# 2018 FINANCIAL REPORT

PRIMERO GROUP LIMITED ABN 96 149 964 045 AND CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2018

DESIGN
CONSTRUCT
OPERATE

PRIMERO

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# DIRECTORS' REPORT

Your directors present their report on the consolidated entity (referred to herein as the Group) consisting of Primero Group Limited and its controlled entities for the financial year ended 30 June 2018.

## General Information

### Directors

The following persons were directors of Primero Group Limited during or since the end of the financial year up to the date of this report:

Cameron Henry – Managing Director

Dean Ercegovic – Director of Operations

Brett Grosvenor – Director of Development

Mark Connelly – Non-Executive Chairman (appointed 25/05/2018)

Luke Graham – Non-Executive Director (appointed 21/05/2018)

Peter Grigsby – Executive Director (resigned 05/06/2018)

Ben Davies – Executive Director (resigned 05/06/2018)

Particulars of each director's experience and qualifications are set out later in this report.

## Principal Activities

Primero Group provides engineering, design, construction and operational services to the minerals, energy and infrastructure sectors.

Primero Group's principal activities in these sectors during the financial year include:

- Engineering and Design services which includes full plant design and feasibility studies
- Project Management and Planning
- Complete turnkey inhouse construction in civil, structural, mechanical, piping, electrical, instrumentation and control systems disciplines.
- Commissioning
- Operations and Maintenance

Most of Primero Group activities is in Western Australia. Its head office is in Perth with other offices in Port Hedland and Montreal, Canada.

Primero Group contracts range from straight design, straight construction and design and construction in all three sectors.

## Significant Changes to Activities

There are no significant changes in the nature of the consolidated group's activities during the financial year.

**Significant Events after the Reporting Period**

On the 9th of July 2018 Primero Group listed on the Australian Stock Exchange raising $25 million. The raise was made up of:

- 50,000,000 new shares issued at 40 cents per share raising $20 million of new capital coming into the company.
- 12,500,000 shares sold by the existing shareholders at 40 cents raising a further $5 million.

**Environmental Issues**

The Groups operations are subject to a range of environmental regulations.

During the financial year, Primero Group and its subsidiaries met all reporting requirements under any relevant legislation. There were no incidents which required reporting.

**Dividends Paid or Recommended**

Dividends paid or declared for payment during the financial year are as follows:

- Fully Franked Dividend of $0.004 per share paid on 8/11/2017
- Fully Franked Dividend of $0.002 per share paid on 23/11/2017
- No dividend has been declared in relation to the 2018 Financial Year

**Dividends Reinvestment Plan**

There was no dividend reinvestment plan in operation during the financial year

**Indemnifying Officers or Auditor**

During and since the end of the financial year, the company has given an indemnity or entered into an agreement to indemnify, or paid or agreed to insure each of the directors (as named above), the company secretary, and all executive offices of the Company and of any related body corporate against liabilities for costs and expenses incurred by them in defending legal proceedings arising from their conduct while acting in the capacity of officers of the company, other than conduct involving a wilful breach of duty in relation to the company.

The total amount of insurance premiums paid for the 2018 financial year in relation to directors and officers insurance was $5,068.

The company has not indemnified the auditor in respect of any matter.

**Proceedings on Behalf of the Company**

No person has applied for leave of court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

**Non-audit Services**

The Board of Directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

– all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and

– the nature of the services provided does not compromise the general principles relating to auditor independence in accordance with APES 110: *Code of Ethics for Professional Accountants* set by the Accounting Professional and Ethical Standards Board.

The following fees were paid or payable to Moore Stephens for non-audit services provided during the year ended 30 June 2018:

| | $ |
|---|---|
| Investigating Accountants Report | 59,223 |
| | 59,233 |

**Auditor's Independence Declaration**

The lead auditor's independence declaration for the year ended 30 June 2018 has been received and can be found on page 19 of the financial report.

**Options**

At the date of this report, the unissued ordinary shares of Primero Group Limited under option are as follows:

| Grant Date | Date of Expiry | Exercise Price | Number under Option |
|---|---|---|---|
| 09/07/2018 | 09/07/2021 | $0.50 | 1,000,000 |
| 09/07/2018 | 09/07/2021 | $0.60 | 1,000,000 |
| | | | 2,000,000 |

The Options were issued to Canaccord Genuity as compensation for their brokerage work perform for Primero Group in the initial public offering on the Australian Stock Exchange.

Option holders do not have any rights to participate in any issues of shares or other interests of the company or any other entity.

There have been no options granted over unissued shares or interests of any controlled entity within the Group during or since the end of the reporting period.

For details of options issued to directors and executives as remuneration, refer to the remuneration report.

During the year ended 30 June 2018, no shares of Primero Group Limited were issued on the exercise of options.

No person entitled to exercise the option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

**Review of Operations**

**Financial**

The 2018 Financial Year for Primero Group was very successful which culminated in an Initial Public Offering (IPO) and listing on the Australian Securities Exchange (ASX) on 9th July 2018. All key financial metrics improved from the 2017 Financial Year with highlights for FY18 including:

- Revenue growth of 63% to $85.2 million
- Normalised EBITDA growth of 259% to $8.9 million
- Net profit after tax growth of 353% to $5.2 million
- Borrowings falling by 35% to $1.9 million
- Net Assets increasing by 124% to $8.4 million

For 2018 Financial Year, there was a notable change in the relative contribution of the three industry sectors which Primero operates in, being Minerals, Energy and Non-Process Infrastructure. Minerals processing contributed $71.2 million in revenue which made up 84% of group turnover in FY18 compared to only 20.8% in FY17. This strong performance was driven by the increase in capital expenditure on projects in battery-related minerals including lithium and rare earths. Primero is a globally-recognised leader in the design, construction and operation of processing facilities in these commodities and expects its Minerals division to continue to perform strongly in the FY19 period.

The reduced contribution of Non-Process Infrastructure (NPI) to group turnover in FY18 was due to a number of major projects in the Pilbara iron ore industry reaching conclusion in FY17. The recent approval of a number of major Pilbara iron ore projects in recent months provides new contract opportunities.

Revenue from the Energy division was down slightly in FY18 however the scaling up of activities related to the EPC contract with Wartsila for the 211MW Barker Inlet Power Station in South Australia will see the Energy division become a greater revenue contributor in the FY19 Financial Year.

In FY18, Primero began trading in Canada through its Canadian subsidiary Primero Group Americas Inc after opening an office in Montreal, Quebec. The subsidiary revenue for the period was $3.6 million for the year which accounted for 4.2% of the group's turnover for the period.

Primero has not declared a dividend for the 2018 Financial Year. Profits generated during the period will be retained in the company to support the numerous growth opportunities that exist in all three divisions of the business as we move into FY19.

**Outlook**

Primero's short term outlook is very strong with increased revenue growth in the 2019 financial year considering at the date of this report our contracted order book stands at $100m of revenue This represents a 17% increase on the $85 million delivered for the 2018 financial year, and with significantly increased tendering activities across all three business sectors the expectation at this early stage is that growth will continue post the 2019 financial year.

After completing its recent capital raising, Primero now has the financial strength to deliver on its strong pipeline of projects and take on larger projects thereby growing its revenue base over the coming years. The $20 million equity proceeds from the IPO process will assist with working capital requirements whilst an increased insurance bond facility to $20 million will assist with security requirements on projects.

Primero expects growth in all three sectors of operations. With an all-encompassing design and construct in-house turnkey model, Primero has a real competitive advantage over its competitors and with the latest additional service offering of contract operations and maintenance enhances our competitive business model. Primero has the ability to offer clients a solution through the whole project life cycle from feasibility to design and construction and then through to operations and maintenance.

An assessment of Primero's outlook for the three sectors is as follows:

Non-Process Infrastructure

The non-process infrastructure division is predominantly made up of projects associated with the Iron Ore sector being Rio Tinto, BHP Billiton and Fortescue Metals Group. These projects typically involve the design and construction of infrastructure outside the processing plant which usually includes wash bays, workshops and fuel hubs. It has widely been reported that all three of these miners are increasing their expenditure over the next three years not only to build new mines but also to sustain their existing mines. Primero has a long history in completing projects for all three of these companies and believes it is in an excellent position to win further projects in this sector.

Minerals

Primero minerals division made up $71 million of revenue in 2018. This was mainly made up of the design and construction of battery related materials processing plants. Although Primero still sees opportunities in this area it is also getting plenty of opportunities in other non-battery related minerals. This is through Primero's strong reputation of delivery on minerals processing projects and its strong diversified process engineering team which is currently involved in numerous studies that could lead to design and construct projects. The suite of commodities exposure includes precious, base, industrial, battery and bulk minerals. With several phase 2 expansions being assessed, green fields projects, and brownfields upgrades our pipeline of near and long term works within the minerals sector is growing.

Primero is also seeing more opportunities for contract operations and maintenance of processing plants. With the successful running of the first operations and maintenance contract at Bald Hill lithium mine there are certainly more opportunities now presenting to expand this side of the business model.

Primero Americas located in Montreal, Canada is continuing to grow as a standalone business and is continuing to strengthen and win work. The office is predominantly working on early stage project works for clients in North and South America with further opportunities increasing with reputation and time in the market.

Energy

Out of the $100 million contracted revenue for 2019 the energy division has the largest portion due to a $56 million construction contract with Wartsila at the Baker Inlet Power Station in Adelaide. Wartsila is a Finnish company which specialises in reciprocating power engines and the delivery of EPC power projects. Primero sees this as a major part of new generation rationale within Australia as more renewables are introduced into the power market. The inherent instability associated with renewables and the stability the Wartsila solution provides as flexible on demand capacity places this product, style and delivery model in good stead to win future projects within Australia. Primero is in a good position to help Wartsila deliver these projects.

Primero is also increasing business interactions with other energy clients particularly involved in the design and construction of on shore gas transport, metering and compression as well as some significant condensate storage and transfer facilities. Continuing to build these relationships is demonstrating the maturation, and reputation of the energy side of the business which is also providing geographical opportunities to expand the service offering.

**Information Relating to Directors and Company Secretary**

| | | |
|---|---|---|
| **Mark Connelly** | – | Non-Executive Chairman |
| Qualifications | – | Bachelor of Business and Member of Australian Institute of Company Directors |
| Experience | – | Mr Connelly has more than 27 years of experience in the mining industry and has held senior positions with Newmont Mining Corporation and Inmet Mining Corporation. He has extensive experience in financing, development, construction and operation of mining projects in a variety of commodities including gold, base metals and other resources in West Africa, Australia, North America and Europe.<br><br>Mr Connelly was the former Managing Director and Chief Executive Officer of Papillion Resources Limited, a Mali-based gold developer which merged with Vancouver-based B2Gold Corp. Previously he was Chief Operating Officer of Endeavour Mining Corporation following the merger of Adamus Resources Limited where he was the Managing Director and CEO. |
| Interest in Shares and Options | – | No ordinary shares at 30th June 2018. |
| Special Responsibilities | – | Chairman of the Remuneration Committee and member of the Audit and Risk Committee |
| Directorships held in other listed entities during the three years prior to the current year | – | Current Director of West African Resources since September 2015<br><br>Current Director of Calidus Resources Limited since January 2018<br><br>Current Director of Tao Commodities Limited since May 2018<br><br>Former Director of Ausdrill from July 2012 to June 2018<br><br>Former Director of B2Gold Corp from October 2014 to June 2016<br><br>Former Director of Toro Gold plc from September 2013 to January 2018<br><br>Former Director of Tiger Resources Limited from December 2016 to July 2018<br><br>Former Director of Saracen Minerals Holdings Limited from May 2015 to November 2017<br><br>Former Director of Cardinal Resources Limited from 2015 to October 2017 |
| **Cameron Henry** | – | Managing Director |
| Qualifications | – | Masters in Project Management and Member of Australian Institute of Company Directors |
| Experience | – | Mr Henry has brought with him over 15 years of extensive site based experience in both technical roles and also managing large portfolios at a senior level within rapid growth projects and large scale commissioning of projects.<br><br>With a trade background, and formal tertiary qualifications in Project Management & Mechanical Engineering, the benefits of Mr Henry's understanding of site based technical engineering & construction issues, coupled with his commercial & project management skills bring a significant level of expertise to the Primero Group.<br><br>During Mr Henry's time in Project Management he has been |

