected long term operating conditions. Growth rates do not materially exceed the consensus forecasts of the long-term average growth rate for the market sector in which the CGUs operates.

The pre-tax discount rates are based on the weighted average cost of capital determined by prevailing or benchmarked market inputs, risk adjusted where necessary, and other assumptions are determined with reference to external sources of information and use consistent, conservative estimates for variables such as terminal cash flow multiples. 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 Value-In-Use calculation uses cash flow projections based on the Group's corporate plans and business forecasts prepared by management and approved by the Board. The corporate plans are developed annually and, on the understanding, that actual outcomes may differ from the assumptions used. For these calculations, adjustments are incorporated for the relevant industry metrics. In the circumstances that the CGU is unable to achieve the forecast growth in earnings, there is a risk that the carrying value of the two CGUs (engineering and training) would exceed its recoverable amount.

Goodwill

Goodwill is monitored by management at a CGU level, being Engineering and Competency training. A summary of the goodwill allocated to each of Engineering services and Training services, along with the basis in which that goodwill arises, is presented below:

	Engineering Services	Training Services	Total
	'000	'000	'000
Opening balance 1 July 2022	4,130	6,504	10,634
Addition during the half-year	-	-	-
Closing balance 31 Dec 2022	4,130	6,504	10,634

Verbrec Limited
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14 Impairment (continued)

Impairment calculations

Assets are impaired if their carrying value exceeds their recoverable amount. The recoverable amount of an asset or CGU is determined as the higher of its fair value less costs of disposal or Value-In-Use.

The recoverable amount of the goodwill is based on a Value-In-Use calculation with respect to the CGU and was determined by applying a five-year net present value calculation of projected cash flows and a terminal value at the end of the fifth year. The calculation of the Value-In-Use was determined having regard to the following key assumptions:

- Discount rates used:
 - Engineering business - a pre-tax discount rate (18.57%), post-tax discount rate (13.00%)
 - Training Business - a pre-tax discount rate (17.29%), post-tax discount rate (12.10%)
- expected future profits for the year are based on the reforecasted FY23 figures, being 6 months actuals from July to December 2022, and forecasted figures for the remaining 6 months, which incorporates a reduction to the FY23 budget in line with YTD run rate.
- revenue over the five year forecast is based on expected sector revenue growth rates of between 3% and 10% for the Training services CGU, and between 3% and 6% on the Engineering services CGU (base case estimates),
- EBITDA margins for the five year forecast of between 7- 10% and 4% - 19% on the Engineering services and Training services CGU respectively, and
- terminal growth rate of revenue of 2% beyond FY27.

Impairment charge

Following the impairment assessment, the goodwill is supported, and no impairment is required.

Verbrec Limited

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Directors' declaration

In the opinion of the Directors of the Company:

- the consolidated interim financial statements and notes set out on pages 10 to 25 comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the consolidated interim financial statements and notes set out on pages 10 to 25 give a true and fair view of the Group's financial position as at 31 December 2022 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of Directors made pursuant to section 303(5)(a) of the *Corporations Act 2001*.

On behalf of the directors



Phillip Campbell

Chairperson

Brisbane

28 February 2023

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Independent Auditor's Report

To the Members of Verbrec Limited

Report on the half year financial report

Conclusion

We have reviewed the accompanying half year financial report of Verbrec Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of Verbrec Limited does not comply 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 Financial Report section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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Material uncertainty related to going concern

We draw attention to Note 4b in the financial report, which indicates that the Group incurred a net loss of \$2.66m during the half year ended 31 December 2022 and, as of that date, the Group's current liabilities exceeded its current assets by \$2.76m. As stated in Note 4b, these events or conditions, along with other matters as set forth in Note 4b, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Directors' responsibility 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 responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, 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.



Grant Thornton Audit Pty Ltd
Chartered Accountants



CDJ Smith
Partner – Audit & Assurance
Brisbane, 28 February 2023