

AVADA Group Limited

ACN: 648 988 783

ASX Code: AVD

Appendix 4D for the half-year ended 31 December 2023

RESULTS FOR ANNOUNCEMENT TO THE MARKET:

			Consolidated Half-year ended 31/12/2023 \$'000	Consolidated Half-year ended 31/12/2022 \$'000
	% Change			
Total revenue from ordinary activities	20%	to	101,633	84,540
Profit/(Loss) from ordinary activities after tax attributable to members	191%	to	4,128	(4,539)
Total comprehensive Profit/(Loss) for the period attributable to members	191%	to	4,115	(4,539)

The results above for AVADA Group Limited ("the Company") and its subsidiaries ("the Group") reflect organic growth from existing businesses and increased performance from the two recent acquisitions of:

- On 5 May 2023 the Company through its subsidiary AVADA NZ Limited acquired Wilsons TM Limited, operating in the South Island of New Zealand; and
- On 23 October 2023, the Company, through its subsidiary STA Traffic Management No.2 Pty Ltd, acquired the business and all of the assets of STA Traffic Management ("STA Traffic").

Also included in the financial results is an adjustment to the contingent consideration purchase price of \$3,387,522 in relation to the acquisition of Wilsons TM Limited for half-year ended 31 December 2023.

Dividend details

The Company is not proposing to pay dividends in respect of the half-year ended 31 December 2023.

EXPLANATION OF KEY INFORMATION

Composition of the condensed consolidated financial statements

The condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the half-year ended 31 December 2023 include the results of the Company and all its operating subsidiaries, including STA Traffic Management which was acquired on 23 October 2023. The comparative period results include the results of the Company and its subsidiaries for the six months ended 31 December 2022, excluding STA Traffic Management No.2 Pty Ltd and Wilsons TM Limited.

AVADA Group Limited | Appendix 4E

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

Name	Date of gain of control	Profit for the half-year ended 31 December 2023 attributable to the Group from acquisition \$'000
STA Traffic Management Pty Ltd ¹	23 October 2023	\$89

¹ The Company, through its subsidiary STA Traffic Management No. 2 Pty Ltd, acquired the business and all of the assets of STA Traffic Management.

Net tangible assets per share

	31/12/2023	31/12/2022
Net tangible assets per share ¹	<u>\$(0.03)</u>	<u>\$(0.08)</u>

¹ Right of use assets and liabilities have been included in the net tangible assets per share calculation.

Independent audit review report

The independent auditor's review report is attached to the financial report for the half-year ended 31 December 2023 ("Financial Report").

The independent auditor's review report contains an unmodified opinion.

AVADA Group Limited

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Financial report for the half-year ended
31 December 2023

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Directors' report

The Directors of AVADA Group Limited ("the Company") submit herewith the financial report of the Company and its subsidiaries ("the Group") for the half-year ended 31 December 2023. In order to comply with the provisions of the *Corporations Act 2001*, the Directors report as follows:

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

Name

Lance Hockridge	Chair
Ann-Maree Robertson	Non-Executive Director and Deputy Chair
Joanne Willoughby	Non-Executive Director
Daniel Crowley	Managing Director
Courtney Black	Non-Executive Director
Neil Scales OBE	Non-Executive Director

Dividends

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

Principal activities

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

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

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

Review of operations

The profit for the half-year for the Group after providing for income tax ("net profit after tax" or "NPAT") amounted to \$4,128,280.

The statutory profit includes \$3,387,522 of other gains resulting from a decrease in the fair value of the contingent consideration financial liability in relation to the acquisition of Wilsons TM Limited.

The Group achieved organic revenue growth of 4%, with some impact in Q2 from workforce constraints impacting client delivery. The Group's total revenue growth of 12.4% to \$101.7m, reflects contributions from recent acquisitions Construct Traffic Management, Wilsons Traffic Management and STA Traffic Management. Resource availability in a competitive labour market is being addressed through additional training and reorganisation of the operating structure to ensure improved engagement with our team and customers.

Gross margins increased to 22.8% from 19.7% in the prior corresponding period, supported by efficiencies of fleet utilisation and cost control. Systems and business reporting improvements continue to enhance the Groups operating performance. Additionally, an improved process for rate renegotiations has reduced margin leakage from prior periods.

Additional support has been included in the management structure to increase the capability and coverage of the management team to support the future ambitions of the business. This has included additional state management support and centralising support functions to drive performance and accountability of the existing operations. The organisational cost structure is sufficient and in place to accommodate the future growth and acquisition strategy for the Group.

AVADA Group Limited

Review of operations (cont'd)

The acquisition of STA Traffic Management was completed during the period, with integration of the business largely completed.

Cash flow remains strong with net operating cash flow of \$3,918,423 after absorbing \$2,713,363 of working capital funding for the STA acquisition, demonstrating the cash generation capacity of the group.

During the six months to 31 December 2023, management continued the implementation of the Group's IT strategy with one platform adopted for operational systems along with a single tenancy arrangement completed for the operating systems along with planning for assessment and improvement of cyber security controls and implementing data analytics to deliver improved information and insights to the business.

Financial position and impairment

The net asset position of the Group increased from \$46,458,186 as at 30 June 2023 to \$57,127,745 as at 31 December 2023. The Group acquired the business and all assets of STA Traffic Management, including property plant and equipment of \$4,346,909, and other intangible assets of \$2,440,000 related to the acquisition. Total goodwill of \$3,070,430 has been recognised at 31 December 2023 in relation to the acquisition. The initial accounting for the acquisition has been provisionally determined at the reporting date.

Goodwill and intangible assets with indefinite useful lives are tested annually for impairment or more regularly where indicators of impairment exist. The Directors have, in assessing impairment in accordance with AASB 136 Impairment of assets ("AASB 136"), concluded that impairment indicators existed, therefore the relevant cash-generating units have been tested for impairment.

Outlook

The pipeline for civil services work remains strong due to recurring maintenance requirements of essential infrastructure.

Weather and cyclone impacts in Queensland in December 2023 and January 2024 will also contribute to additional work in subsequent months to support recovery and rebuilding of damaged infrastructure.

The current low unemployment rate continues to provide constraints in meeting demand, however operational initiatives are in place to maintain and increase our team to meet the high demand in the market.

A review of the cost structure has been undertaken with some restructuring undertaken in February to ensure an appropriate overhead base is maintained.

The pipeline of infrastructure spend provides a positive outlook for FY24 and the medium term. Geographic expansion, including through Victoria and New Zealand has also provided diversification for the Group's revenue base.

Details of acquisitions

On 23 October 2023 the Company, through its subsidiary STA Traffic No.2 Pty Ltd, announced it acquired the business and the assets of STA Traffic Management Pty Ltd.

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

Events after the reporting period

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

Auditor's independence declaration

The auditor's independence declaration is included on page 5 of the Interim Financial Report.