| | | |
|---|---|---|
| | | involved in many contracts ranging in value from $20 million through to $120 million across Materials handling, Compressor Station facilities, Hydrometallurgical processing projects, and infrastructure. These projects have run in both greenfields & brownfields environments within the base metals, precious metals, oil & gas & power generation fields.<br><br>Mr Henry has broad experience from the project inception and design phases through to implementation construction management, commissioning and close-out. As a Director of Primero Group, his versatility and extensive experience through all of the disciplines makes him an asset to any project team. |
| Interest in Shares and Options | – | 23,732,372 ordinary shares. |
| Special Responsibilities | – | None |
| Directorships held in other listed entities during the three years prior to the current year | – | Current Director of Titan Resources Limited from August 2017 |
| **Dean Ercegovic** | – | Director of Operations |
| Qualifications | – | Bachelor of Engineering (Mechanical) with Honours |
| Experience | – | Mr Ercegovic has brought with him nearly 20 years of experience in project management, managing both EPC and EPCM contracts in mineral resources and energy across Australia and neighbouring countries.<br><br>During Mr Ercegovic's time within engineering he has project managed and designed turnkey projects from the value of A$10 million to A$100 million across Gas, Gold, Zinc, Lead and Copper. With such experience across varied commodities Mr Ercegovic has brought a skill set quite unique in executing and delivering projects to major clients |
| Interest in Shares and Options | – | 18,687,060 ordinary shares. |
| Special Responsibilities | – | Member of the Remuneration Committee |
| Directorships held in other listed entities during the three years prior to the current year | – | None |
| **Brett Grosvenor** | – | Director of Development |
| Qualifications | – | Master Business Administration and Bachelor Mechanical Engineering |
| Experience | – | Mr Grosvenor has brought additional strength and capability into the Company across a range of commodities including over 12 years' experience in the power industry. Mr Grosvenor has previously held senior and key roles in major national and international companies for both client and contractor sides such as Alstom, Laing O'Rourke, Sinclair Knight Mertz and Alinta Energy.<br><br>With a dual tertiary qualification in Engineering and a Master in Business, Mr Grosvenor is able to balance the business requirements with his understanding of site based technical engineering & construction issues to bring a significant level of expertise to the Primero Group and our clients.<br><br>As a Director of Primero Group, his proven leadership skills, including managing, motivating other staff and team members are valuable inputs to help us achieve our business strategies or project objectives. |
| Interest in Shares and Options | – | 9,045,177 ordinary shares. |

| | | |
|---|---|---|
| Special Responsibilities | – | Member of the Audit and Risk Committee |
| Directorships held in other listed entities during the three years prior to the current year | – | None |

| | | |
|---|---|---|
| **Luke Graham** | – | Non-Executive Director |
| Qualifications | – | Bachelor of Engineering (Mechanical) with Honours |
| Experience | – | Mr Graham is an engineering professional with over 20 years' experience in the resources sector and has a broad range of international leadership, technical and commercial expertise in the execution of major engineering projects within the resources (mine and port) and industrial sectors, including minerals sands, coal, iron ore, copper, gold and alumina. Mr Graham has extensive experience in managing financial, operational performance and achieving strong business growth in softer market conditions.<br><br>Mr Graham has served over 11 years in various senior leadership roles within the business. He recently joined ASX listed minerals sands developer Strandline Resources Limited as the Chief Executive Officer and Managing Director and was formerly Regional Manager of global minerals engineering and project delivery company, Sedgeman Pty Ltd a member of the CIMIC Group. |
| Interest in Shares and Options | – | No ordinary shares at 30 June 2018 |
| Special Responsibilities | – | Member of Remuneration Committee and Chairman of the Audit and Risk Committee. |
| Directorships held in other listed entities during the three years prior to the current year | – | Current Director of Strandline Resources since September 2016 |

| | | |
|---|---|---|
| **Ryan McFarlane** | – | Chief Financial Officer/Company Secretary |
| Qualifications | – | Member of the Chartered Accountants Australian and New Zealand, Bachelor of Business Degree and Graduate of Australian Institute of Company Directors. |
| Experience | – | Mr McFarlane is a Chartered Accountant with over 15 years' experience working for both public practice accounting firms and well as a corporate accountant for large companies.<br><br>Mr McFarlane has been the Chief Financial Officer of Primero Group since 2012 whose strengths include the implementation of long and short-term strategies, system implementation, accounting, taxation and structuring matters. |
| Interest in Shares and Options | – | 4,572,314 ordinary shares. |
| Special Responsibilities | – | None |
| Directorships held in other listed entities during the three years prior to the current year | – | None |

**Meetings of Directors**

During the financial year, 7 meetings of directors (including committees of directors) were held. Attendances by each director during the year was as follows:

| | **Directors' Meetings** | |
|---|---|---|
| | **Number eligible to attend** | **Number attended** |
| Dean Ercegovic | 7 | 6 |
| Cameron Henry | 7 | 7 |
| Brett Grosvenor | 7 | 6 |
| Peter Grigsby | 7 | 7 |
| Ben Davies | 7 | 6 |
| Luke Graham | 0 | 0 |
| Mark Connelly | 0 | 0 |

## REMUNERATION REPORT

### Remuneration Policy

The remuneration policy of Primero Group Limited has been designed to align key management personnel (KMP) objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the consolidated group's financial results. The Board of Primero Group Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain high-quality KMP to run and manage the consolidated group, as well as create goal congruence between directors, executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for KMP of the consolidated group is as follows:

- The remuneration policy is to be developed by the remuneration committee and approved by the Board after professional advice is sought from independent external consultants.
- All KMP receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits, options and performance incentives.
- Performance incentives are generally only paid once predetermined key performance indicators (KPIs) have been met.
- Incentives paid in the form of options or rights are intended to align the interests of the directors and company with those of the shareholders. In this regard, KMP are prohibited from limiting risk attached to those instruments by use of derivatives or other means.
- The remuneration committee reviews KMP packages annually by reference to the consolidated group's performance, executive performance and comparable information from industry sectors.

The performance of KMP is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the consolidated group's profits and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the committee's recommendations. Any change must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance results leading to long-term growth in shareholder wealth.

KMP receive, at a minimum, a superannuation guarantee contribution required by the government, which is currently 9.5% of the individual's average weekly ordinary time earnings (AWOTE). Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to KMP is valued at the cost to the company and expensed.

The Board's policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The remuneration committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the annual general meeting.

KMP are also entitled and encouraged to participate in the employee share and option arrangements to align directors' interests with shareholders' interests.

KMP or closely related parties of KMP are prohibited from entering into hedge arrangements that would have the effect of limiting the risk exposure relating to their remuneration.

In addition, the Board's remuneration policy prohibits directors and KMP from using Primero Group Limited shares as collateral in any financial transaction, including margin loan arrangements.

### Engagement of Remuneration Consultants

Post financial year end, BDO Consulting was engaged by the remuneration committee to review the elements of KMP remuneration and provide recommendations.

In addition, BDO Australia provided no other services during the year.

BDO Australia will be paid $19,750 for the remuneration recommendations relating to the review of the elements of KMP remuneration.

In order to ensure that BDO Australia work is free from undue influence by KMP, the terms of the engagement, among other matters, required BDO Australia to report its recommendations to the Chair of the remuneration committee and the Chair of the Board, and not to any other members of KMP.

The Board is satisfied that the remuneration recommendations were free from undue influence by members of KMP to whom the recommendations relate

As at the date of this report the board is still considering the recommendations of BDO Australia. Once implemented they could result in changes to some of the terms set out on page 16, under which key management personnel and non-executive directors are remunerated.

**Performance-based Remuneration**

KPIs are set annually, with a certain level of consultation with KMP. The measures are specifically tailored to the area each individual is involved in and has a level of control over. The KPIs target areas the Board believes hold greater potential for group expansion and profit, covering financial and non-financial as well as short and long-term goals. The level set for each KPI is based on budgeted figures for the Group and respective industry standards.

Performance in relation to the KPIs is assessed annually, with bonuses being awarded depending on the number and deemed difficulty of the KPIs achieved. Following the assessment, the KPIs are reviewed by the remuneration committee in light of the desired and actual outcomes, and their efficiency is assessed in relation to the Group's goals and shareholder wealth, before the KPIs are set for the following year.

In determining whether or not a KPI has been achieved, Primero Group Limited bases the assessment on audited figures; however, where the KPI involves comparison of the Group, or a division within the Group, to the market, independent reports are obtained from organisations such as Standard & Poor's.

**Relationship between Remuneration Policy and Company Performance**

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. Two methods have been applied to achieve this aim, the first being a performance-based bonus based on KPIs, and the second being the issue of options to the majority of directors and executives to encourage the alignment of personal and shareholder interests.

**Performance Conditions Linked to Remuneration**

The Group seeks to emphasise reward incentives for results and continued commitment to the Group through the provision of various cash bonus reward schemes, specifically the incorporation of incentive payments based on the achievement of revenue targets, gross profit targets, safety, utilisation and continued employment with the Group.

The performance-related proportions of remuneration based on these targets are included in the following table. The objective of the reward schemes is to both reinforce the short and long-term goals of the Group and provide a common interest between management and shareholders. There has been no alteration to the terms of the bonuses paid since grant date.

The satisfaction of the performance conditions is based on a review of the audited financial statements of the Group and publicly available market indices, as such figures reduce any risk of contention relating to payment eligibility. The Board does not believe that performance conditions should include a comparison with any other measures or factors external to the Group at this time.

**Employment Details of Members of Key Management Personnel**

The following table provides employment details of persons who were, during the financial year, members of KMP of the consolidated group. The table also illustrates the proportion of remuneration that was performance and non-performance based.

| | Position Held as at 30 June 2018 and any Change during the Year | Proportions of Elements of Remuneration Related to Performance (Other than Options Issued) | | Proportions of Elements of Remuneration Not Related to Performance |
|---|---|---|---|---|
| | | Non-salary Cash-based Incentives | Shares/ Units | Fixed Salary/ Fees |
| | | % | % | % |
| ***Group KMP*** | | | | |
| Cameron Henry | Managing Director | 36 | 0 | 64 |
| Dean Ercegovic | Operations Director | 27 | 0 | 73 |
| Brett Grosvenor | Director of Development | 29 | 0 | 71 |
| Ryan McFarlane | Chief Financial Officer/Company Secretary | 0 | 0 | 100 |
| Luke Graham | Non-Executive Director | 0 | 0 | 100 |
| Peter Grigsby | Engineer Manager | 28 | 0 | 72 |
| Ben Davies | Discipline Manager | 17 | 0 | 83 |

The employment terms and conditions of all KMP are formalised in contracts of employment.

**Remuneration Expense Details for the Year Ended 30 June 2018**

The following table of benefits and payments represents the components of the current year and comparative year remuneration expenses for each member of KMP of the consolidated group. Such amounts have been calculated in accordance with Australian Accounting Standards.

**Table of Benefits and Payments for the Year Ended 30 June 2018**

| | | Short-term Benefits | | Post-employment Benefits | |
|---|---|---|---|---|---|
| | | Salary, Fees and Leave | Profit Share and Bonuses | Pension and Superannuation | Total |
| | | $ | $ | $ | $ |
| ***Group KMP*** | | | | | |
| Cameron Henry | 2018 | 284,918 | 160,000 | 42,859 | 487,777 |
| | 2017 | 252,797 | - | 23,891 | 276,688 |
| Dean Ercegovic | 2018 | 284,812 | 108,000 | 37,482 | 430,294 |
| | 2017 | 259,647 | - | 24,307 | 283,954 |
| Brett Grosvenor | 2018 | 288,088 | 118,260 | 26,163 | 432,511 |
| | 2017 | 248,252 | - | 23,584 | 271,836 |
| Luke Graham | 2018 | 19,726 | - | 1,874 | 21,600 |
| | 2017 | - | - | - | - |
| Peter Grigsby | 2018 | 253,893 | 100,000 | 34,598 | 388,491 |
| | 2017 | 231,961 | - | 22,682 | 254,643 |
| Ben Davies | 2018 | 216,814 | 43,000 | 25,828 | 285,642 |
| | 2017 | 189,945 | - | 18,476 | 208,421 |
| Mark Connelly | 2018 | - | - | - | - |
| | 2017 | - | - | - | - |
| Ryan McFarlane | 2018 | 171,220 | - | 16,972 | 188,192 |
| | 2017 | 136,119 | - | 13,194 | 149,313 |
| ***Total KMP*** | | | | | |
| | 2018 | 1,519,471 | 529,260 | 185,776 | 2,234,507 |
| | 2017 | 1,318,721 | - | 126,134 | 1,444,855 |

**Key Management Personal Contracts**

For the 2019 financial year the managing director, Mr Henry entered into an executive services agreement as the managing director of the company. The principle terms of the executive agreement are as follows:

- A base salary of $380,000 per annum excluding superannuation contributions
- Eligibility to receive an annual short-term incentive up to a maximum of 50% of his base remuneration package subject to achieving targets against key performance indicators agreed between Mr Henry and the board
- Eligibility to participate in the Company's new employee incentive plan and subject to shareholder approval and regulatory approvals, entitlement to an annual grant of employee incentives to a value of 100% of his annual base salary.
- Mr Henry may terminate the agreement by giving 3 months' notice
- The company may terminate the agreement (without cause) by giving 12 months' notice in writing to Mr Henry (or make a payment in lieu of notice) unless the Company is terminating as a result of serious misconduct (or on other similar grounds) by Mr Henry, in which case no notice is required

All other key management personal for the 2019 financial year are employed under written terms with the company. The key conditions of their employment include:

- Total remuneration packages (excluding mandatory superannuation contributions)
- The potential to receive an annual short-term incentive payment ranging from 10-15% of their base remuneration package subject to achieving targets as against key performance indicators agreed between the relevant key management personnel and the board.
- Eligibility to participate in the Company's new employee incentive plan and subject to shareholder approval and regulatory approvals, entitlement to an annual grant of employee incentives to the value of 10-50% of their annual base salary.
- The key management personal can terminate the agreement by giving 3 months' notice
- The company may terminate the agreement (without cause) by giving 12 months' notice in writing (or make a payment in lieu of notice) unless the Company is terminating as a result of serious misconduct (or on other similar grounds), in which case no notice is required

A table summarising the base Key Management Personnel 2019 financial year contracts are below:

| Name | Position | Base Salary |
|---|---|---|
| Cameron Henry | Managing Director | 380,000 |
| Dean Ercegovic | Director of Operations | 320,000 |
| Brett Grosvenor | Director of Development | 320,000 |
| Ryan McFarlane | Chief Financial Officer/Company Secretary | 200,000 |
| Peter Grigsby | Engineer Manager | 250,000 |
| Ben Davies | Discipline Manager | 230,000 |

**Non-Executive Director Fees**

Non-executive director's fees are determined within an aggregate director's fee pool which is periodically recommended for approval by the shareholders. The current aggregated director's fee pool is $300,000. This aggregate does not include any special remuneration which the board may grant to the Directors for special exertions or additional services performed by a Director.

