verbrec
evolution engineered

Verbrec Limited

(formerly LogiCamms Limited)

ABN 90 127 897 689

Interim Financial Report

31 December 2020

Contents

This consolidated interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2020 and any public announcements made by Verbrec Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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

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

Its registered office is:

Verbrec Limited
Level 14
200 Mary Street
Brisbane QLD 4000

The consolidated interim financial statements were authorised for issue by the Directors on 25 February 2021. The Directors have the power to amend and reissue the consolidated interim financial statements.

Your Directors present their interim financial statements on Verbrec Limited ("the Company or Verbrec or VBC") and its controlled entities ("the Group") for the half-year ended 31 December 2020.

THE DIRECTORS

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

Directors and Officers

Mr Phillip Campbell	Independent Non-Executive Chairperson
Mr Matthew Morgan	Independent Non-Executive Director
Ms Sarah Zeljko	Independent Non-Executive Director (appointed 1 September 2020)
Mr Brian O'Sullivan AM	Non-Executive Director
Mr Linton Burns	Chief Executive Officer and Managing Director
Mr Andrew Ritter	Company Secretary

Mr Chris O'Neil held the position of Chief Executive Officer of the Company until his resignation on 25 September 2020, at which time Mr Linton Burns was appointed as Chief Executive Officer and Managing Director. Mr Burns previously held the position of Executive Director – Transition.

REVIEW AND RESULTS OF OPERATIONS

The consolidated interim financial results for the half-year ended 31 December 2020 compared to the prior corresponding period ("pcp") is follows:

	31 December 2020	31 December 2019	Change to PCP
Revenue ($'000)	47,596	64,548	(16,952)
Gross Margin as a % of revenue (%)	33.3%	30.9%	2.4%
Profit before tax ($'000)	1,987	2,993	(1,006)
Profit after tax ($'000)	1,097	2,091	(994)
Statutory EBITDA ($'000)	3,956	4,925	(969)
Statutory EBITDA as a % of revenue (%)	8.3%	7.6%	0.7%
Underlying EBITDA[1] ($'000)	3,312	6,300	(2,988)
Underlying EBITDA as a % of revenue	7.0%	9.8%	(2.8%)
Operating Cash Flow ($'000)	529	2,945	(2,416)
Net Cash[2] ($'000)	3,487	126	3,361
Basic earnings per share (cents)	0.6	1.0	(0.4)

[1] Statutory EBITDA adjusted for JobKeeper received and restructuring expenses
[2] Cash on hand less borrowings and lease liabilities

REVIEW AND RESULTS OF OPERATIONS (CONTINUED)

For the half-year, the Group reported revenue of $47.6m and a statutory EBITDA of $4.0m compared to revenue of $64.5m and EBITDA of $4.9m for the half-year ended 31 December 2019. As highlighted within our 30 June 2020 financial results commentary, we expected the first half of FY21 to be subdued due to the impacts COVID-19 had on our end markets, particularly hydrocarbons due to lower oil and gas prices and some productivity impacts.

The previous corresponding reporting period results were particularly strong due to a large pipeline Engineering, Procurement and Construction project that reached practical completion during that prior period.

Despite the challenging conditions both gross and EBITDA margins increased. For the half-year, gross margins as a percentage of revenues increased from 30.9% to 33.3% whilst the half-year statutory EBITDA margin as a percentage of revenue was 8.3%, up from 7.6%. This margin improvement was a result of a change in the mix of project revenues and a $2.0m reduction in general and administration costs.

COVID IMPACTS

Our financial results for the half-year ended 31 December 2020 were impacted by the COVID-19 pandemic in the following ways:

- Oil & gas clients deferring some projects and some long-standing clients requesting reduced sell rates;
- Clients reluctant to attend face to face courses offered by Verbrec's registered training organisation, Competency Training (CT). CT responded by rolling out remote learning, virtual reality and e-learning; and
- Productivity impacts on some projects which in some cases remain subject to notice of delay claims.

