ASX Announcement

26 November 2021

Chairman's Address to Annual General Meeting

Good afternoon ladies and gentlemen.

We have undergone significant changes at the Board and Executive level in FY21, all of which have been well received by both staff and investors.

Sarah Zeljko joined the board in September 2020. A lawyer, Sarah is widely recognized for her commercial acumen in project management and in negotiating pragmatic commercial outcomes with major infrastructure projects. Her contributions to board deliberations have been very valuable to the board's oversight of a number of poorly performing engineering projects in the infrastructure sector, further details of which will be discussed later by our Managing Director.

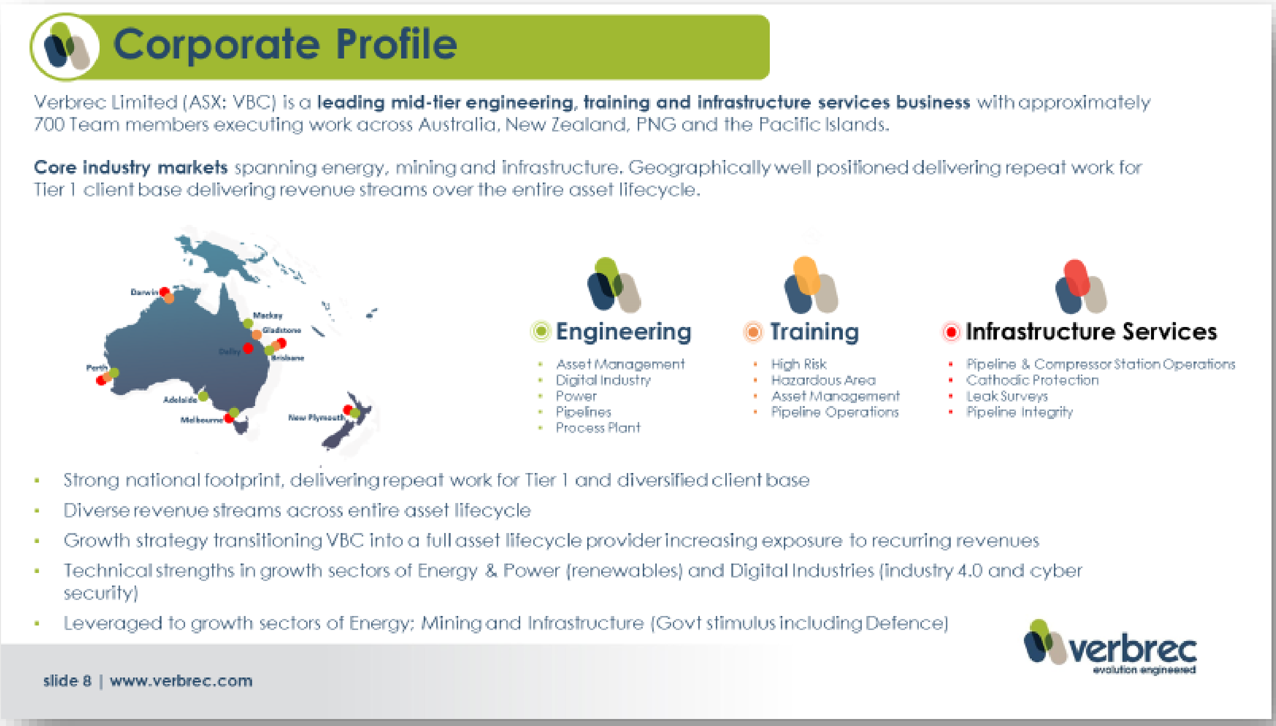
During the year we also bade farewell to CEO, Chris O'Neill, who had ably led the merger of Logicamms and OSD to form the entity we christened Verbrec Limited in October 2020. Chris's resignation occasioned the elevation of then Executive Director, Linton Burns, to Managing Director and CEO and the resignation of Brian O'Sullivan from his executive role but retaining his position on the Board as a Non-Executive Director.

