Verbrec Limited

ABN 90 127 897 689

Interim Financial Report
31 December 2021

Contents

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 2021 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 2022. 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 2021.

THE DIRECTORS

The persons who have been Directors and Officers of the Company at any time during or since the end of the half-year and up to the date of this report are:

Directors and Officers

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
Mr Andrew Ritter	Company Secretary

REVIEW AND RESULTS OF OPERATIONS

The consolidated interim financial results for the half-year ended 31 December 2021 compared to the prior corresponding period ("PCP") is follows:

	31 December 2021	31 December 2020 (Restated)	**Change to PCP**
Revenue ($'000)	60,548	47,596	12,952
Gross Margin Statutory ($'000)	17,559	15,870	1,689
Gross Margin Statutory as a % of revenue (%)	29.0%	33.3%	(4.3%)
Gross Margin Underlying ($'000)	21,063	17,251	3,812
Gross Margin Underlying as a % of revenue (%)	34.8%	36.2%	(1.4%)
(Loss)/profit before tax ($'000)	(831)	1,256	(2,087)
(Loss)/profit after tax ($'000)	(1,071)	366	(1,437)
Statutory EBITDA ($'000)	1,744	3,225	(1,481)
Statutory EBITDA as a % of revenue (%)	2.9%	6.8%	(3.9%)
Underlying EBITDA[1] ($'000)	5,626	4,693	933
Underlying EBITDA as a % of revenue (%)	9.3%	9.9%	(0.6%)
Operating Cash Flow ($'000)	(1,517)	(249)	(1,268)
Net Cash[2] ($'000)	(4,962)	3,487	(8,449)
Basic earnings per share (cents)	(0.5)	0.2	(0.7)

[1] *Statutory EBITDA (earnings before interest, taxes, depreciation and amortization) adjusted for poor performing projects and one-off non-recurring expenses*

[2] *Cash on hand less borrowings and lease liabilities*

REVIEW AND RESULTS OF OPERATIONS (CONTINUED)

For the half-year, the Group reported revenue of $60.6m, a 27% increase on the prior period partly reflecting the impact of the EIM and Site Skills acquisitions made in December 2020 and April 2021 to the first half result. Engineering Services has seen a particularly strong recovery up 19% from the prior half-year to $53.1m. Training revenues continue to be impacted by COVID-19 and a shortage of available trainers.

Predominately, as a result of the group's legacy poor performing projects, the statutory gross margin as a percentage of revenue fell to 29.0% from 33.3%. Allowing for the write-back of the impact of the 3 projects, the underlying margin for the half-year was 34.8%. Statutory EBITDA has decreased to $1.7m, down from $3.2m. Half-year statutory EBITDA margin as a percentage of revenue was 2.9%, whilst the underlying EBITDA margin decreased from 9.9% in 2021 to 9.3%. Verbrec foresees that as the legacy poor performing projects are finalised, our teams will shift focus to much higher generating margin projects, hence improving EBITDA margins.

The half-year also saw the execution of the first StacksOn™ license agreement. The margins generated from the StacksOn™ license agreements are generally in line with other software service providers and are expected to be materially higher than Verbrec's historical margins within the other business units.

COVID IMPACTS

The Training business has continued to be impacted by the COVID-19 pandemic with lock-downs occurring in cities where training facilities are located throughout the first half of the financial year.

As Oil and Gas prices have risen over the reporting period, previously deferred projects are now being awarded and Verbrec sell rates have returned to at least, if not higher than pre-Covid levels.

BALANCE SHEET

The Company renegotiated its bank debt facilities in August 2021 as part of the annual review. The total value of the facilities has remained the same at $12m. The Corporate Market Loan (balance as at 31 December 2021 $1.5m) which was previously due to mature on 30 June 2022, has now been extended through to 31 December 2022. Repayment instalments remain at $0.3m per quarter, with one $0.6m payment due on 31 March 2022.

Net cash fell from $0.6m at 30 June 2021 to ($5.0m) as at 31 December 2021. Aside from the fall in the cash balance noted below, the other major contributor to the reduction was the renewal of a 5-year head office property lease impacting the Lease Liability balance which increased by $2.5m during the reporting period.

