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**TRAFFIC TECHNOLOGIES LTD
ABN 21 080 415 407
AND CONTROLLED ENTITIES**

**PRELIMINARY FINAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022
PROVIDED TO THE ASX UNDER LISTING RULE 4.3A**

Appendix 4E

Preliminary final report

Name of entity

| |
|---------------------------------|
| TRAFFIC TECHNOLOGIES LTD |
|---------------------------------|

ABN or equivalent
company reference

Year ended:
current period

Previous corresponding
period

| | | |
|--------------------|--------------|--------------|
| ABN 21 080 415 407 | 30 June 2022 | 30 June 2021 |
|--------------------|--------------|--------------|

Results for announcement to the market

| Continuing Operations | | | A\$'000 |
|--|---------------------|-----------------------------|----------|
| Revenues from ordinary activities (<i>item 2.1</i>) | Up | 3% to | \$53,750 |
| Earnings before interest and tax | Down | 25% to | \$1,730 |
| Profit/(loss) from ordinary activities after tax attributable to members (<i>item 2.2</i>) | Down | 343% to | (\$488) |
| Net profit/(loss) for the period attributable to members (<i>item 2.3</i>) | Down | 343% to | (\$488) |
| Dividends (distributions) (<i>item 2.4</i>) | Amount per security | Franked amount per security | |
| Interim dividend | Nil¢ | Nil¢ | |
| Final dividend | Nil¢ | Nil¢ | |
| Previous corresponding period: | | | |
| Interim dividend | Nil¢ | Nil¢ | |
| Final dividend | Nil¢ | Nil¢ | |
| Record date for determining entitlements to the dividend | N/A | | |

Other Information

Brief explanation of any of the figures in 2.1 to 2.4 necessary to enable the figures to be understood (item 2.6):

For commentary on the results for the period and review of operations, refer to Managing Director’s Operating and Financial Review.

1. Net Tangible Asset Backing

| | As at 30 June 2022 | As at 30 June 2021 |
|-------------------------------|-------------------------------|-------------------------------|
| Net tangible assets per share | 0.3 cents | (0.5) cents |

2. Dividends

No dividends have been declared in respect of the year ended 30 June 2022 (2021: Nil). Total dividend Nil (2021: Nil).

The Company has adopted a Dividend Reinvestment Plan (DRP) to provide shareholders with the opportunity to reinvest their dividends in ordinary shares in the Company free of brokerage, commissions and other transaction costs. The DRP is governed by the DRP rules. Subject to the DRP rules, participation is open to shareholders with registered addresses in Australia and New Zealand. Participation can be full or partial and can be varied or cancelled at any time. If a shareholder elects to participate in the DRP, the dividend otherwise payable on the shareholder's ordinary shares participating in the DRP will be reinvested in ordinary shares in the Company. These shares will either be issued to the shareholder or acquired on-market and transferred to the shareholder. Shares may be allocated at a discount to the market price of the shares. The Directors will determine a discount of up to 10% for each dividend declared.

3. Status of Audit

The unqualified, signed annual financial report is attached.

4. Corporate Information

Directors

Mr. Mark Hardgrave
Mr. Con Liosatos
Mr. Tim Fry

Company Secretary

Mr. Peter Crafter

Registered Office and Principal Place of Business

Traffic Technologies Ltd
31 Brisbane Street
Eltham VIC 3095

Share Register

Computershare Investor Services Pty Limited
Yarra Falls, 452 Johnston Street
Abbotsford VIC 3067
Tel: 1300 850 505

Traffic Technologies Ltd shares are listed on the Australian Stock Exchange (stock code: TTI).

Other Information

Lawyers

K&L Gates
Level 25
525 Collins Street
Melbourne VIC 3000

Bankers

Westpac Banking Corporation
Level 6
150 Collins Street
Melbourne VIC 3000

Auditors

Grant Thornton
Collins Square, Tower 5
727 Collins Street
Melbourne VIC 3008

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TRAFFIC

TECHNOLOGIES

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2022

ANNUAL REPORT



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TRAFFIC TECHNOLOGIES LTD
ABN 21 080 415 407
AND CONTROLLED ENTITIES

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022

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ABN 21 080 415 407
Traffic Technologies Ltd.
address. 31 Brisbane Street, Eltham Victoria 3095 Australia
PO Box 828, Eltham Victoria 3095 Australia
phone. + 61 3 9430 0222 facsimile. + 61 3 9430 0244
web. www.traffictld.com.au

Traffic Technologies Ltd and Controlled Entities Chairman's Letter

Dear Shareholder,

On behalf of the Board of Directors, it is my pleasure to enclose the Annual Report of Traffic Technologies Ltd (Traffic Technologies, or the Company) for the financial year ended 30 June 2022.

It has been a year of tremendous achievements for our Company in the face of global and industry-wide headwinds. These include: continued revenue growth, significant contract wins, new tier-1 clients, growth in our order book, increasing traction of our 'SmartCity' technology into a significant and nascent global market opportunity, a backlog of locked-in revenue which underpins a strong start to FY23 and a strong balance sheet which has been managed with considerable discipline to weather the global disruptions of supply-chains, inflationary pressures and rising funding costs.

Traffic Technologies today is trusted by government and some of Australia's largest infrastructure builders as *the* market leader for delivering traffic solutions to improve the safety and efficiency of traffic on our roads. Our Company occupies this "client-preferred" position because of our established history, trusted quality and continually evolving differentiated solutions. Our products and services – from hardware and software solutions to install and service – change driver behaviour, improve safety for the community, enhance transport efficiency and lower traffic's deleterious impact on our environment. The market we operate in is large, growing and attractive, with strong secular tailwinds; and I believe we are well positioned to access this opportunity and provide a strong return on your invested capital.

We see a substantial growth opportunity in the application of 'SmartCity' technology in the management of road infrastructure and community safety, and have continued to invest in state-of-the-art 'SmartCity' IoT-enabled products which road authorities around the world are increasingly employing to manage traffic flows. Our products are world-class, powered by the latest traffic management software. Our road sign, traffic signals, electronic signage, LED street lights and traffic controller businesses, continue to be market leaders in both the Australian and export markets around the world.

As funding costs in the market increase, a key focus continues to be the reduction of debt and the associated interest cost. In late 2021, we completed a \$7.2 million capital raising which enabled us to repay \$6.0 million of the ADM Capital debt, including interest. In addition, in February 2022, we refinanced our working capital facilities to provide a more flexible working capital solution to finance the next stage of the Company's growth. The refinancing of the Group's debt has strengthened the Group's balance sheet. We are continuing to work on a strategy to refinance the remaining debt facilities with ADM Capital and First Samuel.

Along with my fellow Directors, I would like to thank shareholders for their continued support of the Group.

A handwritten signature in black ink, appearing to read "Mark Hardgrave".

Mark Hardgrave
Chairman

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ABN 21 080 415 407
Traffic Technologies Ltd.
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PO Box 828, Eltham Victoria 3095 Australia
phone. + 61 3 9430 0222 facsimile. + 61 3 9430 0244
web. www.trafficltd.com.au

Traffic Technologies Ltd and Controlled Entities
Managing Director's Operating and Financial Review

Dear Shareholder,

Operating Result

The Group has reported the following result for the financial year ended 30 June 2022:

| | Year to 30 June 2022 | Year To 30 June 2021 |
|--|-------------------------|-------------------------|
| | \$'m | \$'m |
| Sales revenue | 53.8 | 52.3 |
| Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) | 4.1 | 4.5 |
| Depreciation and Amortisation Expense | (2.3) | (2.2) |
| Earnings before Interest and Tax (EBIT) | 1.7 | 2.3 |
| Finance Costs | (2.2) | (2.1) |
| Net (Loss)/Profit After Tax (NPAT) | (0.5) | 0.2 |

Operating revenue increased to \$54m for the year to 30 June 2022 (2021: \$52m). This was achieved despite timing delays caused by global disruptions to the supply chain for electronic and hardware equipment; estimated to have delayed the timing of revenue realisation from contracted work for FY22 by c.\$7m. The Company continues to assiduously manage this with our suppliers through prepayments and other initiatives given our strong pipeline of new customer contracts.

Over the course of the year and in line with the Company's strategy, the Company secured over \$35m in new term contracts, a substantial increase of 60% from the previous year. Recent orders have included additional Smart City, LED street lights for power authorities, the supply of intelligent traffic control equipment for a multinational ASX listed company and a contract to supply the Company's Smart City software for the road network in Qatar prior to the commencement of the FIFA World Cup.

Management has assessed the impact of COVID-19 on the Company, the main impact being an increase in raw material costs and timing delays caused by industry-wide disruptions to the worldwide supply chain for electronic and hardware equipment. The Company is actively managing this with our suppliers through prepayments and other initiatives and with our customers, through passing on the increased supply costs and growing the pipeline of new customer contracts. The Company has also had to contend with local disruptions caused by lockdowns, closures in the construction industry, staff absences due to COVID and international travel restrictions affecting our export markets. Operating revenue would have been approximately c.\$7m higher had the Company not been affected by these issues. The Company nevertheless continued operating in all States and Territories throughout the pandemic through careful adherence to their COVID-related requirements.

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Despite these challenges, demand for the Company's products and services has seen a significant increase with the upturn in road infrastructure expenditure announced by Federal and State governments and following several recent contract wins. The Company currently has over \$19m in forward orders, a year-on-year increase of 52%, and over \$35m in term contracts an increase of 60% from previous year – both amongst the highest in the Company's history to kick-off the start to a new financial year.

Net assets were \$14.4m at 30 June 2022 compared to \$8.3m at 30 June 2021, with increased inventory of \$3.0m and receivables of \$1.8m levered to manage the market disruptions of COVID.

Net debt, excluding liabilities associated with capitalised property leases, was \$11.2m at 30 June 2022, compared to \$11.8m at 30 June 2021. The Company repaid \$6m of the ADM facility, including interest, from the capital raising in late 2021, funded by the Company's capital raise in Q2 of \$7.2m through a rights issue and placement to sophisticated and institutional investors. In addition, the Company refinanced its working capital facilities in February 2022; this enabled the Company to draw down additional funds to prepay overseas suppliers for parts required to fulfil the growth in customer orders. The Company continues to explore options to refinance debt and reduce finance costs.

Net operating cash outflows were \$0.6m for the year (2021: inflow \$0.9m). Receipts from customers for the year were \$56.7m. Interest paid in the year was \$1.7m. Cash utilisation included the prepayment of overseas suppliers to secure parts required to fulfil the Company's growing pipeline of new customer contracts. The Company expects to see the benefit of these imported components reflected in sales of the Company's products in the months ahead.

Net investing cash outflow was \$3.1m for the year (2021 \$2.8m), including the payment of \$0.8m of instalments towards the purchase of businesses acquired in the previous financial year and investment in the development of the Company's Smart City software and product portfolio.

Net financing cash inflow was \$2.1m for the year (2021: \$0.9m), including capital raising proceeds of \$7.2m, payment of share issue costs, proceeds from the new working capital facility, part repayment of the ADM loan, repayment of the previous working capital facility, repayment of finance leases and payment of borrowing costs.

