

FINANCIAL REPORT

FOR THE YEAR
ENDED 30 JUNE 2020

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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 entity for the Financial Year Ended 30 June 2020.

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

Luke Graham – Non-Executive Director (Resigned 25/03/2020)

Cliff Lawrenson - Non-Executive Director (Appointed 17/10/2019) (Resigned 9/03/2020)

Kristie Young - Non-Executive Director (Appointed 19/08/2020)

Bryn Hardcastle - Non-Executive Director (Appointed 19/08/2020)

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 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.

DIRECTORS' REPORT

Significant Events after the Reporting Period

Primero appointed two new non-executive directors on the 19th of August 2020 being Kristie Young and Bryn Hardcastle.

In late April 2020, Primero was awarded the sum of approximately \$16.9 million in an adjudication determination against Wartsila under the South Australian Security of Payment Act (**SOPA**). Wartsila elected to transfer payment into the courts of South Australia and seek judicial review of the adjudication decision in the Supreme Court of South Australia (**Court**).

The judicial review did not seek to challenge the adjudicator's findings with respect to the merits of Primero's claims, but rather whether the adjudicator had jurisdiction to make a determination in circumstances where the trigger for payment (namely Sub-Contractor Works (**SW**) Completion) had been satisfied on the date claimed by Primero, being 28 February 2020. These proceedings were heard on the 2nd September 2020. The Court directed that the adjudication decision of 27 April 2020 be quashed on the basis that the trigger for payment (i.e. SW Completion) had not been achieved on 28 February 2020.

Primero has reserved all its legal rights in relation to the SOPA process and its contract with Wartsila.

Environmental Issues

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

During the financial year, Primero Group and its subsidiary 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:

- No dividend has been declared in relation to the 2020 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 secretaries 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 2020 financial year in relation to directors and officers insurance was \$68,000.

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

Legal 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 Group for all or any part of those proceedings.

Non-audit Services

No non-audit services were provided in the current year by Moore Australia, refer to note 7 of accompanying Financial Statements for details of the auditor's remuneration.

DIRECTORS' REPORT

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2020 has been received and can be found on page 27 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 Option¹
(i)	09/07/2018	09/07/2021	\$0.50	1,000,000
	09/07/2018	09/07/2021	\$0.60	1,000,000
(ii)	03/12/2018	03/12/2022	Nil	209,595
	03/12/2018	03/12/2023	Nil	751,075
	03/12/2018	03/12/2022	\$0.558	1,426,075
(iii)	25/11/2019	25/11/2023	Nil	-
	25/11/2019	25/11/2023	Nil	2,209,378
	25/11/2019	25/11/2023	\$0.543	738,816
	25/11/2019	26/11/2020	Nil	52,632
(iv)	18/08/2020	19/08/2021	Nil	103,920
				7,491,491

- (i) The Options were issued on the 9th of July 2018 to Canaccord Genuity as compensation for their brokerage work perform for Primero Group in the initial public offering on the Australian Securities Exchange.
- (ii) The Options were issued on the 3rd of December 2018 to Primero employees were issued as part of Primero Employee Incentive scheme.
- (iii) The Options were issued on the 25th of November 2019 to Primero employees were issued as part of Primero Employee Incentive scheme.
- (iv) The Options were issued on the 18th of August 2020 to non-executives Bryn Hardcastle and Kristie Young

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 other 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 2020, 87,500 options exercised for no consideration.

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.

¹ The Options listed exclude options that have been forfeited due to performance hurdles not being met as part of the Group's Employee Incentive scheme.

Operating and Financial Review

2020 has been another strong year of growth within the Group setting for further growth into 2021. The Group's diversity, capability and capacity is increasing year on year even with external factors and the business is continuing to build its reputation in the industry as a business that delivers.

Earnings

Revenue and Earnings	FY20 (\$M)	FY19 (\$M)	Change
Total revenue	205.6	151.7	+36%
EBITDA (statutory)	9.1	10.5	-14%
<i>EBITDA (excl one-off costs)</i>	9.5	11.7	-18%
<i>EBIT (excl one-off costs)</i>	7.7	10.5	-26%
<i>Pre-tax profit (excl one-off costs)</i>	7.1	10.4	-31%
Statutory NPAT	4.6	6.2	-26%

Total revenue of \$205.6 million was a 36% increase on FY19.

Gross operating margin (service revenue minus cost of sales) was 8.8% (FY19: 13.2%), impacted significantly by the conservative approach adopted with respect to Wartsila contract revenue recognition during the period.

EBITDA excluding one-off items was \$9.5 million (FY19: \$11.7 million), similarly impacted by the Wartsila contract revenue recognition approach. The sole one-off item was a \$0.5 million bad debts expense recorded with respect to contractual monies owed to Primero by Alita Resources Limited.

EBITDA margin (excluding one-off items) was 4.6% (FY19: 7.7%). Adjusted EBITDA margin (excluding one-off items and zero-margin Wartsila revenue) was 5.7%.

Cashflow

Cashflow	FY20 (\$M)	FY19 (\$M)
Net operating cashflow	(11.9)	3.1
Net investing cashflow	(3.7)	(1.8)
Net financing cashflow	9.0	20.1
<i>Net change in cash balance</i>	(6.6)	21.4

Net operating cashflow of -\$11.9 million (FY19: \$3.1 million) incorporates the significant build up in working capital associated with outstanding monies under the Wartsila contract.

Net investing cashflow of -\$3.7 million (FY19: -\$1.8 million) reflected the modest level of capital investment required during the reporting period combined with a staged \$2.0 million principal investment in private Australian gold developer, Barton Gold Limited (**Barton**). At the 30th of June 2020 Primero held 4.97% of Barton and will eventually hold 7.3% once the transaction has been completed.

Barton recently acquired the Tarcoola Gold Mine (on care and maintenance), Tunkillia Gold Project and regional infrastructure in South Australia including a 650ktpa plant, 240-person camp and airstrip. Primero's investment in Barton is reflective of its incremental 'ownership model' strategy of building modest project equity positions in attractive pre-development mineral assets.

Net financing cashflow of \$9.0 million (FY19: \$20.1 million) includes \$7.6 million of gross new equity funds raised via a placement in early December 2019.

Balance Sheet

Cash at 30th of June 2020 stood at \$15.2 million. Gearing remains very low with current and non-current debt totaling \$5.7 million (includes \$2.7 million of lease liabilities related to rental premises).

Work in progress and accrued income is \$55.2 million of which \$52 million relates to the Wartsila contract.

No dividend was declared or paid in respect of the FY20 results. Primero remains focused on growing its existing business and delivering on the strong level of contracted work in its current order book.

The Company has an insurance bonding facility of \$40 million. At 30 June 2020 the amount drawn on the facility was \$32.19 million. The company also has a multi option facility with the National Australia Bank of \$25 million was drawn to \$19.284 at the 30th of June.

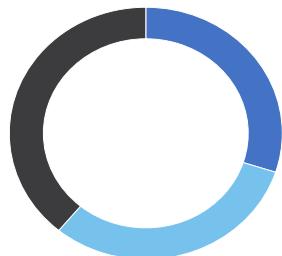
Through a share buyback the Group brought back 530,000 shares during the year at nil consideration as part of the employee shares issued under a non-recourse loan arrangement.

Business Segment Detail

The composition of FY20 service revenue by key business segment was approximately 39% Energy, 31% Non-Process Infrastructure (NPI) and 30% Minerals.

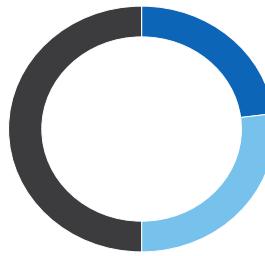
FY20 Revenue by Segment

- Minerals (30%)
- NPI (31%)
- Energy (39%)



FY19 Revenue by Segment

- Minerals (23%)
- NPI (27%)
- Energy (50%)



Energy

Primero's Energy division has a successful track record of servicing clients that operate onshore and offshore power generation and oil and gas facilities.

The Energy division achieved revenue during the year of approximately \$79 million (FY19: \$76 million).

This outcome was driven by the progressive execution of Primero's contract with Wartsila for the 211MW Barker Inlet Power Station in South Australia, which was developed for AGL Energy. This was a highly significant EPC contract for the construction of the first utility-scale reciprocating engine power plant in Australia's National Energy Market. The contract was executed in April 2018 with practical completion of all Primero workstreams achieved in the first quarter of calendar 2020.

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Non-Process Infrastructure

Primero's Non-Process Infrastructure (NPI) division services mining and energy clients that have processing facilities or are developing mineral and energy projects.

Revenue from the NPI business totaled approximately \$64 million for FY20 (FY19: \$41 million).

This was driven predominantly by the execution of major design and construct work on a number of projects for Pilbara-based iron ore majors.

Minerals

Primero's Minerals division provides services across the full project life cycle from the early stage geochemical assessment of orebodies through to the expansion or optimisation of established operations. This includes the design, construction and operation of mineral processing facilities.

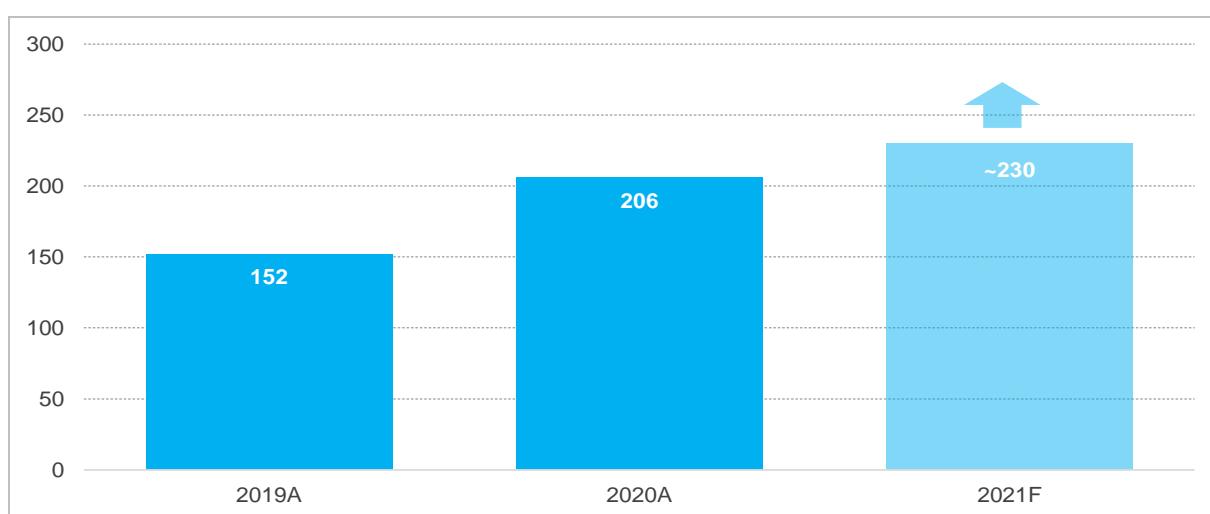
Revenue from the Minerals division in FY20 was approximately \$63 million (FY19: \$34 million).