CASH FLOW

Verbrec continued its strong focus on cash collections with no impact observed on debtors' days outstanding and no additional provisioning for bad or doubtful debts during the first half.

REVIEW AND RESULTS OF OPERATIONS (CONTINUED)

Closing cash for the half-year was $6.0m compared to $8.3m as at 30 June 2021, a decrease of $2.3m. The cash outflow from operating activities for the 6 months was $1.5m. Included in the outflows is $0.4m which relates to previously deferred payroll tax payments under state government COVID-19 relief deferral schemes and $0.5m for EIM restructure and retention bonuses accrued in the prior financial year. The closing cash balance was also impacted by the 3 poor performing projects, some of which will be recouped in the second half.

PRINCIPAL ACTIVITIES AND REVIEW OF OPERATIONS

Principal Activities

Verbrec primarily delivers engineering, infrastructure and training services to the Mining and Mineral Processing, Energy and Infrastructure industries. Our key geographies are Australia, New Zealand, Papua New Guinea and the Pacific Islands and we service these areas from our offices in Adelaide, Brisbane, Dalby, Darwin, Gladstone, Mackay, Melbourne, New Plymouth and Perth and from our project delivery site offices.

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

Engineering Services

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

a) 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.

Asset Management continues to perform well with strong revenue and margin growth during the half primarily due to the award of a multi-year Asset Management agreement with a large Energy company. Asset Management continues to develop opportunities in Western Australia particularly in the Mining and Energy sectors.

b) 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.

Our digital industry capability continues to be in high demand across all sectors and geographies within which the Group operates due to digital transformation enabling the extraction of additional data real time from clients existing assets, thus providing the opportunity for better control and optimisation.

During the first half of FY2022, the major focus of Digital Industry was the ongoing execution of control system upgrades for major water utility companies across Australia. Two of the previously announced poor performing legacy projects are Digital Industry projects. During the half, one of these two projects reached close-out stage and we agreed settlement of previously reported claims along with an increase in contract value to fund acceleration on the other.

PRINCIPAL ACTIVITIES AND REVIEW OF OPERATIONS (CONTINUED)

Our first commercialised technology product, StacksOn™, is an example of the value that real-time data, presented in a user-friendly way, can deliver for clients. During the half-year StacksOn™ was commercialised via a multi-year software licence agreement executed with BHP Iron Ore. Currently two BHP iron ore mine sites are live with StacksOn™ with a third in implementation phase along with their WA Port. Margins from this multi-year licence agreement are significantly higher than margins generated from procurement and labour revenues and this licence agreement also increases our recurring revenues.

c) Infrastructure Services

The integration of Energy Infrastructure Management (acquired by Verbrec in December 2020) and additional capability from this acquisition has delivered significant revenue and margin growth. During the half-year we secured the renewal of two long-dated Operation and Maintenance Agreements. In addition, we were successful in being awarded and delivered several brown-field infrastructure upgrade projects along with infrastructure integrity services.

Specialist pipeline and compressor station operation and maintenance services to the energy 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. Our work is managed using a proprietary in-house 'Integrated Management and Operating System' (IMOS).

d) 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.

This technical speciality compliments our Infrastructure Services capability by providing technical support to the operations team.

e) 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.

Our Power technical specialty had a strong first half continuing to support our major mining and infrastructure clients. During the half we were successful in being awarded a significant electrical upgrade project for Defence.

f) Process Plant

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

During the half this technical speciality continued to deliver the legacy poor performing LNG import design project. We were successful in negotiating two contract variations which have improved the margins being generated on this project.

PRINCIPAL ACTIVITIES AND REVIEW OF OPERATIONS (CONTINUED)

We were successful in being awarded an Engineering, Procurement and Construction project building a gas pipeline and meter station for a fast-start gas fire power station providing power at peak periods (with a second similar project being awarded to Verbrec early in February 2022). As we transition to a net zero carbon emissions economy, projects such as this are going to be critical to ensure our energy needs are met during peak periods. Another example of how Verbrec is very actively assisting clients as they transition their operations is the decommissioning and rehabilitation project we were successfully awarded during the half for a PNG oil & gas field which is reaching the end of its economic life.