Review of Operations

The Company continues to be the major participant in the "Intelligent Transport Systems" market in Australia where the Company's proprietary "Traffic SmartCity Technology" (TST) platform, developed for the road industry, councils and power authorities, enables the integration of street lights and other traffic management equipment to a central control/management system via remote "Internet of Things" (IoT) sensors.

Integration of urban traffic controllers into the Company's "Traffic SmartCity Technology" (TST) platform" is pivotal to the next phase of the Company's expansion where the in-house design and manufacture of this highly technical Smart City equipment is scaled for the benefit of communities across Asia, Middle East and South America. The Company is well placed for future improvements in cities requiring "Smart City technology", where the urban traffic controller is automated to regulate the sequencing and timing of traffic signals by monitoring vehicular and pedestrian demands and adjusting to meet these requirements.

The Company is Australia's largest accredited provider and installer involved in traffic signals, urban traffic controllers, street lighting, and electronic speed sign installation and maintenance; and is fully approved for installation work by the Department of Transport in Victoria servicing several term maintenance contracts with local councils across Victoria.

The Company is a key supplier to the road signage market across Australia, with customers including State road authorities, local councils and construction companies. The Company's signage products are distributed from depots around Australia with manufacturing focused in Victoria, Western Australia and the Northern Territory.

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Business Strategies and Prospects

We have continued to invest in research and development with a major emphasis being the deployment and implementation of our “Smart City” platform, “TST”. The system continues to gain traction across several States in particular with local councils and large-scale infrastructure projects. Through data analytics, customers are able to make informed decisions in real time making roads safer, greener, and adaptable to the needs of communities. These outcomes have led to an increase in adoption of recurring annuity revenue with new and current contracts where the focus has moved to a SaaS with annual subscription and service fees.

The Company’s LED streetlight business has seen significant growth with our “Smart City”-ready lighting products; scaled across Australia and now entering the UK. Future earnings are underpinned by a number of recent contract wins, long term supply contracts and orders from State and local government agencies and power companies. The Company’s recently released next-generation LED street lights for roads, streets and tunnels, operate more efficiently with significantly reduced energy consumption. These next generation of solar-run “smarter and greener” luminaires will change the nature of Australian roadways and provide Australians with the critical social benefits of safety our products provide in an economically and environmental sustainability way.

The newly acquired businesses in the previous financial year have been positive contributors to the Company. L&M has enhanced the capability within the Company to undertake installation and maintenance work and has opened a new channel to market for our IoT devices and traffic management products. L&M has enabled the Company to win larger infrastructure projects including level crossing removals and freeway upgrades within the Intelligent Transport sector. The ITS business, involved in the design, development and manufacture of electronic infrastructure signage and software, has developed state-of-the-art products which directly interact with the Company’s “Smart City Platform” TST. This allows the Company to further expand into the lucrative Intelligent Transport sector, expanding the Company’s ability to supply sophisticated “Smart City” ready electronic signage across Australia.

Outlook

The Company is well positioned to benefit in the years ahead from increased investment by government on infrastructure programs. The new products being developed by the Company and the Company’s diversification program into “Smart Cities” IoT and software are generating annuity streams of income from SaaS subscription and service fees. Reduction in finance costs remains a continued focus, as do operating efficiency initiatives such as savings from consolidation of manufacturing. We expect a positive contribution in the year ahead from these strategic initiatives and a strong order book.

I would like to thank all shareholders for their ongoing support, our staff for their relentless commitment to the Company and our financiers who have supported the Company during these challenging times.



Con Liosatos
Managing Director

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CORPORATE INFORMATION

This annual report covers both Traffic Technologies Ltd (ABN 21 080 415 407) and its subsidiaries. The Group's functional and presentation currency is AUD (\$).

A description of the Group's operations and of its principal activities is included in the operating and financial review in the Directors' Report.

Directors

Mr. Mark Hardgrave

Mr. Con Liosatos

Mr. Tim Fry

Company Secretary & Chief Financial Officer

Mr. Peter Crafter

Registered Office & Principal Place of Business

Traffic Technologies Ltd

31 Brisbane Street

Eltham VIC 3095

Share Register

Computershare Investor Services Pty Limited

Yarra Falls, 452 Johnston Street

Abbotsford VIC 3067

Tel: 1300 850 505

Traffic Technologies Ltd shares are listed on the Australian Securities Exchange (stock code: "TTI").

Lawyers

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Level 25

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Melbourne VIC 3000

Bankers

Westpac Banking Corporation

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150 Collins Street

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Auditors

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727 Collins Street

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Your Directors submit their report for the year ended 30 June 2022.

DIRECTORS

The names and details of the Company's Directors in office during the financial year and until the date of this report are as follows. Directors were in office for the entire period unless otherwise stated.

Mr. Mark W Hardgrave (Age 64) B Com ACA MAICD

Independent Non-Executive Chairman. Appointed January 2013.

Mr. Hardgrave has a corporate advisory and investment management background. He is also a Non-Executive Director of ASX listed company Pental Limited and was previously a Director of ASX-listed Forbidden Foods Limited. He was co-founder and former Joint Managing Director of M&A Partners. Mr. Hardgrave was also previously Chief Executive Officer of Bennelong Group, which specialises in listed equities, property and private equity. Earlier in his career he worked in senior roles in a number of investment groups including Brencorp Group, Merrill Lynch and Thorney Investment Group. Mr. Hardgrave holds a Bachelor of Commerce degree from the University of Queensland. He is a chartered accountant and a member of the Australian Institute of Company Directors. Mr. Hardgrave was appointed non-executive Chairman of the Company in November 2020.

Mr. Con L Liosatos (Age 60) MAICD

Managing Director. Appointed April 2003.

Mr. Liosatos has over 35 years' experience in the construction industry, including over 26 years in the lighting industry specialising in research and design. He also has 18 years' experience in the traffic industry. He has been involved with major design and manufacturing projects for clients such as MCG Lighting, Etihad Stadium, the Melbourne Sport and Aquatic Centre and the Vodafone Arena. He led the VicRoads LED Signals Upgrade, Hong Kong Highways Department (Bus and Roadway Interchange) Upgrade and the WA Main Roads LED Signals Upgrade. Mr. Liosatos has owned and managed a multinational project lighting company, Moonlighting Pty Ltd. Mr. Liosatos has qualifications in Mechanical Design and Lighting Engineering. Mr. Liosatos was Chairman of the ITS World Congress 2016 Sponsorship Committee and is active on Australian Standards AS 2144 and AS 1158. Mr. Liosatos is the Managing Director of Traffic Technologies Ltd. Mr. Liosatos is a member of the Risk and Corporate Governance committees. Mr. Liosatos has not served as a director of any other listed companies during the three years to June 2022.

Mr. Peter Timothy James Fry (Age 58) GAICD

Independent Non-Executive Director. Appointed November 2020.

Mr. Fry is an experienced financial professional with established achievements in enabling operational change and improved business outcomes for both internal and external stakeholders. He is currently Chairman of Delre National Food Group and an independent non-executive director of Cloud Paper Group. Previously he was Group Chief Financial Officer of Noske Logistics Group and then Group Financial Controller of Bulla Dairy Foods. Before relocating from the UK to Australia in 2010, Mr. Fry held senior financial positions in the UK, including as Finance Director of Servomex Group Ltd and Seal Analytical Ltd. He holds an accountancy and finance qualification from the University of Sussex in the UK and is a Graduate Member of the Australian Institute of Company Directors. Mr. Fry is Chairman of the Audit, Risk, Nomination & Remuneration and Corporate Governance committees. Mr. Fry has not served as a director of any other listed companies during the three years to June 2022.

DIRECTORS SKILLS AND EXPERIENCE

The following table shows the skills sets of each of the Board members:

| | Mark Hardgrave | Con Liosatos | Tim Fry |
|-------------------------------------|----------------|--------------|---------|
| Corporate Governance | ■ | ■ | ■ |
| Traffic Management & Infrastructure | | ■ | |
| ASX Listed Companies | ■ | ■ | ■ |
| Human Resources | ■ | ■ | ■ |
| Legal | ■ | ■ | ■ |
| Finance | ■ | ■ | ■ |
| Commercial | ■ | ■ | ■ |
| Manufacture/assembly | | ■ | ■ |
| Government Contracts | | ■ | ■ |
| Information Technology | ■ | ■ | ■ |

COMPANY SECRETARY

Mr. Peter K Crafter (Age 65) LL.B (Hons.) MBA FCA CA MCT FAICD FGIA FCG

Company Secretary and Chief Financial Officer. Appointed Company Secretary March 2004; appointed Chief Financial Officer October 2007.

Mr. Crafter is a Chartered Accountant in both Australia and the UK and qualified Corporate Treasurer with extensive experience in financial management including several years with KPMG and Touche Ross in the United Kingdom. He holds an honours degree in Law from the University of London and an MBA from Heriot-Watt University, Scotland. He was appointed Chief Financial Officer and Company Secretary of Traffic Technologies Ltd in March 2004 and retired as Chief Financial Officer in February 2006. He was reappointed Chief Financial Officer of Traffic Technologies Ltd in October 2007.

SHARE OPTIONS

As at the date of this report, there were no unissued ordinary shares of the Company under option.

DIVIDENDS

The Directors do not recommend the payment of a dividend for the financial year ended 30 June 2022 (2021: Nil).

OPERATING AND FINANCIAL REVIEW

Traffic Technologies is Australia's premier traffic solutions company. Established in 2004 and listed on ASX in 2005, the Company's head office is in Eltham, Victoria with offices in all states of Australia and one office in England.

The Group specialises in "Smart City" control systems, LED road and street lights along with the design, manufacture and installation of traffic signals, traffic controllers, pedestrian countdown timers, electronic road signs, emergency telephones and road lighting products. The Group also supplies a wide range of directional and regulatory traffic signs and traffic control products to road traffic authorities, municipal councils and construction companies. The Group's ITS ('Intelligent Transport Systems') business focuses on the design, development, manufacture and supply of electronic road signage and software systems to customers across Australia.

REVIEW AND RESULTS OF OPERATIONS

A review of the operations and activities of the Company during the financial year and the results of those operations are set out in the Chairman's Letter and the Managing Directors' Operating and Financial Review.