The details of the non-executive director engagement is as follows:

- Total remuneration packages excluding mandatory superannuation contributions of $60,000 to Mark Connelly and $40,000 to Luke Graham
- Eligibility to participate in the Company's new employee incentive plan and subject to shareholder approval and regulatory approvals, entitlement to an annual grant of employee incentives to the value of 100% of their annual base salary.

**Securities Received that Are Not Performance-related**

No members of KMP are entitled to receive securities that are not performance-based as part of their remuneration package.

**KMP Shareholdings**

The number of ordinary shares in Primero Group Limited held by each KMP of the Group during the financial year is as follows:

| | Balance at Beginning of Year | Shares Purchase during the Year | 1:1400 Shares Split During the Year | Shares Sold During the Year | Balance at End of Year |
|---|---|---|---|---|---|
| Cameron Henry | 19,568 | - | 27,375,632 | (3,662,828) | 23,732,372 |
| Dean Ercegovic | 15,408 | - | 21,555,792 | (2,884,140) | 18,687,060 |
| Brett Grosvenor | 5,452 | 2,006 | 10,433,742 | (1,396,023) | 9,045,177 |
| Ryan McFarlane | 3,770 | - | 5,274,230 | (705,686) | 4,572,314 |
| Peter Grigsby | 12,598 | (1,003) | 16,221405 | (2,170,405) | 14,062,595 |
| Ben Davies | 9,983 | (1,003) | 12,563,020 | (1,680,918) | 10,891,082 |
| Total | 66,779 | - | 93,423,821 | 12,500,000 | 80,990,600 |

**Other Equity-related KMP Transactions**

There have been no other transactions involving equity instruments apart from those described in the tables above relating to options, rights and shareholdings.

**Loans to KMP**

Temporary loans advanced and repaid during the year incur interest at NIL% per annum. Remaining loans incur interest at NIL% (2017: NIL%) per annum.

| | $000 |
|---|---|
| Balance at beginning of the year | - |
| Loans advanced | 315 |
| Balance at end of the year | 315 |

The number of KMP with loans outstanding at the end of the period: Four

**KMP Loans Exceeding $100,000**

Included in the loan balance above is a loan to Cameron Henry (Director) which represents an unsecured loan to Meesha Investments Pty Ltd, a related entity associated with Cameron Henry. The loan has since been repaid at the date of this report. Details of the loan are outlined below:

| | **$000** |
|---|---|
| Balance at beginning of the year | - |
| Loans advanced | 305 |
| Loan repayment received | - |
| Interest charged | - |
| Interest received | - |
| Provision for impairment | - |
| Balance at end of the year | 305 |
| Highest loan balance during the period | 305 |

**Other Transactions with KMP and/or their Related Parties**

There were no other transactions conducted between the Group and KMP or their related parties, apart from those disclosed above relating to equity, compensation and loans, that were conducted other than in accordance with normal employee, customer or supplier relationships on terms no more favourable than those reasonably expected under arm's length dealings with unrelated persons.

This directors' report, incorporating the remuneration report, is signed in accordance with a resolution of the Board of Directors:

Dated: 26/09/2018

MOORE STEPHENS

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2 The Esplanade, Perth, WA 6000

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## AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE *CORPORATIONS ACT 2001* TO THE DIRECTORS OF PRIMERO GROUP LIMITED

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2018, there have been:

a) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit, and

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

NEIL PACE
PARTNER

MOORE STEPHENS
CHARTERED ACCOUNTANTS

Signed at Perth this 26th day of September 2018.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 30 JUNE 2018

| | Note | Consolidated Group | |
|---|---|---|---|
| | | 2018 $000 | 2017 $000 |
| **Revenue** | 3 | 85,217 | 52,140 |
| Other Income | | 61 | 126 |
| **Expenses** | | | |
| Cost of Sales | 4 | (71,327) | (46,617) |
| Depreciation and amortisation of expense | | (847) | (565) |
| Other expenses | | (4,900) | (3,017) |
| Finance Costs | | (207) | (405) |
| Listing Costs | | (606) | - |
| **Profit before income tax** | | 7,391 | 1,662 |
| Tax expense | 5 | (2,176) | (511) |
| **Net profit from continuing operations** | | 5,215 | 1,151 |
| **Discontinued operations** | | | |
| Profit/(Loss) from discontinued operations after tax | | - | - |
| **Net profit for the year** | | 5,215 | 1,151 |
| **Other comprehensive income** | | | |
| **Items that will be reclassified subsequently to profit or loss when specific conditions are met:** | | | |
| Exchange differences on translating foreign operations, net of tax | 5(c) | (4) | - |
| **Total other comprehensive income/(loss) for the year** | | (4) | - |
| **Total comprehensive income for the year** | | 5,211 | 1,151 |
| Net profit attributable to: | | | |
| Owners of the parent entity | | 5,215 | 1,151 |
| Non-controlling interest | | - | - |
| | | 5,215 | 1,151 |
| Total comprehensive income attributable to: | | | |
| Owners of the parent entity | | 5,211 | 1,151 |
| Non-controlling interest | | - | - |
| | | 5,211 | 1,151 |

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 30 JUNE 2018

| | | Consolidated Group | |
|---|---|---|---|
| | | **2018** | **2017** |
| **Earnings per share** | | | |
| **From continuing and discontinued operations:** | | | |
| Basic earnings per share (cents) | 9 | $0.056 | $17.24 |
| Diluted earnings per share (cents) | 9 | $0.056 | $17.24 |
| **From continuing operations:** | | | |
| Basic earnings per share (cents) | 9 | $0.056 | $17.24 |
| Diluted earnings per share (cents) | 9 | $0.056 | $17.24 |
| **From discontinued operations:** | | | |
| Basic earnings/(loss) per share (cents) | | - | - |

The earnings per share for 2017 was calculated based on the number of shares prior to the 1:1400 share split.

The accompanying notes form part of these financial statements.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

| | Note | Consolidated Group | |
|---|---|---|---|
| | | 2018 | 2017 |
| | | $000 | $000 |
| **ASSETS** | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 10 | 424 | - |
| Trade and other receivables | 11 | 15,486 | 5,934 |
| Inventories | 13 | 658 | 568 |
| Work in progress and accrued Income | 12 | 4,337 | 7,077 |
| Other assets | 16 | 1,151 | 214 |
| TOTAL CURRENT ASSETS | | 22,056 | 13,793 |
| NON-CURRENT ASSETS | | | |
| Investments in other companies | 16 | 110 | 150 |
| Property, plant and equipment | 15 | 3,793 | 3,280 |
| Deferred tax assets | 19 | 715 | 187 |
| TOTAL NON-CURRENT ASSETS | | 4,618 | 3,617 |
| TOTAL ASSETS | | 26,674 | 17,410 |
| **LIABILITIES** | | | |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 17 | 12,300 | 7,123 |
| Bank overdraft | 10 | - | 268 |
| Borrowings | 18 | 857 | 1,419 |
| Current tax liabilities | 19 | 1,641 | 593 |
| Employee benefits | 20 | 1,059 | 625 |
| Provisions | 20 | - | 22 |
| Other | 21 | 1,207 | 2,121 |
| TOTAL CURRENT LIABILITIES | | 17,064 | 12,171 |
| NON-CURRENT LIABILITIES | | | |
| Borrowings | 18 | 1,060 | 1,514 |
| Employee benefits | 20 | 173 | - |
| TOTAL NON-CURRENT LIABILITIES | | 1,233 | 1,514 |
| TOTAL LIABILITIES | | 18,297 | 13,685 |
| NET ASSETS | | 8,377 | 3,725 |
| **EQUITY** | | | |
| Issued capital | 22 | 348 | 348 |
| Reserves | 28 | (4) | - |
| Retained earnings | | 8,033 | 3,377 |
| Equity attributable to owners of the parent entity | | 8,377 | 3,725 |
| TOTAL EQUITY | | 8,377 | 3,725 |

The accompanying notes form part of these financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 30 JUNE 2018

**Consolidated Group**

| | Note | Issued Capital | Reserves | Retained Earnings | Total |
|---|---|---|---|---|---|
| | | $000 | $000 | $000 | $000 |
| **Balance at 1 July 2016** | | 144 | - | 2,335 | 2,479 |
| **Comprehensive income** | | | | | |
| Profit for the year | | - | - | 1,151 | 1,151 |
| **Total comprehensive income for the year** | | - | - | 1,151 | 1,151 |
| **Transactions with owners, in their capacity as owners, and other transfers** | | | | | |
| Dividends recognised for the year | 8 | - | - | (109) | (109) |
| Issue of shares | | 204 | - | - | 204 |
| **Total transactions with owners and other transfers** | | 204 | - | (109) | (95) |
| **Balance at 30 June 2017** | | 348 | - | 3,377 | 3,725 |
| | | | | | |
| **Balance at 1 July 2017** | | 348 | - | 3,377 | 3,725 |
| **Comprehensive income** | | | | | |
| Profit for the year | | - | - | 5,215 | 5,215 |
| Foreign Exchange Translation Reserve | 29 | | (4) | - | |
| **Total comprehensive income for the year** | | - | (4) | 5,215 | 5,211 |
| **Transactions with owners, in their capacity as owners, and other transfers** | | | | | |
| Dividends recognised for the year | 8 | - | - | (559) | (559) |
| **Total transactions with owners and other transfers** | | - | - | (559) | (559) |
| **Balance at 30 June 2018** | | 348 | (4) | 8,033 | 8,377 |

The accompanying notes form part of these financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2018

| | Note | Consolidated Group | |
|---|---|---|---|
| | | 2018 $000 | 2017 $000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | | 78,343 | 48,951 |
| Payments to suppliers and employees | | (72,399) | (48,872) |
| Interest received | | 26 | 23 |
| Other revenue | | 35 | 91 |
| Income tax paid | | (1,324) | (348) |
| Net cash generated by operating activities | 10 | 4,681 | (155) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds from disposal of property, plant and equipment | | 3 | 13 |
| Proceeds from sale of investments | | 103 | 110 |
| Purchase of property, plant and equipment | | (1,360) | (1,606) |
| Purchase of investments | | (40) | (19) |
| Loans made to Employees | | (94) | - |
| Net cash (used in)/generated by investing activities | | (1,388) | (1,502) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issue of shares | | - | 204 |
| Proceeds from borrowings other | | 1,022 | 2,343 |
| Repayment of borrowings other | | (2,555) | (2,580) |
| Finance costs | | (48) | (59) |
| Dividends paid by parent entity | 8 | (559) | (109) |
| Payments for Issue of Share | | (457) | - |
| Net cash provided by/(used in) financing activities | | (2,597) | (201) |
| Net increase in cash and cash equivalents | | 696 | (1,858) |
| Cash and cash equivalents at the beginning of financial year | | (268) | 1,590 |
| Effects of Foreign Exchange | | (4) | - |
| Cash and cash equivalents at the end of financial year | 10 | 424 | (268) |

The accompanying notes form part of these financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

The consolidated financial statements and notes represent those of Primero Group Limited and Controlled Entities (the "consolidated group" or "group").

The financial statements were authorised for issue on 26th September 2018 by the directors of the company.

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Preparation**

These general purpose consolidated financial statements have been prepared in accordance with the *Corporations Act 2001*, Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board and in compliance with International Financial Reporting Standards as issued by the International Accounting Standards Board. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

Except for cash flow information, the financial statements have been prepared on an accrual basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

a. **Principles of Consolidation**

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent (Primero Group Limited) and all of the subsidiaries (including any structured entities). Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. A list of the subsidiaries is provided in Note 14.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

Equity interests in a subsidiary not attributable, directly or indirectly, to the Group are presented as "non-controlling interests". The Group initially recognises non-controlling interests that are present ownership interests in subsidiaries and are entitled to a proportionate share of the subsidiary's net assets on liquidation at either fair value or at the non-controlling interests' proportionate share of the subsidiary's net assets. Subsequent to initial recognition, non-controlling interests are attributed their share of profit or loss and each component of other comprehensive income. Non-controlling interests are shown separately within the equity section of the statement of financial position and statement of comprehensive income.

**Business combinations**

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is obtained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured in each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to business combinations, other than those associated with the issue of a financial instrument, are recognised as expenses in profit or loss when incurred.

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

**Goodwill**

Goodwill is carried at cost less any accumulated impairment losses. Goodwill is calculated as the excess of the sum of:

(i) the consideration transferred;

(ii) any non-controlling interest (determined under either the full goodwill or proportionate interest method); and

(iii) the acquisition date fair value of any previously held equity interest;

over the acquisition date fair value of any identifiable assets acquired and liabilities assumed.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (ie reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable Accounting Standards). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under AASB 139: *Financial Instruments: Recognition and Measurement*, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

The amount of goodwill recognised on acquisition of each subsidiary in which the Group holds less than 100% interest will depend on the method adopted in measuring the non-controlling interest. The Group can elect in most circumstances to measure the non-controlling interest in the acquiree either at fair value *(full goodwill method)* or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets *(proportionate interest method).* In such circumstances, the Group determines which method to adopt for each acquisition and this is stated in the respective note to the financial statements disclosing the business combination.