The Board is pleased to welcome to the executive team Riaan Castens as General Manager West, and Iain Denholm as General Manager East, who together with COO Matt Cooper, bring maturity and a needed depth of project and commercial experience to the business.

This financial year brought challenges and uncertainties for businesses globally due to the continued fallout from the COVID-19 pandemic. However, thanks in large part to our mostly new senior management team, the business was able to refocus and secure key new work at attractive margins, the benefits of which will fully reveal themselves in the second half of FY22 and into FY23. Although we were unable to work shoulder to shoulder in recent months, we remain an effective and united team and are now returning to the various offices – an important step in maintaining and strengthening our corporate culture.

FY21 financial results were adversely affected by three poorly performing, legacy projects in the infrastructure sector, which Managing Director Linton Burns will cover in his review of operations, With this in mind, we ask you to look beyond the headline results and scrutinize the underlying numbers that point to a strong turn-around in business activity over the first two quarters of FY22. The record work-in-hand position at significantly improved margins should be a comfort to Members as we enter the second half of FY22.

As you know, this financial year marked the first as Verbrec, signifying the complete transformation of the business following the successful merger of OSD and LogiCamms in 2019.



After a wide-ranging first quarter review of the business, and the environment in which it operates, we streamlined our operations into three distinct service offerings across the entire asset lifecycle: Engineering Services, Infrastructure Services and Training Services. The clear delineation of our service offerings has allowed us to focus on key growth initiatives both organic and by M&A. Our strategy of adding scale and geographic spread to these service offerings both organically and by M&A will continue.

Our **Engineering Services** division, with strengths across Digital Industry, Power, Pipelines and Asset Management is delivering repeat work for a Tier 1 client base.

Improved economic activity in the resources sectors driven by higher energy prices, sustainable iron ore prices, and the mini-boom associated with battery materials have all contributed to an uptick in demand for Engineering and Infrastructure Services. The record work in hand position is testament to some excellent business development work by our executive team. Confidence has returned to our key mining and oil & gas clients after FY21 lows, positioning Verbrec well into FY22.

Our **Infrastructure Services** division has grown significantly in size and capability following the acquisition of EIM. This division provides operations and maintenance services to asset owners of critical energy infrastructure via long dated operations and maintenance agreements and ad-hoc integrity services. Since the start of this financial year it has won several significant operations and maintenance contracts along with several brownfield asset modification projects, demonstrating its strong market position.

Our **Training Services** division has also grown significantly in size, capability and geographical footprint following the acquisition of Site Skills training. This division provides high risk and hazardous area training from locations throughout Australia. With a labour shortage in growth sectors such as mining, energy and infrastructure this division has an important role to play in ensuring Australia has the requisite skilled labour and has significant growth prospects as a result.

Following the merger of Logicamms and OSD, a forensic review was conducted of the "blue sky" technology projects that the previous board and management of Logicamms had invested in over several years. A dispassionate assessment of the commercialization possibilities drew the conclusion that StacksOn™ had a solid commercial future whereas the other technologies had limited commercial potential. Consequently, the Board approved further, tightly managed investment in the development and commercialization of StacksOn™. A portion of the proceeds of the $3m Placement in April 2021 was utilized in this regard. That investment was vindicated recently with BHP becoming the first commercial customer of StacksOn™. There is considerable interest in the product from the mining industry and we are now evaluating the future StacksOn™ commercialization strategy in order to yield the maximum return for shareholders,

To our patient and supportive shareholders. Thank you again. Your Board recognises the need to return to paying dividends as soon as possible. Once the poorly performing legacy projects are behind us, and the Managing Director will discuss this more fully in his review of operations, we will be in a position to heed shareholders requests. We are increasingly confident of reaching a substantial settlement in relation to the largest and most troublesome project. Further, the Board is confident that we now have the management structure and experienced executives in place to overcome the immediate challenges and deliver on the Verbrec strategy in an improving business environment.

I would like to thank my fellow Directors and our Executive team, in particular our CFO, Michael Casey who in this last financial year has overseen the implementation of a vital new IT system while building a new finance team and shouldering the added stress caused by the legacy projects.