MATERIAL BUSINESS RISKS

The material business risks faced by the Group that could have a significant impact on the financial prospects of the Group and how the Group manages these risks include:

- Supply chain disruption and freight forwarding delays due to the COVID-19 pandemic and associated lockdowns, including disruptions to the worldwide supply chain for electronic and hardware equipment - the Group is actively managing this with our suppliers through prepayments and other initiatives given our strong pipeline of new customer contracts.
- Changes or delays in Federal or State government expenditure on road infrastructure – the Group maintains regular contact with State road authorities to ensure that it can plan the resources required for major projects as far ahead as possible or allow for the deferral of major projects in times of economic slowdown.
- Adverse change in economic conditions affecting demand for the Group's products or services – the Group plans as far ahead as possible to adjust its cost base in times of economic uncertainty.
- Inflationary pressures affecting the cost of raw materials and componentry – the Group constantly monitors its cost base and implements cost savings and operating efficiencies where possible.
- COVID-19 – although there have been supply chain delays, the Group has been able to continue trading during the pandemic having implemented a variety of measures including enhanced hygiene, social distancing, COVID Safe plans and other measures to ensure that it can keep operating.
- Technological obsolescence – the Group works closely with road traffic authorities and incurs significant research and development expenditure to ensure that its products are state-of-the-art and competitive.
- Foreign exchange risk - a decrease in the Australian dollar exchange rate can affect import prices: the Group purchases components from a number of overseas countries denominated in US dollars and other currencies. Conversely, an increase in the Australian dollar exchange rate can affect export opportunities as the Group sells its products to a number of countries around the world. The Group has a foreign exchange exposure through its term loan which is denominated in US dollars and a forward exchange contract has been taken out to hedge its currency exposure.
- Availability of financing facilities – the Group is reliant on the continued availability of its financing facilities in order to conduct its operations. The Group ensures compliance with its facility agreements and negotiates extensions to its financing facilities when required.
- Competition – the Group maintains its competitive position by investing in research and development to ensure its products are state-of-the-art and by ensuring its products are priced competitively.
- Cyber security – the Group is addressing cyber security as part of its risk management strategy in the light of recent well-publicised breaches and increased risk in this area. Measures have included enhanced security over the Group's systems, stronger authentication controls and additional training for all computer users.
- Climate change – the Group is not significantly exposed to climate change issues unless a carbon tax is reintroduced. A significant number of the Group's products use LED technology which is energy saving and reduces greenhouse gas emissions.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

The Company conducted a capital raising in late 2021, raising a total of \$7.2m at 3 cents per share, through a rights issue and placements to sophisticated and institutional investors. Following the capital raising, the Company repaid \$6m of the ADM Capital facility, including interest. The Company refinanced its working capital facilities in February 2022.

SIGNIFICANT EVENTS AFTER REPORTING DATE

Subsequent to balance date there have been no significant events which have affected the operations of the Group.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Likely developments in the operations of the entity and the expected results of those operations are set out in the Chairman's Letter and the Managing Directors' Operating and Financial Review.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group's operations are not regulated by any significant environmental regulations under a law of the Commonwealth or of a State or Territory. There have been no known significant breaches of the Group's compliance with environmental regulations.

INDEMNIFICATION AND INSURANCE OF DIRECTORS, OFFICERS AND AUDITORS

During the year, the Group paid premiums of \$147,400 in respect of a Directors' and Officers' insurance policy insuring Directors and Officers in respect of claims which may be brought against them. The contract of insurance prohibits disclosure of the nature of the liability. The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or any related body corporate against a liability incurred as such by an officer or auditor.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

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REMUNERATION REPORT (AUDITED)

The Company's remuneration policy is to ensure that the level of remuneration paid to key personnel is market competitive and will attract and retain the skills and expertise required.

Non-executive Directors

Total remuneration for non-executive directors for FY22 was \$183,066. Non-executive director remuneration packages comprised only Directors' fees plus statutory superannuation and were set within the limits set out in the Company's constitution. Currently this limit is set at \$400,000 per annum and can only be changed at a general meeting.

Executive Director

Mr. Con Liosatos, Managing Director, received total remuneration of \$536,298 in FY22, including statutory superannuation.

Key Management Personnel

Key Management Personnel (KMP) of the Company are defined as those persons having authority and responsibility for planning, directing and controlling all activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the Company.

Performance-based Remuneration

Performance based components of an executive's remuneration seek to align the executive's reward with the achievement of the Company's long-term objectives and the creation of shareholder value over the short and long term. The relevant performance-based components are a short-term incentive based on the Company's financial performance exceeding budget targets for the financial year and a long-term incentive based on the Company's share price performance exceeding the ASX 300 small ordinaries index for the relevant period.

No performance-based remuneration was paid or payable to key management personnel for the year (2021: nil).

A summary of the Company's performance for the past five years is set out below:

| | 2022 | 2021 | 2020 | 2019 | 2018 |
|--------------------------|---------|-------|------------|---------|---------|
| Net profit/(loss) \$'000 | (\$488) | \$201 | (\$13,829) | \$1,263 | \$6,072 |
| EPS (cents) | (0.08) | 0.04 | (2.87) | 0.26 | 1.88 |
| Share price (cents) | 1.5 | 4.0 | 1.8 | 2.4 | 3.3 |

Employment Contracts

The Managing Director, Mr. Liosatos, and the Company Secretary and Chief Financial Officer, Mr. Peter Crafter, are employed under rolling employment contracts. Employment may be terminated by the giving, by either party, of twelve months' notice, or by the payment or forfeiture of an equivalent amount of pay in lieu of notice from any monies owing. The Company retains the right to terminate the contract at any time without notice in the case of serious misconduct.

Traffic Technologies Ltd
Directors' Report

Interest in Shares

Directors' interests in the shares of the Company were:

| | Balance at 1 July 2021 | Acquired through On-Market Trades | Rights Issue | Balance at 30 June 2022 |
|--------------------|---------------------------|--------------------------------------|-------------------|----------------------------|
| Directors | | | | |
| Mr. Mark Hardgrave | 3,215,054 | 500,000 | 2,250,538 | 5,965,592 |
| Mr. Con Liosatos | 33,726,923 | 1,950,000 | 8,105,714 | 43,782,637 |
| Mr. Tim Fry | - | - | - | - |
| Executive | | | | |
| Mr. Peter Crafter | 10,000 | - | - | 10,000 |
| Total | 36,951,977 | 2,450,000 | 10,356,252 | 49,758,229 |

Transactions with Directors or Director-related entities

An entity associated with the Company's Managing Director, Mr. Con Liosatos has arranged a bank guarantee of \$500,000 to provide security for purchases by the Group from an overseas supplier. The Company has agreed to indemnify the entity in the event that the bank guarantee is called upon by the overseas supplier. After the on-charge of interest costs and bank charges at the same rate, no profit has been made by the related party.

Traffic Technologies Ltd
Directors' Report

REMUNERATION OF KEY MANAGEMENT PERSONNEL

| | Short-term benefits | | | Post-employment benefits | Termination Benefits | Long-term benefits | Share based payments | Total | |
|--|---------------------|--------------------|------------------|--------------------------|----------------------|--------------------------|----------------------|------------------|--------------------------|
| | Salary & fees \$ | Non-monetary \$ | Cash Bonus \$ | Superannuation \$ | | Long service leave \$ | Options \$ | \$ | % Performance related |
| <u>Year to 30 June 2021</u> | | | | | | | | | |
| <i>Non-executive Directors</i> | | | | | | | | | |
| Mr. Mark Hardgrave | 87,847 | - | - | 8,346 | - | - | - | 96,193 | - |
| Mr. Tim Fry (appointed 26 Nov 2020) | 34,354 | - | - | 3,263 | - | - | - | 37,617 | - |
| Mr. Garry Lowrey (retired 25 Nov 2020) | 45,281 | - | - | 4,302 | - | - | - | 49,583 | - |
| <i>Executives</i> | | | | | | | | | |
| Mr. Con Liosatos | 492,962 | 16,759 | - | 25,000 | - | 9,237 | - | 543,958 | - |
| Mr. Peter Crafter | 247,921 | 17,390 | - | 23,552 | - | 4,841 | - | 293,704 | - |
| Total | 908,365 | 34,149 | - | 64,463 | - | 14,078 | - | 1,021,055 | - |
| <u>Year to 30 June 2022</u> | | | | | | | | | |
| <i>Non-executive Directors</i> | | | | | | | | | |
| Mr. Mark Hardgrave | 108,674 | - | - | 10,867 | - | - | - | 119,541 | - |
| Mr. Tim Fry | 57,750 | - | - | 5,775 | - | - | - | 63,525 | - |
| <i>Executives</i> | | | | | | | | | |
| Mr. Con Liosatos | 492,827 | 15,971 | - | 27,500 | - | 10,524 | - | 546,822 | - |
| Mr. Peter Crafter | 247,921 | 19,714 | - | 24,792 | - | 5,349 | - | 297,776 | - |
| Total | 907,172 | 35,685 | - | 68,934 | - | 15,873 | - | 1,027,664 | - |

END OF AUDITED REMUNERATION REPORT

DIRECTORS' MEETINGS

The number of meetings of Directors (including meetings of committees of Directors) held during the financial year and the number of meetings attended by each Director was as follows:

| | Directors' Meetings | | Audit Committee | | Risk Committee | | Nomination & Remuneration Committee | | Corporate Governance Committee | |
|--------------------|---------------------------|-----------------|---------------------------|-----------------|---------------------------|-----------------|-------------------------------------|-----------------|--------------------------------|-----------------|
| | Number eligible to attend | Number attended | Number eligible to attend | Number attended | Number eligible to attend | Number attended | Number eligible to attend | Number attended | Number eligible to attend | Number attended |
| Mr. Mark Hardgrave | 12 | 12 | 2 | 2 | 4 | 4 | 2 | 2 | 1 | 1 |
| Mr. Con Liosatos | 12 | 12 | 2 | 2 | 4 | 4 | 2 | 2 | 1 | 1 |
| Mr. Tim Fry | 12 | 12 | 2 | 2 | 4 | 4 | 2 | 2 | 1 | 1 |

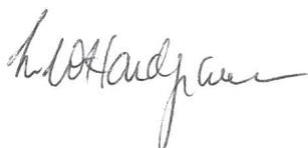
ROUNDING

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

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration in relation to the audit for the financial year is provided immediately following this report.

Signed in accordance with a resolution of the Directors.



Mr. Mark Hardgrave
Independent Non-Executive Chairman
29 August 2022
Melbourne

Grant Thornton Audit Pty Ltd

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Collins Square
727 Collins Street
Melbourne VIC 3008
GPO Box 4736
Melbourne VIC 3001
T +61 3 8320 2222

Auditor's Independence Declaration

To the Directors of Traffic Technologies Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the audit of Traffic Technologies Limited for the year ended 30 June 2022, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.



Grant Thornton Audit Pty Ltd
Chartered Accountants



M J Climpson
Partner

Melbourne, 29 August 2022

www.grantthornton.com.au
ACN-130 913 594

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Traffic Technologies Ltd
Corporate Governance Statement

The Board and management of Traffic Technologies Ltd are committed to conducting the Group's business in an ethical manner and in accordance with the highest standards of corporate governance. The Company has adopted and has substantially complied with the ASX Corporate Governance Principles and Recommendations (Fourth Edition) (**Recommendations**) to the extent appropriate to the size and nature of the Group's operations.

The Company has prepared a statement which sets out the corporate governance practices that were in operation throughout the financial year for the Company, identifies any Recommendations that have not been followed and provides reasons for not following such Recommendations (**Corporate Governance Statement**). The Corporate Governance Statement was approved by the Board on 29 August 2022.

The Company's Corporate Governance Statement is available for review on the Company's website (www.trafficld.com.au).