Under the full goodwill method, the fair value of the non-controlling interest is determined using valuation techniques which make the maximum use of market information where available.

Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates.

Goodwill is tested for impairment annually and is allocated to the Group's cash-generating units or groups of cash-generating units, representing the lowest level at which goodwill is monitored and not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity disposed of.

Changes in the ownership interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions and do not affect the carrying amounts of goodwill.

b. **Income Tax**

The income tax expense (income) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to profit or loss is the tax payable on taxable income for the

current period. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority using tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss or arising from a business combination.

A deferred tax liability shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from: (a) the initial recognition of goodwill; or (b) the initial recognition of an asset or liability in a transaction which: (i) is not a business combination; and (ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability. With respect to non-depreciable items of property, plant and equipment measured at fair value and items of investment property measured at fair value, the related deferred tax liability or deferred tax asset is measured on the basis that the carrying amount of the asset will be recovered entirely through sale. When an investment property that is depreciable is held by the entity in a business model whose objective is to consume substantially all of the economic benefits embodied in the property through use over time (rather than through sale), the related deferred tax liability or deferred tax asset is measured on the basis that the carrying amount of such property will be recovered entirely through use.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (i) a legally enforceable right of set-off exists; and (ii) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

c. **Fair Value of Assets and Liabilities**

The Group measures some of its assets and liabilities at fair value on either a recurring or non-recurring basis, depending on the requirements of the applicable Accounting Standard.

Fair value is the price the Group would receive to sell an asset or would have to pay to transfer a liability in an orderly (ie unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

As fair value is a market-based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific asset or liability. The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

To the extent possible, market information is extracted from either the principal market for the asset or liability (ie the market with the greatest volume and level of activity for the asset or liability) or, in the absence of such a market, the most advantageous market available to the entity at the end of the reporting period (ie the market that maximises the receipts from the sale of the asset or

minimises the payments made to transfer the liability, after taking into account transaction costs and transport costs).

For non-financial assets, the fair value measurement also takes into account a market participant's ability to use the asset in its highest and best use or to sell it to another market participant that would use the asset in its highest and best use.

The fair value of liabilities and the entity's own equity instruments (excluding those related to share-based payment arrangements) may be valued, where there is no observable market price in relation to the transfer of such financial instruments, by reference to observable market information where such instruments are held as assets. Where this information is not available, other valuation techniques are adopted and, where significant, are detailed in the respective note to the financial statements.

d. **Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate proportion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs.

The cost of mining stocks includes direct materials, direct labour, transportation costs and variable and fixed overhead costs relating to mining activities.

e. **Construction Contracts and Work in Progress**

Construction work in progress is measured at cost, plus profit recognised to date less any provision for anticipated future losses. Cost includes both variable and fixed costs relating to specific contracts, and those costs that are attributable to the contract activity in general and that can be allocated on a reasonable basis.

Construction revenues are recognised according to the stage of completion basis and measured using the proportion of costs incurred to date compared to expected total actual costs. Where losses are anticipated they are provided for in full.

Construction revenue has been recognised on the basis of the terms of the contract adjusted for any variations or claims allowable under the contract.

f. **Property, Plant and Equipment**

Each class of property, plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

**Plant and equipment**

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised. A formal assessment of recoverable amount is made when impairment indicators are present (refer to Note 1(i) for details of impairment).

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the consolidated group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised as expenses in profit or loss during the financial period in which they are incurred.

**Depreciation**

The depreciable amount of all fixed assets including and capitalised leased assets, is depreciated on a diminishing value basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

| Class of Fixed Asset | Depreciation Rate |
|---|---|
| Leasehold improvements | 2.5%–40% |
| Plant and equipment | 10%–67% |
| Motor Vehicles | 13–25% |
| Computer Software | 50% |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are recognised in profit or loss in the period in which they arise. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

g. **Leases (the group as lessee)**

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset – but not the legal ownership – are transferred to entities in the consolidated group, are classified as finance leases.

Finance leases are capitalised by recognising an asset and a liability at the lower of the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense.

Leased assets are depreciated on a diminishing value basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as expenses on a straight-line basis over the lease term.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the lease term.

h. **Financial Instruments**

**Initial recognition and measurement**

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is the date that the entity commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

**Classification and subsequent measurement**

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest method, or cost.

*Amortised cost* is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) over the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying amount with a consequential recognition of an income or expense item in profit or loss.

Regular way purchases and sales of financial assets are recognised and derecognised at settlement date in accordance with the Group's Accounting Policy.

The Group does not designate any interests in subsidiaries as being subject to the requirements of Accounting Standards specifically applicable to financial instruments.

(i) *Financial assets at fair value through profit or loss*

Financial assets are classified at “fair value through profit or loss” when they are contingent consideration that may be paid by an acquirer as part of a business combination to which AASB 3: *Business Combinations* applies, held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying amount included in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned from the financial asset and is included in the face of the statement of profit and loss and other comprehensive income.

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

(iii) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group’s intention to hold these investments to maturity. They are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

(iv) *Available-for-sale investments*

Available-for-sale investments are non-derivative financial assets that are either not capable of being classified into other categories of financial assets due to their nature or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

They are subsequently measured at fair value with any remeasurements other than impairment losses and foreign exchange gains and losses recognised in other comprehensive income. When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

Available-for-sale financial assets are classified as non-current assets when they are not expected to be sold within 12 months after the end of the reporting period. All other available-for-sale financial assets are classified as current assets.

(v) *Financial liabilities*

Non-derivative financial liabilities other than financial guarantees are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

Contingent consideration of an acquirer in a business combination to which AASB 3: *Business Combinations* applies is classified as a financial liability and measured at fair value through profit or loss.

**Impairment**

A financial asset (or a group of financial assets) is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a "loss event") having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of available-for-sale financial assets, a significant or prolonged decline in the market value of the instrument is considered to constitute a loss event. Impairment losses are recognised in profit or loss immediately. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified into profit or loss at this point.

Financial assets, other than those measured at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For available-for-sale equity instruments, including listed or unlisted shares, objective evidence of impairment includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment for shares classified as available-for-sale. For certain categories of financial assets, such as trade receivables, assets that are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

At the end of each reporting period the group assessed whether there is any objective evidence that a financial asset or group of financial assets is impaired (other than financial assets classified as at fair value through profit or loss).

**Financial guarantees**

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Financial guarantee contract issued by a group entity are initially measured at their fair values and, if not designated as at fair value through profit or loss, are subsequently measured at the higher of: the amount of the obligation under the contract, as determined in accordance with AASB 137: *Provisions, Contingent Liabilities and Contingent Assets*; and the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

**Derecognition**

Financial assets are derecognised when the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised when the related obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss

i. **Impairment of Assets**

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information including dividends received from subsidiaries, associates or joint ventures deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs of disposal and value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (eg in accordance with the revaluation model in AASB 116: *Property, Plant and Equipment*). Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment testing is performed annually for goodwill, intangible assets with indefinite lives and intangible assets not yet available for use.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

j. **Foreign Currency Transactions and Balances**

**Functional and presentation currency**

The functional currency of each of the Group's entities is the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars, which is the parent entity's functional currency.

**Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in profit or loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in other comprehensive income to the extent that the underlying gain or loss is recognised in other comprehensive income; otherwise the exchange difference is recognised in profit or loss.

**Group companies**

The financial results and position of foreign operations, whose functional currency is different from the Group's presentation currency, are translated as follows:

– assets and liabilities are translated at exchange rates prevailing at the end of the reporting period;
– income and expenses are translated at average exchange rates for the period; and
– retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations with functional currencies other than Australian dollars are recognised in other comprehensive income and included in the foreign currency translation reserve in the statement of financial position and allocated to non-controlling interest where relevant. The cumulative amount of these differences is reclassified into profit or loss in the period in which the operation is disposed of.

k. **Employee Benefits**

**Short-term employee benefits**

Provision is made for the Group's obligation for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages, salaries and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

The Group's obligations for short-term employee benefits such as wages and salaries are recognised as part of current trade and other payables in the statement of financial position. The Group's obligations for employees' annual leave and long service leave entitlements are recognised as provisions in the statement of financial position.

**Other long-term employee benefits**

Provision is made for employees' long service leave and annual leave entitlements not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departures and are discounted at rates determined by reference to market yields at the end of the reporting period on government bonds that have maturity dates that approximate the terms of the obligations. Any remeasurements for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the changes occur.

The Group's obligations for long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the Group does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

*Defined contribution superannuation benefits*

All employees of the Group receive defined contribution superannuation entitlements, for which the Group pays the fixed superannuation guarantee contribution (currently 9.5% of the employee's average ordinary salary) to the employee's superannuation fund of choice. All contributions in respect of employees' defined contribution entitlements are recognised as an expense when they become payable. The Group's obligation with respect to employees' defined contribution entitlements is limited to its obligation for any unpaid superannuation guarantee contributions at the end of the reporting period. All obligations for unpaid superannuation guarantee contributions are measured at the (undiscounted) amounts expected to be paid when the obligation is settled and are presented as current liabilities in the Group's statement of financial position.

**Termination benefits**

When applicable, the Group recognises a liability and expense for termination benefits at the earlier of: (i) the date when the Group can no longer withdraw the offer for termination benefits; and (ii) when the Group recognises costs for restructuring pursuant to AASB 137: *Provisions, Contingent Liabilities and Contingent Assets* and the costs include termination benefits. In either case, unless the number of employees affected is known, the obligation for termination benefits is measured on the basis of the number of employees expected to be affected. Termination benefits that are expected to be settled wholly before 12 months after the annual reporting period in which the benefits are recognised are measured at the (undiscounted) amounts expected to be paid. All other termination benefits are accounted for on the same basis as other long-term employee benefits.

l. **Provisions**

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

m. **Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits available on demand with banks, other short-term highly liquid investments with original maturities of 12 months or less, and bank overdrafts. Bank overdrafts are reported within borrowings in current liabilities on the statement of financial position.

n. **Revenue and Other Income**

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. When the inflow of consideration is deferred, it is treated as the provision of financing and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Interest revenue is recognised using the effective interest method.

Dividend revenue is recognised when the right to receive a dividend has been established.

Revenue relating to construction activities is detailed at Note 1(e).

Revenue recognition relating to the provision of services is determined with reference to the stage of completion of the transaction at the end of the reporting period, where outcome of the contract can be estimated reliably. Stage of completion is determined with reference to the services performed to date as a percentage of total anticipated services to be performed. Where the outcome cannot be estimated reliably, revenue is recognised only to the extent that related expenditure is recoverable.

All revenue is stated net of the amount of goods and services tax.

o. **Trade and Other Receivables**

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Refer to Note 1(h) for further discussion on the determination of impairment losses.

p. **Trade and Other Payables**

Trade and other payables represent the liabilities for goods and services received by the entity that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability. Trade and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

q. **Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

r. **Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

s. **Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Where the Group retrospectively applies an accounting policy, makes a retrospective restatement or reclassifies items in its financial statements, an additional (third) statement of financial position as at the beginning of the preceding period in addition to the minimum comparative financial statements is presented.

t. **Rounding of Amounts**

The parent entity has applied the relief available to it under *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*. Accordingly, amounts in the financial statements have been rounded off to the nearest $1,000.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

u. **Critical Accounting Estimates and Judgements**

The directors evaluate estimates and judgements incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

**Key estimates**

(i) *Impairment*

The Group assesses impairment at the end of each reporting period by evaluating the conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

v. **New Accounting Standards for Application in Future Periods**

Accounting Standards issued by the AASB that are not yet mandatorily applicable to the Group, together with an assessment of the potential impact of such pronouncements on the Group when adopted in future periods, are discussed below:

– AASB 9*: Financial Instruments* and associated Amending Standards (applicable to annual reporting periods beginning on or after 1 July 2018).

The Standard will be applicable retrospectively (subject to the provisions on hedge accounting outlined below) and includes revised requirements for the classification and measurement of financial instruments requirements for financial instruments and hedge accounting.

The key changes that may affect the Group on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, upfront accounting for expected credit loss, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. AASB 9 also introduces a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items. Should the entity elect to change its hedge policies in line with the new hedge accounting requirements of the Standard, the application of such accounting would be largely prospective.

The directors anticipate that the adoption of AASB 9 will not have a significant impact on the group's financial statement.

– AASB 15: *Revenue from Contracts with Customers* (applicable to annual reporting periods beginning on or after 1 July 2018, as deferred by AASB 2015-8: *Amendments to Australian Accounting Standards – Effective Date of AASB 15*).

Earlier application of AASB 15 is permitted for not-for-profit entities for annual reporting periods beginning before 1 January 2019, provided AASB 1058: *Income of Not-for-Profit Entities* (Appendix D) is also applied to the same period.

When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Apart from a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers.

The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract(s); and

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- recognise revenue when (or as) the performance obligations are satisfied.

The transitional provisions of this Standard permit an entity to either: restate the contracts that existed in each prior period presented per AASB 108: *Accounting Policies, Changes in Accounting Estimates and Errors* (subject to certain practical expedients in AASB 15); or recognise the cumulative effect of retrospective application to incomplete contracts on the date of initial application. There are also enhanced disclosure requirements. The directors anticipate that the adoption of AASBV 15 will not have a significant impact on the Groups financial statements.