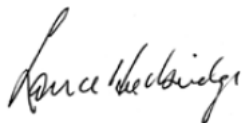
AVADA Group Limited

Rounding off amounts

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

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

On behalf of the Directors

A handwritten signature in black ink, appearing to read 'Lance Hockridge'.

Lance Hockridge
Chairman

Brisbane, 28 February 2024

Auditor's independence declaration



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DECLARATION OF INDEPENDENCE BY N I BATTERS TO THE DIRECTORS OF AVADA GROUP LIMITED

As lead auditor for the review of AVADA Group Limited for the half-year ended 31 December 2023, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of AVADA Group Limited and the entities it controlled during the period.

A handwritten signature in dark ink, appearing to read 'N I Batters', is written over a light blue horizontal line.

N I Batters
Director

BDO Audit Pty Ltd

Brisbane, 28 February 2024

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of AVADA Group Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of AVADA Group Limited (the Company) and its subsidiaries (the Group), which comprises the condensed consolidated statement of financial position as at 31 December 2023, 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, a summary of significant accounting policies and other explanatory information, 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 the Group does not comply with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2023 and of its financial performance for the half-year ended on that date; and
- (ii) 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 the 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 the same terms if given to the directors as at the time of this auditor's review report.

Responsibility of the directors for the 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 for the review of the 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 2023 and its financial 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.

BDO Audit Pty Ltd



N I Batters

Director

Brisbane, 28 February 2024

Directors' declaration

The Directors of AVADA Group Limited declare that:

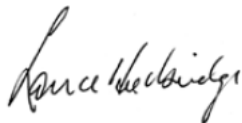
- (a) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- (b) the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, giving a true and fair view of the Group's financial position as at 31 December 2023 and of its performance for the half-year ended on that date.

At the date of this declaration, the Company is within the class of companies affected by ASIC Corporations (Wholly owned Companies) Instrument 2016/785. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debts in accordance with the deed of cross guarantee.

In the Directors' opinion, there are reasonable grounds to believe that the company and the companies to which ASIC Corporations (Wholly owned Companies) Instrument 2016/785 applies will, as a group, be able to meet any liabilities to which they are, or may become, subject because of the deed of cross guarantee.

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

On behalf of the Directors



Lance Hockridge
Chairman

Brisbane, 28 February 2024

Condensed consolidated statement of profit or loss and other comprehensive income

for the half-year ended 31 December 2023

		Consolidated Half-year ended 31/12/2023 \$'000	Consolidated Half-year ended 31/12/2022 \$'000
	Note		
Revenue	5	101,633	84,540
Other income		265	91
Other gains/(losses)	6	3,345	(1,234)
Depreciation and amortisation expense		(5,282)	(4,914)
Direct equipment hire and consumables		(10,878)	(9,121)
Direct wages and salaries		(67,326)	(59,037)
Non-direct wages and salaries		(9,115)	(6,596)
Administrative expenses	7	(3,374)	(2,462)
Impairment of intangible assets	8	-	(2,733)
Other expenses		(2,464)	(2,246)
Finance costs		(1,931)	(1,063)
Profit/(Loss) before income tax		4,873	(4,775)
Income tax (expense)/benefit	9	(745)	236
Profit/(Loss) for the period		4,128	(4,539)
Other comprehensive loss, net of tax		(13)	-
		(13)	
Total comprehensive Profit/(Loss) for the period		4,115	(4,539)
Profit/(Loss) per share			
Basic (cents per share)	10	5	(6)
Diluted (cents per share)	10	5	(6)

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

Condensed consolidated statement of financial position

as at 31 December 2023

		Consolidated Half-year ended 31/12/2023 \$'000	Consolidated Year ended 30/06/2023 \$'000
	Note		
Assets			
Current assets			
Cash and cash equivalents		4,295	10,834
Trade and other receivables		25,431	26,714
Current tax assets		-	377
Other current assets		2,549	895
Total current assets		32,275	38,820
Non-current assets			
Property, plant and equipment	11	27,136	23,519
Right-of-use assets	12	6,372	4,500
Goodwill	13	39,671	36,533
Other intangible assets	14	27,189	26,652
Other non-current assets		284	168
Total non-current assets		100,652	91,372
Total assets		132,927	130,192
Liabilities			
Current liabilities			
Trade and other payables		15,032	18,303
Lease liabilities		1,576	1,079
Borrowings	15	3,752	2,980
Current tax liabilities		1,821	72
Provisions		2,619	2,702
Other financial liabilities	16	2,663	6,968
Total current liabilities		27,463	32,104
Non-current liabilities			
Lease liabilities		5,205	3,731
Borrowings	15	34,232	38,871
Deferred tax liabilities		7,012	6,555
Provisions		376	429
Other financial liabilities	16	1,511	2,044
Total non-current liabilities		48,336	51,630
Total liabilities		75,799	83,734
Net Assets		57,128	46,458
Equity			
Share capital	17	57,715	51,160
Reserves		13,865	13,878
Accumulated losses		(14,452)	(18,580)
Total equity		57,128	46,458

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

Condensed consolidated statement of changes in equity

for the half-year ended 31 December 2023

		Share capital	Share-based payments reserve	Acquisition reserve	Foreign Currency Translation Reserve	Accumulated losses	Total equity
Consolidated	Note	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance as at 1 July 2023		51,160	3,700	10,175	3	(18,580)	46,458
Profit for the period		-	-	-	-	4,128	4,128
Other comprehensive income for the period		-	-	-	(13)	-	(13)
Total comprehensive income for the period		-	-	-	(13)	4,128	4,115
Issue of share capital	17	7,000	-	-	-	-	7,000
Share issue costs	17	(445)	-	-	-	-	(445)
Amounts recognised in business combinations		-	-	-	-	-	-
Share-based payments		-	-	-	-	-	-
Total transactions with owners		6,555	-	-	-	-	6,555
Balance as at 31 December 2023		57,715	3,700	10,175	(10)	(14,452)	57,128

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

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

Condensed consolidated statement of cash flows

for the half-year ended 31 December 2023

		Consolidated Half-year ended 31/12/2023 \$'000	Consolidated Half-year ended 31/12/2022 \$'000
	Note		
Cash flows from operating activities			
Receipts from customers (including GST)		114,212	88,911
Payments to suppliers and employees (including GST)		(110,048)	(90,632)
Interest and other finance costs paid		(1,466)	(800)
Interest received		79	4
Income taxes refund/(paid)		1,142	(992)
Net cash inflow/(outflow) from operating activities		3,919	(3,509)
Cash flows from investing activities			
Purchases of property, plant and equipment	11	(2,013)	(597)
Proceeds from sale of property, plant and equipment		118	22
Payment of contingent consideration	16	(3,006)	-
Acquisition of subsidiaries (net of cash acquired)	18	(7,603)	(17,976)
Net cash outflow from investing activities		(12,504)	(18,551)
Cash flows from financing activities			
Proceeds from borrowings		971	23,112
Repayments of borrowings		(3,723)	(1,402)
Proceeds from asset finance borrowings		-	5,135
Repayments of asset finance borrowings		(1,115)	(499)
Repayment of lease liabilities		(549)	(560)
Proceeds on issue of shares (net of transaction costs)	17	6,555	-
Net cash inflow from financing activities		2,139	25,786
Net increase/(decrease) in cash and cash equivalents		(6,446)	3,726
Cash and cash equivalents at beginning of the period		10,834	549
Effects of foreign exchange rate changes		(93)	-
Cash and cash equivalents at the end of the period		4,295	4,275

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

Notes to the condensed consolidated financial statements

1. General information

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

The condensed consolidated financial statements of the Company for the half-year ended 31 December 2023 comprises the Company and its subsidiaries (together referred to as "the Group").