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Traffic Technologies Ltd and Controlled Entities
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2022

| | Note | Consolidated 2022 \$'000 | Consolidated 2021 \$'000 |
|---|------|--------------------------------|--------------------------------|
| Revenue | 2 | 53,750 | 52,330 |
| Other income | 2 | 120 | 999 |
| Changes in inventories of finished goods and work in progress | | 2,987 | 2,059 |
| Raw materials and consumables used | | (33,840) | (32,151) |
| Employee benefits expense | 3 | (15,803) | (14,900) |
| Occupancy costs | | (1,300) | (1,094) |
| Advertising and marketing expense | | (40) | (34) |
| Other expenses | 3 | (1,811) | (2,675) |
| Depreciation and amortisation expense | 3 | (2,333) | (2,223) |
| Earnings before interest and tax (EBIT) | | 1,730 | 2,311 |
| Finance costs | 3 | (2,214) | (2,106) |
| Net (loss)/profit for the year before income tax | | (484) | 205 |
| Income tax expense | 4 | (4) | (4) |
| Net (loss)/profit for the year | | (488) | 201 |
| Other comprehensive income | | - | - |
| Total comprehensive (loss)/income for the year | | (488) | 201 |
| (Loss)/earnings per share | | Cents | Cents |
| - Basic (cents per share) | 5 | (0.08) | 0.04 |
| - Diluted (cents per share) | 5 | (0.08) | 0.04 |

The accompanying notes form part of these financial statements.

Traffic Technologies Ltd and Controlled Entities
 Consolidated Statement of Financial Position as at 30 June 2022

| | Note | Consolidated 2022 \$'000 | Consolidated 2021 \$'000 |
|---------------------------------------|------|--------------------------------|--------------------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | 18 | 1,012 | 2,602 |
| Trade and other receivables | 6 | 11,774 | 9,927 |
| Inventories | 7 | 15,163 | 12,176 |
| Total Current Assets | | 27,949 | 24,705 |
| Non-Current Assets | | | |
| Property, plant and equipment | 8 | 2,251 | 1,749 |
| Goodwill | 9 | 1,144 | 1,144 |
| Intangible assets | 10 | 10,799 | 9,796 |
| Total Non-Current Assets | | 14,194 | 12,689 |
| TOTAL ASSETS | | 42,143 | 37,394 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Trade and other payables | 11 | 11,285 | 10,724 |
| Interest bearing loans and borrowings | 12 | 12,157 | 11,259 |
| Provisions | 15 | 3,221 | 3,158 |
| Total Current Liabilities | | 26,663 | 25,141 |
| Non-Current Liabilities | | | |
| Interest bearing loans and borrowings | 12 | 861 | 3,709 |
| Provisions | 15 | 233 | 204 |
| Total Non-Current Liabilities | | 1,094 | 3,913 |
| TOTAL LIABILITIES | | 27,757 | 29,054 |
| NET ASSETS | | 14,386 | 8,340 |
| EQUITY | | | |
| Contributed equity | 16 | 61,289 | 54,755 |
| Accumulated losses | | (46,903) | (46,415) |
| TOTAL EQUITY | | 14,386 | 8,340 |

The accompanying notes form part of these financial statements.

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Traffic Technologies Ltd and Controlled Entities
 Consolidated Statement of Changes in Equity
 For the year ended 30 June 2022

| | Contributed Equity \$'000 | Accumulated Losses \$'000 | Total \$'000 |
|---|---------------------------------|---------------------------------|-----------------|
| Consolidated | | | |
| At 1 July 2020 | 54,755 | (46,616) | 8,139 |
| Profit for the year | - | 201 | 201 |
| Other comprehensive income | - | - | - |
| Total comprehensive income for the year | - | 201 | 201 |
| At 30 June 2021 | 54,755 | (46,415) | 8,340 |
| Loss for the year | - | (488) | (488) |
| Other comprehensive income | - | - | - |
| Total comprehensive income for the year | - | (488) | (488) |
| Transactions with owners in their capacity as owners: | | | |
| Placement | 2,170 | - | 2,170 |
| Rights issue | 3,400 | - | 3,400 |
| Shortfall placement | 1,629 | - | 1,629 |
| Share issue costs | (665) | - | (665) |
| At 30 June 2022 | 61,289 | (46,903) | 14,386 |

The accompanying notes form part of these financial statements.

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Traffic Technologies Ltd and Controlled Entities
 Consolidated Statement of Cash Flows
 For the year ended 30 June 2022

| | Note | Consolidated 2022 \$'000 | Consolidated 2021 \$'000 |
|--|------|--------------------------------|--------------------------------|
| Cash flows from operating activities | | | |
| Receipts from customers | | 56,746 | 55,596 |
| Payments to suppliers and employees | | (55,624) | (53,344) |
| Interest received | | - | 12 |
| Interest paid | | (1,686) | (1,389) |
| Income tax paid | | (4) | (4) |
| Acquisition costs | | - | (9) |
| Net cash from operating activities | 18 | (568) | 862 |
| Cash flows from investing activities | | | |
| Proceeds from sale of plant and equipment | | 29 | 56 |
| Purchase of property, plant and equipment | | (173) | (247) |
| Purchase of intangible assets | | (2,193) | (1,824) |
| Purchase of businesses | | (762) | (764) |
| Net cash from investing activities | | (3,099) | (2,779) |
| Cash flows from financing activities | | | |
| Proceeds from issues of equity securities | | 7,198 | - |
| Transaction costs relating to issues of equity securities | | (665) | - |
| Proceeds from borrowings | | 7,857 | 1,726 |
| Repayment of borrowings | | (11,039) | (44) |
| Repayment of finance leases | | (953) | (799) |
| Payment of borrowing costs | | (321) | - |
| Net cash from financing activities | | 2,077 | 883 |
| Net decrease in cash and cash equivalents | | (1,590) | (1,034) |
| Cash and cash equivalents at beginning of the financial year | | 2,602 | 3,636 |
| Cash and cash equivalents at end of the financial year | 18 | 1,012 | 2,602 |

The accompanying notes form part of these financial statements.

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Traffic Technologies Ltd and Controlled Entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2022

Traffic Technologies Ltd (the Company) is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Preparation

This financial report is a general-purpose financial report that has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and AASB Interpretations. The consolidated financial statements of Traffic Technologies Ltd and its subsidiaries also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. The financial report has been prepared on an accruals basis and under the historical cost convention.

The financial report covers Traffic Technologies Ltd and its subsidiaries (the Group). Traffic Technologies Ltd is a for profit Australian listed public company limited by shares, incorporated and domiciled in Australia. The nature and operations and principal activities of the Group are described in the Directors' Report. The following is a summary of material accounting policies adopted by the Group in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

b) New Standards Adopted by the Group

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

c) Going concern

The financial statements have been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. Accordingly, the financial statements do not include any adjustments relating to the recoverability and classification of recorded assets or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern, except for the classification of the ADM and First Samuel loan facilities as current liabilities.

The ADM loan facility falls due on 30 September 2022 and the First Samuel loan facility falls due on 18 October 2022. Because this is less than 12 months after the balance date of 30 June 2022, there is material uncertainty that may cast significant doubt whether the Group can continue as a going concern if this loan is not refinanced by that date.

In assessing the appropriateness of the going concern concept the following factors have been taken into consideration by the Directors:

- The consolidated entity was able to continue trading throughout COVID-19 lockdown periods.
- The consolidated entity is expected to continue to generate positive earnings before interest, tax, depreciation and amortisation (EBITDA) in the 2023 financial year.
- The Directors are working on a strategy to refinance the remaining debt facilities with ADM Capital and First Samuel.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Basis of consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent (Traffic Technologies Ltd) and all of the subsidiaries. Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

Business combinations are accounted for using the acquisition method. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in the statement of comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Transaction costs incurred in relation to business combinations are recognised as expenses in profit or loss when incurred. The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

e) Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and other factors it believes to be reasonable under the circumstances. Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Impairment testing of non-financial assets

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include product and manufacturing performance, technology, economic and political environments and future product and service delivery expectations. If an impairment trigger exists the recoverable amount of the asset is determined. Goodwill and intangible assets that are not yet available for use are tested annually, or more frequently if events or changes in circumstances indicate impairment. Impairment testing involves value in use calculations, which incorporate a number of key estimates and assumptions.

Capitalised development costs

Development costs are only capitalised by the Group when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

The Group's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised in the statement of financial position. Deferred tax assets, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. Judgements are also required about the application of income tax legislation.

Allowance for impairment loss on receivables

Where receivables are outstanding beyond the normal trading terms, the likelihood of recovery of these receivables is assessed by management. Debts that are considered to be uncollectible are written off when identified.

Estimation of useful lives of assets

The estimation of useful lives of assets has been based on historical experience (for plant and equipment), lease terms (for leased equipment) and turnover policies (for motor vehicles). In addition, the condition of assets is assessed at least once a year and considered against the remaining useful life. Adjustments to useful life are made when considered necessary. Any change in the useful life or residual lives is treated as a change in accounting estimate and recognised in the statement of comprehensive income.

Maintenance warranties

In determining the level of the provision required for warranties, the Group has made judgements in respect of the expected performance of the products and any liability resulting from installation works. Historical experience and current knowledge of the performance of products has been used in determining this provision.

f) Revenue

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Sale of goods

Revenue from sale of goods is recognised when control of the goods is transferred to the customer at an amount that reflects the consideration to which the Group expected to be entitled in exchange for those goods.

Rendering of services

Revenue is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided (performance obligations satisfied over time). When the contract outcome cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Interest income

Interest income is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Finance and other income

Finance and other income are recognised when the right to receive the income is established.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Finance costs

Finance costs are recognised according to the effective interest rate method which is the rate that discounts estimated future cash payments through the estimated life of the financial liability to the amortised cost of the financial liability.

h) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. Current income tax expense charged to profit or loss is the tax payable on taxable income. Current and deferred income tax expense/(income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences, to the extent that is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits can be utilised. The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

i) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

j) Trade and other receivables

The Group makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance at the amount equal to the expected lifetime credit losses. In using this practical expedient, the Group uses its historical experience, external indicators and forward-looking information to calculate expected credit losses using a provision matrix. The Group assesses impairment of trade receivables on a collective basis as they possess credit risk characteristics based on the number of days past due. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

k) Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- *Raw materials* – purchase cost on a first-in, first-out basis.
- *Finished goods and work-in-progress* – cost of direct materials and labour and a proportion of variable and fixed manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation.

Depreciation is calculated on a straight-line basis over the estimated useful life of the specific assets as follows:

| | 2022 | 2021 |
|---------------------|---------------|---------------|
| Right-of-use assets | Lease term | - |
| Plant and equipment | 1 to 15 years | 1 to 15 years |

m) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include product and manufacturing performance, technology, economic and political environments and future product and service delivery expectations. If an impairment exists the recoverable amount of the asset is determined. Impairment testing involves value in use calculations, which incorporate a number of key estimates and assumptions.

n) Impairment of goodwill

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

o) Intangible assets

Intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses.

Development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefit from the related project which is generally 5 years (2021: 5 years). The amortisation is recognised in the statement of comprehensive income in the line item 'depreciation and amortisation expense'.