– AASB 16: *Leases* (applicable to annual reporting periods beginning on or after 1 July 2019).

When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117: *Leases* and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases.

The main changes introduced by the new Standard are as follows:

- recognition of a right-of-use asset and lease liability for all leases (excluding short-term leases with a lease term 12 months or less of tenure and leases relating to low-value assets);
- depreciation of right-of-use assets in line with AASB 116: *Property, Plant and Equipment* in profit or loss and unwinding of the liability in principal and interest components;
- inclusion of variable lease payments that depend on an index or a rate in the initial measurement of the lease liability using the index or rate at the commencement date;
- application of a practical expedient to permit a lessee to elect not to separate non-lease components and instead account for all components as a lease; and
- inclusion of additional disclosure requirements.

The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with AASB 108 or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application.

Although the directors anticipate that the adoption of AASB 16 will impact the Group's financial statements, they have yet to assess its impact, which at this time is not expected to be significant.

NOTE 2: PARENT INFORMATION

| | 2018<br>$000 | 2017<br>$000 |
|---|---|---|
| The following information has been extracted from the books and records of the financial information of the parent entity set out below and has been prepared in accordance with Australian Accounting Standards. | | |
| **Statement of Financial Position** | | |
| ASSETS | | |
| Current assets | 21,286 | 13,793 |
| Non-current assets | 4,448 | 3,617 |
| TOTAL ASSETS | 25,734 | 17,410 |
| LIABILITIES | | |
| Current liabilities | 16,594 | 12,171 |
| Non-current liabilities | 1,234 | 1,514 |
| TOTAL LIABILITIES | 17,828 | 13,685 |
| EQUITY | | |
| Issued capital | 348 | 348 |
| Retained earnings | 7,558 | 3,377 |
| TOTAL EQUITY | 7,906 | 3,725 |
| **Statement of Profit or Loss and Other Comprehensive Income** | | |
| Total profit | 4,741 | 1,151 |
| Total comprehensive income | 4,741 | 1,151 |

**Guarantees**

During the reporting period, Primero Group Limited have not entered into any deed of cross guarantee with its subsidiary Primero Group Americas Inc.

**Contingent liabilities**

There are no contingent liabilities for the parent entity for both financial years ended 30 June 2018 and 30 June 2017 apart from those disclosed in Note 24

**Contractual commitments**

The parent entity did not have capital expenditure commitments for the acquisition of property plant and equipment contracted but not provided for both financial years 30 June 2018 and 30 June 2017.

## NOTE 3: REVENUE AND OTHER INCOME

| | | Note | Consolidated Group 2018 $000 | 2017 $000 |
|---|---|---|---|---|
| a. | **Revenue from continuing operations** | | | |
| | Sales revenue: | | | |
| | – provision of services | | 85,195 | 52,121 |
| | | | 85,195 | 52,121 |
| | Other revenue: | | | |
| | – Interest | | 22 | 19 |
| | | | 22 | 19 |
| | Total revenue | | 85,217 | 52,140 |
| | Other income: | | | |
| | – other | | 35 | 91 |
| | – gain on disposal of property, plant and equipment | | 3 | 4 |
| | – gain on disposal of non-current assets | | 23 | 31 |
| | | | 61 | 126 |
| b. | **Total revenue and other income from continuing operations** | | | |
| | – attributable to owners of the parent entity | | 85,278 | 52,266 |
| | – attributable to non-controlling interests | | - | - |
| | | | 85,278 | 52,266 |
| c. | **Revenue and other income from discontinued operations** | | | |
| | – attributable to owners of the parent entity | | - | - |
| | – attributable to non-controlling interests | | - | - |
| | | | - | - |
| d. | **Income from continuing operations and discontinued operations** | | | |
| | – attributable to owners of the parent entity | | 85,278 | 52,266 |
| | – attributable to non-controlling interests | | - | - |
| | | | 85,278 | 52,266 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

### NOTE 4: PROFIT FOR THE YEAR

| | Note | Consolidated Group | |
|---|---|---|---|
| | | **2018 $000** | **2017 $000** |
| Profit before income tax from continuing operations includes the following specific expenses: | | | |
| a. **Expenses** | | | |
| Cost of sales | | 71,327 | 46,617 |
| Employee benefits expense: | | | |
| – superannuation expense | | 2,559 | 1,767 |
| Rental expense on operating leases: | | | |
| – minimum lease payments | | 574 | 341 |

### NOTE 5: TAX EXPENSE

| | Note | Consolidated Group | |
|---|---|---|---|
| | | **2018 $000** | **2017 $000** |
| a. The components of tax (expense) income comprise: | | | |
| Current tax | | 2,418 | 592 |
| Deferred tax | | (196) | (81) |
| Adjustments to Prior Periods | | (46) | - |
| | | 2,176 | 511 |
| b. The prima facie tax on profit from ordinary activities before income tax is reconciled to income tax as follows: | | | |
| Prima facie tax payable on profit from ordinary activities before income tax at 30% (2017: 30%) | | 2,217 | 498 |
| Add: | | | |
| Tax effect of: | | | |
| – non-allowable items | | 37 | 23 |
| Less: | | | |
| Tax effect of: | | | |
| – Adjustments to Prior Periods | | 46 | (10) |
| – Canada Tax Rate difference | | 32 | - |
| Income tax attributable to entity | | 2,176 | 511 |
| The weighted average effective tax rates are as follows: | | **29.4%** | **30.7%** |

NOTE 5: TAX EXPENSE (CONTINUED)

Following recent amendments to Australian corporate tax rate, a gradual reduction in company tax rate from 30% to 25% by the 30 June 2027 will apply as follows:

- Companies with a turnover under 25m will pay tax at 27.5% from the 2017-18 financial year
- Companies with a turnover under 50m will pay tax at 27.5% from the 2018-19 financial year

Deferred tax assets and liabilities are required to be measured at the tax rate that is expected to apply in the future income year when the asset is realised or the liability is settled. The tax rate used in the reconciliation above is the corporate tax rate of 30% payable by Australian Companies with an aggregate turnover in excess of $25 million in the financial year ended 30 June 2018. There has been no change in the tax rate since the previous reporting period. From financial year ended 2019, all companies with aggregate turnover in excess of $50 million will continue to be taxed at 30% tax rate.

c. Tax effects relating to each component of other comprehensive income:

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | **Before-tax Amount $000** | **Tax (Expense) Benefit $000** | **Net-of-tax Amount $000** | **Before-tax Amount $000** | **Tax (Expense) Benefit $000** | **Net-of-tax Amount $000** |
| **Consolidated Group** | | | | | | |
| Exchange differences on translating foreign operations | (4) | - | (4) | - | - | - |
| | (4) | - | (4) | - | - | - |

NOTE 6: KEY MANAGEMENT PERSONNEL COMPENSATION

Refer to the remuneration report contained in the directors' report for details of the remuneration paid or payable to each member of the Group's key management personnel (KMP) for the year ended 30 June 2018.

The totals of remuneration paid to KMP of the company and the Group during the year are as follows:

| | **2018 $** | **2017 $** |
|---|---|---|
| Short-term employee benefits | 2,048,731 | 1,318,721 |
| Post-employment benefits | 185,776 | 126,134 |
| Other long-term benefits | - | - |
| Share-based payments | - | - |
| Total KMP compensation | 2,234,507 | 1,444,855 |

**Short-term employee benefits**

These amounts include fees and benefits paid to the non-executive Chair and non-executive directors as well as all salary, paid leave benefits, fringe benefits and cash bonuses awarded to executive directors and other KMP.

**Post-employment benefits**

These amounts are the current-year's estimated costs of providing for the Group's, superannuation contributions made during the year.

NOTE 6: KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

**Other long-term benefits**

These amounts represent long service leave benefits accruing during the year.

**Share-based payments**

These amounts represent the expense related to the participation of KMP in equity-settled benefit schemes as measured by the fair value of the options, rights and shares granted on grant date.

NOTE 7: AUDITOR'S REMUNERATION

| | Consolidated Group | |
|---|---|---|
| | **2018 $** | **2017 $** |
| Remuneration of the auditor for: | | |
| – auditing or reviewing the financial statements | 58,068 | 22,000 |
| – Investigating Accountants Report | 59,233 | - |
| | 117,301 | 22,000 |

NOTE 8: DIVIDENDS

| | Consolidated Group | |
|---|---|---|
| | **2018 $000** | **2017 $000** |
| 2017 final dividend (fully franked) of 0.004 cents per share paid on 8/11/2017 | 411 | - |
| 2017 final dividend (fully franked) of 0.002 cents per share paid on 23/11/2017 | 148 | - |
| 2017 final dividend (fully franked) of $1.63 per share paid on 30/06/2017 | - | 109 |
| | 559 | 109 |
| Balance of Franking account at year end | 1,840 | 750 |

NOTE 9: EARNINGS PER SHARE

| | Consolidated Group | |
|---|---|---|
| | **2018 $000** | **2017 $000** |
| a. Reconciliation of earnings to profit or loss: | | |
| Profit | 5,215 | 1,151 |
| Earnings used to calculate basic EPS | 5,215 | 1,151 |
| Earnings used in the calculation of dilutive EPS | 5,215 | 1,151 |

NOTE 9: EARNINGS PER SHARE (CONTINUED)

| | | Consolidated Group | |
|---|---|---|---|
| | | **2018** | **2017** |
| | | **No.** | **No.** |
| b. | Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS | 93,490,600 | 66,779 |
| | Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS | 93,490,600 | 66,779 |

NOTE 10: CASH AND CASH EQUIVALENTS

| | Note | Consolidated Group | |
|---|---|---|---|
| | | **2018** | **2017** |
| | | **$000** | **$000** |
| Cash at bank and on hand | | (24) | (1,085) |
| Short-term bank deposits | | 448 | 817 |
| | 18 | 424 | (268) |

The effective interest rate on short-term bank deposits was 2.04% (2017: 2.33%); these deposits have an average maturity of 103 days.

**Reconciliation of cash**

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:

| | | |
|---|---|---|
| Cash and cash equivalents | 1,618 | 949 |
| Bank overdrafts | (1,194) | (1,217) |
| | 424 | (268) |

A floating charge over cash and cash equivalents has been provided for certain debts. Refer to Note 18 for further details.

NOTE 10: CASH AND CASH EQUIVALENTS (CONTINUED)

**Reconciliation of profit after income tax to net cash from operating activities**

| | Consolidated Group | |
|---|---|---|
| | **2018 $000** | **2017 $000** |
| Profit after income tax expense for the year | 5,215 | 1,151 |
| | | |
| Adjustments for: | | |
| Depreciation and amortisation | 847 | 565 |
| Net (gain)/Loss on disposal of non-current assets | (26) | (34) |
| Finance Costs | 207 | 405 |
| Initial public offering costs | 939 | - |
| | | |
| Change in operating assets and liabilities: | | |
| (Increase)/Decrease in trade and other receivables | (9,040) | (1,036) |
| (Increase)/Decrease in inventories and work in progress | (768) | (490) |
| (Increase)/Decrease in accrued revenue & retentions | 3,220 | (5,501) |
| (Increase)/Decrease in deferred tax assets | (527) | (81) |
| (Increase)/Decrease in prepayments | (65) | (59) |
| Increase/(decrease) in trade and other payables | 3,960 | 2,343 |
| Increase/(decrease) in provision for income tax | 1,048 | 245 |
| Increase/(decrease) in employee benefits | 607 | 248 |
| Increase/(decrease) in other provisions | (22) | 1 |
| Increase/(decrease) in unearned revenue | (914) | 2,088 |
| | | |
| Net cash from operating activities | 4,681 | (155) |

NOTE 11: TRADE AND OTHER RECEIVABLES

| | Consolidated Group | |
|---|---|---|
| | **2018 $000** | **2017 $000** |
| CURRENT | | |
| Trade receivables | 14,829 | 5,787 |
| | 14,829 | 5,787 |

NOTE 11: TRADE AND OTHER RECEIVABLES (CONTINUED)

| | | Consolidated Group | |
|---|---|---|---|
| | | **2018 $000** | **2017 $000** |
| Other receivables | | | |
| Retentions | 12 | 339 | 141 |
| Interest receivable | | 2 | 6 |
| Amounts receivable from related parties | | 316 | - |
| | | 657 | 147 |
| Total current trade and other receivables | | 15,486 | 5,934 |

**Credit risk**

The Group has no significant concentration of credit risk with respect to any single counterparty or group of counterparties other than those receivables specifically provided for and mentioned within Note 11. The class of assets described as “trade and other receivables” is considered to be the main source of credit risk related to the Group.

On a geographical basis, the Group has significant credit risk exposures in Australia and Canada given the substantial operations in those regions. The Group’s exposure to credit risk for receivables at the end of the reporting period in those regions is as follows:

| | Consolidated Group | |
|---|---|---|
| AUD | **2018 $000** | **2017 $000** |
| Australia | 13,476 | 5,787 |
| Canada | 1,353 | - |
| | 14,829 | 5,787 |

The following table details the Group’s trade and other receivables exposed to credit risk (prior to collateral and other credit enhancements) with ageing analysis and impairment provided for thereon. Amounts are considered as “past due” when the debt has not been settled, with the terms and conditions agreed between the Group and the customer or counterparty to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there are specific circumstances indicating that the debt may not be fully repaid to the Group.

The balances of receivables that remain within initial trade terms (as detailed in the table) are considered to be of high credit quality.