Statement of compliance

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

Basis of preparation

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

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

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2023 annual financial report for the financial year ended 30 June 2023. The accounting policies are consistent with Australian Accounting Standards and with IFRS Accounting Standards.

Going concern

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

The Group incurred a net profit after tax of \$4,128,280 during the 6 months ended 31 December 2023 compared to a net loss after tax of \$4,538,690 in the comparative period. This was primarily due to:

- \$3,387,522 gain on the remeasurement of the contingent consideration liabilities associated with the acquisition of Wilsons TM Limited in FY23;
- the impact of favourable organic growth during the first half of FY24; and
- absence of impairment charges compared to last comparable period of \$2,732,878.

The Group generated positive cash flows from operating activities of \$3,918,423 during the 6 months ended 31 December 2023 compared to net cash outflows from operating activities of \$3,509,085 in the comparative period. The Group also generated cash inflows from issue of shares of \$6,554,500 during the 6 months ended 31 December 2023.

1. General information (cont'd)

Going concern (cont'd)

The Group was compliant with Commonwealth Bank of Australia and Kiwibank banking covenants at 31 December 2023.

The Directors have reviewed cash flow forecasts for a period of 12 months from the date of signing this financial report (review period) containing both a base case and a downside scenario. In both the base case and the downside scenario, the cash flow forecasts indicate liquidity headroom will be maintained and financial covenants will be met throughout the review period. Details of covenants related to the facility agreements with the Commonwealth Bank of Australia and Kiwibank (New Zealand) are disclosed in Note 15. The base case and downside scenario both assume the return to long-term average weather and trading conditions over the review period.

The downside scenario assumes a reduction in revenue and gross margins consistent with the reasonable change assumptions for revenue growth rates and gross margins disclosed in Note 13. The Group also has several mitigating measures under its control, including decreasing capital expenditure, reducing levels of discretionary spend and rationalising its overhead base which, although not forecast to be required, could be implemented to be able to meet covenant tests and to continue to operate within borrowing facility limits.

Accordingly, the financial statements have been prepared on the basis that the Group is a going concern, able to realise assets in the ordinary course of business and settle liabilities as and when they fall due.

2. Adoption of new and revised Australian Accounting Standards

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

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

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

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

At the date of authorisation of the condensed consolidated financial statements, the Group has not applied new and revised Australian Accounting Standards, Interpretations and amendments that have been issued but are not yet effective from 1 July 2023.

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

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

Standard/amendment	Effective for annual reporting periods beginning on or after	Nature of the change and expected impact
AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current, AASB 2022-6 Amendments to Australian Accounting Standards – Non-current Liabilities with Covenants	1 January 2024	Clarifies when liabilities should be presented as current or non-current in the statement of financial position, including the impact of covenants on that classification. The amendments may impact the classification of the Group's financial liabilities in future periods as certain of those liabilities are subject to covenants.
AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2025	Limits the recognition of gain or loss arising from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or joint venture to the extent of the unrelated investors' interest in that associate or joint venture. Similar limitations apply to remeasurements of retained interests in former subsidiaries. These amendments may impact the Group's consolidated financial statements in future periods should such transactions arise

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

3. Significant Changes from the annual financial statements

Significant changes which have occurred since the annual financial statements were provided in the Annual Report for the year ended 30 June 2023 are:

(a) Acquisition of STA Traffic Management

On 23 October 2023, the Company, through its subsidiary STA Traffic No.2 Pty Ltd, announced it acquired the business and assets of STA Traffic Management Pty Ltd.

STA Traffic No.2 Pty Ltd is incorporated and operates in Victoria, Australia and is involved in the provision of traffic management services as its principal activity. The group has determined a goodwill on acquisition of \$3,070,430.

Refer to Note 18 for further details.

(b) Fair value of contingent consideration

Revised forecast EBITDA testing has resulted in changes to the fair value of the Wilsons TM Limited contingent consideration. The group is no longer expected to pay contingent consideration in respect to the Year 1 earn out consideration as per the agreement. Consequently, an uplift of \$3,387,522 has been recognised to the net assets.

4. Operating segments

Identification of reportable operating segments

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

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

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

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

The following is an analysis of the Group's revenue and results by reportable operating segment for the half-year ended 31 December 2023:

Half-year ended 31/12/2023						
	QLD Traffic Management \$'000	NSW Traffic Management \$'000	VIC Traffic Management \$'000	NZ Traffic Management \$'000	Unallocated \$'000	Total \$'000
Revenue						
Sales to external customers	52,856	24,423	17,788	6,566	-	101,633
Total revenue	52,856	24,423	17,788	6,566	-	101,633
Other income	117	26	19	-	103	265
Other gains/(losses)	(19)	17	6	3,387	(46)	3,345
Wages and Salaries	(37,720)	(17,385)	(13,252)	(4,041)	(4,044)	(76,442)
Direct equipment hire and consumables	(5,929)	(2,805)	(1,198)	(946)	-	(10,878)
Administration and other expenses	(1,289)	(842)	(597)	(262)	(2,847)	(5,837)
Impairment of intangible assets	-	-	-	-	-	-
EBITDA	8,016	3,434	2,766	4,704	(6,834)	12,086
Depreciation and amortisation expense	(2,510)	(984)	(973)	(661)	(154)	(5,282)
EBIT	5,506	2,450	1,793	4,043	(6,988)	6,804
Finance costs	(161)	(43)	(28)	(374)	(1,325)	(1,931)
Profit/(loss) before income tax	5,345	2,407	1,765	3,669	(8,313)	4,873
Income tax (expense) benefit	(2,961)	(1,333)	(978)	(78)	4,605	(745)
Profit/(loss) after tax for the year	2,384	1,074	787	3,591	(3,708)	4,128

4. Operating segments (cont'd)

Identification of reportable operating segments (cont'd)