Training Segment

The Training business did not perform to expectations during the half. Whilst the Site Skills business has been integrated with the existing Competency Training business, we have seen a drop in revenues due in some part to the ongoing impacts of COVID-19 and a shortage of Trainers. With the decline in revenues we also saw a decline in margins.

To address the decline in revenues we have launched a new Training website which provides a much better user experience and simplified process to book a training course. We were also successful in securing additional State based funding agreements. There are a range of initiatives underway to address this decline in revenues, including increased marketing efforts and search engine optimisation.

Outlook

Work-in-hand is the strongest it has been for the Company. As at the end of January 2022 it totalled $86.2 million, which is an increase of 92% since January 2021. This figure excludes revenues from our Training Services business. The recent project awards which have driven this increase have been bid following a more rigorous and disciplined approach to pricing and under refined internal commercial models. This provides us with confidence in the business' ability to strongly rebound as we wrap up the poorly performing legacy projects.

With a record order book, strong commodity prices particularly Oil & Gas and Iron Ore and transformation of the energy mix to renewables gathering pace and digitalisation of the economy, we expect business activity to remain strong for the foreseeable future.

Revenues and margins from StacksOn™ will continue to increase as we implement this software at additional BHP Iron Ore mines and their Port. We are actively pursuing other opportunities for StacksOn™ with other iron ore miners and other commodities.

We, as with many organisations, are experiencing some challenges with respect to retaining and attracting talent. With International and some State borders continuing to be locked, the pool of available talent is not growing at a sufficient pace to keep up with our increasing workload. With this labour shortage there is some upward pressure on labour rates. We are pricing escalation into our contracts to maintain margins.

Our growth strategy is to not only grow the business organically but maintain an active interest in identifying bolt on acquisitions in our core markets to increase our capabilities and revenue base and thus provider better coverage of our overhead cost base which is relatively fixed in nature.

DIVIDENDS

The Board has elected not to declare an interim dividend for the period ended 31 December 2021.

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.

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.

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 8.

Phillip Campbell
Chairperson

Brisbane
28 February 2022

Grant Thornton

Level 18, 145 Ann Street
Brisbane QLD 4000

Correspondence to:
GPO Box 1108
Brisbane QLD 4001

T +61 7 3222 0200
F +61 7 3222 0444
E info.qld@au.gt.com
W www.grantthornton.com.au

Auditor's Independence Declaration

To the Directors of Verbrec Limited

In accordance with the requirements of APES 110 Code of Ethics for Professional Accountants, as lead auditor for the review of Verbrec Limited for the review period ending 31 December 2021, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the 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

Grant Thornton Audit Pty Limited
Chartered Accountants

Cameron Smith

CDJ Smith
Partner – Audit & Assurance

Brisbane, 28 February 2022

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 2021

	Notes	31 December 2021 $'000	31 December 2020 $'000 (Restated)
Revenue	6(a)	**60,548**	47,596
Cost of providing services	7(a)	**(42,989)**	(31,726)
Gross profit		**17,559**	15,870
Other income		**302**	1,051
Other operating expenses	7(b)	**(18,323)**	(15,545)
(Loss)/profit from operating activities		**(462)**	1,376
Finance expense		**(369)**	(147)
Share of net profit of equity accounted investees		**-**	27
(Loss)/profit before income tax		**(831)**	1,256
Income tax expense	8	**(240)**	(890)
(Loss)/profit for the half-year attributable to owners of the Company		**(1,071)**	366
Other comprehensive income			
Items that may be reclassified to profit or loss			
Foreign currency translation differences		**16**	(6)
Other comprehensive income for half-year, net of tax		**16**	(6)
Total comprehensive (loss)/profit for the half-year attributable to owners of the Company		**(1,055)**	360
Earnings per share			
Basic earnings per share (cents per share)		**(0.5)**	0.2
Diluted earnings per share (cents per share)		**(0.5)**	0.2