BALANCE SHEET

The Company renegotiated its bank debt facilities in November 2020 as part of the annual review. The total value of the facilities has been increased by $1.0m to $12.0m. The increase has been allocated against project performance guarantees to provide the Company with additional capacity for the expected award of larger projects. The Corporate Market Loan (balance as at 31 December 2020 $2.4m) which was previously due to mature on 30 June 2022, has now been extended through to 30 June 2023. Repayment instalments remain at $0.3m per quarter. The Group is in a net cash position (cash on hand less borrowings and lease liabilities) of $3.5m at the end of 31 December 2020 up from $0.1m as at 31 December 2019.

The Group's balance sheet incorporates the acquisition of Energy Infrastructure Management Pty Ltd (EIM) which settled on 31 December 2020. Provisional goodwill of $2.3m has been raised as a result of the acquisition with the final purchase price accounting entries expected to be booked by 30 June 2021.

CASH FLOW

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

REVIEW AND RESULTS OF OPERATIONS (CONTINUED)

Closing cash for the half-year was $11.1m compared to $15.9m as at 30 June 2020, a decrease of $4.8M. The main reasons for this decrease include:

- The acquisition of EIM being funded out of existing cash reserves, with the net payment (cash paid less cash acquired) equalling $3.2m;
- $0.6m being repaid on the Corporate Markets Loan;
- The Group recorded a net operating cash inflow for the half-year of $0.5m (inflow of $2.9m for prior comparative period (PCP)). The change versus PCP is primarily driven by the new Board's desire to pay suppliers in line with industry standards; and
- Deferred government payments as a result of COVID-19 were also partly repaid during the first half which was offset by JobKeeper receipts.

During the half-year, the Company also undertook a "Minimum Holdings Buy Back" of small shareholdings. A total of 957,360 shares were brought back at a total cost of $0.15m.

MARKET OVERVIEW

During the half-year, Verbrec continued to operate two segments, being Engineering and Training, across the hydrocarbons; mining and infrastructure industry sectors with a focus on Australia, New Zealand, PNG and the Pacific Islands.

Engineering Segment

Asset Management

Asset Management has continued to perform above expectations for the half-year even though oil and gas prices have remained low. In some instances, Verbrec agreed to adjust its sell rates downwards to meet the market conditions and requests from long-standing and valuable clients. Asset Management continues to develop opportunities in Western Australia particularly in the Mining and Hydrocarbons sectors.

Digital Industry

The major focus of this Service Line during the half-year was the ongoing execution of control system upgrades for major water utility companies across Australia. Services in Digital Industry continue to be in high demand across all sectors and geographies within which the Group operates. There is currently a large focus on digital transformation to enable the extraction of increased value from clients existing assets and the Group continues to be well placed to provide consulting services to perform front end study work due to our deep industry domain knowledge in our stated sectors. Industry 4.0 Technology continues to drive this digital transformation.

Pipelines

Due to the impacts COVID-19 has had on oil and gas prices, the Pipeline Service Line revenue and margins for Operation and Maintenance services have been under pressure due to the deferral by asset owners of ad hoc integrity works. We expect these deferred works to be undertaken in the near to medium term as these works need to be performed.

The strategic bolt-on acquisition of Energy Infrastructure Management (EIM) on 31 December 2020 will provide this Service Line with significant secure revenue with EIM's long dated operations and maintenance contracts with tier 1 clients as well as increasing margins due to cost savings synergies. It will also deliver increased capability and market share.

REVIEW AND RESULTS OF OPERATIONS (CONTINUED)

Power

Our Power Service Line has had a strong first half continuing to support our major industrial clients in the oil & gas, mining and water industries. Power has experienced some significant wins in iron ore mining in Western Australia and picked up some strategic wins in renewables grid integration.

