Company Registration Number 200413014R
3 Shenton Way, #21-04 Shenton House
Singapore 068805

Announcement pursuant to Rule 704(5) of the Listing Manual

Pursuant to Rule 704(5) of the Listing Manual, the Board of Directors of AusGroup Limited (the "Company") together with its subsidiaries (the “Group”) wishes to announce that the independent auditor of the Company, KPMG LLP, has issued a qualified opinion in their Independent Auditor's Report dated 3 October 2022 for the financial statements of the Company and the Group for the financial year ended 30 June 2022.

Please refer to the copy of the aforementioned Auditor’s Report (Appendix 1), together with an extract of the relevant notes to the Financial Statements (Appendix 2) for further information.

By Order of the Board
AusGroup Limited

Shane Francis Kimpton
Managing Director
4 October 2022

Issued by AusGroup Limited.

For further information in Singapore, please contact Richard Ling
E richard.ling@ausgroupltd.com
For further information in Australia, please contact Christian Johnstone
T +61 8 6210 4500 | **E** christian.johnstone@ausgroupltd.com

ABOUT AUSGROUP LIMITED
With more than 30 years of experience, AusGroup is an established project and asset services provider. We create ongoing value for our clients across construction and maintenance environments. Through our subsidiaries AGC, MAS and NT Port and Marine, we provide specialty services to the energy, resources, industrial, utilities and port & marine sectors. For more information, visit www.ausgroupltd.com

Appendix 1 - Independent auditor's report to the members of AusGroup Limited

Report on the audit of the consolidated financial statements

Disclaimer of opinion

We were engaged to audit the financial statements of AusGroup Limited (the "Company"), and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 30 June 2022, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, as set out on pages 43 to 107.

We do not express an opinion on the accompanying financial statements of the Group. Because of the significance of the matters described in the "Basis for disclaimer of opinion" section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

Notes 2 and Note 19(a) to the financial statements state that the outstanding multi-currency notes (the "Notes") of AU$41.7 million are callable on demand caused by a covenant breach. The Group has put forth a draft debt restructuring plan to multi-currency noteholders ("Noteholders"), which includes a waiver of breached covenant, an extension of the Notes' current maturity date, i.e., 3 December 2022 by another 60 months, and a debt-to-equity conversion arrangement in the event the proceeds from sale of the secured asset is insufficient to fully extinguish the outstanding obligation of the Notes. As at the date of this report, there is no agreement reached with the Noteholders in respect of this debt restructuring plan. The Group also has a shareholder loan amounting to AU$27.5 million, maturing on 31 October 2023. The Group has not extended its shareholders' loan as at the date of this report. As such, we are unable to conclude whether the use of going concern assumption in the preparation of financial statements is appropriate. The financial statements do not include any adjustments or any reclassification of assets and liabilities that would result if the going concern assumption is not appropriate.

Responsibilities of management and director for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Companies Act 1967 ("the Act") and Singapore Financial Reporting Standards (International) ("SFRS(I)"), and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised used or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is 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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our responsibility is to conduct an audit of the Group's financial statements in accordance with Singapore Standards on Auditing (SSAs) and to issue an auditors' report. However, because of the matter described in the "Basis for disclaimer of opinion" section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code.

Report on other legal and regulatory requirements

In our opinion, in view of the significance of the matters referred to in the "Basis for disclaimer of opinion" section of our report, we do not express an opinion on whether the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditors' report is Loo Kwok Chiang, Adrian.

KPMG LLP
Public Accountants and
Chartered Accountants
Singapore 3 October 2022

Appendix 2 – Relevant extracts from the financial statements for the year ended 30 June 2022

2 Summary of significant accounting policies (extract)

(a) Basis of preparation

Preparation of the financial statements on a going concern basis

The Group incurred a net loss of AU$31.7 million for the financial year ended 30 June 2022. As of that date, the Group and Company were in net current liability positions of AU$18 million and AU$50.2 million, respectively. In the assessment of the appropriateness of going concern assumption used in the preparation of the financial statements, the directors of the Company are reviewing a debt restructuring plan to be negotiated with multicurrency noteholders ("Noteholders") and subsequently with a shareholder. and cash flows forecast to be generated from the Group's businesses.

As at 30 June 2022, the Group has outstanding multi-currency notes ("Notes") totalling AU$41.7 million which matures on 3 December 2022 and is capable of being called for repayment on demand by the Noteholders as a result of a covenant breach (refer to Note 19(a)). As of the date of this report, there is no notice of demand served by the Noteholders as the Group is in active discussions with the Noteholders to reach a debt restructuring plan. The Group has submitted a draft Consent Solicitation Statement to the Noteholders with a proposed debt restructuring plan which includes an extension of the maturity date ("Revised Maturity Date") by 60 months after 3 December 2022, a debt-to-equity conversion feature in the event that the sale of the Noteholders' secured assets does not fully extinguish the outstanding debt and a waiver of the breached covenant. The Group has previously extended the Notes on two occasions with the Noteholders and will work with the Noteholders to reach mutually acceptable terms for the restructuring. The Group continues to be in exploratory talks with Interested parties to divest the secured assets (comprising the assets of NT Port and Marine) to repay the Noteholders debt.

In addition, the Group plans to engage in a similar proposed restructuring of the loan from a substantial shareholder ("Shareholder Loan") of AU$27.5 million which is not due until 31 October 2023.