Verbrec Limited

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Condensed consolidated statement of financial position

As at 31 December 2021

	Notes	31 December 2021 $'000	30 June 2021 $'000 (Restated)
Assets			
Cash and cash equivalents		**5,951**	8,337
Trade and other receivables		**17,881**	16,974
Contract assets		**5,588**	4,870
Current tax assets		**115**	39
Total current assets		**29,535**	30,220
Property, plant and equipment	9	**1,488**	1,540
Right-of-Use Assets		**7,147**	4,943
Deferred tax assets		**6,960**	6,811
Intangible assets	10	**15,828**	16,030
Total non-current assets		**31,423**	29,324
Total assets		**60,958**	59,544
Liabilities			
Trade and other payables		**11,492**	13,149
Contract liabilities		**4,281**	2,377
Borrowings	12	**2,732**	1,451
Lease liabilities		**2,372**	2,640
Other financial liabilities	13	**880**	139
Current tax liability		**385**	-
Employee benefits		**5,618**	5,949
Provisions	11	**278**	783
Total current liabilities		**28,038**	26,488
Employee benefits		**823**	1,101
Borrowings	12	**86**	694
Lease liabilities		**5,723**	2,959
Other financial liabilities	13	**1,127**	2,120
Provisions	11	**565**	676
Total non-current liabilities		**8,324**	7,550
Total liabilities		**36,362**	34,038
Net assets		**24,596**	25,506
Equity			
Share capital	14	**24,267**	24,134
Reserves		**231**	203
Retained earnings		**98**	1,169
Total equity attributable to owners of the Company		**24,596**	25,506

Verbrec Limited

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Condensed consolidated statement of changes in equity

For the half-year ended 31 December 2021

	Share Capital $'000	Reserves $'000	Retained earnings $'000	Total $'000
Balance at 1 July 2020	21,013	107	5,577	26,697
Profit for the half-year	-	-	1,097	1,097
Change in accounting policy (note 5(a))	-	-	(731)	(731)
Other comprehensive income	-	(6)	-	(6)
Restated total comprehensive income for the half-year	-	(6)	366	360
Buy back of ordinary shares	(147)	-	-	(147)
Share based payment	-	(28)	-	(28)
Balance at 31 December 2020	20,866	73	5,943	26,882
Balance at 30 June 2021	**24,134**	**203**	**1,798**	**26,135**
Adjustment for correction of error (note 5(b))	-	-	**(629)**	**(629)**
Restated 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 expense	**-**	**12**	**-**	**12**
Balance at 31 December 2021	**24,267**	**231**	**98**	**24,596**

Verbrec Limited

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Condensed consolidated statement cash flows

For the half-year ended 31 December 2021

	31 December 2021 $'000	31 December 2020 $'000 (Restated)
Cash flows from operating activities		
Receipts from customers (including GST)	**68,260**	53,651
Payments to suppliers and employees (including GST)	**(69,526)**	(53,591)
	(1,266)	60
Interest received	**5**	60
Interest paid	**(256)**	(224)
Income taxes paid	**-**	(145)
Net cash outflow from operating activities	**(1,517)**	(249)
Cash flow from investing activities		
Proceeds from sale of property, plant and equipment	**53**	-
Payment for acquisition of subsidiary, net of cash acquired	**-**	(3,233)
Acquisition of property, plant and equipment and intangibles	**(442)**	(56)
Net cash outflow from investing activities	**(389)**	(3,289)
Cash flow from financing activities		
Payments for shares bought back	**-**	(147)
Proceeds from issue of shares	**133**	-
Proceeds from borrowings	**2,059**	1,690
Repayment of borrowings	**(1,386)**	(1,651)
Principal elements of lease payments	**(1,295)**	(1,153)
Net cash outflow from financing activities	**(489)**	(1,261)
Net decrease in cash and cash equivalents	**(2,395)**	(4,799)
Cash and cash equivalents at the beginning of the year	**8,337**	15,930
Effects of exchange rate changes on cash and cash equivalents	**9**	(6)
Cash and cash equivalents at the end of the half-year	**5,951**	11,125

1 General information

Verbrec Limited (the "Company") is a company incorporated and 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 2021 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 2022.