Process Plant

The Process Plant Service Line has had a solid first half, contributing the largest percentage of revenue of all service lines offered, although impacted by the low oil and gas price and COVID-19. The disciplines of Process, Mechanical/Piping, Civil, Structural and Design (2D and 3D) will continue to support the hydrocarbons, mining and infrastructure industries. Opportunities for expansion exist in Adelaide and the West Coast.

Training Segment

The Competency Training business has performed in line with expectations for the first half of the year. Whist the start of the financial year was impacted as a result of COVID-19, the continued rollout of remote learning through live streaming, virtual reality and e-learning has enabled Competency Training to deliver a number of training modules without physically requiring trainers and trainees to be in the same location. Margins in the business have remained strong throughout the half-year as costs are flexed to support the courses undertaken. Training has taken place in new markets such as New Zealand and the Northern Territory as geographical expansion plans are executed.

OUTLOOK

Base minerals commodity prices remain strong. As such activity levels within our Western Australia business unit remain strong and are increasing.

Recent months has also seen a recovery in oil and gas prices. As the economic recovery begins to gain pace, the Company expects previously deferred projects to be awarded.

Assuming commodity prices hold firm and deferred projects are awarded, we expect work in hand to increase between now and the end of FY21.

Verbrec intend to grow non-project-based revenue including commercialisation of technology products such as *StacksOn™* and seek out long dated operations and maintenance contracts. *StacksOn™* has been implemented at one WA iron ore mine site with implementation at a second site under-way. Negotiations in relation to a long-term licence agreement are ongoing.

During January 2021, the Group's new ERP system went live which will enable the Group to have greater real time visibility of key performance indicators to help drive performance and increase efficiencies.

Our continuing growth strategy is to not only grow the business organically but maintain an active interest in identifying bolt on acquisitions in our core markets to increase our revenue base, both of which will lead to increased underlying EBIT margins as our overhead costs are relatively fixed in nature.

DIVIDENDS

The Board has elected not to declare an interim dividend for the period ended 31 December 2020.

AFTER BALANCE DATE EVENTS

The Directors are not aware of any other matters or circumstances not otherwise dealt with in this report or the interim financial statements that have, or may, significantly affect the operations or state of affairs of the Group in future years.

ROUNDING OF AMOUNTS

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

RESOLUTION APPROVING DIRECTORS' REPORT

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

The auditor's independence declaration as required under s.307C of the *Corporations Act 2001* is set out on page 7.

Phillip Campbell
Chairperson

Brisbane
25 February 2021

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Auditor's Independence Declaration

As lead auditor for the review of Verbrec Limited for the half-year ended 31 December 2020, 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 review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

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

Michael Crowe
Partner
PricewaterhouseCoopers

Brisbane
25 February 2021

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Verbrec Limited

ABN 90 127 897 689

Condensed consolidated statement of profit or loss and other comprehensive income

For the half-year ended 31 December 2020

	Notes	31 December 2020 $'000	31 December 2019 $'000
Revenue		**47,596**	64,548
Cost of sales	7(a)	**(31,726)**	(44,577)
Gross profit		**15,870**	19,971
Other income		**1,051**	-
Other operating expenses	7(b)	**(14,814)**	(16,762)
Profit from operating activities		**2,107**	3,209
Net finance expense		**(147)**	(216)
Share of net profit of equity accounted investees		**27**	-
Profit before income tax		**1,987**	2,993
Income tax expense	8	**(890)**	(902)
Profit for the half-year attributable to owners of the Company		**1,097**	2,091
Other comprehensive (loss)/income			
Items that may be reclassified to profit or loss			
Foreign currency translation differences		**(6)**	81
Other comprehensive (loss)/income for half-year, net of tax		**(6)**	81
Total comprehensive profit for the half-year attributable to owners of the Company		**1,091**	2,172
Earnings per share			
Basic earnings per share (cents per share)		**0.6**	1.0
Diluted earnings per share (cents per share)		**0.5**	1.0