Minerals contract revenues for the year were earned across a wide range of major mining projects, geographies, commodities and underlying workstreams.

Business Outlook

Current contracted orders for FY21 are approximately \$230 million. These revenues are expected to be delivered at an underlying FY21 EBITDA margin of approximately 6 - 8%.

Figure 1: Current FY21 contracted orders relative to reported FY19 and FY20 revenue (\$m)



The market remains both active and competitive with a large volume of further EPC opportunities up for award over 1H FY21.

Primero has a current qualified tender pipeline of approximately \$1.4 billion (excludes contracted orders). The business holds preferred contractor status for five projects totaling approximately \$750 million (three EPC and two EPC/O&M), with preferred status decisions pending on two other projects totaling approximately \$240 million (both EPC).

The breadth of commodity exposure across the current contract portfolio encompasses all of precious, ferrous, industrial and battery metals. The capital programs of the Pilbara iron ore majors also continue to generate considerable opportunities across our Minerals and NPI segments.

Primero's Early Contractor Involvement (ECI) model is gaining further traction, with recent ECI wins delivering strong follow-on potential for large-scale EPC roles.

Information Relating to Directors and Company Secretaries

Mark Connelly	– Non-Executive Chairman
Qualifications	– Bachelor of Business and Member of Australian Institute of Company Directors
Experience	– Mr Connelly has more than 30 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. Mr Connelly was the former Managing Director and Chief Executive Officer of Papillon 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 its merger with Adamus Resources Limited where he was Managing Director and CEO. Mr Connelly is currently non-executive Chairman of Oklo Resources, Tao Commodities Limited, Calidus Resources Limited and Chesser Resources Limited.
Interest in Shares and Options	– 125,000 ordinary shares 52,632 options
Special Responsibilities	– Member of the Remuneration and Nominations 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 Chesser Resources Limited since July 2020 Current Director of Calidus Resources Limited since January 2018 Current Director of Tao Commodities Limited since May 2018 Current Director of Oklo Resources Limited since June 2019 Former Director of West African Resources from September 2015 to May 2020 Former Director of Ausdrill Ltd from June 2012 to June 2018 Former Director of Toro Gold plc from September 2013 to January 2018 Former Director of Tiger Resources Limited from December 2016 to June 2018 Former Director of Saracen Minerals Holdings Limited from May 2015 to November 2017 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	– As the founding Managing Director of the Group Mr Henry has lead the strategic and operational direction of Primero to now be an ASX listed company, operating in several regions globally with annual revenues of circa \$200M AUD. With over 20 years industry experience in the development and delivery of minerals processing, energy and infrastructure projects across Australia, Indonesia, North and South America Mr Henry leads the Group with a technical and commercial understanding across multiple disciplines, geographies and market segments. His entrepreneurial skills have developed with the continual growth of the company and are reflected in the organic nature and culture of the business that has become Primero since inception in 2011. Since listing on the ASX in 2018 the Group has grown significantly under the leadership of Mr Henry transitioning from a privately owned enterprise to an ASX listed entity. With the Group's expansive footprint and ever expanding reputation Mr Henry has been instrumental in positioning the Group to grow within the resources sector as a leader in sub \$150M capex EPC projects ensuring that Primero can differentiate with its services offering across design, construction & operation. Mr Henry has been a member of the Australian Institute of Company Directors since 2013 and has previously held non-executive roles of ASX listed Titan Minerals Limited & is currently a non-executive director with RareX Limited.
Interest in Shares and Options	– 23,869,872 ordinary shares. 994,737 options
Special Responsibilities	– None
Directorships held in other listed entities during the three years prior to the current year	– Current Director of RareX Limited since June 2020 Former Director of Titan Resources Limited from August 2017 to July 2019

Dean Ercegovic	– Director of Operations
Qualifications	– Bachelor of Engineering (Mechanical) with Honours
Experience	– Mr Ercegovic has nearly 20 years of experience in project managing EPC and EPCM contracts in mineral resources and energy sectors across Australia and neighbouring countries. His extensive experience within engineering and project management has seen the delivery of projects across the energy and minerals sector valued through to A\$100 million. In leading the Company's operations, Mr Ercegovic is directly responsible for the health, safety, environment, quality and support services of the Company. As the operations manager of the Company, he works in a 'hands on' position ensuring that the Company's project delivery strategy and implementation is upheld through the Company's individual project managers
Interest in Shares and Options	– 18,791,060 ordinary shares. 419,079 options
Special Responsibilities	– Member of the Remuneration and Nominations 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, Bachelor Mechanical Engineering and Graduate of Australian Institute of Company Directors
Experience	– Mr Grosvenor brings additional strength and capability to the Company across a range of commodities, including over 25 years' experience in the Mining and 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 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 and construction issues to bring a significant level of expertise to the Group and its clients.
Interest in Shares and Options	– 9,135,177 ordinary shares. 838,158 options
Special Responsibilities	– 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 Perpetual Resources Ltd since September 2020

Bryn Hardcastle	– Non-Executive Director
Qualifications	– Bachelor of Law, Bachelor of Commerce and graduate of the AICD
Experience	– Mr Hardcastle is a Partner at national law firm, HWL Ebsworth. He specialises in corporate, commercial and securities law and has significant experience in equity capital markets, mergers and acquisitions, and general corporate advisory matters across various industries. Mr Hardcastle was previously Managing Partner at Bellanhouse, a boutique corporate law firm he established in 2013 which merged with HWL Ebsworth in November 2019. Previously he has worked at several major law firms in Australia and internationally, including Freehills in Melbourne and Allen & Overy in London and Dubai. Mr Hardcastle is a member of the AICD and the Law Society of Western Australia. He is currently also a non-executive director of New Century Resources Limited, Caprice Resources Limited and Flamingo AI Limited.
Interest in Shares and Options	– Nil ordinary shares. 51,960 options
Special Responsibilities	– Chairperson 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 New Century Resources since December 2011 Current Director of Caprice Resources since March 2018 Current Director of Flamingo Ai Limited from November 2015 to August 2018, and on re-appointed March 2020 Former Director of ServTech Global Holdings from September 2016 to November 2017 Former Director of Vysarn Limited from December 2016 to October 2017

Kristie Young	–	Non-Executive Director
Qualifications	–	Bachelor of Engineering (Mining) (Hons), Post Graduate Diploma of Education (Mathematics & IT) and graduate of the AICD
Experience	–	Ms Young has more than 20 years' experience across technical engineering, strategy, business development and marketing, commercial and client management, diversity and inclusion, governance, and human resources. She has most recently held senior growth and business development executive roles with leading professional services firms, PwC and EY. Ms Young is a member of the Australian Institute of Company Directors (AICD), WA Mining Club, WA School of Mines Alumni, Women in Mining WA and the Petroleum Club of WA. She also sits on the Wesley College Board and the Board of the Petroleum Club of WA.
Interest in Shares and Options	–	Nil ordinary shares. 51,960 options
Special Responsibilities	–	Chairperson of the Audit and Risk Committee
Directorships held in other listed-entities during the three years prior to the current year		None
Ryan McFarlane	–	Chief Financial Officer/Joint Company Secretary
Qualifications	–	Member of the Chartered Accountants Australian and New Zealand, Bachelor of Business Degree, Graduate of Australian Institute of Company Directors and Certificate in Governance Practice.
Experience	–	Mr McFarlane is a Chartered Accountant and has spent nearly 20 years in the accounting industry with experience in both commercial and public practice. For the past 8 years he has been the Chief Financial Officer and Company Secretary of Primero Group where he has played an integral part in the transformation of the company from a start-up to the listed entity it is today. Mr McFarlane's strengths include financial management, accounting, structuring, and taxation services.
Interest in Shares and Options	–	3,272,314 ordinary shares. 523,684 options
Special Responsibilities	–	None

Darryl Edwards	- Joint Company Secretary
Qualifications	- B.Com, FGIA, MAICD
Experience	- Mr Edwards is a governance professional with extensive experience in corporate governance, risk, legal and finance, extending across several large ASX listed companies and corporate advisory services. Mr Edwards is a fellow member to the Governance Institute of Australia and member of the Australian Institute of Company Directors. He is also a former State Council Member and past President of the Governance Institute of Australia (WA Branch).
Interest in Shares and Options	- Nil
Special Responsibilities	- None

Meetings of Directors

During the financial year, 13 meetings of directors (including committees of directors) were held. Attendances by each director during the year was as follows:

	Directors' Meetings		Audit Committee Meetings		Remuneration Committee Meetings	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Dean Ercegovic	10	9	-	-	1	1
Cameron Henry	10	10	-	-	-	-
Brett Grosvenor	10	10	2	2	-	-
Luke Graham	7	7	2	2	1	1
Mark Connelly	10	10	2	2	1	1
Cliff Lawrenson	4	4	-	-	-	-

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.

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.

REMUNERATION REPORT

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. The company incentive scheme is made up of both short- and long-term incentive schemes. Below are details of the 2020 incentive scheme.

Short Term Incentives

Short term incentives are remunerated through a combination of cash and zero price exercise options (ZEPOs) with the ZEPOs expiring 2 years after grant date. For all employees eligible for the short-term incentive scheme except for Mr Henry and Mr Ercegovic 20% is weighted on personal KPI's and 80% weighted on corporate KPI's. For Mr Henry and Mr Ercegovic 100% of their bonus is weighted to corporate KPI's.

For 2020 the short-term incentive cash portion will only be payable, and the STI Options will only be capable of vesting and being exercised into Shares, if the following conditions are satisfied:

- Primero achieves EBIT of at least AUD\$11,204,576 for the financial year ending 30 June 2020 (**FY20**);
- the Board, in its discretion, determines that the employee has achieved at least 50% success against their personal performance objectives for FY20;
- for the Cash Bonus, the employee or officer of Primero or a subsidiary remains an employee 1 year after the Grant Date; and
- for the STI Options, the employee or officer of Primero or a subsidiary remains an employee 2 years after the Grant Date.