Software costs

Software costs are carried at cost less any accumulated amortisation and any accumulated impairment losses. Purchased software development is assessed to have a finite life and is amortised over a period of 1-4 years (2021: 1-4 years).

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Patents and trademarks

Patents and trademarks are initially measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Patents and trademarks are assessed to have a finite life and are amortised over a period of 5 years (2021: 5 years).

p) Impairment testing of intangible assets

Intangible assets that are not yet available for use are not subject to amortisation but are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Assets have been allocated to the signals and controllers cash-generating units.

q) Trade and other payables

Trade and other payables are carried at amortised cost due to their short-term nature and are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 60 days of recognition. Trade payables are non-interest bearing and are normally settled on 30–60-day terms.

r) Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the interest-bearing loans and borrowings. Interest-bearing loans and borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after balance date.

s) Leases

For any new contracts entered into, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Group assesses whether the contract meets three key evaluations which are whether:

- The contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group.
- The Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract.
- The Group has the right to direct the use of the identified asset throughout the period of use. The Group assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group depreciates right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease, if that rate is readily available, or the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

t) Derivative financial instruments

Derivatives are only used for economic hedging purposes and not speculative instruments. Derivatives are classified as held for trading and accounted for at fair value through profit or loss unless they are designated as hedges. They are presented as current assets or liabilities if they are expected to be settled within 12 months after the end of the reporting year. Because the derivatives used by the Group are not traded in an active market, fair value is determined using valuation techniques which maximise the use of observable market data and do not rely on entity-specific estimates. The fair value of foreign currency forward contracts is determined using forward exchange rates at balance sheet date. The fair value of derivatives is estimated at the amount that the Group would receive or pay to terminate the contract at the end of the reporting period taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

u) Provisions

Employee benefits

Provision is made for the Group's obligation for short-term employee benefits. Short-term employee benefits are benefits that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service. Provision is made for employees' long service leave entitlements not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service; such long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the Group does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

Warranty provision

A provision has been recognised for expected warranty claims on products supplied by the Group, based on current sales levels, current information available about past returns and repairs and the warranty period for products sold. Based on past experience, the Group does not expect the full balance of the current provision to be settled within 12 months. However, as the Group does not have an unconditional right of deferral, the balance is presented as current.

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2. REVENUE

| | Consolidated 2022 \$'000 | Consolidated 2021 \$'000 |
|--|--------------------------------|--------------------------------|
| Revenue | | |
| Sale of goods – recognised at point in time | 48,927 | 47,424 |
| Sale of services – recognised over period of time | 4,685 | 4,846 |
| Other revenue | 138 | 60 |
| Revenue from contracts with customers | <u>53,750</u> | <u>52,330</u> |
| Other income | | |
| Net profit/(loss) on disposal of fixed assets | 21 | (7) |
| Net exchange gain on foreign currency borrowings | - | 420 |
| Cash boost (COVID-19 Federal Government incentive) | - | 500 |
| Other income | 99 | 86 |
| Total other income | <u>120</u> | <u>999</u> |

3. EXPENSES

| | Consolidated 2022 \$'000 | Consolidated 2021 \$'000 |
|---|--------------------------------|--------------------------------|
| Employee related expenses | | |
| Wages and salaries | 11,874 | 11,174 |
| Superannuation (defined contribution) | 1,186 | 1,078 |
| Other employee benefits expense | 2,743 | 2,648 |
| | <u>15,803</u> | <u>14,900</u> |
| Other expenses | | |
| Administrative costs | 1,496 | 1,693 |
| Public company costs | 315 | 350 |
| Impairment loss on financial assets | - | 164 |
| Loss on derivatives held for trading | - | 468 |
| | <u>1,811</u> | <u>2,675</u> |
| Depreciation and amortisation expenses | | |
| Depreciation | 1,142 | 1,011 |
| Amortisation | 1,191 | 1,212 |
| Total depreciation and amortisation expenses | <u>2,333</u> | <u>2,223</u> |
| Finance costs | | |
| Interest on loans | 1,758 | 1,908 |
| Lease interest | 135 | 166 |
| Borrowing costs | 321 | 32 |
| Total finance costs | <u>2,214</u> | <u>2,106</u> |

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4. INCOME TAX

| | Consolidated 2022 \$'000 | Consolidated 2021 \$'000 |
|--|--------------------------------|--------------------------------|
| Income Tax Expense | | |
| The major components of income tax expense are: | | |
| Statement of Comprehensive Income | | |
| <i>Current income tax</i> | | |
| Current income tax charge | 4 | 4 |
| <i>Deferred income tax</i> | | |
| Relating to origination and reversal of temporary differences | - | - |
| Income tax expense reported in the statement of comprehensive income | <u>4</u> | <u>4</u> |

**Reconciliation of aggregate tax expense and tax expense
 calculated per the statutory tax rate**

| | | |
|--|----------|----------|
| Accounting profit/(loss) before income tax | (484) | 205 |
| Income tax expense/(benefit) at the Group's statutory income tax rate of 30% (2021: 30%) | (145) | 61 |
| Non-deductible expenditure | 23 | 24 |
| Non-assessable income | - | (150) |
| Non-refundable foreign tax | 4 | 4 |
| Prior year under/over provision | (61) | (45) |
| Net benefit of R&D tax incentive | 486 | 296 |
| Set-off of deferred tax liability | (188) | (186) |
| Recognition of previously unrecognised tax losses | (115) | - |
| Aggregate income tax expense | <u>4</u> | <u>4</u> |

| Deferred Tax Balances | Statement of Financial Position | | Statement of Profit or Loss | |
|--|---------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | Consolidated 2022 \$'000 | Consolidated 2021 \$'000 | Consolidated 2022 \$'000 | Consolidated 2021 \$'000 |
| <i>Temporary differences</i> | | | | |
| Intangible assets | (2,614) | (2,430) | (184) | (113) |
| Right of use assets | 15 | 27 | (12) | (5) |
| Plant and equipment | (93) | (103) | 10 | 60 |
| Inventory | 76 | 95 | (19) | 35 |
| Employee provisions | 1,022 | 1,080 | (58) | 153 |
| Warranty provisions | 14 | 14 | - | - |
| Credit notes | 18 | 17 | 1 | 12 |
| Prepayments | (4) | - | (4) | - |
| Doubtful debts | 32 | 32 | - | (177) |
| Foreign exchange | - | - | - | 3 |
| Other capital expenditure | 40 | 40 | - | (169) |
| Other accruals and provisions | 118 | 41 | 77 | 15 |
| Deferred tax liability | <u>(1,376)</u> | <u>(1,187)</u> | <u>(189)</u> | <u>(186)</u> |
| Set-off of deferred tax assets and liabilities | 1,376 | 1,187 | 189 | 186 |
| Net deferred tax assets and liabilities | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

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4. INCOME TAX (continued)

| | Consolidated 2022 \$'000 | Consolidated 2021 \$'000 |
|--|--------------------------------|--------------------------------|
| The following tax losses have not been recognised as a deferred tax asset: | | |
| Tax losses – revenue | - | 1,202 |
| Tax losses – capital | - | - |
| Potential tax benefit at 30.0% | - | 361 |
| Carried forward tax offsets | 1,280 | 890 |
| Unrecognised deferred tax assets | 1,280 | 1,251 |

Tax Consolidation

Traffic Technologies Ltd and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 July 2005 and are therefore taxed as a single entity from that date. The head entity within the tax consolidated group is Traffic Technologies Ltd. Each wholly owned subsidiary of Traffic Technologies Ltd is a member of the tax consolidated group, as identified at note 20.

Tax Funding Arrangements and Tax Sharing Agreements

The Group has entered into a tax funding agreement that sets out its funding obligations of the tax consolidated group in respect of tax amounts. Contributions to fund the current tax liabilities are payable in accordance with the tax funding agreement and reflect the timing of the head entity's obligation to make payments for the tax liabilities to the relevant taxation authority.

5. EARNINGS PER SHARE

Basic earnings per share is calculated as net profit/(loss) attributable to members of the parent entity divided by the weighted average number of ordinary shares. Diluted earnings per share is calculated as net profit/loss attributable to members of the parent entity divided by the weighted average number of ordinary shares and dilutive potential ordinary shares. The following reflects the income and share data used in the basic and diluted earnings per share computations:

| | Consolidated 2022 \$'000 | Consolidated 2021 \$'000 |
|---|-----------------------------------|-----------------------------------|
| Earnings used in calculating earnings per share | | |
| For basic and diluted earnings per share: | | |
| Net (loss)/profit attributable to ordinary equity holders of the parent | (488) | 201 |
| Weighted average number of shares | | |
| | Consolidated 2022 Thousands | Consolidated 2021 Thousands |
| Weighted average number of ordinary shares used in calculating basic earnings per share | 620,218 | 482,225 |
| Weighted average number of ordinary shares adjusted for the effect of dilution | 620,218 | 482,225 |

There are no instruments excluded from the calculation of diluted earnings per share that could potentially dilute earnings per share in the future because they are anti-dilutive for 2022 (2021: nil).

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6. TRADE AND OTHER RECEIVABLES

| | Consolidated 2022 \$'000 | Consolidated 2021 \$'000 |
|---|--------------------------------|--------------------------------|
| Trade receivables | 9,418 | 7,165 |
| Allowance for impairment loss | (106) | (104) |
| | <hr/> 9,312 | <hr/> 7,061 |
| Prepaid stock | 1,447 | 1,899 |
| Other prepayments | 697 | 577 |
| Other receivables | 318 | 390 |
| | <hr/> 11,774 | <hr/> 9,927 |
| Ageing of trade receivables: | | |
| Due within 30 days | 5,857 | 5,471 |
| Overdue up to 30 days | 2,469 | 1,529 |
| Overdue more than 30 days | 1,092 | 165 |
| | <hr/> 9,418 | <hr/> 7,165 |
| Movement in provision for impairment loss: | | |
| Balance at the beginning of the year | 104 | 397 |
| Charge for the year | 2 | 164 |
| Amounts written off as uncollectible | - | (457) |
| Balance at the end of the year | <hr/> 106 | <hr/> 104 |

7. INVENTORIES

| | Consolidated 2022 \$'000 | Consolidated 2021 \$'000 |
|------------------|--------------------------------|--------------------------------|
| Raw materials | 6,501 | 4,934 |
| Work in progress | 284 | 172 |
| Sub-assemblies | 2,234 | 1,894 |
| Finished goods | 6,144 | 5,176 |
| | <hr/> 15,163 | <hr/> 12,176 |

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8. PROPERTY, PLANT AND EQUIPMENT

| Consolidated | Right-of-Use Assets Equipment \$'000 | Right-of-Use Assets Property \$'000 | Plant & Equipment \$'000 | Total \$'000 |
|----------------------------------|---|--|--------------------------------|-----------------|
| Movement in carrying amounts | | | | |
| At 1 July 2020 net book value | 351 | 1,118 | 850 | 2,319 |
| Acquisition of businesses | 50 | - | 166 | 216 |
| Additions | 68 | 62 | 158 | 288 |
| Disposals | (59) | - | (4) | (63) |
| Depreciation expense | (95) | (689) | (227) | (1,011) |
| At 30 June 2021 net book value | 315 | 491 | 943 | 1,749 |
| Additions | 435 | 1,044 | 173 | 1,652 |
| Disposals | (7) | - | (1) | (8) |
| Depreciation expense | (115) | (792) | (235) | (1,142) |
| At 30 June 2022 net book value | 628 | 743 | 880 | 2,251 |
| Carrying amounts | | | | |
| At 30 June 2021 | | | | |
| Cost | 640 | 2,037 | 8,439 | 11,116 |
| Accumulated depreciation | (325) | (1,546) | (7,496) | (9,367) |
| Carrying amounts at 30 June 2021 | 315 | 491 | 943 | 1,749 |
| At 30 June 2022 | | | | |
| Cost | 1,068 | 2,492 | 8,456 | 12,016 |
| Accumulated depreciation | (440) | (1,749) | (7,576) | (9,765) |
| Carrying amounts at 30 June 2022 | 628 | 743 | 880 | 2,251 |

The Group's property, plant and equipment is pledged as security against the Group's borrowings - see note 12.
Leased assets are pledged as security for the related lease liabilities – see note 13.