Verbrec Limited

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Condensed consolidated statement of financial position

As at 31 December 2020

	Notes	31 December 2020 $'000	30 June 2020 $'000
Assets			
Cash and cash equivalents		**11,125**	15,930
Trade and other receivables		**15,630**	17,142
Contract assets		**3,747**	1,820
Current tax assets		**165**	156
Total current assets		**30,667**	35,048
Investment in equity accounted investees		**95**	68
Property, plant and equipment	9	**1,317**	1,334
Right-of-Use Assets		**3,574**	4,687
Deferred tax assets		**6,439**	6,961
Intangible assets	10	**13,330**	10,589
Total non-current assets		**24,755**	23,639
Total assets		**55,422**	58,687
Liabilities			
Trade and other payables		**9,163**	10,353
Contract liabilities		**2,332**	3,417
Borrowings	12	**2,333**	1,537
Lease liabilities		**2,150**	2,344
Current tax liability		**599**	743
Employee benefits		**5,574**	5,578
Provisions	11	**922**	1,421
Total current liabilities		**23,073**	25,393
Employee benefits		**285**	124
Borrowings	12	**1,255**	2,011
Lease liabilities		**1,900**	2,805
Provisions	11	**318**	679
Total non-current liabilities		**3,758**	5,619
Total liabilities		**26,831**	31,012
Net assets		**28,591**	27,675
Equity			
Share capital	13	**20,866**	21,013
Reserves		**73**	107
Retained earnings		**7,652**	6,555
Total equity attributable to owners of the Company		**28,591**	27,675

Verbrec Limited

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Condensed consolidated statement of changes in equity

For the half-year ended 31 December 2020

	Attributable to owners of Verbrec			
	Share Capital $'000	Reserves $'000	Retained earnings $'000	Total $'000
Balance at 1 July 2019	21,013	323	4,090	25,426
Profit for the half-year	-	-	2,091	2,091
Other comprehensive income	-	81	-	81
Total comprehensive income for the half-year	-	81	2,091	2,172
Balance at 31 December 2019	21,013	404	6,181	27,598

	Attributable to owners of Verbrec			
	Share Capital $'000	Reserves $'000	Retained earnings $'000	Total $'000
Balance at 1 July 2020	**21,013**	**107**	**6,555**	**27,675**
Profit for the half-year	**-**	**-**	**1,097**	**1,097**
Other comprehensive income	**-**	**(6)**	**-**	**(6)**
Total comprehensive income for the half-year	**-**	**(6)**	**1,097**	**1,091**
Share Buy-back	**(147)**	**-**	**-**	**(147)**
Share based payments reserve	**-**	**(28)**	**-**	**(28)**
Balance at 31 December 2020	**20,866**	**73**	**7,652**	**28,591**

Verbrec Limited

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Condensed consolidated statement cash flows

For the half-year ended 31 December 2020

	31 December 2020 $'000	31 December 2019 $'000
Cash flows from operating activities		
Receipts from customers (including GST)	**53,651**	70,884
Payments to suppliers and employees (including GST)	**(52,860)**	(67,412)
	791	3,472
Interest paid[1]	**(117)**	(219)
Income taxes paid	**(145)**	(308)
Net cash inflow from operating activities	**529**	2,945
Cash flow from investing activities		
Dividends from associates	**-**	12
Interest received	**60**	2
Payment for acquisition of subsidiary, net of cash acquired	**(3,233)**	-
Acquisition of property, plant and equipment and intangibles	**(787)**	(282)
Net cash outflow from investing activities	**(3,960)**	(268)
Cash flow from financing activities		
Payments for shares bought back	**(147)**	-
Proceeds from borrowings	**1,690**	466
Repayment of borrowings	**(1,651)**	-
Repayment of lease liabilities	**(1,153)**	(804)
Interest paid on lease liabilities[1]	**(107)**	(127)
Net cash outflow from financing activities	**(1,368)**	(465)
Net (decrease)/increase in cash and cash equivalents	**(4,799)**	2,212
Cash and cash equivalents at the beginning of the half-year	**15,930**	8,346
Effects of exchange rate changes on cash and cash equivalents	**(6)**	80
Cash and cash equivalents at the end of the half-year	**11,125**	10,638