Subject to the satisfaction of the above Conditions (which are Vesting Conditions in respect of the STI Options issued under the Plan), the actual percentage of the Cash Bonus payable, and the percentage of STI Options that vest, will depend on the employees performance against the companies and employees objectives for FY20. The company's objectives with weightings are:

Performance Measure	FY20	%	FY20	%	FY20	%
Revenue	<\$150,124,790	0%	\$150,124,790 - \$165,351,186	15%	>\$165,351,186	20%
EBIT	<\$11,204,576	0%	\$11,204,576 - \$13,040,177	33.75 %	>\$13,040,177	45%
TRIFR*	>4.0	0%	3.1-4.0	15%	<3.1	20%
Contracted revenue at 30 th June 2020	<\$87,500,000	0%	\$87,500,001-\$100,000,000	11.25 %	>\$100,000,000	15%

* Total Recordable Injury Frequency Rate

Each employee will have their own KPI's which the Board will assess and give a percentage out of the 20%. The corporate objectives percentage and personal objectives percentage will be given a weighting on an 80:20 basis to generate the percentage of the Cash Bonus that is payable and STI Options that will vest.

REMUNERATION REPORT

Long Term Incentives

Long term incentives for the 2020 financial year are made up of ZEPOs and premium exercise options (PEPOs).

In the event that the LTI PEPOs vest the company will contribute the exercise price of \$0.543 per share as a taxable payment to the employee.

The LTI PEPOs and LTI ZEPOs will only be issued if the employee continues to be employed or engaged by Primero or one of its subsidiaries at the Grant Date.

The LTI PEPOs and LTI ZEPOs will only be capable of vesting and being exercised into Shares if the following Vesting Conditions are satisfied:

- for the LTI PEPOs and half of the ZEPO's depending on the employee, the 14 day volume weighted average market price (as defined in the ASX Listing Rules) (**VWAP**) of Shares up to and including the date that is 3 years from the Grant Date is at least 43% higher than the 14 day VWAP of Shares up to and including the Grant Date;
- for the other half of the LTI ZEPO's, Primero's audited EBIT for the financial year ending 30 June 2022 is at least 45% higher than Primero's audited EBIT for FY19; and
- be employed at the time of vesting.

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.

REMUNERATION REPORT

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.

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

2020 Financial Year

	Position Held as at 30 June 2020 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	18	0	82
Dean Ercegovic	Operations Director	11	0	89
Brett Grosvenor	Director of Development	10	0	90
Ryan McFarlane	Chief Financial Officer/Company Secretary	12	0	88
Mark Connelly	Non-Executive Chairman	0	18	82
Luke Graham	Non-Executive Director	0	11	89
Cliff Lawrenson	Non-Executive Director	0	0	100
Mark Pensabene	Executive General Manager – Delivery	3	0	97

REMUNERATION REPORT

2019 Financial Year

	Position Held as at 30 June 2019 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	25	0	75
Dean Ercegovic	Operations Director	16	0	84
Brett Grosvenor	Director of Development	15	0	85
Ryan McFarlane	Chief Financial Officer/Company Secretary	17	0	83
Mark Connelly	Non-Executive Chairman	0	16	84
Peter Grigsby	General Manager - Technical	6	0	94
Ben Davies	Engineer Manager	7	0	93
Luke Graham	Non-Executive Director	0	20	80

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

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.

REMUNERATION REPORT

Remuneration Expense Details for the Year Ended 30 June 2020

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

		Short-term Benefits		Long-term Benefits		Post-employment Benefits		Total
		Salary, Fees and Leave	Other	Cash or Options Bonus STI	Cash or Options Bonus LTI	Pension and Superannuation		
		\$	\$	\$	\$	\$		\$
Group KMP								
Cameron Henry	2020	392,115	-	40,375	53,966	37,251	523,707	
	2019	384,203	-	109,953	28,630	36,180	558,966	
Dean Ercegovic	2020	330,500	-	20,400	22,729	31,397	405,026	
	2019	322,473	-	55,555	12,055	30,613	420,696	
Brett Grosvenor	2020	359,027	-	20,400	21,570	28,200	429,197	
	2019	343,703	-	55,555	11,910	30,761	441,929	
Luke Graham	2020	30,462	-	4,047	-	2,894	37,403	
	2019	39,231	-	10,578	-	3,727	53,536	
Mark Pensabene	2020	106,304	-	-	4,082	10,099	120,485	
	2019	-	-	-	-	-	-	
Cliff Lawrenson	2020	26,785	-	-	-	2,065	28,850	
	2019	-	-	-	-	-	-	
Mark Connelly	2020	75,000	-	17,656	-	7,125	99,781	
	2019	66,058	-	14,104	-	6,275	86,437	
Ryan McFarlane	2020	183,404	8,755	12,750	13,479	17,423	235,811	
	2019	184,277	8,755	34,722	7,444	17,655	252,853	
Peter Grigsby ²	2020	-	-	-	-	-	-	
	2019	270,876	79,218	19,780	3,722	14,841	388,437	
Ben Davies ³	2020	-	-	-	-	-	-	
	2019	233,578	10,543	18,989	1,787	22,190	287,087	
Total KMP								
	2020	1,503,597	8,755	115,628	115,826	136,454	1,880,260	
	2019	1,844,399	98,516	319,236	65,548	162,242	2,489,941	

² The Board has decided not to include Peter Grigsby as a KMP for FY20 because his position in the Group as a principal engineer is not considered to meet the definition of a KMP.

³ The Board has decided not to include Ben Davies as a KMP for FY20 because his position in the Group as a principal engineer is not considered to meet the definition of a KMP.

REMUNERATION REPORT

Key Management Personal Contracts

For the 2021 financial year the managing director, Mr Henry's executive services agreement principle terms are as follows:

- A base salary of \$395,000 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 2020 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 12.5-30% 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 long-term 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 summary of the base Key Management Personnel 2021 financial year contracts are tabled below:

Name	Position	Base Salary
Cameron Henry	Managing Director	395,000
Dean Ercegovic	Director of Operations	333,000
Brett Grosvenor	Director of Development	333,000
Mark Pensabene	Executive General Manager – Delivery	333,000
Ryan McFarlane	Chief Financial Officer/Company Secretary	208,000

REMUNERATION REPORT

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 \$75,000 to Mark Connnelly.
- 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 26.7% for Mark Connnelly 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 Purchased during the Year	Shares Sold During the Year	Balance at End of Year
Cameron Henry	23,732,372	137,500	-	23,869,872
Dean Ercegovic	18,687,060	104,000	-	18,791,060
Brett Grosvenor	9,045,177	90,000	-	9,135,177
Ryan McFarlane	4,572,314	-	(1,300,000)	3,272,314
Mark Pensabene	-	77,500	-	77,500
Cliff Lawrenson	-	-	-	-
Mark Connnelly	75,000	50,000	-	125,000
Luke Graham	50,000	37,500	-	87,500
Total	56,161,923	496,500	(1,300,000)	55,358,423

REMUNERATION REPORT

The number of options in Primero Group Limited held by each KMP of the Group during the financial year is as follow:

	Balance at Beginning of Year	Granted as remuneration during the year	Exercised during the year	Forfeited	Balance at End of Year	Vested	Unvested at end of the year
Cameron Henry	475,000	519,737	-	-	994,737	-	994,737
Dean Ercegovic	200,000	219,079	-	-	419,079	-	419,079
Brett Grosvenor	400,000	438,158	-	-	838,158	-	838,158
Ryan McFarlane	250,000	273,684	-	-	523,684	-	523,684
Mark Pensabene	-	394,344	-	(43,816)	350,528	-	350,528
Cliff Lawrenson	-	-	-	-	-	-	-
Mark Connelly	50,000	52,632	(50,000)	-	52,632	-	52,632
Luke Graham	37,500	39,474	(37,500)	(39,474)	-	-	-
Total	1,412,500	1,937,108	(87,500)	(83,290)	3,178,818	-	3,178,818

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 (2019: nil%) per annum.

	\$000
Balance at beginning of the year	125
Repayment	(125)
Balance at end of the year	-

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

REMUNERATION REPORT

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. Details of the loan are outlined below:

	\$000
Balance at beginning of the year	125
Loans advanced	-
Loan repayment received	(125)
Interest charged	-
Interest received	-
Provision for impairment	-
Balance at end of the year	-
Highest loan balance during the period	125

Other Transactions with KMP and/or their Related Parties

A director, Mr Cliff Lawrenson, is a director of Solution Management Advisory Pty Ltd, has provided consulting services to the Group, total consulting fees paid during the period was \$10,500.

Non-Executive directors, Bryn Hardcastle and Kristie Young were issued options after the 30th of June. The number of options issued were 51,960 each.

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.

End of remuneration report.

Material differences between Appendix 4E-Preliminary Final Report & Annual Report

Following the announcement made on 3 September 2020 concerning the Wartsila contract, the following adjustments to the 30 June 2020 consolidated Statement of Financial Position were made:

	Appendix 4E	Annual Report	Change
	\$000	\$000	\$000
Trade and other receivables	48,180	31,302	(16,878)
Work in progress and accrued Income	39,857	55,204	15,347
Trade and other payables	47,097	45,566	1,531

The Group's net asset/equity position and net profit for the year did not change as the above were merely reclassification adjustments.

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



Cameron Henry, Director

Dated this 25th day of September 2020



MOORE

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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 2020, 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.

A handwritten signature in black ink, appearing to read "Suau Lee Tan".

SUAN LEE TAN
PARTNER

A handwritten signature in black ink, appearing to read "MOORE AUSTRALIA".

MOORE AUSTRALIA AUDIT (WA)
CHARTERED ACCOUNTANTS

Signed at Perth this 25th day of September 2020.

