

22 March 2024

Reference: 90032



Rubicon Water

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Dear Sir,

Rubicon Water Limited ('RWL'): Half-year report - Query

Thank you for your letter dated 19 March 2024. In relation to the questions raised, please see responses on behalf of RWL below (in **bold**):

1. Is RWL able to confirm that in the Directors' opinion the Half-Year Report:
 - (a) complies with the relevant Accounting Standards, in particular, AASB15 Revenue from contracts with customers; **Yes** and
 - (b) gives a true and fair view of RWL's financial performance and position? **Yes**
2. Please explain the basis for and the factors considered by the Directors to satisfy themselves that the \$5,791,000 revenue in relation to the manufacture of goods for fulfilment of a customer contract in the Asia operating segment should be recognised, when the payment is dependent on that customer securing a contract with a foreign government authority which had not been signed at the time.
There were extensive steps undertaken by both Directors and Management to satisfy themselves that the revenue in question (Contract Revenue) had satisfied the criteria required under the Australian Accounting Standards and in particular AASB15 Revenue from Contracts with Customers. The relevant considerations included:
 - a. that under AASB15, paragraph 9, five different criteria are required to be met before recognising the Contract Revenue. The existing signed contract that Rubicon has with its Indian Partner, along with a purchase order from that Indian Partner meant that AASB15 paragraphs 9 (a), (b), (c) and (d) had already been met in a prior accounting period.
 - b. AASB15, paragraph 9 (e) pertaining to probability of collecting consideration required a further level of certainty, because it relied on a back-to-back contract to be in place between the Indian Partner and the relevant Indian government authority (Government Authority).
 - c. that AASB15, paragraph 10, effectively defines contract for the purposes of applying paragraph 9. and states: *"A contract is an agreement between two or more parties that creates enforceable rights and obligations. Enforceability of the rights and obligations in a*

contract is a matter of law. Contracts can be written, oral or implied by an entity's customary business practices. The practices and processes for establishing contracts with customers vary across legal jurisdictions, industries and entities. In addition, they may vary within an entity (for example, they may depend on the class of customer or the nature of the promised goods or services). An entity shall consider those practices and processes in determining whether and when an agreement with a customer creates enforceable rights and obligations."

- d. Management reviewed and referred to a 2018 Deloitte paper "A roadmap to applying the New Revenue Recognition Standard". At Page 63, section 4.2.1, headed Each Party Has Approved the Contract and is Committed to Perform it states: "*Paragraph BC35 of ASU 2014-09 states that 'the form of the contract does not, in and of itself, determine whether parties have approved the contract.' Entities will need to evaluate all relevant facts and circumstances including customary business practices to determine whether both parties have approved the contract."*
 - e. A review of AASB 15, paragraph 9 (e) was undertaken, noting that it does not refer to the phrase "highly probable" concerning collection of the Contract Revenue as used by Deloitte in its Qualified Conclusion, rather it uses the term "probable". The Board of RWL was satisfied that it was probable that RWL would collect the consideration to which it will be entitled in exchange for the goods and services referred to in the bid letter. In accordance with AASB 15, paragraph 9 (e), in evaluating whether the collectability of the consideration was probable, the Directors considered only the Indian Partner's ability and intention to pay that amount of consideration when it is due. The Board Minute referred to above, received before the date of the Half-Year Report, assisted with that evaluation.
 - f. As was customary business practice (consistent with previous RWL projects) for the creation of an enforceable undertaking between the Indian Partner and the Government Authority, the following pieces of documentation were reviewed.
 - i. the Form of Tender (letter of Bid) dated 16th May 2023, where it states "*This tender and your [Government Authority] written acceptance of it shall constitute a binding contract between us*";
 - ii. The 140th Board meeting of the Government Authority held on the 26th December 2023, generated a Board minute provided to us on the 7th February 2024 that stated that the Government Authority board had accepted the bid (referred to above) and approved and directed to award the work to the Indian Partner (Board Minute).
 - g. As announced to the market on 1 March 2024, the day after release of the Half-Year Report, sufficient evidence of the Contract Revenue was received which the Auditor had advised would have led it not to give a Qualified Conclusion. RWL had no control over receipt of that evidence, and had the deadline for lodgement of the Half Year Report been 1 March 2024, the Qualified Conclusion would not have been given.
3. Following receipt of the Signed Contract, does RWL intend to re-issue the Half-Year Report, updated to include an unmodified review opinion?
- No.** The Half Year Report is issued at a particular point in time and reflects the Auditors' opinion at that point in time. The Directors are satisfied that the revenue included in the Half-Year Report as issued, provided a true and fair view of the company's financial position at 31st December 2023. However, as noted above, RWL released an announcement on the ASX on 1 March 2024 confirming