NOTE 11: TRADE AND OTHER RECEIVABLES (CONTINUED)

| | Gross Amount $000 | Past Due and Impaired $000 | Past Due but Not Impaired (Days Overdue) < 30 $000 | 31–60 $000 | 61–90 $000 | > 90 $000 | Within Initial Trade Terms $000 |
|---|---|---|---|---|---|---|---|
| **2018** | | | | | | | |
| Trade and term receivables | 14,829 | - | 769 | 36 | 21 | 2 | 14,001 |
| Total | 14,829 | - | 769 | 36 | 21 | 2 | 14,001 |
| **2017** | | | | | | | |
| Trade and term receivables | 5,787 | - | 550 | 19 | - | - | 5,218 |
| Total | 5,787 | - | 550 | 19 | - | - | 5,218 |

| | Note | Consolidated Group 2018 $000 | 2017 $000 |
|---|---|---|---|
| Trade and other receivables: | | | |
| – total current | | 15,486 | 5,934 |
| – total non-current | | - | - |
| Total financial assets classified as loans and receivables | | 15,486 | 5,934 |

A floating charge over trade receivables has been provided for certain debts. Refer to Note 18 for further details.

NOTE 12: WORK IN PROGESS AND ACCRUED INCOME

| | Note | Consolidated Group | |
|---|---|---|---|
| | | **2018 $000** | **2017 $000** |
| Accrued Income | | 3,149 | 6,567 |
| Work in Progress | | 1,188 | 510 |
| | | 4,337 | 7,077 |
| Summarised as follows: | | | |
| **Construction Contracts in Progress** | | | |
| Contract costs incurred | | 74,546 | 47,847 |
| Recognised profits | | 15,842 | 5,966 |
| | | 90,388 | 53,813 |
| Progress billings | | (86,919) | (48,716) |
| | | 3,469 | 5,097 |
| Amounts due from customers for contract work | | 3,149 | 6,567 |
| Amounts due to customers for contract work | 21 | (1,207) | (2,121) |
| Work in Progress | | 1,188 | 510 |
| | | 3,130 | 4,956 |
| Retentions on construction contracts in progress | 11 | 339 | 141 |
| Progress billings and advances received and receivable on construction contracts in progress | | 3,469 | 5,097 |

NOTE 13: INVENTORIES

| | Note | Consolidated Group | |
|---|---|---|---|
| | | **2018 $000** | **2017 $000** |
| CURRENT | | | |
| At cost: | | | |
| Inventory | | 658 | 568 |
| | | 658 | 568 |

## NOTE 14: INTERESTS IN SUBSIDIARIES

a. **Information about Principal Subsidiaries**

The subsidiaries listed below have share capital consisting solely of ordinary shares which are held directly by the Group. The proportion of ownership interests held equals the voting rights held by the Group. Each subsidiary's principal place of business is also its country of incorporation.

| Name of Subsidiary | Principal Place of Business | Ownership Interest Held by the Group | |
|---|---|---|---|
| | | 2018 | 2017 |
| | | % | % |
| Primero Group Americas Inc | Quebec Canada | 100 | 100 |

Subsidiary financial statements used in the preparation of these consolidated financial statements have also been prepared as at the same reporting date as the Group's financial statements.

## NOTE 15: PROPERTY PLANT AND EQUIPMENT

| | Note | Consolidated Group | |
|---|---|---|---|
| | | 2018 $000 | 2017 $000 |
| **Plant and Equipment** | | | |
| Plant and equipment: | | | |
| At cost | | 4,028 | 3,224 |
| Accumulated depreciation | | (1,648) | (1,121) |
| | | 2,380 | 2,103 |
| Motor Vehicles: | | | |
| At cost | | 1,659 | 1,315 |
| Accumulated depreciation | | (680) | (469) |
| | | 979 | 846 |
| Leasehold improvements: | | | |
| At cost | | 403 | 395 |
| Accumulated depreciation | | (150) | (121) |
| | | 253 | 274 |
| Computer Software: | | | |
| At cost | | 541 | 340 |
| Accumulated amortisation | | (360) | (283) |
| | | 181 | 57 |
| Total property, plant and equipment | | 3,793 | 3,280 |

NOTE 15: PROPERTY PLANT AND EQUIPMENT (CONTINUED)5

a. **Movements in Carrying Amounts**

Movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

| | Motor Vehicles $000 | Leasehold Improvements $000 | Plant and Equipment $000 | Computer Software $000 | Total $000 |
|---|---|---|---|---|---|
| **Consolidated Group:** | | | | | |
| Balance at 1 July 2016 | 622 | 308 | 1,246 | 73 | 2,249 |
| Additions | 403 | - | 1,179 | 23 | 1,605 |
| Disposals | (9) | - | - | - | (9) |
| Depreciation expense | (170) | (34) | (322) | (39) | (565) |
| **Balance at 30 June 2017** | 846 | 274 | 2,103 | 57 | 3,280 |
| Additions | 344 | 8 | 807 | 202 | 1,361 |
| Disposals | - | - | - | (1) | (1) |
| Depreciation & Amortisation expense | (211) | (29) | (530) | (77) | (847) |
| Exchange Difference | - | - | - | - | - |
| **Balance at 30 June 2018** | 979 | 253 | 2,380 | 181 | 3,793 |

NOTE 16: OTHER ASSETS

| | Consolidated Group | |
|---|---|---|
| | **2018 $000** | **2017 $000** |
| CURRENT | | |
| Prepayments | 255 | 200 |
| Prepaid Listing Costs | 777 | - |
| Other | 119 | 14 |
| | 1,151 | 214 |
| NON-CURRENT | | |
| Investment in Other Companies | 110 | 150 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

### NOTE 17: TRADE AND OTHER PAYABLES

| | Note | Consolidated Group 2018 $000 | Consolidated Group 2017 $000 |
|---|---|---|---|
| CURRENT | | | |
| Unsecured liabilities: | | | |
| Trade payables | | 5,532 | 3,363 |
| Sundry payables and accrued expenses | | 6,768 | 3,760 |
| | | 12,300 | 7,123 |

a. **Financial liabilities at amortised cost classified as trade and other payables**

| | | |
|---|---|---|
| Trade and other payables: | | |
| – total current | 12,300 | 7,123 |
| – total non-current | - | - |
| | 12,300 | 7,123 |
| Financial liabilities as trade and other payables | 12,300 | 7,123 |

### NOTE 18: BORROWINGS

| | Note | Consolidated Group 2018 $000 | Consolidated Group 2017 $000 |
|---|---|---|---|
| CURRENT | | | |
| Related parties – unsecured | 26 | 3 | 633 |
| Lease liability - secured | 23 | 854 | 786 |
| Total current borrowings | | 857 | 1,419 |
| NON-CURRENT | | | |
| Lease liability - secured | 23 | 1,060 | 1,514 |
| Total non-current borrowings | | 1,060 | 1,514 |
| Total borrowings | | 1,917 | 2,933 |

a. Total current and non-current secured liabilities:

| | | |
|---|---|---|
| Lease liability | 1,914 | 2,300 |
| | 1,914 | 2,300 |

b. The carrying amounts of non-current assets pledged as security are:

| | | |
|---|---|---|
| Charge over assets | 2,140 | 2,476 |

Hire Purchase agreements have an average term of 3-5 years. The interest rate was 5.7%.

NOTE 18: BORROWINGS (CONTINUED)

| | | Note | Consolidated Group | |
|---|---|---|---|---|
| c. | **Collateral provided** | | **2018** | **2017** |
| | | | **$000** | **$000** |
| | The bank debt is secured by a first registered mortgage over certain freehold properties owned by the Group. Covenants imposed by the bank require. Interest Cover is not to be less than 2.50 times, Debt Service Cover is not to be less than 1.25 times and Gearing Ratio is not more than 74% | | | |
| | Lease liabilities are secured by the underlying leased assets. | | | |
| | Financial assets that have been pledged as part of the total collateral for the benefit of debenture holders and bank debt are as follows: | | | |
| | Cash and cash equivalents | 10 | 424 | - |
| | Trade receivables | 11 | 14,829 | 5,787 |
| | Total financial assets pledged | | 15,253 | 5,787 |

The collateral over cash and cash equivalents represents a floating charge.

The Company has an insurance bonding facility of 8 million. At 30 June 2018 the amount drawn on the facility was 7.868 million (2017 NIL).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 19: TAX

| | Consolidated Group | |
|---|---|---|
| | **2018 $000** | **2017 $000** |
| CURRENT | | |
| Income tax payable | 1,641 | 593 |

| | | Consolidated Group | |
|---|---|---|---|
| | | **2018 $000** | **2017 $000** |
| a. | Deferred Tax Asset: | | |
| | The balance comprises temporary differences attributable to: | | |
| | Accrued Expenses | 1 | - |
| | Payable/Provisions | 619 | 340 |
| | Capital Raising Costs | 410 | - |
| | Other | 18 | 22 |
| | Total deferred tax assets | 1,048 | 362 |
| | Less deferred tax liabilities set off from Note 19b | (332) | (174) |
| | Net deferred tax assets | 715 | 187 |

| **Movement** | **Accrued Expenses $000** | **Payable/Provisions $000** | **Capital Raising Costs $000** | **Other $000** | **Closing Balance $000** |
|---|---|---|---|---|---|
| **At 1 July 2016** | - | 200 | - | 12 | 212 |
| (Charged)/credited to the income statement | - | 140 | - | 10 | 150 |
| (Charged)/credited directly to equity | - | - | - | - | - |
| **Balance at 30 June 2017** | - | 340 | - | 22 | 362 |
| (Charged)/credited to the income statement | 1 | 279 | 77 | -4 | 353 |
| (Charged)/credited directly to equity | - | - | 333 | - | 333 |
| **Balance at 30 June 2018** | 1 | 619 | 410 | 18 | 1,048 |

NOTE 19: TAX (CONTINUED)

| | Consolidated Group | |
|---|---|---|
| | **2018 $000** | **2017 $000** |
| b. Deferred Tax Liabilities: | | |
| The balance comprises temporary differences attributable to: | | |
| Work in Progress | 320 | 153 |
| Accrued Interest | 1 | 2 |
| Prepayments | 14 | 16 |
| Other | -3 | 3 |
| Total deferred tax liabilities | 332 | 174 |
| | | |
| Set-off deferred tax liabilities, pursuant to set-off provisions (note 19a) | -332 | -174 |
| Net deferred tax liabilities | - | - |

| **Movement** | **Work in Progress $000** | **Accrued Interest $000** | **Prepayments $000** | **Other $000** | **Closing Balance $000** |
|---|---|---|---|---|---|
| **At 1 July 2016** | 99 | 3 | 5 | - | 107 |
| (Charged)/credited to the income statement | 54 | -1 | 11 | 3 | 67 |
| (Charged)/credited directly to equity | - | - | - | - | - |
| **Balance at 30 June 2017** | 153 | 2 | 16 | 3 | 174 |
| (Charged)/credited to the income statement | 167 | -1 | -2 | -6 | 158 |
| (Charged)/credited directly to equity | - | - | - | - | - |
| **Balance at 30 June 2018** | 320 | 1 | 14 | -3 | 332 |

NOTE 20: PROVISIONS

| | Employee Benefits | Other | Total |
|---|---|---|---|
| | $000 | $000 | $000 |
| **Consolidated Group** | | | |
| Opening balance at 1 July 2017 | 625 | 22 | 647 |
| Additional provisions | 607 | - | 607 |
| Amounts used | - | (22) | (22) |
| Balance at 30 June 2018 | 1,232 | - | 1,232 |

**Analysis of provisions**

| | Consolidated Group | |
|---|---|---|
| | 2018 $000 | 2017 $000 |
| Current | - | 22 |
| Non-current | - | - |
| | - | 22 |

**Provision for Employee Benefits**

| | Consolidated Group | |
|---|---|---|
| | 2018 $000 | 2017 $000 |
| Current | 1,059 | 625 |
| Non-current | 173 | - |
| | 1,232 | 625 |

Provision for employee benefits represents amounts accrued for annual leave and long service leave.

The current portion for this provision includes the total amount accrued for annual leave entitlements and the amounts accrued for long service leave entitlements that have vested due to employees having completed the required period of service. Based on past experience, the Group does not expect the full amount of annual leave or long service leave balances classified as current liabilities to be settled within the next 12 months. However, these amounts must be classified as current liabilities since the Group does not have an unconditional right to defer the settlement of these amounts in the event employees wish to use their leave entitlement.

The non-current portion for this provision includes amounts accrued for long service leave entitlements that have not yet vested in relation to those employees who have not yet completed the required period of service.

In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits have been discussed in Note 1(k).

## NOTE 21: OTHER CURRENT LIABILITIES

| | Consolidated Group | |
|---|---|---|
| | **2018 $000** | **2017 $000** |
| CURRENT | | |
| Unearned Revenue | 1,207 | 2,121 |

## NOTE 22: ISSUED CAPITAL

| | | Consolidated Group | |
|---|---|---|---|
| | | **2018 No.** | **2017 No.** |
| a. | **Ordinary Shares** | | |
| | At the beginning of the reporting period | 66,779 | 63,989 |
| | Shares issued during the year: | | |
| | – 24/10/2016 | - | 2,790 |
| | – 19/04/2018 | 93,423,821 | - |
| | At the end of the reporting period | 93,490,600 | 66,779 |

On 19/4/2018 the Group did a 1 to 1400 share split of every ordering share.

| | Consolidated Group | |
|---|---|---|
| | **2018 $000** | **2017 $000** |
| Fully paid ordinary shares | 348 | 348 |

b. **Capital Management**

The Group prior to 30 June 2018 was a private company funded by debt and retained profits therefore there was no policy in place regarding debt to equity rations.