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR
THE YEAR ENDED 30 JUNE 2020**

	Note	Consolidated Group	
		2020	2019
		\$000	\$000
Revenue	3	205,595	151,680
Other Income	3	483	144
Expenses			
Cost of Sales	4	(187,452)	(131,674)
Depreciation and amortisation of expense		(1,876)	(1,200)
Other overhead expenses		(8,825)	(8,230)
Finance Costs		(609)	(240)
IPO Costs		-	(185)
Employee Incentive Scheme		(192)	(124)
Bad Debts		(493)	(337)
Due diligence cost for potential business acquisition		-	(119)
Share based payments expense – employees		48	(512)
Profit before income tax		6,679	9,203
Tax expense	5	(2,031)	(3,014)
Net profit for the year		<u>4,648</u>	<u>6,189</u>

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	(23)	37
Unrealised gain/(loss) on investments	(110)	24
Gain/(loss) on investments	-	152
Total other comprehensive income/(loss) for the year	<u>(133)</u>	<u>213</u>
Total comprehensive income for the year	<u>4,515</u>	<u>6,402</u>

Net profit attributable to:

Owners of the parent entity	4,648	6,189
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Total comprehensive income attributable to:

Owners of the parent entity	4,515	6,402
-----------------------------	-------	-------

Earnings per share	2020	2019
Basic earnings per share	9 \$0.029	\$0.042
Diluted earnings per share	9 \$0.028	\$0.042

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

	Note	Consolidated Group	
		2020	2019
		\$000	\$000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	10	15,241	21,865
Trade and other receivables	11	31,302	13,378
Inventories	13	2,917	1,137
Work in progress and accrued Income	12	55,204	28,264
Other assets	16	580	522
TOTAL CURRENT ASSETS		105,244	65,166
NON-CURRENT ASSETS			
Investments in other companies	16	2,014	95
Property, plant and equipment	15	6,182	5,775
Deferred tax assets	19	986	1,195
Right to Use Asset - Buildings	15	2,707	-
TOTAL NON-CURRENT ASSETS		11,889	7,065
TOTAL ASSETS		117,133	72,231
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	17	45,566	30,339
Current tax liabilities	19	2,413	1,778
Employee benefits	20	2,251	1,905
Unearned Revenue	21	14,010	155
Borrowings	18	1,371	896
TOTAL CURRENT LIABILITIES		65,611	35,073
NON-CURRENT LIABILITIES			
Borrowings	18	4,333	2,067
Employee benefits	20	439	318
TOTAL NON-CURRENT LIABILITIES		4,772	2,385
TOTAL LIABILITIES		70,383	37,458
NET ASSETS		46,750	34,773
EQUITY			
Issued capital	22	27,007	19,688
Reserves	28	1,006	996
Retained earnings		18,737	14,089
TOTAL EQUITY		46,750	34,773

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2020

Consolidated Group	Note	Ordinary Share Capital \$000	Foreign				Total \$000
			Currency Translation Reserve \$000	Share Based Payments Reserve \$000	Asset Revaluation Reserve \$000	Retained Earnings \$000	
Balance at 1 July 2018		348	(4)	-	-	7,900	8,244
Comprehensive income							
Profit for the year		-	-	-	-	6,189	6,189
Other comprehensive income for the year		-	37	-	176	-	213
Total comprehensive income for the year		-	37	-	176	6,189	6,402
Transactions with owners, in their capacity as owners, and other transfers							
Capital raising costs		(920)	-	-	-	-	(920)
Issued capital		20,260	-	-	-	-	20,260
Share based payments		-	-	787	-	-	787
Total transactions with owners and other transfers		19,340	-	787	-	-	20,127
Balance at 30 June 2019		19,688	33	787	176	14,089	34,773
Balance at 1 July 2019		19,688	33	787	176	14,089	34,773
Comprehensive income							
Profit for the year		-	-	-	-	4,648	4,648
Other comprehensive income for the year		-	(23)	-	(110)	-	(133)
Total comprehensive income for the year		-	(23)	-	(110)	4,648	4,515
Transactions with owners, in their capacity as owners, and other transfers							
Capital raising costs		(315)	-	-	-	-	(315)
Issued capital		7,634	-	-	-	-	7,634
Share based payments		-	-	143	-	-	143
Total transactions with owners and other transfers		7,319	-	143	-	-	7,462
Balance at 30 June 2020		27,007	10	930	66	18,737	46,750

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020

	Note	Consolidated Group	
		2020 \$'000	2019 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		160,169	143,596
Payments to suppliers and employees		(171,408)	(137,732)
Interest received		31	315
Other revenue		392	142
Income tax paid		(1,081)	(3,240)
Net cash generated by operating activities	10	(11,897)	3,081
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		363	-
Proceeds from sale of investments		-	1,121
Purchase of property, plant and equipment		(2,109)	(3,192)
Purchase of investments		(2,000)	-
Repayment/(advance) of loans made to employees		-	285
Net cash (used in)/generated by investing activities		(3,746)	(1,786)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings other		3,082	3,624
Repayment of borrowings other		(959)	(2,271)
Finance costs		(267)	(7)
Proceeds from issue of shares		7,634	20,010
Payments for Issue of Share		(449)	(1,247)
Net cash provided by/(used in) financing activities		9,041	20,109
Net increase in cash and cash equivalents		(6,602)	21,404
Cash and cash equivalents at the beginning of financial year		21,865	424
Effects of Foreign Exchange		(22)	37
Cash and cash equivalents at the end of financial year	10	15,241	21,865

The accompanying notes form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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

The financial statements were authorised for issue on 25th September 2020 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. New, revised and amended Accounting Standards and Interpretations adopted

In the year ended 30 June 2020, the directors have reviewed all the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting period. The directors have also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2020.

The Group had to change its accounting policies as a result of adopting the following standard:

- AASB 16: Leases

Impact on adoption of new accounting standard is as follows:

Initial Application of AASB 16: Leases

The Group has adopted the modified retrospective approach under AASB 16: Leases at 1 July 2019. In accordance with AASB 16 the comparatives for the 2019 reporting period have not been restated.

The Group has recognised a lease liability and right-of-use asset for all leases (with the exception of short-term and low-value leases) recognised as operating leases under AASB 117: Leases where the Group is the lessee.

Lease liabilities are measured at the present value of the remaining lease payments. The Group's incremental borrowing rate as at 1 July 2019 was used to discount the lease payments.

The following practical expedients have been used by the Group in applying AASB 16 for the first time:

- leases that have remaining lease term of less than 12 months as at 1 July 2019 have been accounted for in the same was as short-term leases.
- the use of hindsight to determine lease terms on contracts that have options to extend or terminate.
- applying AASB 16 to leases previously identified as leases under AASB 117: Leases and Interpretation 4: Determining whether an arrangement contains a lease without reassessing whether they are, or contain, a lease at the date of initial application.
- not applying AASB 16 to leases previously not identified as containing a lease under AASB 117 and Interpretation 4.

The Group's weighted average incremental borrowing rate on 1 July 2019 applied to the lease liabilities was 5%.

The impact of the adoption at 1 July 2019 is set out in Notes 15(b) and 18.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

b. Principles of Consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent (Primero Group Limited) and its subsidiary (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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

subsequent accounting under AASB 9: *Financial Instruments*, 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.

c. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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.

d. 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 (i.e. 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 (i.e. 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 (i.e. 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.

e. 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.

f. Construction Contract's Work in Progress and Unearned Revenue

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.

A contract asset is recognised when the Group recognises revenue as set out in Note 1(o) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses ('ECL') in accordance with the policy set out in Note 1(i) and are reclassified to receivables when the right to the consideration has become unconditional.

A contract liability or unearned revenue is recognised when the customer pays consideration before the Group recognises the related revenue as set out in Note 1(o). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

g. 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(j) 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

h. **Leases**

Accounting policies from 1 July 2019

The Group as lessee

At inception of a contract, the Group assesses if the contract contains a lease or is a lease. If there is a lease present, a right-of-use asset and a corresponding lease liability are recognised by the Group where the Group is a lessee. However, all contracts that are classified as short-term leases (i.e. a lease with a remaining lease term of 12 months or less) and leases of low-value assets are recognised as an operating expenses on a straight-line basis over the term of the lease.

Initially the lease liability is measured at the present value of the lease payments still to be paid at the commencement date. The lease payments are discounted at the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses the incremental borrowing rate.

Lease payments included in the measurement of the lease liability are as follows:

- fixed lease payments less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options;
- lease payments under extension options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, any lease payments made at or before the commencement date and any initial direct costs. The subsequent measurement of the right-of-use assets is at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the lease term or useful life of the underlying asset, whichever is the shortest.

Where a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group anticipates to exercise a purchase option, the specific asset is depreciated over the useful life of the underlying asset.

Accounting policies applied until 30 June 2019

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

i. **Financial Instruments**

Initial recognition and measurement

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

Financial instruments (except for trade receivables) 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.

Trade receivables are initially measured at the transaction price if the trade receivables do not contain significant financing component or if the practical expedient was applied as specified in AASB 15.63.

Classification and subsequent measurement

Financial liabilities

Financial liabilities are subsequently measured at:

- amortised cost; or
- fair value through profit or loss.

A financial liability is measured at fair value through profit or loss if the financial liability is:

- a contingent consideration of an acquirer in a business combination to which AASB 3: Business Combinations applies;
- held for trading; or
- initially designated as at fair value through profit or loss.

All other financial liabilities are subsequently measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest expense in profit or loss over the relevant period. The effective interest rate is the internal rate of return of the financial asset or liability; that is, it is the rate that exactly discounts the estimated future cash flows through the expected life of the instrument to the net carrying amount at initial recognition.

A financial liability is held for trading if:

- it is incurred for the purpose of repurchasing or repaying in the near term;
- part of a portfolio where there is an actual pattern of short-term profit taking; or
- a derivative financial instrument (except for a derivative that is in a financial guarantee contract or a derivative that is in an effective hedging relationship).

Any gains or losses arising on changes in fair value are recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The change in fair value of the financial liability attributable to changes in the issuer's credit risk is taken to other comprehensive income and are not subsequently reclassified to profit or loss. Instead, they are transferred to retained earnings upon derecognition of the financial liability.

If taking the change in credit risk in other comprehensive income enlarges or creates an accounting mismatch, then these gains or losses should be taken to profit or loss rather than other comprehensive income.

A financial liability cannot be reclassified.

Financial guarantee contracts

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 payment when due in accordance with the terms of a debt instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

Financial guarantee contracts are initially measured at fair value (if not designated as at fair value through profit or loss and not arising from a transfer of a financial asset) and subsequently measured at the higher of:

- the amount of loss allowance determined in accordance with AASB 9.3.25.3; and
- the amount initially recognised less the accumulative amount of income recognised in accordance with the revenue recognition policies.

Financial assets

Financial assets are subsequently measured at:

- amortised cost;
- fair value through other comprehensive income; or
- fair value through profit or loss.

Measurement is on the basis of the two primary criteria:

- the contractual cash flow characteristics of the financial asset; and
- the business model for managing the financial assets.

A financial asset is subsequently measured at amortised cost if it meets the following conditions:

- the financial asset is managed solely to collect contractual cash flows; and
- the contractual terms within the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates.

A financial asset is subsequently measured at fair value through other comprehensive income if it meets the following conditions:

- the contractual terms within the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates; and
- the business model for managing the financial asset comprises both contractual cash flows collection and the selling of the financial asset.

By default, all other financial assets that do not meet the measurement conditions of amortised cost and fair value through other comprehensive income are subsequently measured at fair value through profit or loss.