2 Basis of preparation

The consolidated interim financial statements for the half-year reporting period 31 December 2021 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 2021 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, except as disclosed in note 5(a).

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 2021.

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.

4 Summary of Significant Accounting Policies (continued)

(b) Going concern

The Company has debt facilities in place with National Australia Bank ("NAB") as described in Note 12 of the interim financial statements. During the period the Company has been unable to meet its Senior Operating Leverage (SOL) to EBITDA Ratio covenant, mainly due to the Group's legacy poor performing projects. The National Australia Bank provided a waiver to the Company to ensure it was not in breach of its lending covenants up to and including the period to 31 December 2021. Additionally, the company forecast that it would be in breach of this covenant from January to March 2022 (but no other months in the ensuing 12 month period). As a consequence, the company requested, and the National Australia Bank granted (with certain conditions and limits), a waiver for the breach of this covenant for the months of January through to March 2022.

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

- The Group continues to have the support of its major debt financier as demonstrated by the debt facility waivers provided by the Group's bankers, the National Australia Bank, both historically and prospectively to the end of March 2022,
- As of January 2022, the Company had in excess of $80m of contracted work, the highest levels the Company has experienced since COVID-19,
- The markets in which the Company operates continue to be at buoyant levels,
- The impact of the poor performing legacy projects will reduce over the next year with one of the projects reaching close-out stage at the end of December 2021. The Company has also agreed a settlement on the second project, with this project to be largely complete by December 2022. Finally, a variation has been successfully negotiated with respect to the final project. These measures were previously announced in the Company's announcement to the Stock Exchange on 29th December 2021.

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 4.

5 Restatement of comparatives

(a) Changes in accounting policy

The Group previously capitalised costs incurred in configuring or customising a supplier's application software in a cloud computing arrangement as intangible assets, as the Group considered that it would benefit from those costs to implement the cloud-based software over the contract term of the cloud computing arrangement.

Following the IFRS Interpretations Committee agenda decision on Configuration or Customisation Costs in a Cloud Computing Arrangement in April 2021, the Group has reconsidered its accounting treatment and adopted the treatment set out in the IFRS IC agenda decision, which is to recognise those costs as intangible assets only if the activities create an intangible asset that the entity controls and the intangible asset meets the recognition criteria.

5 Restatement of comparatives (continued)

(a) Changes in accounting policy (continued)

Costs that do not result in intangible assets are expensed as incurred, unless they are paid to the supplier of the cloud-based software to significantly customise the cloud-based software for the Group, in which case the costs are recorded as a prepayment for services and amortised over the expected renewable term of the cloud computing arrangement.

As a result of this change in accounting policy as at 30 June 2021, the Group has determined that costs totalling $1.8 million relating to the implementation of cloud-based software would need to be expensed when they were incurred (FY2021: $0.8 million, FY2020: $1.0 million) as the amounts were paid to third parties / employees of the Group who did not create separate intangible assets controlled by the Group.

The change in policy has been applied retrospectively and comparative information has been restated (as this change in policy was adopted as at 30 June 2021, the comparative balance sheet is not restated). This had the following impact on the amounts recognised in the financial statements for the half-year end 31 December 2020.

	31 December 2020 Reported $'000	31 December 2020 Adjustment $'000	31 December 2020 Restated $'000
Statement of profit or loss/Statement of comprehensive income			
Other expenses	14,814	731	15,545
Profit for the half-year	1,097	(731)	366
Basic EPS	**0.6**	(0.4)	0.2
Diluted EPS	**0.5**	(0.3)	0.2

	31 December 2020 Reported $'000	31 December 2020 Adjustment $'000	31 December 2020 Restated $'000
Cash flow statement			
Cash flows from operating activities			
Payments to suppliers and employees	(52,860)	(731)	(53,591)
Cash flows from investing activities			
Payments to acquire intangible assets	(787)	731	(56)

(b) Correction of error

An error was discovered (as a direct result of the implementation of our new ERP System) whereby a double up occurred in the recording of approved variations added to the original contract value (commenced in February 2021) specific to one client. This resulted in the contracts assets being overstated, deferred tax assets being understated and retained earnings being overstated at 30 June 2021. There is no impact on half-year end 31 December 2020 financials. Extracts (being only those line items affected) are disclosed below.