that satisfactory audit evidence of the Contract Revenue had subsequently been provided to its Auditor. In the company's view the market was made fully informed on the circumstances that lead to the qualification.

4. What steps does RWL intend to take to obtain an unmodified audit opinion with regards to its future financial statements?

As stated above, had the deadline for lodgement of the Half-Year Report been a day later, the Qualified Conclusion would not have been given, and RWL does not expect these circumstances to reoccur.

5. Given the Material Uncertainty Related to Going Concern included in the Auditor's Review Report, does RWL consider that the financial condition of RWL is sufficient to warrant continued listing on ASX as required under Listing Rule 12.2? In answering this question, please also explain the basis for this conclusion.

Yes. The directors took extensive steps to satisfy themselves in determining that the financial statements in the RWL Half-Year Report had been prepared on the going concern basis and that there were reasonable grounds to support the Group will continue as a going concern, based on the Group's operational and cash flow forecast. As set out in Note 1 to the Half-Year Report, the directors are satisfied that the Group will be able to achieve these cash flow forecasts.

In forming this view, the directors noted the following:

- a. **The Group retains access to A\$6.0 million of unconditional working capital facilities from Chairman, Mr Gordon Dickinson, and an entity associated with the CEO, Mr Bruce Rodgerson (of which A\$2.5 million is currently drawn). These facilities will remain available until 21 February 2025. See Note 7 to the Half-Year Report.**
 - b. **A comprehensive review was undertaken by management of the detailed cashflow forecasts prepared by management for the period of 12 months out from the end of the reporting period, which demonstrated that there was sufficient cash to meet all debts as they become due and payable over this period.**
6. If the answer to questions 5 is "No", please explain what steps RWL has taken, or proposes to take, to warrant continued listing on ASX under the requirements of Listing Rule 12.2.
- Not Applicable.**
7. In relation to the Half-Year Report, did the Board receive from its CFO and CEO a declaration, as described in section 4.2 of RWL's Corporate Governance Disclosure, that in the opinion of the CFO and CEO, the financial records of RWL have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of RWL and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively? If so, on what basis were the declarations provided given the absence of the Signed Contract?
- Yes, and see answer to question 2.**
8. If the answer to question 7 is "No", why did the Board not receive the declarations from the CEO and CFO as described in section 4.2 of RWL's Corporate Governance and Disclosure?
- Not Applicable.**

9. What enquiries did the Board make of management to satisfy itself that the financial records of RWL have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of RWL?
Refer to the answers to question 2 and 7.

10. Commenting specifically on the qualified conclusion, does the Board consider that RWL has a sound system of risk management and internal control which is operating effectively?
Yes, refer to the answer to question 2. Revenue recognition is a specific focus for both management and the Board. Significant monitoring and continuous improvements are undertaken to manage the risks in the business. The auditor's management report for the Half Year accounting period did not identify any material risk or internal control observations.

11. Please confirm that RWL is complying with the Listing Rules and, in particular, Listing Rule 3.1.
RWL confirms it is complying with the Listing Rules and, in particular, Listing Rule 3.1.

12. Please confirm that RWL's responses to the questions above have been authorised and approved under its published continuous disclosure policy or otherwise by its Board or an officer of RWL with delegated authority from the Board to respond to ASX on disclosure matters.
The responses provided to this letter were prepared by RWL management, reviewed by the Chairman of the Audit and Risk Board Committee. It was circulated to the full RWL Board and subsequently approved and authorised.

If you would like to discuss any of the above responses, please do not hesitate to contact me.