	Half-year ended 31/12/2022					
	QLD Traffic Management \$'000	NSW Traffic Management \$'000	VIC Traffic Management \$'000	NZ Traffic Management \$'000	Unallocated \$'000	Total \$'000
Revenue						
Sales to external customers	50,340	23,705	10,495	-	-	84,540
Total revenue	50,340	23,705	10,495	-	-	84,540
Other income	67	17	7	-	-	91
Other gains/(losses)	21	(1)	-	-	(1,254)	(1,234)
Wages and Salaries	(38,726)	(17,559)	(7,888)	-	(1,460)	(65,633)
Direct equipment hire and consumables	(5,245)	(3,096)	(780)	-	-	(9,121)
Administration and other expenses	(1,644)	(632)	(512)	-	(1,920)	(4,708)
Impairment of intangible assets	-	(2,733)	-	-	-	(2,733)
EBITDA	4,813	(299)	1,322	-	(4,634)	1,202
Depreciation and amortisation expense	(2,673)	(1,680)	(522)	-	(39)	(4,914)
EBIT	2,140	(1,979)	800	-	(4,673)	(3,712)
Finance costs	(130)	(62)	(14)	-	(857)	(1,063)
Profit/(loss) before income tax	2,010	(2,041)	786	-	(5,530)	(4,775)
Income tax (expense) benefit	-	-	-	-	236	236
Profit/(loss) after tax for the year	2,010	(2,041)	786	-	(5,294)	(4,539)

The revenue reported above represents revenue generated from external customers. The Group does not have any individual customer contracts which provide more than 10% of its external revenue. Each segment is not reliant on any of the Group's major customers. The accounting policies of the reportable segments are the same as the Group's accounting policies.

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

4. Operating segments (cont'd)

Identification of reportable operating segments (cont'd)

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

	Half-Year ended 31/12/2023					Total \$'000
	QLD Traffic Management \$'000	NSW Traffic Management \$'000	VIC Traffic Management \$'000	NZ Traffic Management \$'000	Unallocated \$'000	
Current assets	12,306	8,019	8,763	1,782	1,405	32,275
Non-current asset	42,475	11,214	29,173	15,400	2,390	100,652
Total assets	54,781	19,233	37,936	17,182	3,795	132,927
Current liabilities	9,877	4,277	3,669	3,551	6,089	27,463
Non-current liabilities	6,982	1,421	5,081	10,834	24,018	48,336
Total liabilities	16,859	5,698	8,750	14,385	30,107	75,799
Net assets/(liabilities)	37,922	13,535	29,186	2,797	(26,312)	57,128

	Year ended 30/06/2023					Total \$'000
	QLD Traffic Management \$'000	NSW Traffic Management \$'000	VIC Traffic Management \$'000	NZ Traffic Management \$'000	Unallocated \$'000	
Current assets	14,128	7,689	6,686	2,161	8,156	38,820
Non-current asset	43,550	12,015	19,553	15,861	393	91,372
Total assets	57,678	19,704	26,239	18,022	8,549	130,192
Current liabilities	10,083	5,584	2,392	7,196	6,849	32,104
Non-current liabilities	7,488	1,603	4,363	11,605	26,571	51,630
Total liabilities	17,571	7,187	6,755	18,801	33,420	83,734
Net assets/(liabilities)	40,107	12,517	19,484	(779)	(24,871)	46,458

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

5. Revenue

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

Disaggregation of revenue

	Half-year ended 31/12/2023 \$'000	Half-year ended 31/12/2022 \$'000
External revenue by location and customer type		
Queensland		
Government (incl. councils)	31,499	31,397
Non-government	21,357	18,943
	<u>52,856</u>	<u>50,340</u>
New South Wales		
Government (incl. councils)	7,681	7,282
Non-government	16,742	16,423
	<u>24,423</u>	<u>23,705</u>
Victoria		
Government (incl. councils)	1,812	3,015
Non-government	15,976	7,480
	<u>17,788</u>	<u>10,495</u>
New Zealand		
Government (incl. councils)	209	-
Non-government	6,357	-
	<u>6,566</u>	<u>-</u>
	<u>101,633</u>	<u>84,540</u>
External revenue by service line		
Traffic control services	81,797	71,645
Plans and permits	1,540	1,661
Equipment hire	18,215	11,161
Training	49	43
Security guard services	32	30
	<u>101,633</u>	<u>84,540</u>
External revenue by timing of revenue		
Services transferred over time	100,063	82,836
Services transferred at a point in time	1,570	1,704
	<u>101,633</u>	<u>84,540</u>

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

6. Other gains/(losses)

	Half-year ended 31/12/2023 \$'000	Half-year ended 31/12/2022 \$'000
Gain/(loss) on movement in contingent consideration	3,342	(1,254)
Gain on Disposal of Assets	3	20
	<u>3,345</u>	<u>(1,234)</u>

7. Administrative expenses

	Half-year ended 31/12/2023 \$'000	Half-year ended 31/12/2022 \$'000
Professional fees	2,289	1,390
Acquisition related costs	495	815
Rent and other occupancy expenses	549	216
Other administrative expenses	41	41
	<u>3,374</u>	<u>2,462</u>

8. Impairment of intangible assets

		Half-year ended 31/12/2023 \$'000	Half-year ended 31/12/2022 \$'000
	Note		
Impairment of goodwill	13	-	961
Impairment of other intangibles		-	1,772
		<u>-</u>	<u>2,733</u>

9. Income tax (Expense)/benefit

Numerical reconciliation between tax benefit and pre-tax accounting loss

	Half-year ended 31/12/2023	Half-year ended 31/12/2022
	\$'000	\$'000
Accounting profit/(loss) before tax	4,873	(4,775)
Prima facie tax (expense)/benefit on profit/(loss) before income tax at 30%	(1,462)	1,432
Non-deductible expenses	(306)	(1,196)
Non-assessable income	1,016	-
Effect of differing tax rates	7	-
Income tax (expense)/benefit	(745)	236

10. Profit/(loss) per share

	Note	Half-year ended 31/12/2023	Half-year ended 31/12/2022
		\$'000	\$'000
Profit/(loss)			
Profit/(loss) for the purposes of basic and diluted earnings per share		4,128	(4,539)
Number of shares			
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share		81,114,648	73,268,358
Basic earnings/(loss) per share (cents)		5	(6)
Diluted earnings/(loss) per share (cents)		5	(6)

11. Property, plant and equipment

	Half-Year ended 31/12/2023 \$'000	Year ended 31/12/2023 \$'000
Traffic control equipment		
Traffic control equipment – at cost	3,604	3,081
Less accumulated depreciation	(1,363)	(925)
	<u>2,241</u>	<u>2,156</u>
Motor vehicles		
Motor vehicles – at cost	33,037	27,640
Less accumulated depreciation	(8,640)	(6,553)
	<u>24,397</u>	<u>21,087</u>
Office equipment		
Office equipment – at cost	566	400
Less accumulated depreciation	(198)	(131)
	<u>368</u>	<u>269</u>
Leasehold improvements		
Leasehold improvements – at cost	136	9
Less accumulated depreciation	(6)	(2)
	<u>130</u>	<u>7</u>
Total property, plant and equipment	<u>27,136</u>	<u>23,519</u>