	30 June 2021 Reported $'000	30 June 2021 Adjustment $'000	30 June 2021 Restated $'000
Balance sheet			
Contract assets	5,769	(899)	4,870
Deferred tax assets	6,541	270	6,811
Retained earnings	1,798	(629)	1,169

6 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. Therefore, no additional disclosure in relation to the revenues, profit or loss, assets and liabilities or other management items have been made.

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

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

31 December 2021	Australia $'000	New Zealand $'000	Papua New Guinea $'000	Total $'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**

31 December 2020	Australia $'000	New Zealand $'000	Papua New Guinea $'000	Total $'000
Engineering services				
- Services revenue	39,527	5,171	-	44,698
Training services	2,898	-	-	2,898
Total revenue from external parties	42,425	5,171	-	47,596
Timing of revenue recognition				
Over time	42,425	5,171	-	47,596

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

EBITDA	31 December 2021 $'000	31 December 2020 $'000 (Restated)
Engineering services	**2,568**	2,752
Training services	**(824)**	473
	1,744	3,225
EBITDA	**1,744**	3,225
Finance cost	**(369)**	(147)
Depreciation and amortisation	**(2,206)**	(1,822)
(Loss)/profit before income tax from continuing operations	**(831)**	1,256

7 Profit and loss information

(a) Cost of Sales

	31 December 2021 $'000	31 December 2020 $'000
Personnel expenses	**26,756**	21,512
Contractor expenses	**7,056**	3,586
Project expenses (including procurement)	**9,177**	6,628
	42,989	31,726

(b) Other Operating Expenses

	31 December 2021 $'000	31 December 2020 $'000 (Restated)
Salaries and wages	**9,795**	8,988
Other employment related expenses	**398**	19
General outgoings	**1,094**	502
Subscriptions, licenses and memberships	**1,119**	1,108
Consulting	**1,347**	1,042
Depreciation and amortisation	**2,206**	1,822
Insurance	**838**	671
Other administrative expenses	**1,526**	1,393
	18,323	15,545

(c) Significant items

	31 December 2021 $'000	31 December 2020 $'000
Profit for the half-year includes the following items that are unusual because of their nature, size or incidence:		
One-off (income) / expenses		
Jobkeeper subsidy	**-**	(1,015)
Restructuring costs	**135**	473
Contingent consideration fair value adjustment	**(223)**	-
Poor performing projects (legal costs)	**317**	-
Other	**148**	-
	377	(542)

8 Income Tax Expense

(a) Income Tax

	31 December 2021 $'000	31 December 2020 $'000 (Restated)
Numerical reconciliation between tax expense and pre-tax accounting profit		
(Loss)/profit before income tax	**(831)**	1,256
Income tax using the Company's domestic tax rate of 30% (2020 - 30%)	**(277)**	594
Withholding taxes paid	**-**	(2)
Non-deductible expenses	**29**	(10)
Current year deferred tax movements not recognised	**443**	214
Other current year movements	**(12)**	-
Income tax expense attributable to current half-year	**183**	796
Adjustments for current tax of prior periods	**127**	94
Adjustments for deferred tax of prior periods	**(70)**	-
Income tax expense attributable to prior periods	**57**	94
Total income tax expense	**240**	890

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.

(b) Tax losses

	31 December 2021 $'000	30 June 2021 $'000
Unused tax losses	**29,757**	28,258
Potential tax benefit @ 30%	**8,927**	8,477

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.