[1] Interest paid on lease liabilities has previously been classified as Interest Paid in Operating activities and has been reclassified as Interest paid on lease liabilities in the financing activities in the current period. The comparative values have been reclassified to reflect this change.

1 General information

Verbrec Limited (the "Company") is a company incorporated and domiciled in Australia. The address of the Company's registered office is Level 14, 200 Mary Street, Brisbane, Australia. The consolidated interim financial statements of the Company for the six months ended 31 December 2020 comprises the Company and its subsidiaries (together referred to as "the Group" and individually as "Group entities") and the Group's interest in associates and jointly controlled entities.

On 10 December 2020, the Company announced that, following shareholder approval on 27 November 2020, the Company name was changed from Logicamms Limited to Verbrec Limited. The branding of Verbrec Limited and the resulting corporate structure will allow for the continuing expansion of our capabilities and further growth of our service offerings. Given the exceptional brand value and leading market position held by each business, the Verbrec subsidiaries will continue to trade under their existing company names and will simply be branded "a Verbrec Company".

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

The consolidated interim financial statements were approved by the Board of Directors on 25 February 2021.

2 Significant changes in the current reporting period

Although global market conditions have affected market confidence and consumer spending patterns, the Group remains well placed to grow revenues through its continued emphasis on building the profile of the Group's Service Lines with clients and a continued focus on seeking opportunities through acquisition, with the recent acquisition of Energy Infrastructure Management Pty Ltd (EIM).

The Group has reviewed its exposure to emerging business risks but has not identified any risks that could impact the financial performance or position of the Group as at 31 December 2020. It has sufficient headroom to enable it to conform to covenants on its existing borrowings and sufficient working capital and undrawn financial facilities to service its operating activities and ongoing investments.

Given the impact and uncertainties associated with COVID-19, it was expected that the first half of 2021FY would be somewhat subdued in terms of new work opportunities. This has indeed been the case, however, we remain optimistic that the second half-year will be stronger whilst the COVID-19 virus remains contained within Australia and New Zealand. Verbrec is operating prudently and has stayed strong through the COVID-19 pandemic and is thus well positioned to accelerate out of the downturn as opportunities arise.

On 29 December 2020, Verbrec announced that it would acquire 100% of the shares in Energy Infrastructure Management Pty Ltd. The acquisition was completed on 31 December 2020.

The purchase price of $10.1m was paid in cash, funded from existing cash reserves. Of the $7.8m net assets acquired, $6.8m was available cash.

3 Basis of preparation

The consolidated interim financial statements for the half-year reporting period 31 December 2020 has been prepared in accordance with the Corporations Act 2001, Accounting Standard AASB 134 Interim Financial Reporting and International Financial Reporting Standards (IFRS) as applicable for a for-profit entity.

The consolidated interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2020 and any public announcements made by Verbrec Limited during the interim reporting period in accordance with the continuous disclosure requirement of the Corporations Act 2001.

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

4 Estimates

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

In preparing the consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies, and the key sources of estimation uncertainty, were the same as those applied to the consolidated interim financial statements for the year ended 30 June 2020.

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

5 Summary of Significant Accounting Policies

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

(a) *Basis of measurement and presentation currency*

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

(b) *Acquisition*

Verbrec purchased 100% of the shares on issue in Energy Infrastructure Management Pty Ltd (EIM) on 31 December 2020.

The acquisition of EIM resulted in Verbrec obtaining 100% of the ordinary shares of EIM and, therefore, control of the merged entity.