The Group initially designates a financial instrument as measured at fair value through profit or loss if:

- it eliminates or significantly reduces a measurement or recognition inconsistency (often referred to as "accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases;
- it is in accordance with the documented risk management or investment strategy and information about the Group's was documented appropriately, so that the performance of the financial liability that was part of a Group of financial liabilities or financial assets can be managed and evaluated consistently on a fair value basis;
- it is a hybrid contract that contains an embedded derivative that significantly modifies the cash flows otherwise required by the contract.

The initial designation of the financial instruments to measure at fair value through profit or loss is a one-time option on initial classification and is irrevocable until the financial asset is derecognised.

Equity instruments

At initial recognition, as long as the equity instrument is not held for trading or not a contingent consideration recognised by an acquirer in a business combination to which AASB 3: Business Combinations applies, the Group may make an irrevocable election to measure any subsequent changes in fair value of the equity instrument in other comprehensive income, while the dividend revenue received on underlying equity instruments investment will still be recognised 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

Derecognition

Derecognition refers to the removal of a previously recognised financial asset or financial liability from the statement of financial position.

Derecognition of financial liabilities

A liability is derecognised when it is extinguished (i.e. when the obligation in the contract is discharged, cancelled or expires). An exchange of an existing financial liability for a new one with substantially modified terms, or a substantial modification to the terms of a financial liability is treated as an extinguishment of the existing liability and recognition of a new financial liability. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Derecognition of financial assets

A financial asset is derecognised when the holder's contractual rights to its cash flows expires, or the asset is transferred in such a way that all the risks and rewards of ownership are substantially transferred.

All the following criteria need to be satisfied for derecognition of financial assets:

- the right to receive cash flows from the asset has expired or been transferred;
- all risk and rewards of ownership of the asset have been substantially transferred; and
- the Group no longer controls the asset (i.e. the Group has no practical ability to make a unilateral decision to sell the asset to a third party).

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of a debt instrument classified at fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

On derecognition of an investment in equity which was elected to be classified as at fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the investment's revaluation reserve is not reclassified to profit or loss but is transferred to retained earnings.

Impairment

The Group recognises a loss allowance for expected credit losses on:

- financial assets that are measured at amortised cost or fair value through other comprehensive income.
- lease receivables.
- contract assets (e.g. amounts due from customers under construction contracts).
- loan commitments that are not measured at fair value through profit or loss; and
- financial guarantee contracts that are not measured at fair value through profit or loss.

Loss allowance is not recognised for:

- financial assets measured at fair value through profit or loss; or
- equity instruments measured at fair value through other comprehensive income.

Expected credit losses are the probability-weighted estimate of credit losses over the expected life of a financial instrument. A credit loss is the difference between all contractual cash flows that are due, and all cash flows expected to be received, all discounted at the original effective interest rate of the financial instrument. Under the AASB 9, there are two ways to measure expected credit loss:

- 12-months expected credit loss that result from possible default events within 12 months from the reporting date; and
- Lifetime expected credit loss that result from all possible default events over the expected life of a financial instruments

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

The Group expect to apply the simplified approach to recognise expected lifetime expected credit losses for trade receivables as permitted by AASB 9.

Simplified approach

The simplified approach does not require tracking of changes in credit risk at every reporting period, but instead requires the recognition of lifetime expected credit loss at all times.

This approach is applicable to:

- trade receivables or contract assets that result from transactions within the scope of AASB 15: Revenue from Contracts with Customers and that contain a significant financing component; and
- lease receivables.

In measuring the expected credit loss, a provision matrix for trade receivables was used, taking into consideration various data to get to an expected credit loss (i.e. diversity of its customer base, appropriate Groupings of its historical loss experience etc).

Recognition of expected credit losses in financial statements

the statement of profit or loss and other comprehensive income. The carrying amount of financial assets measured at amortised cost includes the loss allowance relating to that asset.

Assets measured at fair value through other comprehensive income are recognised at fair value, with changes in fair value recognised in other comprehensive income. Amounts in relation to change in credit risk are transferred from other comprehensive income to profit or loss at every reporting period.

For financial assets that are unrecognised (e.g. loan commitments yet to be drawn, financial guarantees), a provision for loss allowance is created in the statement of financial position to recognise the loss allowance.

j. **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.

k. **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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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.

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.

I. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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.

m. **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.

n. **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.

o. **Revenue and Other Income**

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Revenue is recognised when the Group satisfies a performance obligation by transferring a promised good or service to the customer, which is when the customer obtains control of the good or service. A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognised is the amount allocated to the satisfied performance obligation

Construction Contract Revenue

The Group provides design, engineering and construction services to customers through contracts. Contract revenue is recognised when the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

For these contracts, revenue is recognised over time by reference to the Group's progress towards completion of the contract. The measure of progress is determined based on the proportion of contract costs incurred to date to the estimated total contract costs ('input method') or based on direct measurement of the value of the services completed to date ('output method'). Costs incurred that are not related to the contract or that do not contribute towards satisfying a performance obligation are excluded from the measurement of progress and instead are expensed as incurred.

In some circumstances, such as in the early stages of a contract where the Group may not be able to reasonably measure its progress but expects to recover the contract costs incurred, contract revenue is recognised only to the extent of the contract costs incurred until such time when the Group can reasonably measure its progress.

Contract modifications that do not add distinct goods or services are accounted for as a continuation of the original contract and the change is recognised as a cumulative adjustment to revenue at the date of modification.

The amount of revenue recognised is based on the estimated transaction price, which comprises the contractual price, adjusted for expected returns. Based on the Group's experience with similar types of contracts, variable consideration is typically constrained and included in the transaction only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Estimates of revenues, costs or the extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

At the end of each reporting date, the Group updates its assessment of the estimated transaction price, including its assessment of whether an estimate of variable consideration is constrained. The corresponding amounts are adjusted against revenue in the period in which the transaction price changes.

The period between the transfer of the promised services and customer payment may exceed one year. For such contracts, there is no significant financing component present as the payment terms are an industry practice to protect the customers from the performing entity's failure to adequately complete some or all of its obligations under the contract. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

The customer is invoiced on a milestone payment schedule. If the value of the goods transferred by the Group exceed the payments, a contract asset (work-in-progress or accrued income) is recognised. If the payments exceed the value of the goods transferred, a contract liability (unearned revenue) is recognised.

Revenue from other goods and services

Revenue from the sale of goods and services in the ordinary course of business are recognised when the Group satisfies a performance obligation by transferring control of a promised good or service to the customer. The amount of revenue recognised is the amount of the transaction price allocated to the satisfied performance obligation.

The transaction price is allocated to each performance obligation in the contract on the basis of the relative stand-alone selling prices of the promised goods or services. The individual standalone selling price of a good or service that has not previously been sold on a stand-alone basis, or has a highly variable selling price, is determined based on the residual portion of the transaction price after allocating the transaction price to goods and/or services with observable stand-alone selling prices. A discount or variable consideration is allocated to one or more, but not all, of the performance obligations if it relates specifically to those performance obligations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

Transaction price is the amount of consideration in the contract to which the Group expects to be entitled in exchange for transferring the promised goods or services. The transaction price may be fixed or variable and is adjusted for the time value of money if the contract includes a significant financing component. Consideration payable to a customer is deducted from the transaction price if the Group does not receive a separate identifiable benefit from the customer. When consideration is variable, the estimated amount is included in the transaction price to the extent that it is highly probable that a significant reversal of the cumulative revenue will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Revenue may be recognised at a point in time or over time following the timing of satisfaction of the performance obligation. If a performance obligation is satisfied over time, revenue is recognised based on the percentage of completion reflecting the progress towards complete satisfaction of that performance obligation.

The Group considers certain services to be a distinct service as it is both regularly supplied by the Group to other customers on a stand-alone basis and is available for customers from other providers in the market. A portion of the transaction price is therefore allocated to the maintenance services based on the stand-alone selling price of those services. Discounts are not considered as they are only given in rare circumstances and are never material. Revenue from the maintenance services is recognised over time. The transaction price allocated to these services is recognised as a contract liability at the time of the initial sales transaction and is released on a straight-line basis over the period of service.

Other revenue

Interest revenue is recognised using the effective interest method.

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

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

p. **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 expected credit loss (ECL). Refer to Note 1(i) for further discussion on the determination of impairment losses.

q. **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.

r. **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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

s. 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.

t. 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.

u. 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.

v. 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 and judgements

(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.

(ii) Impairment of trade and other receivables and contract assets

As at 30 June 2020, the Group's trade and other receivables and contract assets amounted to \$31,300,911 (2019: \$41,642,000; 2018: 19,823,000) respectively, net of allowance for impairment, if any, arising from the Group's different revenue as disclosed in Note 27.

Based on the Group's historical credit loss experience, trade receivables exhibited different loss patterns for each revenue segment. Within each revenue segment, the Group has common customers across the different geographical regions and applies credit evaluations by customer. Accordingly, management has determined the expected loss rates by Grouping the receivables across geographical regions in each revenue segment. No allowance for impairment for trade and other receivables and contract assets respectively was recognized as at 30 June 2020 (2018: Nil; 1 July 2017: Nil). Notwithstanding the above, the Group evaluates the expected credit loss on customers in financial difficulties separately.

The Group recognised \$493k as a bad debt for the FY20 financial year due to Alita Resources going into administration.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

The Group's and the Company's credit risk exposure for trade receivables by different revenue segment are set out in Note 27(a).

(iii) Judgement and method used in estimating construction contract revenue

As discussed in Note 1(o) to the financial statements, construction contract revenue is recognised over time by reference to the Group's progress towards completion of the contract. The measure of progress is determined based on the proportion of contract costs incurred to date to the estimated total contract costs ('input method') or based on direct measurement of the value of the services completed to date ('output method'). Costs incurred that are not related to the contract or that do not contribute towards satisfying a performance obligation are excluded from the measure of progress and instead are expensed as incurred.

Construction contract revenue comprises the initial amount of revenue agreed in the contract and variations in contract work to the extent that is highly probable that a significant reversal in the amount of the cumulative revenue will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

In estimating the variable consideration for contract revenue, the Group uses the expected value amount method to estimate the transaction price. The expected value is the sum of probability-weighted amounts in a range of possible consideration amounts. Management has relied on historical experience and where necessary, the work of experts, analysed by customers and nature of scope of work, from prior years.

Management has exercised judgement in applying the constraint on the estimated variable consideration that can be included in the transaction price. For variations claims, management has determined that a portion of the estimated variable consideration is subject to the constraint as, based on past experience with the customers, it is highly probable that a significant reversal in the cumulative amount of revenue recognised will occur, and therefore will not be recognised as revenue.