At the date of this report as a listed company, management has now implemented controls around the capital of the group in order to maintain a sustainable debt to equity ratio, generate long-term shareholder value and ensure that the Group can fund its operations and continue as a going concern.

The Group's debt and capital include ordinary share capital, borrowings supported by financial assets.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

This strategy is to ensure that the Group's gearing ratio remains between 5% and 15%. The gearing ratios for the years ended 30 June 2018 and 30 June 2017 are as follows:

NOTE 22: ISSUED CAPITAL (CONTINUED)

| | Note | Consolidated Group | |
|---|---|---|---|
| | | 2018 $000 | 2017 $000 |
| Total borrowings | 18 | 1,917 | 2,933 |
| Less cash and cash equivalents | 10 | (424) | 268 |
| Net debt | | 1,493 | 3,201 |
| Total equity | | 8,377 | 3,725 |
| Total capital | | 9,870 | 6,926 |
| Gearing ratio | | 15% | 46% |

NOTE 23: CAPITAL AND LEASING COMMITMENTS

| | | Note | Consolidated Group | |
|---|---|---|---|---|
| | | | 2018 $000 | 2017 $000 |
| a. | **Finance Lease Commitments** | | | |
| | Payable – minimum lease payments: | | | |
| | – not later than 12 months | | 931 | 903 |
| | – between 1 and 5 years | | 1,139 | 1,625 |
| | Minimum lease payments | | 2,070 | 2,528 |
| | Less future finance charges | | (156) | (228) |
| | Present value of minimum leave payments | 18 | 1,914 | 2,300 |
| b. | **Operating Lease Commitments** | | | |
| | Non-cancellable operating leases contracted for but not recognised in the financial statements | | | |
| | Payable – minimum lease payments: | | | |
| | – not later than 12 months | | 544 | 333 |
| | – between 1 and 5 years | | 842 | 1,005 |
| | | | 1,386 | 1,338 |

The property leases are non-cancellable leases with a 1-3 year term, with rent payable monthly in advance.

NOTE 24: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Primero Group Ltd has provides bank guarantees and insurance bonds to various customers for satisfactory contract performance in the amount of $8,305,404.

There are no other contingent liabilities other than those listed above

## NOTE 25: EVENTS AFTER THE REPORTING PERIOD

On the 9th of July 2018 Primero Group listed on the Australian Stock Exchange raising $25 million. The raise was made up of:

- 50,000,000 new shares issued at 40 cents per share raising $20 million of new capital coming into the company.
- 12,500,000 shares sold by the existing shareholders at 40 cents raising a further $5 million.

## NOTE 26: RELATED PARTY TRANSACTIONS

a. **Related parties**

The Group's main related parties are as follows:

(i) *Entities exercising control over the Group:*

The ultimate parent entity that exercises control over the Group is Primero Group Limited, which is incorporated in Australia.

(ii) *Key management personnel:*

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity, are considered key management personnel.

For details of disclosures relating to key management personnel, refer to Note 6.

(iii) *Other related parties:*

Other related parties include entities controlled by the ultimate parent entity and entities over which key management personnel have joint control.

b. **Transactions with related parties**

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

The following transactions occurred with related parties:

| | Consolidated Group | |
|---|---|---|
| | **2018 $000** | **2017 $000** |
| *Other related parties:* | | |
| Interest revenue: | 18 | 41 |

NOTE 26: RELATED PARTY TRANSACTIONS (CONTINUED)

| | | | Consolidated Group | |
|---|---|---|---|---|
| | | | **2018 $000** | **2017 $000** |
| c. | **Amounts outstanding from related parties** | | | |
| | (i) | *Loans to other key management personnel related entities* | | |
| | | Beginning of the year | - | - |
| | | Loans advanced | 315 | - |
| | | End of the year | 315 | - |
| | (ii) | *Loans to controlled entity at reporting date was as follows* | | |
| | | Beginning of the year | - | - |
| | | Loans advanced | 1,133 | - |
| | | End of the year | 1,133 | - |

| | | | | |
|---|---|---|---|---|
| d. | **Amounts payable to related parties** | | | |
| | Trade and other payables: | | | |
| | | *Loans from other key management personnel related entities:* | | |
| | | Beginning of the year | 633 | 432 |
| | | Loans advanced | - | 160 |
| | | Loan repayment received | (648) | - |
| | | Interest charged | 18 | 41 |
| | | End of the year | 3 | 633 |

## NOTE 27: FINANCIAL RISK MANAGEMENT

The Group's financial instruments consist mainly of deposits with banks, short-term investments, accounts receivable and payable and leases.

The totals for each category of financial instruments, measured in accordance with AASB 139: *Financial Instruments: Recognition and Measurement* as detailed in the accounting policies to these financial statements, are as follows:

| | Note | Consolidated Group | |
|---|---|---|---|
| | | 2018<br>$000 | 2017<br>$000 |
| **Financial assets** | | | |
| Cash and cash equivalents | 10 | 424 | (268) |
| Loans and receivables | 11 | 15,486 | 5,934 |
| **Total financial assets** | | 15,910 | 5,666 |
| **Financial liabilities** | | | |
| Financial liabilities at amortised cost: | | | |
| – trade and other payables | 17 | 12,300 | 7,123 |
| – borrowings | 18 | 1,917 | 2,933 |
| **Total financial liabilities** | | 14,217 | 10,056 |

**Specific financial risk exposures and management**

The main risks the Group is exposed to through its financial instruments are credit risk, liquidity risk, and market risk consisting of interest rate risk, foreign currency risk and other price risk (commodity and equity price risk). There have been no substantive changes in the types of risks the Group is exposed to, how these risks arise, or the Board's objectives, policies and processes for managing or measuring the risks from the previous period.

a. **Credit risk**

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group.

Credit risk is managed through the maintenance of procedures (such as the utilisation of systems for the approval, granting and renewal of credit limits, regular monitoring of exposures against such limits and monitoring of the financial stability of significant customers and counterparties), ensuring to the extent possible that customers and counterparties to transactions are of sound credit worthiness. Such monitoring is used in assessing receivables for impairment. Depending on the division within the Group, credit terms are generally 30 to 45 days from the invoice date.

Risk is also minimised through investing surplus funds in financial institutions that maintain a high credit rating, or in entities that the senior management and board has otherwise assessed as being financially sound. Where the Group is unable to ascertain a satisfactory credit risk profile in relation to a customer or counterparty, the risk may be further managed through title retention clauses over goods or obtaining security by way of personal or commercial guarantees over assets of sufficient value which can be claimed against in the event of any default.

NOTE 27: FINANCIAL RISK MANAGEMENT (CONTINUED)

*Credit risk exposures*

The maximum exposure to credit risk by class of recognised financial assets at the end of the reporting period excluding the value of any collateral or other security held, is equivalent to the carrying amount (net of any provisions) as presented in the statement of financial position

The Group has no significant concentrations of credit risk with any single counterparty or group of counterparties. However, on a geographical basis, the Group has significant credit risk exposures to Australia and Canada given the substantial operations in those regions. Details with respect to credit risk of trade and other receivables are provided in Note 11

Trade and other receivables that are neither past due nor impaired are considered to be of high credit quality. Aggregates of such amounts are detailed in Note 11.

Credit risk related to balances with banks and other financial institutions is managed by the FOC in accordance with approved board policy. Such policy requires that surplus funds are only invested with counterparties with a Standard & Poor's rating of at least AA–. The following table provides information regarding the credit risk relating to cash and money market securities based on Standard & Poor's counterparty credit ratings.

| | Note | Consolidated Group | |
|---|---|---|---|
| | | 2018 | 2017 |
| | | $000 | $000 |
| Cash and cash equivalents: | | | |
| – AA rated | 10 | 424 | - |

b. **Liquidity risk**

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:

- preparing forward-looking cash flow analyses in relation to its operating, investing and financing activities;
- monitoring undrawn credit facilities;
- obtaining funding from a variety of sources;
- maintaining a reputable credit profile;
- managing credit risk related to financial assets;
- only investing surplus cash with major financial institutions; and
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

The table below reflects an undiscounted contractual maturity analysis for financial assets and financial liabilities. Financial guarantee liabilities are treated as payable on demand since the Group has no control over the timing of any potential settlement of the liabilities.

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect management's expectations that banking facilities will be rolled forward.

NOTE 27: FINANCIAL RISK MANAGEMENT (CONTINUED)

*FINANCIAL LIABILITY AND FINANCIAL ASSET MATURITY ANALYSIS*

| | Within 1 Year | | 1 to 5 Years | | Over 5 Years | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| **Consolidated Group** | **$000** | **$000** | **$000** | **$000** | **$000** | **$000** | **$000** | **$000** |
| **Financial liabilities due for payment** | | | | | | | | |
| Bank overdrafts and loans | 1,194 | 1,217 | - | - | - | - | 1,194 | 1,217 |
| Trade and other payables | 12,300 | 7,123 | - | - | - | - | 12,300 | 7,123 |
| Amounts payable to related parties | 3 | 633 | - | - | - | - | 3 | 633 |
| Finance lease liabilities | 854 | 786 | 1,060 | 1,514 | - | - | 1,914 | 2,300 |
| Total expected outflows | 14,351 | 9,759 | 1,060 | 1,514 | - | - | 15,411 | 11,273 |
| **Financial assets – cash flows realisable** | | | | | | | | |
| Cash and cash equivalents | 1,618 | 949 | - | - | - | - | 1,618 | 949 |
| Trade, term and loan receivables | 15,486 | 5,934 | - | - | - | - | 15,486 | 5,934 |
| Total anticipated inflows | 17,104 | 6,883 | - | - | - | - | 17,104 | 6,883 |
| Net (outflow)/ inflow on financial instruments | 2,753 | (2,876) | (1,060) | (1,514) | `- | - | 1,693 | (4,390) |

NOTE 27: FINANCIAL RISK MANAGEMENT (CONTINUED)

c. **Market risk**

(i) *Interest rate risk*

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group is also exposed to earnings volatility on floating rate instruments.

The financial instruments that primarily expose the Group to interest rate risk are borrowings, and cash and cash equivalents.

Interest rate risk is managed using a mix of fixed and floating rate debt. At 30 June 2018 approximately 62% of group debt is fixed rate. The group has no policy on what this should be.

| **Consolidated Group** | **Effective Average Fixed Interest Rate Payable** | | **Notional Principal** | |
|---|---|---|---|---|
| **Maturity of notional amounts** | **2018** | **2017** | **2018** | **2017** |
| | **%** | **%** | **$000** | **$000** |
| Less than 1 year | 6.46 | 7.76 | 276 | 173 |
| 1 to 2 years | 6.24 | 7.08 | 634 | 506 |
| 2 to 5 years | 5.21 | 5.67 | 1,004 | 1,621 |
| | | | 1,914 | 2,300 |

The net effective variable interest rate borrowings (ie unhedged debt) expose the Group to interest rate risk, which will impact future cash flows and interest charges and is indicated by the following floating interest rate financial liabilities:

| | **Note** | **Consolidated Group** | |
|---|---|---|---|
| | | **2018** | **2017** |
| | | **$000** | **$000** |
| **Floating rate instruments** | | | |
| Bank overdrafts | 10 | 1,194 | 1,217 |
| | | 1,194 | 1,217 |

(ii) *Foreign currency risk*

Exposure to foreign currency risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments which are other than the AUD functional currency of the Group.

With instruments being held by overseas operations, fluctuations in the CAD dollar and USD dollar impact on the Group's financial results. The management believes the currency risk for the Group is minimal and therefore its policy is not to hedge.

The following table shows the foreign currency risk on the financial assets and liabilities of the Group's operations denominated in currencies other than the functional currency of the operations.

NOTE 27: FINANCIAL RISK MANAGEMENT (CONTINUED)

| **2018** | **Net Financial Assets/(Liabilities) in AUD (000)** | | | | |
|---|---|---|---|---|---|
| **Consolidated Group** | **USD** | **AUD** | **GBP** | **Other** | **Total AUD** |
| Functional currency of entity: | | | | | |
| Australian dollar | 1,295 | - | - | - | 1,295 |
| Canadian Dollar | - | 473 | - | - | 473 |
| Statement of financial position exposure | 1,031 | 473 | - | - | 1,504 |

| **2017** | **Net Financial Assets/(Liabilities) in AUD (000)** | | | | |
|---|---|---|---|---|---|
| **Consolidated Group** | **USD** | **AUD** | **GBP** | **Other** | **Total AUD** |
| Functional currency of entity: | | | | | |
| Australian dollar | 34 | - | - | - | 34 |
| Statement of financial position exposure | 34 | - | - | - | 34 |

*Sensitivity analysis*

The following table illustrates sensitivities to the Group's exposures to changes in interest rates, exchange rates and commodity and equity prices. The table indicates the impact of how profit and equity values reported at the end of the reporting period would have been affected by changes in the relevant risk variable that management considers to be reasonably possible.