But by far my biggest thanks goes to our staff of over 700 people. The past 18 months has been incredibly challenging for everyone and may continue to be so as we navigate our way through the COVID-19 pandemic.

Phillip Campbell
Chairman

Managing Director's Address to Annual General Meeting

I would first like to thank our shareholders for joining us today and extend my gratitude to my fellow Board members and all Verbrec Team members for their hard work and support this year.

Following my appointment as your Managing Director in October 2020, we have executed a number of strategic changes and with record work-in-hand, commercialization of StacksOn™ and a substantially reduced overhead cost base that ensures we are in the strongest position possible to deliver value for shareholders in future years.

Because of this strong work-in-hand our revenues have increased significantly, and we expect that to continue on in to the second half. As such we are currently forecasting FY22 revenues in the range of $110m to $125m with potential upside if some significant prospects actively being pursued are awarded to us in the near-term.

Before I go into the reasons why we expect a strong rebound, let me explain FY21's performance.

FY21 was challenging for many, us included, due to the lingering impacts of COVID-19 and extended lockdown periods in various parts of Australia. As previously reported, and as Phillip touched on, our FY21 results were also adversely affected by three poor performing legacy projects.

Two of these projects, both bid several years ago prior to the merger of OSD and LogiCamms, aimed at upgrading control systems for major water utility companies have each suffered significant delays and cost-overruns. As previously advised, we have outstanding multi-million dollar claims in relation to additional costs we have already incurred on one of these projects.

These claims continue to be vigorously pursued with the proceeds to be recognized as revenue and margin when received.

A third, gas infrastructure project, was tendered far too aggressively in Q4FY20 when the uncertainties surrounding the impact of COVID-19 were at their greatest. During this half we renegotiated some commercial terms of this contract which has improved revenue and cash-flow, but it does continue to deliver poor margins and will continue to do so until it is completed at, or around, Christmas this year.

As Phillip mentioned, we successfully implemented a new IT system, this system is already delivering efficiency gains with improved project performance reporting and is expected to continue to deliver ongoing efficiency gains across the business for years to come. We now have one common system across the whole business that tracks schedule and productivity performance of our projects; tracks our pipeline of opportunities and manages our people and finances.

FY21 Margin Analysis

- FY21 results impacted by 3 poor performing legacy projects; COVID impacts and unresolved delay claim
  - Detailed bottom-up reviews of project costs through to completion conducted in May 2021
- Underlying Margins remained strong at 32.5% (after adding back Margins from 3 poor performing legacy projects to bid margin)

FY21	Statutory	Impact of 3 poor projects	One-off's	Underlying
Gross Profit ($)	27.7m	6.3m	-	34.0m
Gross Margin %	28.2%	4.3%	-	32.5%
EBITDA ($)	1.2m	6.3m	0.2m	7. 7m
EBITDA Margin %	1.2%	6.0%	0.2%	7.4%

Margin Improvement Plan

- ✓ Review of our project delivery systems conducted, recommendations **implemented** by taskforce
- ✓ Tighter controls over pricing and bid review **implemented**
- Vigorously pursue the multi-million dollar delay claim (in-progress)
- Complete legacy projects as soon as possible and move delivery teams to much higher margin generating projects (2 of 3 legacy projects due to complete by calendar year end)
- ✓ Overhead savings totalling $5.0m per annum on a recurring basis since merger of OSD and LogiCamms