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9. GOODWILL

| | Consolidated 2022 \$'000 | Consolidated 2021 \$'000 |
|---|--------------------------------|--------------------------------|
| Carrying amounts of goodwill allocated to each cash-generating unit | | |
| <u>Signals</u> | | |
| Carrying amount brought forward | 18 | - |
| Acquisition | - | 18 |
| Carrying amount carried forward | <u>18</u> | <u>18</u> |
| <u>Installation and maintenance</u> | | |
| Carrying amount brought forward | 1,126 | - |
| Acquisition | - | 1,126 |
| Carrying amount carried forward | <u>1,126</u> | <u>1,126</u> |
| Total carrying amount | <u>1,144</u> | <u>1,144</u> |

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. The Group conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

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10. INTANGIBLE ASSETS

| Consolidated | Development Costs \$'000 | Software Costs \$'000 | Patents & Trademarks \$'000 | Total \$'000 |
|----------------------------------|-----------------------------|--------------------------|-----------------------------------|-----------------|
| Movement in carrying amounts | | | | |
| At 1 July 2020 net book value | 9,109 | 22 | 46 | 9,177 |
| Acquisition of businesses | - | 7 | - | 7 |
| Additions | 1,630 | 176 | 18 | 1,824 |
| Amortisation | (1,019) | (165) | (28) | (1,212) |
| At 30 June 2021 net book value | 9,720 | 40 | 36 | 9,796 |
| Additions | 2,015 | 156 | 23 | 2,194 |
| Amortisation | (994) | (175) | (22) | (1,191) |
| At 30 June 2022 net book value | 10,741 | 21 | 37 | 10,799 |
| Carrying amounts | | | | |
| At 30 June 2021 | | | | |
| Cost | 18,946 | 2,152 | 549 | 21,647 |
| Accumulated amortisation | (9,226) | (2,112) | (513) | (11,851) |
| Carrying amounts at 30 June 2021 | 9,720 | 40 | 36 | 9,796 |
| At 30 June 2022 | | | | |
| Cost | 20,961 | 2,308 | 573 | 23,842 |
| Accumulated amortisation | (10,220) | (2,287) | (536) | (13,043) |
| Carrying amounts at 30 June 2022 | 10,741 | 21 | 37 | 10,799 |

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10. INTANGIBLE ASSETS (continued)

Goodwill and intangible assets that are not yet available for use are not subject to amortisation but are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

The recoverable amount of each cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budget forecasts prepared by management covering a one-year period, with the following key assumptions:

| | 2022 | 2021 |
|--|-------|-------|
| Growth rate beyond budget period (years 2-5) | 5% | 5% |
| Growth rate beyond 5 years | 3% | 3% |
| Pre-tax discount rate (WACC) | 13.3% | 14.1% |

The key assumptions used in the value in impairment calculations represent management's best estimates at 30 June 2022. There are no reasonably possible changes in any of the key assumptions that would result in an impairment write-down in each cash-generating unit.

The Group performed impairment testing at 30 June 2022 and 30 June 2021. Management has considered the sensitivity of value in use calculations to changes in assumptions. There was no impairment of intangible assets at those dates.

11. TRADE AND OTHER PAYABLES

| | Consolidated 2022 \$'000 | Consolidated 2021 \$'000 |
|-------------------------------|--------------------------------|--------------------------------|
| Trade creditors | 6,927 | 5,539 |
| Sundry creditors and accruals | 4,358 | 5,185 |
| | <u>11,285</u> | <u>10,724</u> |

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12. INTEREST BEARING LOANS AND BORROWINGS

| | Consolidated 2022 \$'000 | Consolidated 2021 \$'000 |
|---|--------------------------------|--------------------------------|
| Current borrowings | | |
| Term facility (ADM Capital) | 1,274 | 6,274 |
| Note facility (First Samuel) | 3,500 | - |
| Debtor & trade finance facility (Timelio) | 6,907 | - |
| Debtor & trade finance facility (Octet Finance) | - | 4,382 |
| Equipment lease liabilities | 113 | 107 |
| Property lease liabilities | 363 | 496 |
| | <u>12,157</u> | <u>11,259</u> |
| Non-current borrowings | | |
| Note facility (First Samuel) | - | 3,500 |
| Equipment lease liabilities | 431 | 124 |
| Property lease liabilities | 430 | 85 |
| | <u>861</u> | <u>3,709</u> |
| Financing facilities available | | |
| <i>Total facilities at reporting date</i> | | |
| Term debt facility (ADM Capital) | 1,274 | 6,274 |
| Debtor & trade finance facility (Timelio) | 9,000 | - |
| Debtor & trade finance facility (Octet) | - | 5,500 |
| Note facility (First Samuel) | 3,500 | 3,500 |
| Bank guarantee facility (Westpac) | 265 | 265 |
| | <u>14,039</u> | <u>15,539</u> |
| <i>Facilities used at reporting date</i> | | |
| Term debt facility (ADM Capital) | 1,274 | 6,274 |
| Debtor & trade finance facility (Timelio) | 6,907 | - |
| Debtor & trade finance facility (Octet) | - | 4,382 |
| Note facility (First Samuel) | 3,500 | 3,500 |
| Bank guarantee facility (Westpac) | 181 | 153 |
| | <u>11,862</u> | <u>14,309</u> |
| <i>Facilities unused at reporting date</i> | | |
| Term debt facility (ADM Capital) | - | - |
| Debtor & trade finance facility (Timelio) | 2,093 | - |
| Debtor & trade finance facility (Octet) | - | 1,118 |
| Note facility (First Samuel) | - | - |
| Bank guarantee facility (Westpac) | 84 | 112 |
| | <u>2,177</u> | <u>1,230</u> |

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12. INTEREST BEARING LOANS AND BORROWINGS (continued)

Terms and conditions relating to the above financial instruments

| | | | |
|-----------------------|---|---|----------------------|
| Lender | ADM Capital | Timelio | First Samuel |
| Facility Amount (AUD) | \$1.3m | \$9.0m | \$3.5m |
| Facility Type | Term loan | Debtor & trade finance | Note deed |
| Interest | 19% | 8.9% + fees | 11% |
| Expiry | 30 September 2022 | No fixed term expiry | 18 October 2022 |
| Security | First ranking charge Second ranking charge over trade receivables | Second ranking charge First ranking charge over trade receivables | Third ranking charge |
| Currency of loan | USD | AUD | AUD |
| Hedging | FX Derivative (see note 14) | - | - |

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13. LEASE LIABILITIES

| | Consolidated 2022 \$'000 | Consolidated 2021 \$'000 |
|--|--------------------------------|--------------------------------|
| Current | | |
| Equipment leases | 113 | 107 |
| Property leases | 363 | 496 |
| | <u>476</u> | <u>603</u> |
| Non-current | | |
| Equipment leases | 431 | 124 |
| Property leases | 430 | 85 |
| | <u>861</u> | <u>209</u> |
| Total | <u>1,337</u> | <u>812</u> |
| Lease liability commitments payable | | |
| Less than one year | 589 | 658 |
| Later than one year but less than five years | 947 | 224 |
| | <u>1,536</u> | <u>882</u> |
| Less future finance charges | (199) | (70) |
| Total lease liabilities | <u>1,337</u> | <u>812</u> |

Lease payments not recognised as a liability

The Group has elected not to recognise a lease liability for short-term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. The expense relating to payments not included in the measurement of the lease liability is as follows:

| | Consolidated 2022 \$'000 | Consolidated 2021 \$'000 |
|-----------------------------------|--------------------------------|--------------------------------|
| Short-term property lease expense | 767 | 631 |

14. DERIVATIVE FINANCIAL INSTRUMENT

| | 2022 \$'000 | 2021 \$'000 |
|---|----------------|----------------|
| Derivative financial liability for foreign currency forward contracts | - | - |

The derivative financial instrument is used to hedge the foreign currency exposure on the loan from ADM Capital (refer note 12). There was no liability at 30 June 2022 (2021: nil) because the derivative financial instrument was extinguished on balance date.

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15. PROVISIONS

| | Consolidated 2022 \$'000 | Consolidated 2021 \$'000 |
|--------------------|--------------------------------|--------------------------------|
| Current | | |
| Employee benefits | 3,174 | 3,111 |
| Warranty provision | 47 | 47 |
| | <hr/> 3,221 | <hr/> 3,158 |
| Non-current | | |
| Employee benefits | 233 | 204 |
| | <hr/> 233 | <hr/> 204 |

16. CONTRIBUTED EQUITY

| | No. of Shares '000 | \$'000 |
|----------------------------|-----------------------|--------------|
| Ordinary shares | | |
| At 30 June 2021 | 482,225 | 54,755 |
| Placement | 72,333 | 2,170 |
| Rights issue | 113,320 | 3,400 |
| Shortfall placement | 54,292 | 1,629 |
| Share issue costs | - | (665) |
| | <hr/> 722,170 | <hr/> 61,289 |
| At 30 June 2022 | <hr/> 722,170 | <hr/> 61,289 |

Ordinary shares have the right to receive dividends as declared and, in the event of a winding up of the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

a) Placement

On 3 November 2021 the Company completed a placement to sophisticated and institutional investors of ordinary shares at an issue price of \$0.03 per share, with such shares issued on and ranking for dividends after 10 November 2021.

b) Rights issue

On 3 December 2021 the Company completed a rights issue at an issue price of \$0.03 per share on the basis of seven shares for every ten fully paid ordinary shares held, with such shares issued on and ranking for dividends after 10 December 2021.

c) Shortfall placement

On 10 December 2021 the Company completed a placement to sophisticated and institutional investors of ordinary shares following the rights issue at an issue price of \$0.03 per share, with such shares issued on and ranking for dividends after 15 December 2021.