Movements in carrying amounts

		Half-year ended 31/12/2023 \$'000				
	Note	Traffic control equipment	Motor vehicles	Office equipment	Leasehold improvements	Total
Cost						
At 1 July 2023		3,081	27,640	400	9	31,130
Additions from acquisitions of subsidiaries	18	270	4,032	45	-	4,347
Additions		259	1,509	118	127	2,013
Disposals		(14)	(181)	-	-	(195)
Exchange differences		8	37	3	-	48
At 31 December 2023		<u>3,604</u>	<u>33,037</u>	<u>566</u>	<u>136</u>	<u>37,343</u>
Depreciation						
At 1 July 2023		925	6,553	131	2	7,611
Charge for the period		447	2,153	67	4	2,671
Disposals		(10)	(70)	-	-	(80)
Exchange differences		1	4	-	-	5
At 31 December 2023		<u>1,363</u>	<u>8,640</u>	<u>198</u>	<u>6</u>	<u>10,207</u>
Carrying amount						
At 31 December 2023		<u>2,241</u>	<u>24,397</u>	<u>368</u>	<u>130</u>	<u>27,136</u>

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

Assets pledged as security

For the six months ending 31 December 2023 the group did not draw down from asset finance facility to purchase motor vehicles and plant and equipment. The draw down from the asset finance facility is secured against these specific assets. The balances for these asset finance facilities are reflected at Note 15.

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

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

Kiwibank also holds a general security over all assets of the New Zealand Group against the borrowing facilities provided.

12. Right-of-use assets

	Half-year ended 31/12/2023 \$'000	Year ended 30/06/2023 \$'000
Buildings		
Buildings – right-of-use assets	6,031	3,684
Less accumulated depreciation	(707)	(426)
	<u>5,324</u>	<u>3,258</u>
Motor vehicles		
Motor vehicles – right-of-use assets	1,801	1,801
Less accumulated depreciation	(759)	(567)
	<u>1,042</u>	<u>1,234</u>
Equipment		
Equipment – right-of-use assets	10	10
Less accumulated depreciation	(4)	(2)
	<u>6</u>	<u>8</u>
Total right-of-use assets	<u>6,372</u>	<u>4,500</u>

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

Movements in carrying amounts

		Half-year ended 31 December 2023			
		\$'000			
Cost	Note	Buildings	Motor Vehicles	Equipment	Total
At 1 July 2023		3,684	1,801	10	5,495
Additions from acquisitions of subsidiaries	18	-	-	-	-
Remeasurement of lease term		(133)	-	-	(133)
Additions		2,593	-	-	2,593
Disposals		(121)	-	-	(121)
Exchange differences		8	-	-	8
At 31 December 2023		6,031	1,801	10	7,842
Depreciation					
At 1 July 2023		426	567	2	995
Remeasurement of lease term		(87)	-	-	(87)
Charge for the period		465	192	2	659
Disposals		(95)	-	-	(95)
Exchange differences		(2)	-	-	(2)
At 31 December 2023		707	759	4	1,470
Carrying amount					
At 31 December 2023		5,324	1,042	6	6,372

The Group's leased assets include buildings, motor vehicles and equipment. The average lease term is 4 years.

The total cash outflow for leases amounted to \$549,103 for the half-year ended 31 December 2023.

13. Goodwill and impairment testing

		Half-year ended 31/12/2023
	Note	\$'000
Balance at beginning of the period		36,533
Amounts recognised from business combinations occurring during the period	18	3,070
Exchange differences		68
Impairment losses for the period	8	-
Balance at end of the period		39,671

13. Goodwill and impairment testing (cont'd)

Impairment of Assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

For the purposes of impairment testing, goodwill is allocated to each of the Group's CGUs, which is at the operating entity level. Each CGU to which goodwill is allocated represents the lowest level at which goodwill is monitored for internal management purposes. This testing methodology was adopted on acquisition as each business operated relatively on a stand-alone basis due to legal Earn-Out Considerations in place.

Below we have presented the allocation of goodwill and brands to the identified CGUs for the Group.

Allocation of goodwill and brands

	Goodwill		Brands	
	Half-year ended 31/12/2023 \$'000	Year ended 30/06/2023 \$'000	Half-year ended 31/12/2023 \$'000	Year ended 30/06/2023 \$'000
Verifact Traffic Control (VTC)	13,861	13,861	843	843
Arid to Oasis Traffic Solutions (A2O)	5,570	5,570	237	237
D&D Traffic Management (D&D)	3,432	3,432	367	367
STA Traffic Management (STA)	3,070	-	448	-
Construct Traffic (CT)	7,283	7,283	1,220	1,220
Wilsons TM (WTM)	6,455	6,387	443	438
Platinum Traffic Services Pty Ltd	-	-	76	76
	39,671	36,533	3,634	3,181

The recoverable amount of a CGU to which goodwill is allocated is determined based on the greater of its value-in-use ("VIU") and its fair value less costs of disposal ("FVLCD").

The VIU assessment is conducted using a discounted cash flow ("DCF") methodology requiring the Directors to estimate the future cash flows expected to arise from the CGUs and then applying a post-tax discount rate to calculate the present value.

FVLCD is determined as being the amount obtainable from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties at the balance date. If relevant, this fair value assessment less costs of disposal is conducted by the Directors based on their extensive knowledge of the traffic management services industry including the current market conditions prevailing in the industry.

During the half-year ended 31 December 2023, all of the Group's CGUs were tested for impairment in accordance with AASB 136 *Impairment of Assets*.

13. Goodwill and impairment testing (cont'd)

The DCF models adopted by the Directors utilises cash flow forecasts derived from the FY24 budgets approved by the Board, with a 3.6% growth rate applied thereafter to year five except for WTM which has a growth rate of 4% applied. These growth rates applied do not exceed the relevant industry forecast. A growth rate of 2.5% is applied from the terminal period, which does not exceed the long-term average growth rate for the industry and generally accepted future consumer price index ("CPI") rate. The forecasts consider all available sources of information (both external and internal).

The Group acknowledges in its forecasting that industry and general market conditions remain a challenge with weather events having the capacity to impact the regions in which it operates. Inflation pressures and continued interest rate impacts are anticipated for a further 12 months. It is anticipated that future inflationary pressures will start to reduce in future years.

As the STA Traffic Management No.2 Pty Ltd CGU was recently acquired, management have concluded that the purchase consideration for STA Traffic Management approximate the recoverable amount of the CGU at 31 December 2023. Therefore, its carrying value approximates its fair value. Adverse changes in macroeconomic factors or failure to achieve forecasts, including growth objectives, may lead to future impairment.

Key assumptions used for value-in-use calculations

Key assumptions are those to which the recoverable amount of the CGU is most sensitive. The Directors have determined that the key assumptions used in the DCF models and VIU calculations are the post-tax discount rate, the projected revenue growth rates and forecast gross margins.