These sensitivities assume that the movement in a particular variable is independent of other variables.

| | **Consolidated Group** | |
|---|---|---|
| | **Profit** | **Equity** |
| **Year ended 30 June 2018** | **$000** | **$000** |
| +/–10% in interest rates | 3/(3) | - |
| +/–10% in $A/$US | 195/(159) | - |
| +/–10% in $A/$CAD | 52/(43) | - |
| **Year ended 30 June 2017** | | |
| +/–10% in interest rates | 5/(5) | - |
| +/–10% in $A/$US | 32/(26) | - |

NOTE 28: RESERVES

| | Note | Consolidated Group | |
|---|---|---|---|
| | | 2018 | 2017 |
| | | $000 | $000 |
| **Foreign currency translation reserve** | | | |
| Exchange differences on translation of foreign operations | 5 | (4) | - |
| Movement in foreign currency translation reserve | | (4) | - |
| Other comprehensive income for the year attributable to: | | (4) | - |
| Owners of the parent entity | | | |
| Non-controlling interest | | - | - |
| Total | | (4) | - |

NOTE 29: SEGMENT REPORTING

The consolidated entity has adopted AASB 8 Operating Segments which requires operating segments to be identified on the basis of internal reports about components of the Consolidated Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The consolidated entity operates in one operating segment being engineering, design and construction. This is the basis on which internal reports are provided to the Directors for assessing performance and determining the allocation of resources within the consolidated entity.

The Group has a number of customers to whom it provides services to in the resources sector. The Group has three external customers who accounts for 45%, 18% and 12% of external revenue (2017: 23%, 15% and 13%).

NOTE 30: FAIR VALUE MEASUREMENTS

The Group measures and recognises the following assets and liabilities at fair value on a recurring basis after initial recognition:

– financial assets held for trading;

The Group does not subsequently measure any liabilities at fair value on a non-recurring basis.

a. **Fair Value Hierarchy**

AASB 13: *Fair Value Measurement* requires the disclosure of fair value information by level of the fair value hierarchy, which categorises fair value measurements into one of three possible levels based on the lowest level that an input that is significant to the measurement can be categorised into as follows:

NOTE 30: FAIR VALUE MEASUREMENTS (CONTINUED)

| Level 1 | Level 2 | Level 3 |
|---|---|---|
| Measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. | Measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. | Measurements based on unobservable inputs for the asset or liability. |

The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data. If all significant inputs required to measure fair value are observable, the asset or liability is included in Level 2. If one or more significant inputs are not based on observable market data, the asset or liability is included in Level 3.

**Valuation techniques**

The Group selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value. The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset or liability being measured. The valuation techniques selected by the Group are consistent with one or more of the following valuation approaches:

– *Market approach* uses prices and other relevant information generated by market transactions for identical or similar assets or liabilities.

– *Income approach* converts estimated future cash flows or income and expenses into a single discounted present value.

– *Cost approach* reflects the current replacement cost of an asset at its current service capacity.

Each valuation technique requires inputs that reflect the assumptions that buyers and sellers would use when pricing the asset or liability, including assumptions about risks. When selecting a valuation technique, the Group gives priority to those techniques that maximise the use of observable inputs and minimise the use of unobservable inputs. Inputs that are developed using market data (such as publicly available information on actual transactions) and reflect the assumptions that buyers and sellers would generally use when pricing the asset or liability are considered observable, whereas inputs for which market data is not available and therefore are developed using the best information available about such assumptions are considered unobservable.

The following tables provide the fair values of the Group's assets and liabilities measured and recognised on a recurring basis after initial recognition and their categorisation within the fair value hierarchy:

NOTE 30: FAIR VALUE MEASUREMENTS (CONTINUED)

| | | 30 June 2018 | | | |
|---|---|---|---|---|---|
| | **Note** | **Level 1 $000** | **Level 2 $000** | **Level 3 $000** | **Total $000** |
| **Recurring fair value measurements** | | | | | |
| *Financial assets* | | | | | |
| Financial assets at fair value through profit or loss: | | | | | |
| – held-for-trading Australian listed shares | 16 | 110 | - | - | 110 |
| **Total financial assets recognised at fair value on a recurring basis** | | 110 | - | - | 110 |

| | | 30 June 2017 | | | |
|---|---|---|---|---|---|
| | **Note** | **Level 1 $000** | **Level 2 $000** | **Level 3 $000** | **Total $000** |
| **Recurring fair value measurements** | | | | | |
| *Financial assets* | | | | | |
| Financial assets at fair value through profit or loss: | | | | | |
| – held-for-trading Australian listed shares | 16 | 150 | - | - | 150 |
| **Total financial assets recognised at fair value on a recurring basis** | | 150 | - | - | 150 |

There were no changes during the reporting period in the valuation techniques used by the Group to determine Level1, Level 2 and Level 3 fair values.

There were no transfers between Level1, Level 2 and Level 3 during the reporting period.

NOTE 31: COMPANY DETAILS

The registered office of the company is:

78 Hasler Road
Osborne Park WA 6017

## DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Primero Group Listed Public Limited, the directors of the company declare that:

1. the financial statements and notes, as set out on pages 20 to 66, are in accordance with the *Corporations Act 2001* and:
   a. comply with Australian Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards; and
   b. give a true and fair view of the financial position as at 30 June 2018 and of the performance for the year ended on that date of the consolidated group;
2. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
3. the directors have been given the declarations required by s 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer.

Cameron Henry, Director

Dated this 26th day of September 2018

MOORE STEPHENS

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## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PRIMERO GROUP LIMITED

## REPORT ON THE AUDIT OF THE FINANCIAL REPORT

### Opinion

We have audited the financial report of Primero Group Limited (the Company and its subsidiaries) (the "Group"), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

i. giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended; and

ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the "Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's report.

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

### Key Audit Matters

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

## Key Audit Matters (continued)

| Recognition of Revenue from Construction Contracts | |
|---|---|
| **Refer to Note 3 "Revenue and Other Income", Note 12 "WIP & Accrued Income" and Note 21 "Unearned Revenue"** | |
| The Group's revenue arising from engineering consulting, construction and operational services amounted to $85.2 million for the financial year ended 30 June 2018, the majority of which is based on contracts which determine the services, materials and rates to be charged.<br><br>Revenue is recognised by reference to the stage of completion of the contract activity at the balance sheet date. These determinations will also impact on other account balances being WIP & Accrued Income and Unearned Revenue.<br><br>We have focused on this area as a key audit matter because of the significant judgement involved in estimating the contract revenue, contract costs and the percentage of completion of each project. | Our procedures included, amongst others:<br>• We performed procedures to understand, evaluate and test key controls put in place by management in relation to the recognition of revenue and costs relating to contracted services;<br>• We assessed management's assumptions in determining forecast contract revenue, percentage of completion of projects and total budgeted costs for each project;<br>• We assessed the appropriateness of variations and claims included in revenue. In particular, we focussed on whether there was subsequent approval of these variations and claims or whether it is probable that they will be approved;<br>• We selected a sample of sales invoices raised during the year and performed the following procedures;<br>– agreed to contractual terms and rates<br>– agreed to general ledger accounts and subsequent receipts from the customer<br>– for variations or claims we checked they were in accordance with contract terms and evaluated for risk of non-recovery;<br>• We evaluated and tested, on a sample basis, inputs such as materials, subcontractors and labour costs used by management in their estimation of total costs to complete;<br>• We examined key project documentation and discussed the progress of significant projects with the Group's management for potential disputes, variations or significant events that could impact the estimated contract revenue, estimated contract costs and stage of completion. We then assessed the accuracy of revenue, WIP & Accrued Income and Unearned Revenue recognised for individually significant projects.<br>• We also checked management's assessment of foreseeable losses on projects by reviewing projects with low or negative margins. |

## Key Audit Matters (continued)

| Valuation of Receivables | |
|---|---|
| **Refer to Note 11 "Trade and Other Receivables"** | |
| The carrying amount of trade and other receivables of the Group was $15.4 million as at 30 June 2018.<br><br>We focussed on this area as a key audit matter because of its significance and the degree of judgement required in determining their carrying value as at the reporting date.<br><br>The Group assesses at each financial year end whether there is objective evidence that the receivables are impaired. When there is objective evidence of impairment, the amount and timing of future cashflows are estimated based on historical loss experience for assets with similar credit risk characteristics. | Our procedures included, amongst others:<br>• We obtained an understanding of the Group's credit policy and evaluated the processes for identifying impairment indicators.<br>• Review of subsequent receipt collections from debtors and ageing analysis post year end;<br>• Discussion with management as to the existence of any disputes with debtors, review of correspondence and assessment of impairment provisions raised by management;<br>• Assessment of the financial viability of debtors, where considered necessary; |

## Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

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

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

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

## Responsibilities of the Directors for the Financial Report

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

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

## Auditor's Responsibilities for the Audit of the Financial Report

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

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, international omissions, misrepresentation, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

## Auditor's Responsibilities for the Audit of the Financial Report (continued)

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## REPORT ON THE REMUNERATION REPORT

### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 12 to 18 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Primero Group Limited, for the year ended 30 June 2018 complies with section 300A of the *Corporations Act 2001*.

### *Responsibilities*

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

Neil Pace

NEIL PACE
PARTNER

Moore Stephens

MOORE STEPHENS
CHARTERED ACCOUNTANTS

Signed at Perth on the 26th day of September 2018

## ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

The following information is current as at 26/09/2018:

1. **Shareholding**

a. **Distribution of Shareholders**

| Category (size of holding): | Ordinary Shares |
|---|---|
| 1 – 1,000 | 2,525 |
| 1,001 – 5,000 | 192,156 |
| 5,001 – 10,000 | 463,580 |
| 10,001 – 100,000 | 14,626,395 |
| 100,001 and over | 134,030,944 |
| | 149,315,600 |

b. The number of shareholdings held in less than marketable parcels is 6.

c. The names of the substantial shareholders listed in the holding company's register are:

| Shareholder: | **Ordinary Shares** |
|---|---|
| Cameron Henry and Associated Entities | 23,732,372 |
| Dean Ercegovic and Associated Entities | 18,687,060 |
| Peter Grigsby and Associated Entities | 14,062,595 |
| HSBC Custody Nominees (Australia) Ltd | 14,025,250 |
| Ben Davies and Associated Entities | 10,891,082 |
| Brett Grosvenor and Associated Entities | 9,045,177 |
| Morgan Stanley Australia Securities (Nominee) Pty Ltd <No 1 Account> | 8,530,647 |

d. **Voting Rights**

The voting rights attached to each class of equity security are as follows:

Ordinary shares

– Each ordinary share is entitled to one vote when a poll is called; otherwise each member present at a meeting or by proxy has one vote on a show of hands.

## ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

e. **20 Largest Shareholders – Ordinary Shares**

| | Name | Number of Ordinary Fully Paid Shares Held | % Held of Issued Ordinary Capital |
|---|---|---|---|
| 1. | MEESHA INVESTMENTS PTY LTD <THE HENRY FAMILY A/C> | 23,732,372 | 15.89 |
| 2. | RAVCA PTY LTD <THE MAKARSKA A/C> | 18,687,060 | 12.52 |
| 3. | PRITA HOLDINGS PTY LTD <THE PRITA INVESTMENT A/C> | 14,025,595 | 9.42 |
| 4. | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 14,025,250 | 9.39 |
| 5. | MATUVI ENTERPRISES PTY LTD <THE DAVIES FAMILY A/C> | 10,891,082 | 7.29 |
| 6. | SALVADOR CONSULTING PTY LTD <THE B&U FAMILY A/C> | 9,045,177 | 6.06 |
| 7. | MORGAN STANLEY AUSTRALIA SECURITIES (NOMINEE) PTY LIMITED <NO 1 ACCOUNT> | 8,530,647 | 5.71 |
| 8. | NATIONAL NOMINEES LIMITED | 5,373,444 | 3.60 |
| 9. | TWO BEANIES PTY LTD <MCFARLANE FAMILY A/C> | 4,572,314 | 3.06 |
| 10. | CITICORP NOMINEES PTY LIMITED | 4,063,408 | 2.72 |
| 11. | BNP PARIBAS NOMS PTY LTD <DRP> | 3,756,185 | 2.52 |
| 12. | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2 | 2,336,769 | 1.56 |
| 13. | UBS NOMINEES PTY LTD | 2,318,024 | 1.55 |
| 14. | CS FOURTH NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 11 A/C> | 1,566,125 | 1.05 |
| 15. | AUST EXECUTOR TRUSTEES LTD <CYAN C3G FUND> | 1,200,000 | 0.80 |
| 16. | BRISPOT NOMINEES PTY LTD <HOUSE HEAD NOMINEE A/C> | 915,937 | 0.61 |
| 17. | CS THIRD NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 13 A/C> | 808,875 | 0.54 |
| 18. | SAFARI CAPITAL PTY LTD | 750,000 | 0.50 |
| 19. | MERRIWEE PTY LTD <MERRIWEE SUPER FUND A/C> | 550,000 | 0.37 |
| 20. | GINGA PTY LTD <T G KLINGER SUPER A/C> | 550,000 | 0.37 |
| | | 127,735,264 | 85.55 |

## ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

2. The name of the company secretary is Ryan McFarlane.

3. The address of the principal registered office in Australia is 78 Hasler Road, Osborne Park WA 6018.
Telephone 08 6500 9500.

4. Registers of securities are held at the following addresses:

   Automic Pty Ltd Level 29, 201 Elizabeth Street, Sydney NSW 2000

5. **Stock Exchange Listing**

   Quotation has been granted for all the ordinary shares of the company on all Member Exchanges of the Australian Securities Exchange Limited.

6. **Unquoted Securities**

   Options over Unissued Shares:

   A total of 2,000,000 options are on issue. 2,000,000 options are on issue to 1 holder of ordinary securities.