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17. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial risk management objectives and policies

The Group's principal financial instruments comprise term loan facilities, debtor and trade finance facilities, equipment and property leases, hire purchase contracts, forward contracts to purchase foreign currency and cash and short-term deposits. The totals for each category of financial instruments are as follows:

| | Consolidated 2022 \$'000 | Consolidated 2021 \$'000 |
|---|--------------------------------|--------------------------------|
| Financial assets | | |
| Cash and cash equivalents | 1,012 | 2,602 |
| Trade and other receivables | 11,854 | 9,927 |
| Total financial assets | <u>12,866</u> | <u>12,529</u> |
| Financial liabilities | | |
| Trade and other payables | (11,365) | (10,724) |
| Financial liabilities at amortised cost | (13,018) | (14,968) |
| Total financial liabilities | <u>(24,383)</u> | <u>(25,692)</u> |

Fair values

The carrying amount of financial assets and liabilities recorded in the financial statements represents their respective fair values, determined in accordance with the accounting policies disclosed in note 1 to the financial statements.

The Group manages its exposure to key financial risks, including interest rate and currency risk in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security. The Group has various financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. It is the Group's policy that no trading in financial instruments shall be undertaken. The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective fair values. The main risks arising from the Group's financial instruments are interest rate risk, credit risk, liquidity risk and foreign currency risk.

Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's long-term debt obligations. At balance date the Group had the following financial assets and liabilities exposed to market interest rate risk:

| | Consolidated 2022 \$'000 | Consolidated 2021 \$'000 |
|------------------------------|--------------------------------|--------------------------------|
| Financial assets | | |
| Cash and cash equivalents | 1,012 | 2,602 |
| Total financial assets | <u>1,012</u> | <u>2,602</u> |
| Financial liabilities | | |
| Loan facilities | (4,774) | (9,774) |
| Debtor and trade finance | (6,907) | (4,382) |
| Equipment lease liabilities | (544) | (231) |
| Property lease liabilities | (793) | (581) |
| Total financial liabilities | <u>(13,018)</u> | <u>(14,968)</u> |

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17. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long-term debt and debtor and trade finance obligations. At 30 June 2022 47% of the Group's borrowings were at a fixed rate of interest (2021: 71%). Details of the Group's debt are disclosed in note 12.

The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing, alternative hedging positions and the mix of fixed and variable interest rates.

Credit risk

The Group trades only with recognised, creditworthy third parties and, as such, collateral is not requested nor is it the Group's policy to securitise its trade and other receivables. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation.

Risk limits are set for each individual customer in accordance with parameters set by the Board. These risk limits are regularly monitored.

Receivables balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of senior management.

There are no significant concentrations of credit risk within the Group.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of current working capital, term loans, debtor and trade finance and lease liabilities.

Maturity analysis of financial liabilities

| | ≤ 6 months \$'000 | 6-12 months \$'000 | 1 – 5 years \$'000 | > 5 years \$'000 | Total \$'000 |
|-------------------------------------|-------------------------|--------------------------|--------------------------|------------------------|-----------------|
| Year ended 30 June 2022 | | | | | |
| Payables | 11,285 | - | - | - | 11,285 |
| Interest bearing loans & borrowings | 12,220 | 363 | 385 | - | 12,968 |
| Finance lease liabilities | 589 | 474 | 474 | - | 1,537 |
| Bank guarantees | - | - | 181 | - | 181 |
| Total financial liabilities | 24,094 | 837 | 1,040 | - | 25,971 |
| Year ended 30 June 2021 | | | | | |
| Payables | 10,724 | - | - | - | 10,724 |
| Interest bearing loans & borrowings | 11,377 | 423 | 3,705 | - | 15,505 |
| Finance lease liabilities | 329 | 329 | 224 | - | 882 |
| Bank guarantees | - | - | 153 | - | 153 |
| Total financial liabilities | 22,430 | 752 | 4,082 | - | 27,264 |

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 For the year ended 30 June 2022

17. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign exchange risk

Exposure to foreign exchange risk arises where the Group purchases certain components denominated in foreign currency. The Group's borrowing facility with ADM Capital is denominated in US dollars. To manage the risk associated with the exposure of this balance to exchange rate fluctuations the Group entered into a foreign currency forward contract. This foreign currency forward contract is accounted for as held for trading with gains (losses) recognised in the statement of comprehensive income. The exchange gain or loss on foreign currency transactions is recognised directly in the statement of comprehensive income. The Group's exposure to foreign currency risk on its foreign currency borrowings and associated forward exchange contracts, expressed in Australian dollars, was as follows:

| | 2022 | 2021 |
|---|--------|--------|
| | \$'000 | \$'000 |
| ADM Capital - Loan (USD exposure) | 1,274 | 6,274 |
| Forward exchange contracts (USD exposure) | - | - |

Sensitivity Analysis

At 30 June 2022 53% of the Group's borrowings were at a variable rate of interest (2021: 29%). If interest rates were to increase or decrease by 1%, the net change in finance costs would be approximately \$35,000 (2021: \$21,000).

The Group is primarily exposed to changes in the US dollar exchange rate. The sensitivity of profit or loss to changes in the exchange rates arises mainly from US dollar-denominated financial instruments is illustrated in the table below.

| | 2022 | 2021 |
|---|--------|--------|
| | \$'000 | \$'000 |
| <i>Impact on post tax profit and equity</i> | | |
| US/\$exchange rate – increase 5% | (100) | (447) |
| US/\$exchange rate – decrease 5% | 86 | 391 |

The Group has taken out a forward exchange contract to hedge its foreign currency exposure associated with the US dollar denominated loan from ADM Capital (see note 14).

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Traffic Technologies Ltd and Controlled Entities
 Notes to the Consolidated Financial Statements
 For the year ended 30 June 2022

18. NOTES TO THE STATEMENT OF CASH FLOWS

| Reconciliation of cash | Consolidated 2022 \$'000 | Consolidated 2021 \$'000 |
|---|--------------------------------|--------------------------------|
| Cash at bank and on hand | 1,012 | 2,602 |
| Reconciliation of (loss)/profit after tax to net cash flows from operations | | |
| Net (loss)/profit | (488) | 201 |
| Adjustments for: | | |
| Depreciation, amortisation of non-current assets | 2,333 | 2,223 |
| (Profit)/loss on sale of fixed assets | (21) | 7 |
| Foreign exchange gain | (7) | (265) |
| Amortisation of capitalised borrowing costs | - | 32 |
| Doubtful debts expense | - | 164 |
| Stock obsolescence (benefit)/expense | (64) | 53 |
| Changes in assets and liabilities: | | |
| (Increase)/decrease in trade and other receivables | (2,299) | (2,063) |
| (Increase)/decrease in inventories | (2,987) | (2,059) |
| Increase/(decrease) in trade and other payables | 2,874 | 2,140 |
| Increase/(decrease) in provisions | 91 | 429 |
| Net cash from operating activities | (568) | 862 |

Non-cash financing and investing activities

During the year the Group acquired property, plant and equipment (excluding right-of-use assets) with an aggregate value of \$435,012 (2021: \$43,000) by means of leases.

Traffic Technologies Ltd and Controlled Entities
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For the year ended 30 June 2022

19. CLAIMS AND CONTINGENCIES

Guarantees

The Company is party to a deed of cross guarantee with its wholly-owned subsidiaries. The extent to which an outflow of funds will be required is dependent on the future operations of the entities that are party to the deed of cross guarantee. No liability is expected to arise. The deed of cross guarantee will continue to operate indefinitely. As detailed in note 12, the Company is party to finance facility agreements with its financiers to which the Company's subsidiaries are guarantors. The extent to which an outflow of funds will be required is dependent on the risk of default under the finance facility agreement. The Directors do not expect default to occur.

20. SUBSIDIARIES

The consolidated financial statements include the financial statements of Traffic Technologies Ltd and the subsidiaries listed in the following table.

| Name of Subsidiary | Principal Place of Business | Principal Activity | Ownership Held by 2022 % | Interest the Group 2021 % |
|--|-----------------------------|--|--------------------------|---------------------------|
| Traffic Technologies Signal & Hardware Division Pty Ltd | Australia | Non-trading | 100 | 100 |
| Traffic Technologies Traffic Management Division Pty Ltd | Australia | Non-trading | 100 | 100 |
| De Neefe Pty Ltd | Australia | Manufacture signs | 100 | 100 |
| Traffic Technologies Traffic Hire Pty Ltd | Australia | Non-trading | 100 | 100 |
| Sunny Sign Company Pty Ltd | Australia | Manufacture signs | 100 | 100 |
| Pro-Tech Traffic Management Pty Ltd | Australia | Non-trading | 100 | 100 |
| KJ Aldridge Investments Pty Ltd | Australia | Non-trading | 100 | 100 |
| Aldridge Traffic Group Pty Ltd | Australia | Non-trading | 100 | 100 |
| Excelsior Diecasting Pty Limited | Australia | Non-trading | 100 | 100 |
| Aldridge Traffic Systems Pty Ltd | Australia | Manufacture signals, streetlights etc. | 100 | 100 |
| Aldridge Plastics Pty Ltd | Australia | Non-trading | 100 | 100 |
| Quick Turn Circuits Pty Ltd | Australia | Manufacture controllers | 100 | 100 |
| Traffic Technologies International Limited | Hong Kong | Non-trading | 100 | 100 |
| Telensa Pty Ltd | Australia | Non-trading | 100 | 100 |
| Telensa Australia Pty Ltd | Australia | Non-trading | 100 | 100 |
| L&M Traffic Services Pty Ltd | Australia | Installation & maintenance | 100 | - |

Traffic Technologies Ltd and Controlled Entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2022

21. RELATED PARTY TRANSACTIONS

a) Transactions with Shareholders

First Samuel Limited (one of the Company's lenders – see note 12) holds 37,175,675 ordinary shares in the Company.

b) Transactions with Directors or Director-related entities

An entity associated with the Company's Managing Director, Mr. Con Liosatos has arranged a bank guarantee of \$500,000 to provide security for purchases by the Group from an overseas supplier. The Company has agreed to indemnify the entity in the event that the bank guarantee is called upon by the overseas supplier. After the on-charge of interest costs and bank charges at the same rate, no profit has been made by the related party.

22. SUBSEQUENT EVENTS

Subsequent to balance date there have been no significant events which have affected the operations of the Group.

23. AUDITOR'S REMUNERATION

| | Consolidated 2022 \$ | Consolidated 2021 \$ |
|--|----------------------------|----------------------------|
| Amounts received or due and receivable by: | | |
| Half Year Review – Shine Wing Australia | - | 35,000 |
| Half Year Review – Grant Thornton | 28,000 | - |
| Final Audit – Grant Thornton | 71,000 | 67,000 |
| Total | 99,000 | 102,000 |

24. KEY MANAGEMENT PERSONNEL DISCLOSURES

a) Compensation of Key Management Personnel

Details of the nature and amount of each element of the remuneration of key management personnel are disclosed in the Remuneration Report section of the Directors' Report.

| | Consolidated 2022 \$ | Consolidated 2021 \$ |
|----------------------------------|----------------------------|----------------------------|
| <i>Compensation by Category:</i> | | |
| <i>Key Management Personnel</i> | | |
| Short-term employee benefits | 942,857 | 942,514 |
| Post-employment benefits | 68,934 | 64,463 |
| Other long-term benefits | 15,873 | 14,078 |
| Total | 1,027,664 | 1,021,055 |

b) Shares issued on exercise of remuneration options

No shares have been issued to key management personnel as a result of the exercise of remuneration options.

c) Option holdings of Key Management Personnel

There were no share options outstanding at 30 June 2022 or at the date of this report (2021: nil). No shares have been issued to key management personnel as a result of the exercise of remuneration options.

d) Loans to Key Management Personnel

There were no loans to key management personnel.