(iv) Estimation of total contract costs for construction contracts and earned value

The Group has significant ongoing construction contracts as at 30 June 2020 that are non-cancellable. For these contracts, revenue is recognised over time by reference to the Group's progress towards completion of the contract. The measure of progress is determined based on the proportion of contract costs incurred to date to the estimated total contract costs ('input method') or based on direct measurement of the value of the services completed to date ('output method').

Management has to estimate the total contract costs to complete, which are used in the input method to determine the Group's recognition of construction revenue. When it is probable that the total contract costs will exceed the total construction revenue, a provision for onerous contracts is recognised immediately.

Significant assumptions are used to estimate the total contract sum and the total contract costs and earned value of the project which affect the accuracy of revenue recognition based on the percentage-of-completion and completeness of provision for onerous contracts recognised. In making these estimates, management has relied on past experience and where necessary, the work of consultants.

(v) Legal proceedings

The Group is exposed to the risk of claims and litigation which can arise for various reasons, including changes to scope of work, delay, and disputes etc. Given the nature of the business, variation orders additional works and prolongation costs are common. As some of these items could be subjective and hence contentious in nature, the Group may from time to time be involved in adjudication or legal proceedings.

In making its judgement as to whether it is possible that any such adjudication decisions or litigation will result in a liability and whether any such liability can be measured reliably, management relies on past experience and the opinion of legal advisors and technical experts.

In making that overall judgement, management has included in its consideration the likely outcome of the claims. Although an adverse outcome of those claims could have a material adverse impact on the financial position of the Group, management have taken the view that such a material adverse outcome is very unlikely.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

Wartsila

Adjudication proceedings

The Group has a number of outstanding claims against Wartsila for the construction of the Baker Inlet Power Station. Primero has submitted these claims to Wartsila as per the contract. If these claims are rejected by Wartsila, the Group will have them adjudicated through the SA Building and Construction Act. The Group expects a result from this adjudication in October 2020.

Supreme Court proceedings

The Group has also commenced proceedings in the Supreme Court of WA for its entitlement for extension of time under the subcontract.

W. New Accounting Standards for Application in Future Periods

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not mandatory, have not been early adapted by the Group for the financial year ended 30th June 2020. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on the foreseeable future transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTE 2: PARENT INFORMATION

	2020	2019
	\$000	\$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	103,160	64,102
Non-current assets	10,594	6,882
TOTAL ASSETS	113,754	70,984

LIABILITIES

Current liabilities	63,901	34,533
Non-current liabilities	4,055	2,384
TOTAL LIABILITIES	67,956	36,917

EQUITY

Issued capital	27,007	19,688
Reserves	997	963
Retained earnings	17,794	13,416
TOTAL EQUITY	45,798	34,067

Statement of Profit or Loss and Other Comprehensive Income

Total profit	4,378	5,989
Total comprehensive income	4,268	6,952

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 2020 and 30 June 2019 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 2020 and 30 June 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTE 3: REVENUE AND OTHER INCOME

	Consolidated Group	
	2020	2019
	Note	\$000
a. Revenue from continuing operations		
Sales revenue:		
– provision of services	205,566	151,364
	205,566	151,364
Other revenue:		
– Interest	29	316
	29	316
Total revenue	205,595	151,680
Other income:		
– other	458	142
– gain on disposal of property, plant and equipment	25	2
	483	144
b. Total revenue and other income from continuing operations		
– attributable to owners of the parent entity	206,078	151,824
– attributable to non-controlling interests	-	-
	206,078	151,824

c. Disaggregation of revenue from contracts with customers

In the following table, revenue from contracts with customers is disaggregated by primary geographical market, operating sector and timing of revenue recognition.

2020	Engineering, design and constructions	Total
	\$000	
Primary geographical markets		
Australia	198,834	198,834
Canada	6,732	6,732
	205,566	205,566
Operating sector		
Minerals	62,094	62,094
Non-Process Infrastructure	64,130	64,130
Energy	79,342	79,342
	205,566	205,566

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTE 3: REVENUE AND OTHER INCOME (CONTINUED)

2020	Engineering, design and constructions	Total
	\$000	\$000
<i>At a point in time:</i>		
Other revenue	483	483
<i>Over time:</i>		
Construction contract revenue	205,566	205,566
Interest Revenue	29	29
	206,078	206,078
2019	Engineering, design and constructions	Total
	\$	\$
Primary geographical markets		
Australia	146,884	146,884
Canada	4,480	4,480
	151,364	151,364
Operating sector		
Minerals	34,511	34,511
Non-Process Infrastructure	40,717	40,717
Energy	76,136	76,136
	151,364	151,364
Timing of revenue recognition		
<i>At a point in time:</i>		
Other revenue	144	144
<i>Over time:</i>		
Construction contract revenue	151,364	151,364
Interest Revenue	316	316
	151,824	151,824

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTE 4: PROFIT FOR THE YEAR

Note	Consolidated Group	
	2020	2019
	\$000	\$000

Profit before income tax from continuing operations includes the following specific expenses:

- a. **Expenses**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTE 4: PROFIT FOR THE YEAR

	Note	Consolidated Group	
		2020 \$000	2019 \$000
Cost of sales		187,452	131,674
Employee benefits expense:			
– superannuation expense		4,400	3,820
Rental expense on operating leases (short term and low values):			
– minimum lease payments		178	733

NOTE 5: TAX EXPENSE

	Note	Consolidated Group	
		2020 \$000	2019 \$000
a. The components of tax (expense) income comprises:			
Current tax		3,212	3,392
Adjustments to Prior Periods		(1,551)	(13)
Deferred tax		(1,140)	(369)
Adjustments to Prior Periods		1,510	4
		2,031	3,014
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% (2019: 30%)		2,003	2,761
Add:			
Tax effect of:			
– Share based payments expenses - employees		58	192
– non-allowable items		24	48
– Gain on sale of assets		-	45
Less:			
Tax effect of:			
– Adjustments to Prior Periods		(41)	(9)
– Canada Tax Rate difference		(13)	(23)
Income tax attributable to entity		2,031	3,014
The weighted average effective tax rates are as follows:		30.4%	32.7%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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 2022 will apply as follows:

- Companies with a turnover under 50m will pay tax at 27.5% from the 2018-19 financial year
- Companies with a turnover under 50m will pay tax at 27.5% from the 2019-20 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 \$50 million in the financial year ended 30 June 2020. There has been no change in the tax rate since the previous reporting period. From financial year ended 2021, 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:

	2020			2019		
	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	(23)	-	(23)	37	-	37
Unrealised gain (loss) on investments	(110)	-	(110)	24	-	24
Gain/(loss) on investments	-	-	-	152	(46)	106
	(133)	-	(133)	245	(46)	167

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 2020.

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

	2020	2019
	\$	\$
Short-term employee benefits	1,627,980	2,262,151
Post-employment benefits	136,454	162,242
Long Term Benefits	115,826	65,548
Total KMP compensation	1,880,260	2,489,941

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, cash bonuses and short-term incentive plan awarded to executive directors and other KMP.

NOTE 6: KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

Post-employment benefits

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

Long Term Benefits

These amounts relating to the company's long-term incentive plan.

NOTE 7: AUDITOR'S REMUNERATION

	Consolidated Group	
	2020	2019
	\$000	\$000
Remuneration of the auditor for:		
- auditing or reviewing the financial statements	90,774	80,213
	<hr/>	<hr/>
	90,774	80,213
	<hr/>	<hr/>

NOTE 8: DIVIDENDS

	Consolidated Group	
	2020	2019
	\$000	\$000
Dividend paid – nil (2019: nil)		
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>
Balance of Franking account at year end		
	<hr/>	<hr/>
	5,866	4,874
	<hr/>	<hr/>

NOTE 9: EARNINGS PER SHARE

	Consolidated Group	
	2020	2019
	\$000	\$000
a. Reconciliation of earnings to profit or loss:		
Profit	4,648	6,189
Earnings used to calculate basic EPS	<hr/>	<hr/>
Earnings used in the calculation of dilutive EPS	4,648	6,189
	<hr/>	<hr/>

NOTE 9: EARNINGS PER SHARE (CONTINUED)

	Consolidated Group	
	2020	2019
	No.	No.
b. Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	162,264,081	148,591,148
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	168,539,363	148,590,490

NOTE 10: CASH AND CASH EQUIVALENTS

	Note	Consolidated Group	
		2020	2019
		\$000	\$000
Cash at bank and on hand		15,089	21,577
Short-term bank deposits		152	288
	18	15,241	21,865

The effective interest rate on short-term bank deposits was 1.2% (2019: 1.95%); these deposits have an average maturity of 365 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	15,241	21,875
Bank overdrafts	-	(10)
	15,241	21,865

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTE 10: CASH AND CASH EQUIVALENTS (CONTINUED)

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

	Consolidated Group	
	2020	2019
	\$000	\$000
Profit after income tax expense for the year	4,648	6,189
Adjustments for:		
Depreciation and amortisation	1,323	1,200
Net (gain)/Loss on disposal of non-current assets	15	12
Finance Costs	519	175
Initial public offering costs	-	246
Share based payments expense – employees	(48)	512
Employee Incentive Scheme	192	124
Shares received in Lieu of cash	-	(930)
Opening balance adjustment on application of AASB 15	-	(133)
Capital raise costs	107	-
Non-cash payments	125	-
Change in operating assets and liabilities:		
(Increase)/Decrease in trade and other receivables	(34,928)	1,578
(Increase)/Decrease in inventories and work in progress	13,319	(15,387)
(Increase)/Decrease in accrued revenue & retentions	(26,694)	(8,679)
(Increase)/Decrease in deferred tax assets	209	(480)
(Increase)/Decrease in prepayments	(59)	(242)
Increase/(decrease) in trade and other payables	14,417	18,821
Increase/(decrease) in provision for income tax	636	136
Increase/(decrease) in employee benefits	467	990
Increase/(decrease) in unearned revenue	13,855	(1,051)
Net cash from operating activities	<u><u>(11,897)</u></u>	<u><u>3,081</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTE 11: TRADE AND OTHER RECEIVABLES

	Consolidated Group	
	2020	2019
	\$000	\$000
CURRENT		
Trade receivables	31,301	13,250
	<hr/>	<hr/>
	31,301	13,250
Other receivables		
Interest receivable	1	3
Amounts receivable from related parties	-	125
	<hr/>	<hr/>
	1	128
Total current trade and other receivables	31,302	13,378
	<hr/>	<hr/>

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	
	2020	2019
	\$000	\$000
AUD		
Australia	30,342	11,904
Canada	959	1,346
	<hr/>	<hr/>
	31,301	13,250

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTE 11: TRADE AND OTHER RECEIVABLES (CONTINUED)

	Gross Amount \$000	Past Due and Impaired \$000	Past Due but Not Impaired (Days Overdue)				Within Initial Trade Terms \$000
			< 30 \$000	31–60 \$000	61–90 \$000	> 90 \$000	
2020							
Trade and term receivables	31,301	-	545	476	175	1,522	28,583
Total	31,301	-	545	476	175	1,522	28,583
2019							
Trade and term receivables	13,250	-	4,703	-	4	18	8,525
Total	13,250	-	4,703	-	4	18	8,525

The Group's internal credit evaluation practices and basis for recognition and measurement for expected credit loss (ECL) are disclosed in Note 27(a) to the financial statements.