A post-tax discount rate of 12% (2023: 11.6%) for the Australian entities and a post-tax discount rate of 12.1% (2023: Nil) for the New Zealand entities was applied to the cash flows for its CGUs. Management engaged a third-party specialist to provide the post-tax discount rate utilised in the DCF VIU models.

The projected revenue growth rates have been based on consideration of historical performance and the expected future operating conditions in both road and bridge infrastructure works and maintenance of roads, rail, bridge and utilities infrastructure.

The forecast gross margins are based on a combination of historical averages, current and anticipated economic considerations, business and market opportunities.

Revenue growth for year 1 has been determined based on inflation growth, and the known approved rate increases with customers. The revenue growth rates assumed in year 1 for each CGU in calculating the recoverable amount is presented below.

	CT	A2O	WTM	D&D	VTC
Revenue Growth Yr 1	10.0%	10.0%	15%	3.6%	3.6%

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

Sensitivity analysis

Any variation in the key assumptions used to determine the recoverable amount would result in a change to the estimated recoverable amount. If variations in assumptions had a negative impact on recoverable amount it could indicate a requirement for some impairment of goodwill and non-current assets. If variations in assumptions had a positive impact on recoverable amount it could indicate a requirement for a reversal of previously impaired non-current assets, with the exception of goodwill.

13. Goodwill and impairment testing (cont'd)

Sensitivity analysis (cont'd)

Estimated reasonable possible changes in the key assumptions would have the following approximate impact on impairment at 31 December 2023.

	Reasonable possible change	VTC (\$'000)	WTM (\$'000)	D&D (\$'000)	CT (\$'000)	A2O (\$'000)
Change in post-tax discount rate¹	increased by 1.0%	nil	nil	nil	nil	34
Change in revenue growth rate Y1¹	decreased by 1.0%	nil	nil	nil	nil	36
Change in revenue growth rate Y2-Y5¹	decreased by 2.0%	nil	nil	nil	0.485	nil
Change in gross profit margin %¹	decreased by 1.0%	nil	nil	nil	nil	1,669

¹ Percentage change presented above represent the absolute change in the assumption value.

Whilst the above outline management's best estimates of key assumptions and reasonably possible changes in key value drivers, changes in the level of business activity and severe weather events may also materially impact the determination of the recoverable amount. Should the regulatory macroeconomic factors that are specific to the Australian and New Zealand domestic market change, this could impact the level of activity in the market, as well as competition, and thereby affect the Group's revenue and cost initiatives. Additionally, given the outdoor nature of the Group's operations, any significant weather event would also impact the Group's revenue and therefore, forecast cash flows. If conditions change unfavourably, changes in recoverable amount estimates may arise.

Each of the assumptions above assumes that the specific assumption moves in isolation, whilst all other assumptions are held constant. In reality, a change in one of the aforementioned assumptions may accompany a change in another assumption. Action is usually taken to respond to adverse changes in economic assumptions that may mitigate the impact of such a change.

Modelling incorporating the assumptions identified in the key assumptions table provides that the recoverable amount exceeds the carrying amount (headroom) as outlined below. The recoverable amount of the CGUs would equal its carrying amount if the key assumptions were to change as follows:

31 December 2023	VTC (\$'000)	WTM (\$'000)	D&D (\$'000)	CT (\$'000)	A2O (\$'000)
Headroom (\$'000)	13,371	2,965	3,732	3,019	389
Increase in post-tax discount rate ²	10.7%	2.8%	10.2%	4.0%	0.9%
Decrease in revenue growth rate Y1 ²	9.2%	7.2%	6.4%	5.7%	0.9%
Decrease in revenue growth rate Y2-Y5 ²	2.8%	2.0%	2.0%	1.7%	5.1%
Decrease in gross profit margin % ²	1.7%	2.2%	1.4%	1.1%	0.1%

² Percentage change presented above represent the absolute change in the assumption value.

14. Other intangible assets

	Half-year 31/12/2023 \$'000	Year ended 30/06/2023 \$'000
Customer lists		
Customer lists – at cost	33,473	31,437
Less accumulated amortisation	(7,298)	(5,346)
Less accumulated impairment	(2,620)	(2,620)
	<u>23,555</u>	<u>23,471</u>
Brands		
Brands – at cost	3,850	3,397
Less accumulated impairment	(216)	(216)
	<u>3,634</u>	<u>3,181</u>
Total other intangible assets	<u>27,189</u>	<u>26,652</u>

Movements in carrying amounts

		Half-year ended 31/12/2023 \$'000		
	Note	Customer lists	Brands	Total
Carrying amount at beginning of the period		23,471	3,181	26,652
Additions from acquisitions of subsidiaries	18	1,992	448	2,440
Exchange differences		44	5	49
Less Amortisation for the period		(1,952)	-	(1,952)
Less Impairment loss during the period		-	-	-
Carrying amount at end of the period		<u>23,555</u>	<u>3,634</u>	<u>27,189</u>

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

15. Borrowings

	Half-year 31/12/2023 \$'000	Year ended 30/06/2023 \$'000
Current		
<i>Unsecured</i>		
Premium funding	751	-
<i>Secured</i>		
Bank loan (term facility) ¹	641	677
Asset finance facility ²	2360	2,303
	<u>3,752</u>	<u>2,980</u>
Non-current		
<i>Secured</i>		
Bank loan (term facility) ¹	25,727	29,194
Asset finance facility ²	8,505	9,677
	<u>34,232</u>	<u>38,871</u>
Total borrowings	<u>37,984</u>	<u>41,851</u>

Description of the Banking facilities

The Group has its banking facilities with the Commonwealth Bank of Australia for the Australian entities and Kiwibank for the New Zealand entities in respect of the provision of a term facility, an asset finance facility, and a working capital facility. The Group's financing arrangements in place as at 31 December 2023 are set out below:

Half-Year ended 31 December 2023

Facility	Currency	Facility Limit \$'000	Drawn Amount Current \$'000	Drawn Amount Non-current \$'000	Available Facility \$'000	Maturity date
<u>Commonwealth Bank of Australia</u>						
Term Facility ¹	AUD	9,500	-	9,500	-	25 August 2025
Working Capital Loan ¹	AUD	17,500	-	13,500	4,000	25 August 2025
Asset Finance Facility ²	AUD	5,000	928	3,679	393	Variable ⁴
Asset Finance Facility ²	AUD	5,000	955	2,826	1,219	23 August 2027
Overdraft Facility ³	AUD	2,500	-	-	2,500	
Bank Guarantees ³	AUD	250	-	250	-	Variable ⁵
Corporate Credit Cards ³	AUD	250	95	-	155	
<u>Kiwibank (New Zealand)</u>						
Term Facility ⁶	NZD	4,000	690	2,937	373	5 May 2028
Asset Finance Facility ⁶	NZD	3,400	515	2,153	732	5 May 2028
Overdraft Facility ⁶	NZD	1,000	-	-	1,000	5 May 2028
Corporate Credit Cards ⁶	NZD	50	-	-	50	5 May 2028

¹ The term facility and working capital loan have a three-year term.