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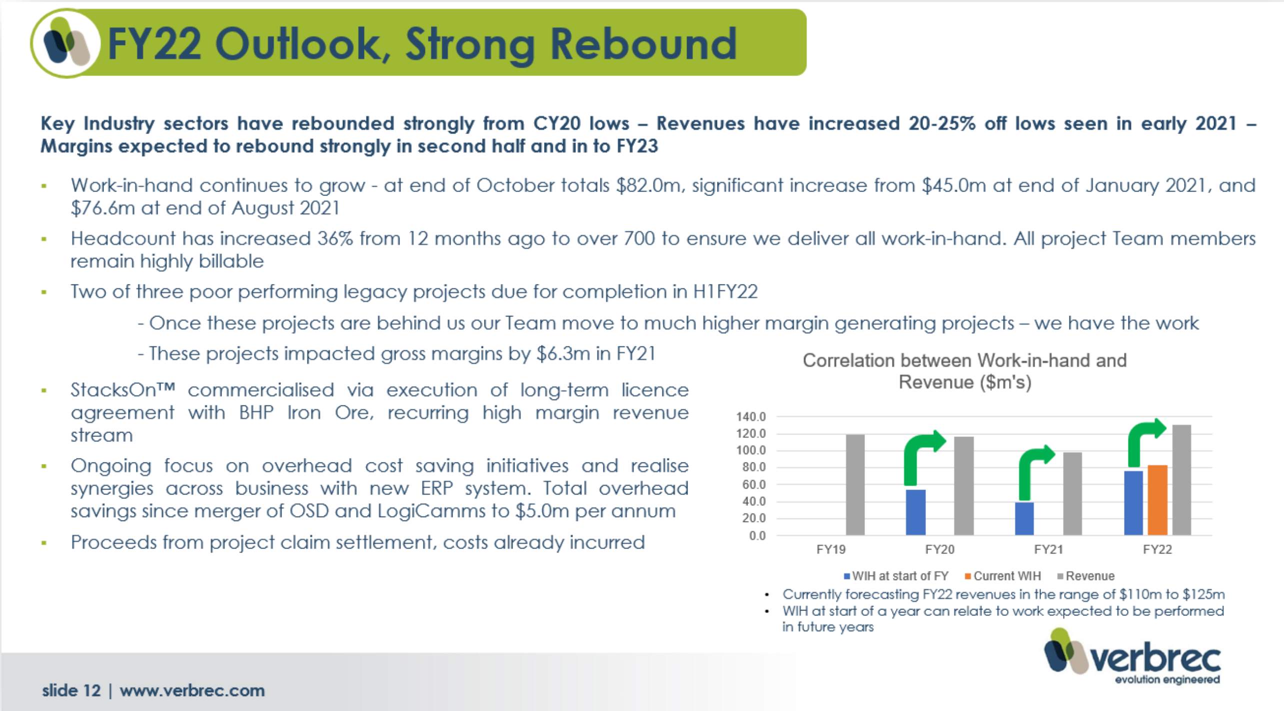
To improve project delivery, particularly as we experience growth, we undertook a thorough review of our processes and systems and bolstered the management team with the appointment of Matt Cooper as Chief Operating Officer in late FY21. More recently we strengthened local management in Western Australia and Queensland with the appointment of experienced industry professionals, Riaan Carstens as GM West and Iain Denholm as GM East.

Excluding the three poor-performing legacy projects, underlying gross margins were strong at 32.5% in FY21 compared to 31% in FY20. By renegotiating several historic office leases, we realized $1.2 million per annum in real estate overhead savings, bringing total annualized overhead savings since the merger of OSD and LogiCamms to $5.0 million.



Work-in-hand is the strongest it has been for the Company and continues to grow. As at the end of October it totaled $82.0 million, which is an 7.0% increase from the $76.6 million announced in August 2021 and up 82% since January 2021. This excludes revenues from our Training Services business. The recent project awards which have driven this increase have been bid following a more rigorous and disciplined approach to pricing and under acceptable commercial models. This provides us with confidence in the business' ability to strongly rebound as we wrap up the poorly performing legacy projects.

I am pleased to report that by the end of calendar year 2021, two of these three legacy projects will be completed. This will allow our team members to focus on recently awarded and much higher margin projects. Underlying gross margins remain strong at 33% for the first quarter of FY22. We are therefore expecting reported margins to grow strongly in the second half of FY22.

In addition to the growing order book of traditional engineering projects and critical energy infrastructure operations and maintenance agreements, we recently announced the execution of a multi-year software licence agreement of the StacksOn™ technology with BHP Iron Ore. This agreement validates the commercial value of StacksOn™ and provides further growth of our recurring revenue streams. The agreement will see the implementation of StacksOn™ across BHP's Western Australia iron ore stockyards via a fee-for-service arrangement and is currently operational at two of their stockyards while being rolled out to another two. I can also confirm that since we announced the licensing of StacksOn™ we have agreed terms with BHP for StacksOn™ to be implemented at their WA Iron Ore port.