Management has prepared the Group's cash flow forecasts from 1 July 2022 to 31 December 2023, including sensitivities. These forecasts represent management's best estimate of revenues and costs in the coming periods and include cash inflows from secured and unsecured contracts from existing and new clients. Whilst these forecasts contain some uncertainties relating to future contracts, management remains confident that sufficient new work will be secured to generate positive operating cash flows to meet its working capital needs and settle other short term debt obligations at least in the next 12 months from the reporting date. The sufficiency of the management cash flow forecasts is additionally supported by recent completion of a property sale and leaseback transaction for AU$16.2 million concluded on 26 August 2022.

The directors believe the Group can agree a debt restructuring plan with Noteholders and consider that the Group's use of the going concern assumption in preparation of the financial statements remains appropriate.

In summary, the directors' assessment is premised on the following:

- the realisation of forecasted cash flows from the Group from 1 July 2022 to 31 December 2023, including revenue from secured and unsecured contracts and the ongoing pipeline of work which the Group has in hand beyond this forecast period;
- there is no notice of statutory demand issued for immediate repayment of the Notes and the current maturity date of the Notes can be extended beyond 3 December 2022;
- the ability of the Group to negotiate for an extension of the Shareholder Loan beyond October 2023;
- the additional funding raised from recent completion of the Sale & Leaseback of the facility at 15 Beach Street, Kwinana Beach WA for A$16.2 million concluded on 26 August 2022 (see Note 9); and
- the ability of the Group to divest assets or businesses to raise proceeds to extinguish the Group's debt obligations.
-

In view of the above, the directors believe that the Group will be able to meet its obligations as and when they fall due, at least in the next 12 months from the reporting date. The directors are of the opinion that the preparation of the financial statements on a going concern basis remains appropriate These financial statements do not include any adjustments or any reclassification of assets and liabilities that might result if the going concern basis for preparation is inappropriate.

19 Borrowings (extract)

	Group		Company	
	2022 AU$'000	2021 AU$'000	**2022 AU$'000**	2021 AU$'000
Current				
Multi currency notes	**41,677**	-	**41,677**	-
Insurance premium funding	**2,083**	2,071	**-**	-
Lease liabilities	**2,548**	2,771	**-**	-
	46,308	4,842	**41,677**	-
Non-current				
Multi currency notes	**-**	39,282	**-**	39,282
Loan from substantial shareholder (note 31(e))	**27,509**	24,669	**27,509**	24,669
Insurance premium funding	**2**	27	**-**	-
Lease liabilities	**9,538**	11,426	**-**	-
	37,049	75,404	**27,509**	63,951
Total borrowings (interest-bearing)	**83,357**	80,246	**69,186**	63,951

19(a) Loan and Overdraft facilities

Multi currency notes ("Notes")

The Notes (AU$41.7m) are classified as current liability and are secured.

The maturity date of the Notes is 3 December 2022 but owing to a covenant breach (refer to section on “Facility Covenants”), the outstanding notes are callable on demand although no notice of demand has been served against the Company as at the date of this report. Interest is paid monthly at a rate of 7% per annum from 3 December 2020. On 2 August 2022, the first informal meeting of the Noteholders in respect to the maturity of the Notes was held on 10 August 2022 in Singapore; and a second informal meeting of the Noteholders was held in Singapore on 25 August 2022 with further meetings both informal and formal to be scheduled as required prior to the maturity date in order to agree on the terms and conditions of the Consent Solicitation Statement relating to the extension of the Notes.

Loan from substantial shareholder

The repayment date of the Loan from Ezion Holdings Limited (“Ezion”) is not due until 31 October 2023 hence the Loan is classified as a non-current liability. At 30 June 2022, the amount owing on the Loan was AU$27.5m (30 June 2021: AU$24.7m) and is unsecured. The interest rate applicable to the Loan is 2% per annum. The Group plans to engage in a proposed restructuring of the Shareholder Loan with Ezion on extension / repayment options for the Shareholder Loan.

Multi currency notes

In accordance with the Noteholder vote in favour of the Consent Solicitation Exercise ("CSE") on 19 October 2018, the Group renegotiated the terms of the Notes and added two financial covenants being:

(i) the ratio of its Consolidated Secured Debt to its Consolidated Total Assets shall not at any time exceed 0.75:1; and
(ii) The ratio of its Consolidated earnings before interest, tax, depreciation, amortisation and impairment ("EBITDA") to its Consolidated Interest Expense in respect of any Test Period shall not be less than 1.75:1 for that Test Period (the Debt Service Ratio).

The Group has complied with the first financial covenant being the Consolidated Secured Debt to its Consolidated Total Assets however, due to the underlying operational losses after adjusting for impairments, the Group is in breach of the Debt Service Ratio. The outstanding Notes totalling AU$41.7 million which matures on 3 December 2022 is capable of being called for repayment on demand by the Noteholders as a result of the covenant breach. There is no notice of demand served by Noteholders as the Group is in active discussions with the Noteholders to reach a debt restructuring plan. The Group has submitted a draft Consent Solicitation Statement to the Noteholders with a proposed debt restructuring plan which includes the Revised Maturity Date by 60 months after 3 December 2022, a debt to equity conversion feature in the event that the sale of the Noteholders’ secured assets does not fully extinguish the outstanding debt and a waiver of the breached covenant. The Group has previously extended the Notes on two occasions with the Noteholders and will work with the Noteholders to reach mutually acceptable terms for the restructuring.

DBS Bank Ltd facilities

The Group has not complied with the financial covenants on its DBS Bank Ltd facilities with the exception of the Secured debts to Total Assets financial covenant. However, waivers for these breaches for FY2022 have been obtained from DBS Bank Ltd subsequent to the reporting date. The total amount utilised through the DBS facility is $0.8m, however the bank guarantees issued under the facility are secured by DBS Bank Ltd through a cash-backed term deposit held in restricted status by the bank.