² The undrawn portion of the facility is annually reviewed and renewed in July each year.

³ An additional \$0.2m of bank guarantees have been issued by the bank and are backed by restricted cash.

⁴ The drawn amounts are comprised of asset financing arrangements with maturity dates to 28 April 2028.

⁵ The drawn amounts are comprised of bank guarantee arrangements with maturity dates to 1 May 2033. No liability was recognised by the parent entity or the Group in relating to these guarantees.

⁶ The undrawn portion of the facility is available until the loan maturity date.

15. Borrowings (cont'd)

The key terms of the banking facilities are:

Commonwealth Bank of Australia

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

Bank covenants

The loan covenants are assessed quarterly on a rolling 12-month basis and are:

- Net leverage ratio – not more than 2.25 times; and
- Debt service cover ratio – not less than 2.5 times

Kiwibank (New Zealand)

- The term facility can be used for financing of acquisitions and Earn-Out Considerations payments. Principal and Interest is payable monthly. Interest is charged at 1.10% below the lender's base rate. The facility has an establishment fee of NZ\$0.05m. Security is provided in the form of a first ranking general security interest from each obligor in respect of each of their present and after acquired property.
- The overdraft facility can be used to fund working capital. Interest is charged monthly at the lenders Overdraft Base Rate minus a margin of 1.50%. The facility has a shared establishment fee with the term facility and a line fee of 0.1% per month on the overdraft facility amount. Security is provided in the form of a first ranking general security interest from each obligor in respect of each of their present and after acquired property.
- The asset finance facilities can be used to fund motor vehicle acquisitions or leases. Principal and Interest is payable monthly at the floating interest which is 9% at 31 December 2023. Security is provided over each asset acquired under the facility.

Bank covenants

The loan covenants are assessed quarterly on a rolling 12-month basis and are:

- Funding cost cover ratio – not less than 2.5 times
- Debt cover ratio – not less than 1.5 times; and
- Equity ratio – not less than 30% (Tested annually on the 31st of March)

The Group was compliant with Commonwealth Bank of Australia and Kiwibank banking covenants at 31 December 2023.

16. Other financial liabilities

	Note	Half-year ended 31/12/2023 \$'000	Year ended 30/06/2023 \$'000
<u>Current</u>			
Fixed retention – Wilsons TM		1,179	1,073
Retention Consideration – STA		746	-
Contingent retention – Wilsons TM		-	2,146
Contingent consideration – Wilsons TM		-	742
Contingent consideration – Verifact Traffic Control	20	-	3,007
Contingent consideration – STA		738	-
		<hr/> 2,663	<hr/> 6,968
<u>Non-Current</u>			
Contingent consideration – Wilsons TM		1,511	2,044
		<hr/> 1,511	<hr/> 2,044
		<hr/>	<hr/>
Total other financial liabilities		<hr/> 4,174	<hr/> 9,012

Wilsons TM Limited

Retention and contingent consideration are payable on the acquisition of Wilsons TM Limited. A portion of retention represents a deferred payment consideration with no attached conditions. Another portion of retention is contingent as described below. At acquisition, both retention and contingent consideration have been discounted using a post-tax IRR of 17.5% which was determined to be Wilsons TM Limited weighted average cost of capital (WACC).

Under the retention arrangement, a fixed amount of \$1,275,232 with a net present value of \$1,178,828 is payable shortly after 12 months from the completion date.

Under the contingent consideration arrangement, consideration will be payable in approximately 12 and 24 months based on forecast trading. The contingent consideration payable has been determined by using predetermined Earn-Out multiples that have been applied to the surplus of predetermined EBITDA thresholds.

As of 31 December 2023, contingent consideration for the 12-month Earn-Out period was estimated to be nil and the 24-month Earn-Out period was estimated to be \$1,903,390 with net present value of \$1,511,198.

There is no cap in respect of the contingent consideration.

At each reporting date, the estimated retention and contingent consideration will be revalued to reflect its fair value.

16. Other financial liabilities (cont'd)

STA Traffic Management Pty Ltd

Retention and contingent consideration are payable on the acquisition of STA Traffic Management Pty Ltd. A portion of retention is contingent as described below. At acquisition, both retention and contingent consideration have been discounted using a post-tax IRR of 16.5% which was determined to be STA Traffic Management Pty Ltd weighted average cost of capital (WACC).

Under the retention arrangement, a maximum amount of \$884,000 with a net present value of \$746,273 is payable contingent upon a predetermined EBITDA threshold being achieved.

Under the contingent consideration arrangement, consideration will be payable in 12-months based on forecast trading. The contingent consideration payable has been determined by using predetermined Earn-Out multiples that have been applied to the surplus of predetermined EBITDA thresholds.

At the acquisition date, contingent consideration for the 12-month Earn-Out period was forecasted to be \$874,037 with a net present value of \$737,863.

There is no cap in respect of the contingent consideration.

At each reporting date, the estimated retention and contingent consideration will be revalued to reflect its fair value.

17. Issues of equity securities

Half-year ended 31 December 2023	No. of shares	\$'000
Balance at beginning of period	73,268,358	51,160
Shares issues	11,666,667	7,000
Transaction costs arising on share issues	-	(445)
	<u>84,935,025</u>	<u>57,715</u>

Year ended 30 June 2023	No. of shares	\$'000
Balance at end of period	<u>73,268,358</u>	<u>51,160</u>
	<u>73,268,358</u>	<u>51,160</u>

Terms and conditions of contributed equity

Ordinary shares

Ordinary shares have the right to receive dividends as declared and in the event of winding up the Company, to participate in the proceeds from the sale of surplus assets in proportion to the number of shares held.

Each Shareholder present has one vote and on a poll, one vote for each fully paid share held, and for each partly paid Share, a fraction of a vote equivalent to the proportion to which the Share has been paid up. Voting may be in person or by proxy, attorney, or representative.

18. Acquisition of subsidiaries

Details of business combination

Pursuant to an agreement signed by the Company on 23 October 2023, the Company agreed to acquire the business and 100% of the net assets of STA Traffic Management Pty Ltd ("STA Traffic Management") effective 23 October 2023 by way of a cash payment. The agreement also contains an "Earn-Out" component based on trading performance for the 12-months post completion of the acquisition subject to certain performance hurdles being met.

Purchase Consideration

	STA Traffic Management Pty Ltd \$'000
Cash Consideration	7,603
Contingent Consideration ¹	1,438
Total Purchase Consideration	<u>9,041</u>

¹ Consideration also contains an "Earn Out" component based on trading performance for the 12-months post completion of the acquisition subject to certain hurdles being met.