9 Property, plant and equipment

	Plant and equipment $'000	Motor vehicles $'000	Total $'000
As at 30 June 2021			
Cost	10,461	2,038	12,499
Accumulated depreciation	(9,151)	(1,808)	(10,959)
Net book amount	1,310	230	1,540
Half-year Ended 31 December 2021			
Opening net book amount	**1,310**	**230**	**1,540**
Additions	**313**	**-**	**313**
Disposals	**(8)**	**(9)**	**(17)**
Depreciation charge	**(296)**	**(52)**	**(348)**
Closing net book amount	**1,319**	**169**	**1,488**
At 31 December 2021			
Cost	**10,766**	**2,029**	**12,795**
Accumulated depreciation	**(9,447)**	**(1,860)**	**(11,307)**
Net book amount	**1,319**	**169**	**1,488**

10 Intangible assets

	Goodwill $'000	Application Software $'000	Development Costs $'000	Brand Names $'000	Customer Contracts $'000	Total $'000
As at 30 June 2021						
Cost	11,500	1,011	161	343	5,418	18,433
Accumulated amortisation	-	(925)	(136)	(9)	(1,333)	(2,403)
Net book amount	11,500	86	25	334	4,085	16,030
Half-year Ended 31 December 2021						
Opening net book amount	**11,500**	**86**	**25**	**334**	**4,085**	**16,030**
Additions	**-**	**30**	**99**	**-**	**-**	**129**
Amortisation charge	**-**	**(19)**	**(2)**	**(15)**	**(295)**	**(331)**
Closing net book amount	**11,500**	**97**	**122**	**319**	**3,790**	**15,828**
At 31 December 2021						
Cost	**11,500**	**1,041**	**260**	**343**	**5,418**	**18,562**
Accumulated amortisation	**-**	**(944)**	**(138)**	**(24)**	**(1,628)**	**(2,734)**
Net book amount	**11,500**	**97**	**122**	**319**	**3,790**	**15,828**

11 Provisions

	31 December 2021			30 June 2021		
	Current $'000	Non-current $'000	Total $'000	Current $'000	Non-current $'000	Total $'000
Bonus provision	**100**	**-**	**100**	256	-	256
Make good provision	**83**	**565**	**648**	-	676	676
Service warranties	**95**	**-**	**95**	233	-	233
Restructuring/ Redundancy costs	**-**	**-**	**-**	294	-	294
Total	**278**	**565**	**843**	783	676	1,459

The movement in provisions for the period is shown below:

	Bonus provision $'000	Make good provision $'000	Service warranties $'000	Restructuring/ Redundancy costs $'000	Total $'000
Carrying amount at 1 July 2021	256	676	233	294	1,459
Credited to profit or loss					
addition provisions recognised	100	90	49	-	239
unused amounts reversed	(84)	(109)	(187)	-	(380)
Amounts used during the half-year	(172)	(9)	-	(294)	(475)
Carrying amount at 31 December 2021	**100**	**648**	**95**	**-**	**843**

12 Borrowings

	31 December 2021			30 June 2021		
	Current	Non-current	Total	Current	Non-current	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Secured						
Bank loans	**1,500**	**-**	**1,500**	1,200	600	1,800
Equipment loans	**373**	**86**	**459**	251	94	345
	1,873	**86**	**1,959**	1,451	694	2,145
Unsecured						
Insurance premium financing	**859**	**-**	**859**	-	-	-
Total borrowings	**2,732**	**86**	**2,818**	1,451	694	2,145

The movement in borrowings for the period is shown below:

	Bank loans	Equipment finance loan	Insurance premium funding	Total
	$'000	$'000	$'000	$'000
Carrying amount at 1 July 2021	1,800	345	-	2,145
Additional borrowings	-	477	1,582	2,059
Repayments during the half-year	(300)	(363)	(723)	(1,386)
Carrying amount at 31 December 2021	**1,500**	**459**	**859**	**2,818**

The Group's Multi Option Facility with the NAB is currently allocated $1.5m to a three-year Capital Market Loan, maximum $9m to a bank guarantee facility, and $3m to an overdraft facility. At 31 December 2021, the Capital Market Loan was drawn to $1.5m, the bank guarantee facility to $5.3m, and the overdraft was unused.