Yours sincerely,



Rob Walker
Company Secretary



19 March 2024

Reference: 90032

Mr Rob Walker
Company Secretary
Rubicon Water Limited
1 Cato Street
Hawthorn East VIC 3123

By email: rob@robwalkerlegal.com

Dear Mr Walker

Rubicon Water Limited ('RWL'): Half-year report (reviewed financial report) - Query

ASX refers to the following:

- A. RWL's announcement entitled "Update to 1H FY24 Results" lodged on the ASX Market Announcements Platform ('MAP') and released on 1 March 2024, disclosing that the key contract, the subject of the qualified review report was received and has been provided to RWL's auditors ('Signed Contract').
- B. RWL's half-year report for the half-year ended 31 December 2023 lodged on MAP and released on 29 February 2024 ('Half-Year Report').
- C. ASX notes that the Independent Auditor's Review Report attached to the Half-Year Report ('Auditor's Review Report') contains a qualified conclusion, together with the basis for qualified conclusion:

"Total revenue for the half-year ended 31 December 2023 of \$33,369,777 includes \$5,791,000 in relation to the manufacture of goods for fulfilment of a customer contract in the Asia operating segment. This transaction has been recognised as revenue in the condensed consolidated statement of profit or loss and other comprehensive income and as a current asset within contract assets in the condensed consolidated statement of financial position at 31 December 2023.

At 31 December 2023 Rubicon has a contract to supply its customer, however payment is dependent on that customer securing a contract with a foreign government authority. At 31 December 2023, whilst the minutes of a duly convened meeting of the foreign government authority state that the customer has been awarded the contract, the contract is yet to be signed. AASB15 Revenue from contracts with customers requires that revenue be recognised only when it is highly probable that no future reversal will be required. In the above circumstances, we have been unable to obtain sufficient appropriate evidence to support the recognition of revenue under the contract during the half-year ended 31 December 2023. Consequently, we were unable to determine if any adjustment to the recognition or disclosure of this transaction was necessary."

- D. ASX also notes that the Auditor's Review Report contains a material uncertainty related to going concern paragraph as set out below:

"We draw attention to note 1 in the half-year financial report, which indicates that the Group incurred a net loss after tax of \$5,615,000 (half-year ended 31 December 2022 net loss of \$5,784,000) and had net cash outflows from operating activities of \$8,472,000 during the half-year ended 31 December 2023 (half-year ended 31 December 2022 net operating outflows of \$6,943,000). These events or conditions, along with other matters as set forth in note 1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not further modified in respect of this matter" ('Material Uncertainty Related to Going Concern').

- E. RWL's Corporate Governance Statement for 2023 lodged on MAP on 25 August 2023 which provides confirmation that RWL complies with recommendation 4.2 of the ASX Corporate Governance Principles and Recommendations which states:

"The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively."

- F. Listing Rule 12.1 which states:

12.1 *The level of an entity's operations must, in ASX's opinion, be sufficient to warrant the continued +quotation of the entity's +securities and its continued listing.*

- G. Listing Rule 12.2 which states:

12.2 *An entity's financial condition (including operating results) must, in ASX's opinion, be adequate to warrant the continued +quotation of its +securities and its continued listing.*

- H. Listing Rule 19.11A which states:

19.11A *If a listing rule requires an entity to give ASX +accounts, the following rules apply.*

- (a) *If the entity controls an entity within the meaning of section 50AA of the Corporations Act or is the holding company of an entity, required by any law, regulation, rule or accounting standard, or if ASX requires, the +accounts must be consolidated +accounts.*
- (b) *The +accounts must be prepared to Australian accounting standards. If the entity is a +foreign entity the +accounts may be prepared to other standards agreed by ASX.*
- (c) *If the listing rule requires audited +accounts, the audit must be conducted in accordance with Australian auditing standards by a registered company auditor. If the entity is a +foreign entity, the audit may be conducted in accordance with other standards agreed by ASX and may be conducted by an overseas equivalent of a registered company auditor.*
- (d) *If the listing rule requires +accounts to be reviewed, the review must be conducted in accordance with Australian auditing standards. If the entity is a +foreign entity, the review may be conducted in accordance with other standards agreed by ASX. Unless the listing rule says an independent accountant may conduct the review, it must be conducted by a registered company auditor (or, if the entity is a +foreign entity, an overseas equivalent of a registered company auditor).*
- (e) *If there is a +directors' declaration that relates to the +accounts, the +directors' declaration must be given to ASX with the +accounts.*
- (f) *If there is a +directors' report that relates to the period covered by the +accounts, the +directors' report must be given to ASX with the +accounts.*