Traffic Technologies Ltd and Controlled Entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2022

25. SEGMENT INFORMATION

The Group has only one operating segment: Traffic Products. The Group's chief operating decision maker (the Managing Director) reviews financial information on a consolidated basis and makes strategic decisions based on this consolidated information.

Major customers

Revenue from government agencies accounted for 26% of sales (2021: 30%). Revenue from the largest non-government customer accounted for 6% (2021: 7%) of sales.

Geographical information

The Group operates predominately in Australia.

Revenue by geographic location:

| | Consolidated 2022 \$'000 | Consolidated 2021 \$'000 |
|-----------|--------------------------------|--------------------------------|
| Australia | 48,674 | 47,178 |
| Overseas | 5,076 | 5,152 |
| Total | <u>53,750</u> | <u>52,330</u> |

All the Group's non-current assets are located in Australia.

26. PARENT ENTITY DISCLOSURES

| | 2022 \$'000 | 2021 \$'000 |
|---|-----------------|-----------------|
| Current assets | 3,169 | 2,503 |
| Total assets | 51,012 | 50,332 |
| Current liabilities | 66,326 | 63,621 |
| Total liabilities | 71,165 | 73,421 |
| Issued capital | 61,289 | 54,755 |
| Retained earnings | (81,442) | (77,844) |
| Total shareholders' equity | <u>(20,153)</u> | <u>(23,089)</u> |
| Loss of the parent entity | (3,598) | (3,840) |
| Total comprehensive income of the parent entity | (3,598) | (3,840) |
| Guarantees entered into by the parent entity in relation to debts of its subsidiaries | 6,907 | 4,382 |

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DIRECTORS' DECLARATION

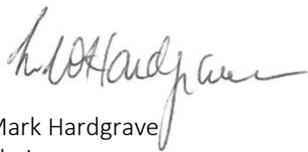
The Directors of the Company declare that:

1. The consolidated financial statements and notes of Traffic Technologies Ltd are in accordance with the *Corporations Act 2001* and:
 - a) comply with Australian Accounting Standards and the Corporations Regulations 2001; and
 - b) give a true and fair view of the consolidated entity's financial position as at 30 June 2022 and of its performance for the year ended on that date.
2. The Company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.
3. In the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
4. The Directors have been given the declarations by the Managing Director and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

The members of the Closed Group identified in note 20 are parties to the deed of cross guarantee under which each company guarantees the debts of the others. At the date of this declaration there are reasonable grounds to believe that the companies which are parties to this deed of cross guarantee will as a consolidated entity be able to meet any obligations or liabilities to which they are, or may become, subject to, by virtue of the deed of cross guarantee described in note 19.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:

On behalf of the Board



Mark Hardgrave
Chairman

Melbourne
29 August 2022

ASX Additional Information
As at 11 August 2022

Additional information required by the Australian Securities Exchange and not shown elsewhere in this report is as follows. The information is current as at 11 August 2022.

a) Distribution of Shareholdings

| | <u>Ordinary Shares</u> | |
|--|------------------------|------------------|
| | Number of Holders | Number of Shares |
| 1 - 1,000 | 158 | 23,080 |
| 1,001 - 5,000 | 34 | 87,234 |
| 5,001 - 10,000 | 41 | 360,092 |
| 10,001 - 100,000 | 604 | 27,656,500 |
| 100,001 and over | 527 | 694,043,282 |
| | 1,364 | 722,170,188 |
| Holdings less than a marketable parcel | 482 | 5,800,505 |

b) Twenty Largest Shareholders

| | Name | No. of Shares | % Held |
|----|--|--------------------|---------------|
| 1 | RSAM INVESTMENTS PTY LTD <RM INVESTMENT A/C> | 50,148,883 | 6.94% |
| 2 | FIRST SAMUEL LTD ACN 086243567 <ANF ITS MDA CLIENTS A/C> | 37,175,675 | 5.15% |
| 3 | ANNLEW INVESTMENTS PTY LTD <ANNLEW INVESTMENTS PL SF A/C> | 34,400,000 | 4.76% |
| 4 | MR LAMBROU LIOSATOU* | 27,950,475 | 3.87% |
| 5 | MR ROBERT SCOTT ANTHONY MINNEY | 18,471,033 | 2.56% |
| 6 | MR PETER GEOFFREY HOLLICK + MS HELEN THERESE PATTINSON <MACDY NO 5 SUPER FUND A/C> | 18,000,000 | 2.49% |
| 7 | BANNABY INVESTMENTS PTY LTD <BANNABY SUPER FUND A/C> | 17,606,063 | 2.44% |
| 8 | BROWNLOW PTY LTD | 16,722,499 | 2.32% |
| 9 | LIOSATOS SUPERANNUATION PTY LTD <LIOSATOS S/F A/C>* | 15,832,162 | 2.19% |
| 10 | MR MOHAMMED ABOU-EID | 15,000,000 | 2.08% |
| 11 | CLAPSY PTY LTD <BARON SUPER FUND A/C> | 14,848,359 | 2.06% |
| 12 | GP MANAGEMENT P/L <G&R S/F A/C> | 12,895,249 | 1.79% |
| 13 | DOLPHIN CAPITAL PARTNERS PTY LTD | 12,000,000 | 1.66% |
| 14 | MRS TRUDI MILNE | 11,540,523 | 1.60% |
| 15 | CAMPBELL KITCHENER HUME & ASSOCIATES PTY LTD <C K H SUPERFUND A/C> | 11,064,003 | 1.53% |
| 16 | MORGRAE PTY LTD <HUMPHREY S/F A/C> | 11,000,000 | 1.52% |
| 17 | MR MORGAN LITTLEWOOD | 8,006,343 | 1.11% |
| 18 | HEDDERWICK PTY LTD | 6,569,139 | 0.91% |
| 19 | MR VINCENT GALANTE + MRS RUTH ELIZABETH LEAMING | 6,046,356 | 0.84% |
| 20 | HARDGRAVE SUPERANNUATION PTY LTD <HARDGRAVE FAMILY S/F A/C>* | 5,965,592 | 0.83% |
| | Total | 351,242,354 | 48.64% |

* Associated with Directors.

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ASX Additional Information
As at 11 August 2022

c) Substantial Shareholders (greater than 5%)

| Holder Name | Ordinary Shares | |
|----------------------|-----------------|------|
| | Number | % |
| Mr. Robert Minney | 68,619,916 | 9.50 |
| Mr. Con Liosatos | 43,782,637 | 6.06 |
| First Samuel Limited | 37,175,675 | 5.15 |

d) Voting Rights

All ordinary shares carry one vote per share without restriction.

e) Ordinary shares subject to voluntary escrow restrictions

None.

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Independent Auditor's Report

To the Members of Traffic Technologies Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Traffic Technologies Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2022, 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 year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a giving a true and fair view of the Group's financial position as at 30 June 2022 and of its performance for the year ended on that date; and
- b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group 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 financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Material uncertainty related to going concern

We draw attention to Note 1(c) in the financial statements, which indicates that part of the Group's debt is due for repayment on 30 September 2022. As stated in Note 1(c), these events or conditions indicate that a material uncertainty exists that may cast doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| <p>Impairment of goodwill and other non-financial assets (Note 9, 10)</p> <p>The Group has recorded goodwill of \$1,144,000, capitalised development costs of \$10,741,000, patents of \$37,000 and software costs of \$21,000 at 30 June 2022 assigned to Cash Generating Units (CGUs). Goodwill is required to be assessed for impairment annually by Management as prescribed in AASB 136 <i>Impairment of Assets</i>. In addition, Management are required to perform annual impairment testing for intangible assets not yet available for use regardless of whether indicators exist.</p> <p>Non-financial assets, including goodwill and other intangible assets, are allocated to appropriate CGUs for impairment testing. Management tests each CGU for impairment by comparing the carrying amount against the recoverable amount, which is determined by either the greater of its fair value less costs to sell and its value-in-use. The Group has used the discounted cash flow model (value-in-use) to determine the recoverable amount, which includes significant estimates and judgements, including estimating future cash flows.</p> <p>This area is a key audit matter due to the significant balance carried by the Group and the estimation uncertainty in forecasting future cash flows.</p> | <p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • Understanding and documenting Management's process and controls related to the assessment of impairment, including Management's identification of CGUs and the calculation of the recoverable amount for each CGU; • Evaluating the value-in-use models against the requirements of AASB 136, including consultation with our auditor's valuation expert; • Challenging the appropriateness of Management's revenue and cost forecasts by comparing the forecast cash flows to historical growth rates achieved; • Reviewing Management's value-in-use calculations by: <ul style="list-style-type: none"> – Testing the mathematical accuracy of the calculations; – Evaluating the forecasted cash inflows and outflows for reasonableness; – Assessing estimates and judgements for growth rates applied; and – Assessing discount rates applied to forecast future cash flows. • Performing sensitivity analysis on the significant inputs and assumptions made by Management in preparing its calculations; and • Assessing the adequacy of financial statement disclosures. |

Capitalised development costs (Note 10)

The Group capitalises costs directly attributable to traffic product development in accordance with AASB 138 *Intangible Assets*.

AASB 138 provides that an entity may only capitalise costs that meet specific capitalisation criteria.

This area is a key audit matter due to the inherent judgement involved in determining projects and costs which satisfy the requirements of AASB 138.

Our procedures included, amongst others:

- Obtaining an understanding of internal processes and controls, including a review of Management's capitalisation policy for compliance with AASB 138;
 - Testing a sample of costs capitalised in the year and vouching to supporting documentation against the criteria of AASB 138;
 - Evaluating the Group's position that the underlying assets are in the development phase, are technically feasible, will generate probable future economic benefits, and the ability to bring the asset to completion for use or sale, amongst other requirements of AASB 138;
 - Inquiring Management to understand the nature and status of key projects;
 - Evaluating Management's assessment of impairment indicators for intangible assets previously capitalised;
 - Reviewing a schedule of open projects to investigate those that are over budget or behind schedule for possible indicators of impairment;
 - Assessing Management's useful economic life determination, including amortisation charge for consistency with accounting policies adopted; and
 - Assessing the adequacy of relevant financial statement disclosures.
-

Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2022, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors' for the financial report

The Directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1_2020.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Opinion on the remuneration report

We have audited the Remuneration Report included in pages 10 to 12 of the Directors' report for the year ended 30 June 2022.

In our opinion, the Remuneration Report of Traffic Technologies Limited, for the year ended 30 June 2022 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Grant Thornton Audit Pty Ltd
Chartered Accountants

M J Climpson
Partner

Melbourne, 29 August 2022

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