(c) *Going concern*

The consolidated interim financial statements have been prepared on a going concern basis.

6 Segment and revenue information

The Group has two reportable segments in which it operates, being Engineering and Training. This is based on information that is internally provided to the executive Group for assessing performance and making operating decisions. Therefore, no additional disclosure in relation to the revenues, profit or loss, assets and liabilities or other management items have been made.

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

6 Segment and revenue information (continued)

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

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

31 December 2019	Australia $'000	New Zealand $'000	Total $'000
Services revenue	52,728	8,159	60,887
Training revenue	3,661	-	3,661
Total revenue from external parties	56,389	8,159	64,548
Timing of revenue recognition			
Over time	56,389	8,159	64,548
	56,389	8,159	64,548

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

	31 December 2020			31 December 2019		
	Engineering $'000	Training $'000	Total $'000	Engineering $'000	Training $'000	Total $'000
EBITDA	**3,483**	**473**	**3,956**	4,289	636	4,925

	31 December 2020	31 December 2019
EBITDA	**3,956**	4,925
Finance cost	**(147)**	(216)
Depreciation and amortisation	**(1,822)**	(1,716)
Profit before income tax from continuing operations	**1,987**	2,993

7 Profit and loss information

(a) Cost of Sales

	31 December 2020 $'000	31 December 2019 $'000
Personnel expenses	**21,512**	24,862
Contractor expenses	**3,586**	6,002
Project reimbursable expenses	**6,628**	13,713
	31,726	44,577

(b) Other Operating Expenses

	31 December 2020 $'000	31 December 2019 $'000
Salaries and wages	**8,615**	9,693
Employment related expenses	**19**	14
Rent and occupancy expenses	**502**	866
Subscriptions, licenses and memberships	**1,108**	1,161
Consulting	**684**	656
Depreciation and amortisation	**1,822**	1,716
Insurance	**671**	647
Other administrative expenses	**1,393**	2,009
	14,814	16,762

(c) Significant items

	31 December 2020 $'000	31 December 2019 $'000
Profit for the half-year includes the following items that are unusual because of their nature, size or incidence:		
Transition expenses		
Consulting fees	-	222
Insurance	-	129
Employee costs	-	1,062
One-off (income) / expenses		
Jobkeeper subsidy	**(1,015)**	-
Restructuring costs	**473**	-
	(542)	1,413

8 Income Tax Expense

(a) Income Tax

	31 December 2020 $'000	31 December 2019 $'000
Numerical reconciliation between tax expense and pre-tax accounting profit		
Profit before income tax	**1,987**	2,993
Income tax using the Company's domestic tax rate of 30% / 28% (2019 - 30.0%)	**594**	898
Withholding taxes paid	**(2)**	(25)
Non-deductible expenses	**(10)**	(3)
Income tax expense attributable to current half-year	**582**	870
Adjustments for current tax of prior periods	**94**	32
Adjustments for deferred tax of prior periods	**214**	-
Income tax expense attributable to prior periods	**308**	-
Total income tax expense	**890**	902

For the half-year ended 31 December 2020, the total income tax expense is $0.89m, resulting in an effective income tax rate of 45%. This is due to prior period adjustments, predominantly related to an overstatement of deferred tax assets, being recognised in income tax expense in the current half-year. Total income tax expense directly attributable to the half-year ended 31 December 2020 is $0.58m, resulting in an effective income tax rate of 29%.