	Note	Consolidated Group	
		2020 \$000	2019 \$000
Trade and other receivables:			
– total current		31,302	13,378
– total non-current		-	-
Total financial assets classified as loans and receivables		31,302	13,378

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTE 12: WORK IN PROGRESS AND ACCRUED INCOME

	Note	Consolidated Group	
		2020	2019
		\$000	\$000
Accrued Income		54,207	12,168
Work in Progress		997	16,096
		<hr/>	<hr/>
		55,204	28,264

Summarised as follows:

Construction Contracts in Progress

Contract costs incurred		223,253	121,920
Recognised profits		30,576	16,358
		<hr/>	<hr/>
Progress billings		253,829	138,278
		(212,635)	(110,169)
		<hr/>	<hr/>
Amounts due from customers for contract work		41,194	28,109
Amounts due to customers for contract work	21	(14,010)	(155)
Work in Progress		997	16,096
		<hr/>	<hr/>
Retentions on construction contracts in progress		41,194	28,109
Progress billings and advances received and receivable on construction contracts in progress		-	-
		<hr/>	<hr/>
		41,194	28,109

NOTE 13: INVENTORIES

	Note	Consolidated Group	
		2020	2019
		\$000	\$000
CURRENT			
At cost:			
Inventory		2,917	1,137
		<hr/>	<hr/>
		2,917	1,137

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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	
		2020	2019
		%	%
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

a. **Plant and Equipment**

	Note	Consolidated Group		
		2020	2019	
		\$000	\$000	
Plant and Equipment				
Plant and equipment:				
At cost		7,555	6,690	
Accumulated depreciation		(3,149)	(2,430)	
		4,406	4,260	
Motor Vehicles:				
At cost		2,096	2,044	
Accumulated depreciation		(1,058)	(936)	
		1,038	1,108	
Leasehold improvements:				
At cost		765	425	
Accumulated depreciation		(197)	(175)	
		568	250	
Computer Software:				
At cost		772	642	
Accumulated amortisation		(602)	(485)	
		170	157	
Total property, plant and equipment		6,182	5,775	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTE 15: PROPERTY PLANT AND EQUIPMENT (CONTINUED)

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 2018					
Balance at 1 July 2018	979	253	2,380	181	3,793
Additions	411	21	2,649	101	3,182
Disposals	(11)	-	-	-	(11)
Depreciation expense	(271)	(24)	(780)	(125)	(1,200)
Exchange Difference	-	-	11	-	11
Balance at 30 June 2019	1,108	250	4,260	157	5,775
Additions					
Additions	231	342	1,401	130	2,104
Disposals	(37)	-	(337)	-	(374)
Depreciation & Amortisation expense	(264)	(24)	(918)	(117)	(1,323)
Exchange Difference	-	-	-	-	-
Balance at 30 June 2020	1,038	568	4,406	170	6,182

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTE 15: PROPERTY PLANT AND EQUIPMENT (CONTINUED)

b. **Right of use Asset**

The Group's lease portfolio currently includes buildings. This lease runs for a period of 5 years with an option to renew for a further 5-year period after that period. The extension option which management were not reasonably certain to be exercised have been excluded in the calculation of the lease liability. Previously, this lease was classified as an operating lease under AASB 117.

The Group has elected not to recognise right-of-use assets for low value items and any short-term leases.

	30 June 2020
	\$000
(i) AASB 16 related amounts recognised in the balance sheet	
Right-of-use assets	
Leased building – at 1 July 2019	703
Less: depreciation expense for the year	(552)
Less: cancellation of leases at 30 June 2020	(497)
Add: new leases entered	<u>3,053</u>
Net carrying amount	<u>2,707</u>
Depreciation expense for the year ended	<u>552</u>
 30 June 2020	
(ii) AASB 16 related amounts recognised in the statement of profit or loss	
Depreciation charge related to right-of-use assets	(552)
Interest expense on lease liabilities (under finance cost)	(94)
Discount on lease payment income	91
Variable lease payment expense	91
 30 June 2020	
(iii) Total year cash outflows for leases	
- Financing cash outflow (principal repaid)	432
- Financing cash outflow (finance costs)	94

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTE 16: OTHER ASSETS

	Consolidated Group	
	2020	2019
	\$000	\$000
CURRENT		
Prepayments	578	466
Other	2	56
	580	522
NON-CURRENT		
Investment in Other Companies	2,014	95
	2,014	95

NOTE 17: TRADE AND OTHER PAYABLES

	Note	Consolidated Group	
		2020	2019
		\$000	\$000
CURRENT			
Unsecured liabilities:			
Trade payables		32,287	19,028
Sundry payables and accrued expenses		13,279	11,311
		45,566	30,339

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

Trade and other payables:			
– total current		32,287	19,028
– total non-current		-	-
		32,287	19,028
Financial liabilities as trade and other payables		32,287	19,028

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTE 18: BORROWINGS

	Note	Consolidated Group	
		2020	2019
		\$000	\$000
CURRENT			
Related parties – unsecured	26	-	-
Lease liability - secured	23	758	896
Lease Liability – Buildings	15	613	-
Total current borrowings		<u>1,371</u>	<u>896</u>
NON-CURRENT			
Lease liability - secured	23	2,216	2,067
Lease Liability – Buildings	15	2,117	-
Total non-current borrowings		<u>4,333</u>	<u>2,067</u>
Total borrowings		<u>5,704</u>	<u>2,963</u>
a. Total current and non-current secured liabilities:			
Lease liability		2,974	2,963
		<u>2,974</u>	<u>2,963</u>
b. The carrying amounts of non-current assets pledged as security are:			
Charge over assets		2,626	2,718
		<u>2,626</u>	<u>2,718</u>

Hire Purchase agreements have an average term of 3-5 years. The interest rate was 5.0%.

	Note	Consolidated Group	
		2020	2019
		\$000	\$000
c. Collateral provided			
The bank facility is secured by a first registered charge over the assets of the Group. Covenants imposed by the bank require. Capital adequacy Ratio is more than 40%. Net Leverage Ratio not exceed 1.25:1 These covenants were complied with at 30 June 2020.			
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 the bank are as follows:			
Cash and cash equivalents	10	15,241	21,865
Trade receivables	11	31,301	13,250
Total financial assets pledged		<u>46,542</u>	<u>35,115</u>

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

The Company has an insurance bonding facility of \$40 million. At 30 June 2020 the amount drawn on the facility was \$32.190 million (2019: \$8.995 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTE 19: TAX

	Consolidated Group	
	2020	2019
	\$000	\$000
CURRENT		
Income tax payable	2,413	1,778

	Consolidated Group	
	2020	2019
	\$000	\$000
a. Deferred Tax Asset:		
The balance comprises temporary differences attributable to:		
Accrued Expenses	19	145
Payable/Provisions	1,083	1,041
Capital Raising Costs	378	395
Other	94	85
Total deferred tax assets	1,574	1,666
Less deferred tax liabilities set off from Note 19b	(588)	(471)
Net deferred tax assets	986	1,195

Movement	Accrued Expenses	Payable/Pro visions	Capital Raising Costs	Other	Closing Balance
	\$000	\$000	\$000	\$000	\$000
At 1 July 2018	1	619	410	18	1,048
(Charged)/credited to the income statement	144	422	(76)	67	557
(Charged)/credited directly to equity	-	-	61	-	61
Balance at 30 June 2019	145	1,041	395	85	1,666
(Charged)/credited to the income statement	(126)	42	(151)	(15)	(250)
(Charged)/credited directly to equity	-	-	134	24	158
Balance at 30 June 2020	19	1,083	378	94	1,574

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTE 19: TAX (CONTINUED)

	Consolidated Group	
	2020	2019
	\$000	\$000
b. Deferred Tax Liabilities:		
The balance comprises temporary differences attributable to:		
Work in Progress	159	441
Accrued Income	203	1
Prepayments	37	28
Other	189	1
Total deferred tax liabilities	<u>588</u>	<u>471</u>
Set-off deferred tax liabilities, pursuant to set-off provisions (note 19a)	(588)	(471)
Net deferred tax liabilities	-	-

Movement	Work in Progress	Accrued Income	Prepayments	Other	Closing Balance
	\$000	\$000	\$000	\$000	\$000
At 1 July 2018	320	1	14	(3)	332
(Charged)/credited to the income statement	(55)	-	-	-	(55)
(Charged)/credited directly to equity	176	-	14	4	194
Balance at 30 June 2019	441	1	28	1	471
Opening balance adjustment	(2)	-	-	-	(2)
(Charged)/credited to the income statement	(280)	202	9	188	119
Balance at 30 June 2020	159	203	37	189	588

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTE 20: PROVISIONS

	Employee Benefits \$000	Other \$000	Total \$000
Consolidated Group			
Opening balance at 1 July 2019	2,223	-	2,223
Additional provisions	467	-	467
Amounts used	-	-	-
Balance at 30 June 2020	<u>2,690</u>	-	<u>2,690</u>

Provision for Employee Benefits

	Consolidated Group	
	2020 \$000	2019 \$000
Current	2,251	1,905
Non-current	439	318
	<u>2,690</u>	<u>2,223</u>

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(m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTE 21: OTHER CURRENT LIABILITIES

	Consolidated Group	
	2020	2019
	\$000	\$000
CURRENT		
Unearned Revenue	14,010	155

NOTE 22: ISSUED CAPITAL

	No	\$000
Fully paid ordinary share at 1 July 2018	93,490,600	348
Shares issued as part of Initial Public Offering (IPO) net capital raising costs	50,000,000	20,000
Capital raising costs for IPO	-	(920)
Shares issued to consultant in lieu of fees	625,000	250
Shares issued as part of employee share based payments	5,512,500	10
Fully paid ordinary shares as at 30 June 2019	149,628,100	19,688
Shares issued as part of employee share based payments	50,000	-
Capital raise	22,451,715	7,634
Capital raise costs	-	(315)
Options converted to shares	87,500	-
Shares buy back	(530,000)	-
Fully paid ordinary shares as at 30 June 2020	171,687,315	27,007

Consolidated Group

	2020	2019
	\$000	\$000
Fully paid ordinary shares		
Fully paid ordinary shares	27,007	19,688

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTE 22: ISSUED CAPITAL (CONTINUED)

b. Capital Management

The Group's management has 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 2020 and 30 June 2019 are as follows:

	Note	Consolidated Group	
		2020	2019
		\$000	\$000
Total borrowings (excluding unsecured borrowings)	18	2,974	2,963
Less cash and cash equivalents	10	(15,241)	(21,865)
Net debt		(12,267)	(18,902)
Total equity		46,750	34,773
Total capital		34,483	15,871
Gearing ratio		(36%)	(119%)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTE 23: CAPITAL AND LEASING COMMITMENTS

	Note	Consolidated Group	
		2020	2019
		\$000	\$000
a. Finance Lease Commitments			
Payable – minimum lease payments:			
– not later than 12 months		-	1,020
– between 1 and 5 years		-	2,272
Minimum lease payments		-	3,292
Less future finance charges		-	(329)
Present value of minimum lease payments	18	-	2,963

Finance lease liabilities were included in borrowings until 30 June 2019 and were reclassified to lease liabilities on 1 July 2019 from the adoption of AASB 16 Leases. Refer to note 15 (b) and note 18 for further information.