Covenants imposed by the bank include a Finance Charges Cover Ratio, whereby the Group's EBITDA is adjusted for any finance lease charges and must exceed interest expenses by a ratio of 2:1, a Senior Operating Leverage (SOL) to EBITDA Ratio, where the Group's Total Debt must not exceed 3:1 and a Bank Guarantee Security Value covenant to be less than 100% at all times. Finally, the dividend payment amount of the Group in respect of any financial year must not exceed 60% of its net profit after tax for that financial year. During the half-year, the Group forecasted a breach of the SOL covenant in the December month. For the December period, the Group obtained a waiver from the bank on 20 December 2021.

13 Other financial liabilities

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

	Contingent consideration		
	Current	Non-current	Total
	$'000	$'000	$'000
Carrying amount at 1 July 2021	139	2,120	2,259
Charged/(credited) to profit or loss			
unwinding of discount	46	64	110
gain on fair value changes	(61)	(161)	(222)
Amounts settled during the half-year	(140)	-	(140)
Reclassification beween current and Non-current	896	(896)	-
Carrying amount at 31 December 2021	**880**	**1,127**	**2,007**

The Group's contingent consideration was from the legal acquisition of all operational assets of Site Skill Training Assets ("SST") on 12 April 2021. 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. In addition, a further $0.5 million will be payable upon satisfaction of the conditions subsequent as per the Asset Sale Agreement, of which $0.36 million was paid in May 2021, the remaining $0.14 million was settled in first quarter of FY 2022. As at 31 December 2021, the present value of current contingent consideration is $0.88 million (30 June 2021: $0.14 million) and non-current contingent consideration is $1.13 million (30 June 2021: $2.12 million).

14 Share capital

	Shares '000	Issue Price	$'000
Opening balance 1 July 2020	200,987		21,013
On-market Share Buy Back	(957)	$0.1543	(148)
Ordinary shares issued 29 April 2021	16,667	$0.1800	3,000
Exercise of Options issue date 30 June 2021	3,187	$0.1092	348
Exercise of Options issue date 30 June 2021	531	$0.0857	46
Less: Transaction costs arising on share issues	-		(178)
Deferred tax credit recognised directly in equity	-		53
Balance 30 June 2021	220,415		24,134
Exercise of Options issue date 22 July 2021	**1,062**	**$0.1252**	**133**
On issue at 31 December 2021 - fully paid	**221,477**		**24,267**

15 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.

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.

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.

15 Impairment (continued)

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 '000	Training Services '000	Total '000
Opening balance 1 July 2021	4,130	7,370	11,500
Addition during the half-year	-	-	-
Closing balance 31 Dec 2021	**4,130**	**7,370**	**11,500**

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 (16.71%), post-tax discount rate (11.70%)
  - Training Business - a pre-tax discount rate (15.57%), post-tax discount rate (10.90%)
- expected future profits for the first year based on the Board approved budget for FY22,
- revenue over the five year forecast based on expected sector revenue growth rates of between 3% and 6% (base case estimates) on the Engineering services and Training services CGUs respectively,
- EBITDA margins for the five year forecast of between 7- 14% and 7%- 23% on the Engineering services and Training services CGU respectively, and
- terminal growth rate of revenue of 2% beyond FY26.

Impairment charge

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

Verbrec Limited

ABN 90 127 897 689

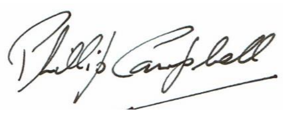
Directors' declaration

In the opinion of the Directors of the Company:

- the consolidated interim financial statements and notes set out on pages 9 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 9 to 25 give a true and fair view of the Group's financial position as at 31 December 2021 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 2022

Grant Thornton

Level 18, 145 Ann Street
Brisbane QLD 4000

Correspondence to:
GPO Box 1108
Brisbane QLD 4001

T +61 7 3222 0200
F +61 7 3222 0444
E info.qld@au.gt.com
W www.grantthornton.com.au

Independent Auditor's Review Report

To the Members of Verbrec Limited

Report on the review of 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 2021, 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 2021 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.

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 2021 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

Grant Thornton Audit Pty Ltd
Chartered Accountants

Cameron Smith

CDJ Smith

Partner – Audit & Assurance

Brisbane, 28 February 2022