(b) Tax losses

	31 December 2020 $'000	30 June 2020 $'000
Unused tax losses	**24,400**	24,500
Potential tax benefit @ 30%	**7,320**	7,350

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

9 Property, plant and equipment

	Notes	Plant and equipment $'000	Motor vehicles $'000	Total $'000
As at 30 June 2020				
Cost		4,451	520	4,971
Accumulated depreciation		(3,249)	(388)	(3,637)
Net book amount		1,202	132	1,334
Half-year Ended 31 December 2020				
Opening net book amount		**1,202**	**132**	**1,334**
Provisional additions from business combination	14	**145**	**117**	**262**
Additions		**54**	**-**	**54**
Depreciation charge		**(308)**	**(25)**	**(333)**
Closing net book amount		**1,093**	**224**	**1,317**
At 31 December 2020				
Cost		**4,650**	**637**	**5,287**
Accumulated depreciation		**(3,557)**	**(413)**	**(3,970)**
Net book amount		**1,093**	**224**	**1,317**

10 Intangible assets

	Notes	Goodwill $'000	Application Software $'000	Development Costs $'000	Customer Relationships $'000	Total $'000
As at 30 June 2020						
Cost		5,990	454	1,115	4,164	11,723
Accumulated amortisation		-	(404)	(136)	(594)	(1,134)
Net book amount		5,990	50	979	3,570	10,589
Half-year Ended 31 December 2020						
Opening net book amount		**5,990**	**50**	**979**	**3,570**	**10,589**
Provisional additions from business combination	14	**2,287**	**20**	**-**	**-**	**2,307**
Additions		**-**	**-**	**743**	**-**	**743**
Amortisation charge		**-**	**(10)**	**(1)**	**(298)**	**(309)**
Closing net book amount		**8,277**	**60**	**1,721**	**3,272**	**13,330**
At 31 December 2020						
Cost		**8,277**	**474**	**1,858**	**4,164**	**14,773**
Accumulated amortisation		**-**	**(414)**	**(137)**	**(892)**	**(1,443)**
Net book amount		**8,277**	**60**	**1,721**	**3,272**	**13,330**

11 Provisions

	31 December 2020			30 June 2020		
	Current $'000	Non-current $'000	Total $'000	Current $'000	Non-current $'000	Total $'000
Bonus provision	**263**	**-**	**263**	740	-	740
Make good provision	**426**	**318**	**744**	-	679	679
Service warranties	**233**	**-**	**233**	198	-	198
Restructuring costs	**-**	**-**	**-**	483	-	483
Total	**922**	**318**	**1,240**	1,421	679	2,100

11 Provisions (continued)

	Notes	Bonus provision $'000	Make good provision $'000	Service warranties $'000	Restructuring costs $'000	Total $'000
Carrying amount at 1 July 2020		**740**	**679**	**198**	**483**	**2,100**
Credited to profit or loss		**-**	**(2)**	**35**	**-**	**33**
addition provisions recognised		**283**	**-**	**-**	**-**	**283**
unused amounts reversed		**-**	**-**	**-**	**-**	**-**
Provisional additions from business combination	14	**133**	**67**	**-**	**-**	**200**
Amounts used during the half-year		**(893)**	**-**	**-**	**(483)**	**(1,376)**
Carrying amount at 31 December 2020		**263**	**744**	**233**	**-**	**1,240**

12 Borrowings

	31 December 2020			30 June 2020		
	Current $'000	Non-current $'000	Total $'000	Current $'000	Non-current $'000	Total $'000
Secured						
Bank loans	**1,200**	**1,200**	**2,400**	1,200	1,800	3,000
Equipment loans	**545**	**55**	**600**	337	211	548
	1,745	**1,255**	**3,000**	1,537	2,011	3,548
Unsecured						
Insurance premium financing	**588**	**-**	**588**	-	-	-
Total borrowings	**2,333**	**1,255**	**3,588**	1,537	2,011	3,548

The Group's Multi Option Facility with the NAB is currently allocated $2.7m to a three-year Capital Market Loan, $8.1m to a bank guarantee facility, and $1.5m to an overdraft facility. At 31 December 2020, the Capital Market Loan was drawn to $2.4m, the bank guarantee facility to $6.4m, and the overdraft was unused.