Request for information

In light of the information contained in the Half-Year Report and the Auditor's Review Report, and the application of the Listing Rules stated above, please respond to each of the following questions:

- For personal use only
1. Is RWL able to confirm that in the Directors' opinion the Half-Year Report:
 - (a) comply with the relevant Accounting Standards, in particular, AASB15 *Revenue from contracts with customers*; and
 - (b) give a true and fair view of RWL's financial performance and position?
 2. Please explain the basis for and the factors considered by the Directors to satisfy themselves that the \$5,791,000 revenue in relation to the manufacture of goods for fulfilment of a customer contract in the Asia operating segment should be recognised, when the payment is dependent on that customer securing a contract with a foreign government authority which had not been signed at the time.
 3. Following receipt of the Signed Contract, does RWL intend to re-issue the Half-Year Report, updated to include an unmodified review opinion?
 4. What steps does RWL intend to take to obtain an unmodified audit opinion with regards to its future financial statements?
 5. Given the Material Uncertainty Related to Going Concern included in the Auditor's Review Report, does RWL consider that the financial condition of RWL is sufficient to warrant continued listing on ASX as required under Listing Rule 12.2? In answering this question, please also explain the basis for this conclusion.
 6. If the answer to questions 5 is "No", please explain what steps RWL has taken, or proposes to take, to warrant continued listing on ASX under the requirements of Listing Rule 12.2.
 7. In relation to the Half-Year Report, did the Board receive from its CFO and CEO a declaration, as described in section 4.2 of RWL's Corporate Governance Disclosure, that in the opinion of the CFO and CEO, the financial records of RWL have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of RWL and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively? If so, on what basis were the declarations provided given the absence of the Signed Contract?
 8. If the answer to question 7 is "No", why did the Board not receive the declarations from the CEO and CFO as described in section 4.2 of RWL's Corporate Governance Disclosure?
 9. What enquiries did the Board make of management to satisfy itself that the financial records of RWL have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of RWL?
 10. Commenting specifically on the qualified conclusion, does the Board consider that RWL has a sound system of risk management and internal control which is operating effectively?
 11. Please confirm that RWL is complying with the Listing Rules and, in particular, Listing Rule 3.1.
 12. Please confirm that RWL's responses to the questions above have been authorised and approved under its published continuous disclosure policy or otherwise by its Board or an officer of RWL with delegated authority from the Board to respond to ASX on disclosure matters.

When and where to send your response

This request is made under Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by no later than **9:30 AM AEDT Monday, 25 March 2024**. You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, RWL's obligation is to disclose the information 'immediately'. This may require the information to be disclosed before the deadline set out in the previous paragraph and may require RWL to request a trading halt immediately.

Your response should be sent to me by e-mail at ListingsComplianceMelbourne@asx.com.au. It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

Trading halt

If you are unable to respond to this letter by the time specified above, you should discuss with us whether it is appropriate to request a trading halt in RWL's securities under Listing Rule 17.1. If you wish a trading halt, you must tell us:

- the reasons for the trading halt;
- how long you want the trading halt to last;
- the event you expect to happen that will end the trading halt;
- that you are not aware of any reason why the trading halt should not be granted; and
- any other information necessary to inform the market about the trading halt, or that we ask for.

We require the request for a trading halt to be in writing. The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted. You can find further information about trading halts in Guidance Note 16 *Trading Halts & Voluntary Suspensions*.

Suspension

If you are unable to respond to this letter by the time specified above, ASX will likely suspend trading in RWL's securities under Listing Rule 17.3.

Listing Rules 3.1 and 3.1A

In responding to this letter, you should have regard to RWL's obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure*: Listing Rules 3.1 – 3.1B. It should be noted that RWL's obligation to disclose information under Listing Rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

Release of correspondence between ASX and entity

ASX reserves the right to release all or any part of this letter, your reply and any other related correspondence between us to the market under Listing Rule 18.7A.

Kind regards

ASX Compliance