18. Acquisition of subsidiaries (cont'd)

Assets acquired and liabilities assumed at the date of acquisition

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

	Note	Half-year ended 31/12/2023 \$'000
Assets		
Current assets		
Cash and cash equivalents		10
Total current assets		10
Non-current assets		
Property, plant and equipment	11	4,347
Other intangible assets	14	2,440
Total non-current assets		6,787
Total assets		6,797
Liabilities		
Current liabilities		
Trade and other payable		10
Employee related provisions		71
Total current liabilities		81
Non-current liabilities		
Employee related provisions		49
Deferred tax liabilities		696
Total non-current liabilities		745
Total liabilities		826
Net Assets		5,971

The initial accounting for the acquisition has been provisionally determined at the end of the half-year. At the date of completion of this half-year financial report, the necessary market valuations and related tax calculations along with the determination of the consideration paid and the fair value of the identifiable assets acquired and liabilities assumed has not been formalised. The Company will perform a final assessment to finalise the necessary market valuations and other calculations along with the fair value of the plant and equipment, associated deferred tax liabilities, as well as intangible assets and goodwill. The final assessment is required to be performed within 12 months from the date of acquisition and will reflect the value of completion adjustments which have not been formalised at 31 December 2023.

Goodwill arising on acquisition

	Note	31/12/2023 \$'000
Consideration transferred		9,041
Less: Total of identifiable net assets acquired		(5,971)
Goodwill arising on acquisition	13	3,070

18. Acquisition of subsidiaries (cont'd)

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

Net cash outflow arising on acquisition

	Half-year ended 31/12/2023 \$'000
Consideration paid in cash	7,603
	<u>7,603</u>

Impact of acquisition on the results of the Group

Included in the profit for half-year 31 December 2023 is \$89,137 attributable to STA Traffic Management No.2 Pty Ltd. Revenue for the half-year ended 31 December 2023 includes \$4,390,041 in respect to STA Traffic Management No.2 Pty Ltd.

Had the acquisition of STA Traffic Management Pty Ltd been effected at 1 July 2023, the revenue of the Group from continuing operations for the six months ended 31 December 2023 would have been \$10,400,000 and the profit for the year would have been \$800,000. The directors of the Group consider these 'pro-forma' numbers to represent an approximate measure of the performance of the combined group on a half-yearly basis and to provide a reference point for comparison in future half-years.

In determining the 'pro-forma' revenue and profit of the Group had STA Traffic Management Pty Ltd been acquired at the beginning of the current half-year, the directors have:

- Calculated depreciation and amortisation of plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements
- Based borrowing costs on the funding levels, credit ratings and debt/equity position of the Group after the business combination
- Excluded takeover defence costs of STA Traffic Management Pty Ltd as a pre-acquisition transaction.

19. Related party balances or transactions

The Company's main related parties are as follows:

Entities exercising control over the Group

The ultimate parent entity that exercises control over the Group is AVADA Group Limited, which is incorporated in Australia.

Key management personnel

Any persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether executive or otherwise) of that entity, are considered Key Management Personnel.

Other related parties

Other related parties include entities controlled by the ultimate parent entity and entities over which Key Management Personnel have joint control.

19. Related party balances or transactions (cont'd)

Joint venture accounted for under the equity method

The Group has a 49% interest in Bilingarra Indigenous Services Pty Ltd. The interest in the joint venture is accounted for under the equity method of accounting.

Related party transactions

During the half-year ended 31 December 2023, Group entities entered into the following transactions with related parties who are not members of the Group:

Related party	Purpose	Half-year ended 31/12/2023	Full-year ended 30/06/2023
		\$'000s	\$'000s
Courtney Petersen (Black)	Advisory Services	-	115
FNQ Traffic Hire Pty Ltd	Equipment hire	145	483
James Bowe Family Trust	Rent	26	62
Lead Training Pty Ltd	Training services	-	179
Maddison Stockton	Gross wages	-	27
Midmarlar Pty Ltd	Rent	-	27
Midmarlar c/o LJ Hooker	Rent	112	152
Rodeca Pty Ltd	Rent	-	45
The Bowe Family Trust	Rent	85	131
EXFX	Equipment Purchase	4	-
The Trustee at Masbro Unit Trust	Rent	2	-
Traffic & Access Solutions Pty Ltd	Administration services	-	2
Trafmar Holdings Pty Ltd	Rent	-	71
Verifact Pty Ltd	Insurance	-	615
Verifact Pty Ltd	Working capital credit	-	46
Verifact Pty Ltd	Contingent Consideration	-	3,007

For details on related party balances and transaction for the year ended 30 June 2023, refer to the Annual Report.

20. Fair value of financial instruments

This note provides information about how the Group determines fair value of various financial assets and financial liabilities.

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial liabilities	Fair value as at 31/12/2023 \$'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Fixed retention liability as described in Note 16	Liabilities (FVTPL) - \$1,179	Level 3	Present Value of expected future cash outflow	Forecast EBITDA	Liability capped. An increase in the forecast profits used in isolation would result in no movement in the fair value
Retention liability as described in Note 16	Liabilities (FVTPL) - \$746	Level 3	Present Value of expected future cash outflow	Forecast EBITDA	Liability capped. An increase in the forecast profits used in isolation would result in no movement in the fair value
Contingent consideration as described in Note 16	Liabilities (FVTPL) - \$738 ⁽ⁱ⁾	Level 3	Present Value of expected future cash outflow	Forecast EBITDA	An increase in the forecast revenues and profits used in isolation would result in a significant increase in the fair value
Contingent consideration as described in Note 16	Liabilities (FVTPL) - \$1,511 ⁽ⁱⁱ⁾	Level 3	Present Value of expected future cash outflow	Forecast EBITDA	An increase in the forecast revenues and profits used in isolation would result in a significant increase in the fair value

- (i) A 5% increase/decrease in the forecast EBITDA while holding all other variables constant would increase/decrease the carrying amount of the contingent consideration by \$348,945
- (ii) A 5% increase/decrease in the forecast EBITDA while holding all other variables constant would increase/decrease the carrying amount of the contingent consideration by \$601,300

The Directors consider that the carrying amount of all financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

20. Fair value of financial instruments (cont'd)

The following table represents the movement in fair value measurements of financial instruments.

Half-year ended 31 December 2023	Retention Consideration	Contingent Consideration
	\$'000	\$'000
Opening balance	1,073	7,939
Total gains or losses:		
- In profit or loss	117	(3,774)
Acquisitions	723	715
Foreign Exchange Gain/(loss)	12	376
Disposals/Settlements	-	(3,007)
Closing balance	1,925	2,249

21. Contingent assets and contingent liabilities

The Group entered into arrangements for three new leases in the normal course of business. The security bond for these leases are guaranteed in the form of bank guarantees issued by the Group's financial institution. As of 31 December 2023, the Company had issued \$480,000 in bank guarantees. The probability of having to make a payment in respect to these security bonds are considered to be highly unlikely. As such, no provisions have been made in the consolidated financial statements in respect to these contingencies.

The Group had no contingent assets or contingent liabilities as of 31 December 2023 in relation to bank guarantees.

22. Events occurring after the reporting date

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