13 Share Capital

	31 December 2020		30 June 2020	
	Shares '000s	$'000	Shares '000s	$'000
Share Capital				
Ordinary shares - fully paid - 1 July 2020 (1 July 2019)	**200,987**	**21,013**	200,795	21,013
Ordinary shares - issued	**-**	**-**	192	-
Ordinary shares - buy back	**(957)**	**(147)**	-	-
On issue at 31 December 2020 (30 June 2020) - fully paid	**200,030**	**20,866**	200,987	21,013

14 Business Combination

On 29 December 2020, Verbrec announced that it would acquire 100% of the shares in Energy Infrastructure Management Pty Ltd. The acquisition was completed on 31 December 2020.

The purchase price of $10.1m was paid in cash funded from existing cash reserves. Of the $7.8m net assets acquired, $6.8m was available cash.

Under the principles of AASB 3 Business Combinations, the transaction represented a business combination.

Assets acquired and liabilities assumed at the date of acquisition

The following table summarises the recognised amounts of assets acquired, and liabilities assumed at the date of acquisition effected at 31 December 2020:

	Notes	31 December 2020 $'000
Cash and cash equivalents		**6,826**
Trade and other receivables		**1,779**
Current tax assets		**76**
Property, plant and equipment	9	**262**
Right-of-Use Assets		**72**
Deferred tax assets		**275**
Intangible assets	10	**20**
Trade and other payables		**(799)**
Employee benefits		**(484)**
Provisions	11	**(200)**
Lease liabilities		**(55)**
Total identifiable net assets acquired		**7,772**

Goodwill

Goodwill is calculated as the difference between the fair value of consideration transferred less the identified fair value of the net assets of the legal parent, being Verbrec, as follows:

Goodwill	31 December 2020 $'000
Consideration transferred	**10,059**
Less: Fair value of net identifiable assets acquired as at 31 December 2020	**(7,772)**
Goodwill on acquisition	**2,287**

The acquisition accounting for the business combination has been prepared on a provisional basis as at 31 December 2020. While the identification and fair values ascribed to the assets and liabilities acquired has yet to be completed, the impact of recognising fair value adjustments to the assets and liabilities acquired will result in a corresponding increase or decrease of the goodwill amount recorded at acquisition.

Management expects to complete the Business Combination Accounting exercise prior to 30 June 2021.

Directors' declaration

In the opinion of the Directors of the Company:

(a) the consolidated interim financial statements and notes set out on pages 8 to 21 are in accordance with the Corporations Act 2001, including:

(b) (i) complying with Accounting Standards, the *Corporations Regulations 2001* (Cth); and

(ii) giving a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the half-year ended on that date; and

(iii) the financial report also complies with International Financial Reporting Standards as disclosed in note 3; and

(iv) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by section 295A of the *Corporations Act 2001* (Cth) from the Chief Executive Officer and Chief Financial Officer for the half-year ended 31 December 2020.

Signed in accordance with a resolution of the Directors made pursuant to section 295(4) & (5) of the *Corporations Act 2001* (Cth) on 25 February 2021.

Phillip Campbell

Chairperson

Brisbane

25 February 2021

Independent auditor's review report to the members of Verbrec Limited

Report on the half-year financial report

Conclusion

We have reviewed the half-year financial report of Verbrec Limited (the Company) and the entities it controlled from time to time during the half-year (together the Group), which comprises the Condensed consolidated statement of financial position as at 31 December 2020, the Condensed consolidated statement of changes in equity, Condensed consolidated statement of cash flows and Condensed consolidated statement of profit or loss and other comprehensive income for the half-year ended on that date, significant accounting policies and explanatory notes and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of Verbrec Limited does not comply with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the half-year ended on that date

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year financial report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibility of the directors for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

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Auditor's responsibility for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

PricewaterhouseCoopers

PricewaterhouseCoopers

Michael Crowe

Michael Crowe
Partner

Brisbane
25 February 2021