We expect margins from the StacksOn™ agreement to be very high which will further improve our financial position and are confident of other near-term growth opportunities for our first technology product.

In addition to the strong organic growth, we have grown strategically through two key bolt-on-acquisitions of Energy Infrastructure Management (EIM) and Site Skills Training – which are both integrating well.

EIM is fully integrated into our Infrastructure Services division. We are in a strong market position as evidenced by two recent multi-year contract renewals. Meanwhile, Site Skills Training integration is in-progress and on-track with revenues improving as we focus on marketing recent State-based funding agreements and delivering those courses which generate the highest gross margins. In addition, a new website that provides a seamless customer experience for booking courses will go live shortly.

Lastly and importantly, we are a People business. We are nothing without a highly motivated and diverse Team all pulling in the same direction and staying true to our Values. With a tightening labour market we understand that Verbrec's future success is dependent on attracting and retaining talented individuals. We have, and will continue to, implement initiatives to ensure Verbrec is an employer of choice and will continue to develop our Team by providing ongoing training and development opportunities across all business functions.

My priorities for the 2022 financial year are:

- Ensuring the legacy projects, I have mentioned, are behind us as quickly as possible with minimal further margin impact.
- Bringing our claim on the control system project to conclusion with settlement and payment.
- Executing the $82m work-in-hand at or better than bid margin.
- Strengthening our work-in-hand even further by pursuing opportunities across our key industry sectors of energy, mining and infrastructure each of which remain strong with a continued focus on recurring revenue streams.
- Securing additional near term StacksOn™ software licensing opportunities to grow the value inherent in Verbrec's first commercial technology product.
- Continuing to ensure Verbrec is an employer of choice.

FY22 Outlook, Strong Rebound in H2

	FY21 Statutory	FY22 Outlook	Rationale
Revenue	$98.3m	Significant increase	Work-in-hand up 118% from 14 months ago. Key activity indicators continue to track 25% up on early 2021
Gross Profit	$27.7m	Significant increase	Increased revenue will generate increased gross profit; 2 legacy projects finish in 2021 with team members moving to much higher gross profit generating projects; StacksOn™ licence fees; Delay claim settlement
Sales, General and Admin Costs	($27.7m)	Decrease	Economies of scale with higher Gross Profit coverage of fixed overheads; further savings in office leases; high Team reimbursability given significant increase in business activity
Net Profit	($3.9m)	Significant increase	Driven by significant increase in Revenue and Gross Profit with further savings in Sales, General and Admin Costs

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While we are unable to provide profit guidance until the legacy projects are behind us, we are experiencing strong growth in revenues which is expected to continue given the growing order book and are forecasting FY22 revenues in the range of $110m to $125m. We will be in a better position by the time we release our half year results to provide further guidance with a higher degree of certainty.

With this growth in revenues; and with two of the three poor performing legacy projects due to be completed by the end of calendar year 2021; commercialization of StacksOn™; substantially reduced overhead cost structure and a great Team, I am very confident that your Company will experience a strong rebound in margins in the second half of FY22 and on into FY23 which should facilitate a return to dividends during this period.

To conclude, I would like to thank you all for your ongoing support of Verbrec throughout this challenging, but pivotal year for your business. I greatly look forward to seeing you in person soon.

Linton Burns
Managing Director

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Authorised for release by the Board of Directors of Verbrec Limited.

Further Information

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About Verbrec Ltd

Verbrec is a leading mid-tier engineering and project services company that supports customers across Australia, New Zealand, PNG and beyond. The Verbrec group of companies serve the energy, infrastructure, and mining industries through their six service lines; asset management, competency training, digital industry, pipelines, power, and process plant, with capabilities that span across the entire life cycle of an asset. Verbrec is an Australian Securities Exchange listed company (ASX:VBC).