	Note	Consolidated Group	
		2020	2019
		\$000	\$000
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		-	650
– between 1 and 5 years		-	446
Present value of minimum lease payments		-	1,096

From 1 July 2019, the Group has recognised rights of use assets for these leases, except for short-term and low-value leases. Refer to note 15 (b) and note 18 for further information.

NOTE 24: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Primero Group Ltd has provided bank guarantees and insurance bonds to various customers for satisfactory contract performance in the amount of \$51,591,665

There are no other contingent liabilities other than those listed above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTE 25: SHARE BASED PAYMENTS

The expense recognised for share based payments during the period are as follows:

		Consolidated Group	
	Note	2020	2019
		\$000	\$000
Total expenses arising from			
Brokers options (Listing Costs)	25(a)	-	151
Non-recourse loan to employees	25(b)	(48)	512
Employee Incentive Scheme	25(c)	141	124
Employee Incentive Scheme	25(d)	51	-
		<hr/> <u>144</u>	<hr/> <u>787</u>

- a) On 9 of July 2018, 2 million 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. The terms of the options issued are as follows:
1. 1,000,000 unlisted options to acquire Shares that expire on 9 July 2021 and have an exercise price of \$0.50 per Share;
 2. 1,000,000 unlisted options to acquire Shares that expire on 9 July 2021 and have an exercise price of \$0.60 per Share;

The value of options granted during the period was calculated using the Black-Scholes Option Pricing Model totalled \$151k. The expense during the period ended 30 June 2020 amounted to \$nil (2019: \$151k). The values and inputs are as follows:

Options	PGXO1	PGXO2
Options issued	1,000,000	1,000,000
Underlying share value	\$0.40	\$0.40
Exercise price of options	\$0.50	\$0.60
Risk free interest rate	2.08%	2.08%
Share price volatility	40%	40%
Expiration period	9-Jul-21	9-Jul-21
Valuation per option	\$0.09	\$0.06

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTE 25: SHARE BASED PAYMENTS (CONTINUED)

- b) On 14 August 2018, 5.2 million shares were issued to employees under the Employee Share Schemes in form of non-recourse loan. The share-based payments were valued using the Black-Scholes Option Pricing Model totalled \$512k. The expense during the period ended 30 June 2020 amounted to \$(48k) (2019: \$512k) representing the reversal of expense following the resignation of employees. The value and inputs are as follow:

Non-recourse loan	Shares
Shares issued	5,200,000
Underlying share value	\$0.40
Exercise price	\$0.40
Risk free interest rate	2.10%
Share price volatility	54%
Estimated time to maturity	1.2 years
Valuation per share	\$0.10

- c) On 25 November 2019, 3,694,464 options were issued to employees under the Employee Incentive Schemes.

The terms of the options issued are as follows:

1. Short term incentives (STI) are remunerated through a combination of cash and zero price exercise options (ZEPOs) with the ZEPOs expiring 2 years after grant date. For 2020 the short-term incentive cash portion will only be payable, and the STI Options will only be capable of vesting and being exercised into Shares, if the following conditions are satisfied:
 - Primero achieves EBIT of at least AUD\$11,204,576 for the financial year ending 30 June 2020 (FY20);
 - the Board, in its discretion, determines that the employee has achieved at least 50% success against their personal performance objectives for FY20; and
 - for the STI Options, the employee or officer of Primero or a subsidiary remains an employee 2 years after the Grant Date.
2. Long term incentives (LTI) for the 2020 financial year are made up of ZEPOs and premium exercise options (PEPOs). The LTI PEPOs and LTI ZEPOs will only be issued if the employee continues to be employed or engaged by Primero or one of its subsidiaries at the Grant Date. The LTI PEPOs and LTI ZEPOs will only be capable of vesting and being exercised into Shares if the following Vesting Conditions are satisfied:
 - for the LTI PEPOs, the 14 day volume weighted average market price (as defined in the ASX Listing Rules) (VWAP) of Shares up to and including the date that is 3 years from the Grant Date is at least 43% higher than the 14 day VWAP of Shares up to and including the Grant Date;
 - for the LTI Options, Primero's audited EBIT for the financial year ending 30 June 2022 is at least 45% higher than Primero's audited EBIT for FY19; and
 - be employed at the time of vesting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTE 25: SHARE BASED PAYMENTS (CONTINUED)

The STI ZEPOs and LTI ZEPOs were valued using the Black-Scholes Option Pricing Model totalled \$222k and \$691k respectively. The LTI PEPOs were valued using hybrid employee share option pricing model that incorporating a Monte Carlo simulation totalled \$61k. The expense during the period ended 30 June 2020 amounted to \$141k (2019: nil). The value and inputs are as follow:

Options	STI ZEPOs	STI ZEPOs	LTI ZEPOs	LTI ZEPOs	LTI PEPOs
Options issued	92,106	477,846	1,192,848	1,192,848	738,816
Underlying share value	\$0.39	\$0.39	\$0.39	\$0.39	\$0.39
Exercise price of options	Nil	Nil	Nil	Nil	\$0.537
Risk free interest rate	0.70%	0.70%	0.70%	0.70%	0.70%
Share price volatility	41.1%	42.4%	42.4%	42.4%	42.4%
Expiration period	25-Nov-20	25-Nov-23	25-Nov-24	25-Nov-23	25-Nov-23
Valuation per option	\$0.39	\$0.39	\$0.39	\$0.189	\$0.082

- d) On 25 November 2018, 2,854,475 options were issued to employees under the Employee Incentive Schemes.

The terms of the options issued are as follows:

1. Short term incentives (STI) are remunerated through a combination of cash and zero price exercise options (ZEPOs) with the ZEPOs expiring 2 years after grant date. For 2019 the short-term incentive cash portion will only be payable, and the STI Options will only be capable of vesting and being exercised into Shares, if the following conditions are satisfied:
 - Primero achieves EBIT of at least AUD\$9,422,165 for the financial year ending 30 June 2019 (FY19);
 - the Board, in its discretion, determines that the employee has achieved at least 50% success against their personal performance objectives for FY19; and
 - for the STI Options, the employee or officer of Primero or a subsidiary remains an employee 2 years after the Grant Date.
2. Long term incentives (LTI) for the 2019 financial year are made up of ZEPOs and premium exercise options (PEPOs). The LTI PEPOs and LTI ZEPOs will only be issued if the employee continues to be employed or engaged by Primero or one of its subsidiaries at the Grant Date. The LTI PEPOs and LTI ZEPOs will only be capable of vesting and being exercised into Shares if the following Vesting Conditions are satisfied:
 - for the LTI PEPOs, the 14 day volume weighted average market price (as defined in the ASX Listing Rules) (VWAP) of Shares up to and including the date that is 3 years from the Grant Date is at least 43% higher than the 14 day VWAP of Shares up to and including the Grant Date;
 - for the LTI Options, Primero's audited EBIT for the financial year ending 30 June 2021 is at least 35% higher than Primero's audited EBIT for FY18; and
 - be employed at the time of vesting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTE 25: SHARE BASED PAYMENTS (CONTINUED)

The STI ZEPOs and LTI ZEPOs were valued using the Black-Scholes Option Pricing Model totalled \$173k and \$338k respectively. The LTI PEPOs were valued using hybrid employee share option pricing model that incorporating a Monte Carlo simulation totalled \$205k. The expense during the period ended 30 June 2020 amounted to \$51k (2019: \$124k). The value and inputs are as follow:

Options	STI ZEPOs	STI ZEPOs	LTI ZEPOS	LTI PEPOS
Options issued	87,500	357,325	867,325	1,542,325
Underlying share value	\$0.39	\$0.39	\$0.39	\$0.39
Exercise price of options	Nil	Nil	Nil	\$0.56
Risk free interest rate	2.11%	2.11%	2.11%	2.11%
Share price volatility	60%	60%	60%	60%
Expiration period	3-Dec-19	3-Dec-22	3-Dec-23	3-Dec-22
Valuation per option	\$0.39	\$0.39	\$0.39	\$0.13

Include table to summarise the options:

Options	2020	2019
	No	No
Balance at Beginning of Year	4,549,057	-
Granted as remuneration during the year -		
Canaccord Genuity	-	2,000,000
Granted as remuneration during the year -		
Employee Incentive Scheme	3,694,464	2,854,475
Exercised during the year	(87,500)	-
Other changes during the year	(768,450) ⁴	(305,418)
Balance at End of Year	7,387,571	4,549,057
Vested at end of the year	-	-

⁴ The Options listed exclude options that have been forfeited due to performance hurdles not being met as part of the Group's Employee Incentive scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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		
2020	2019	
\$000	\$000	

Other related parties:

Interest revenue:

Consolidated Group		
2020	2019	
\$000	\$000	

c. Amounts outstanding from related parties

(i) *Loans to other key management personnel related entities*

Beginning of the year	125	315
Loans advanced	-	125
Loans repayment received	(125)	(315)
End of the year	-	125

(ii) *Loans to controlled entity at reporting date was as follows*

Beginning of the year	1,144	1,133
Loans advanced	260	11
End of the year	1,404	1,144

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTE 26: RELATED PARTY TRANSACTIONS (CONTINUED)

	Consolidated Group	
	2020	2019
	\$000	\$000
d. Amounts payable to related parties		
Trade and other payables:		
<i>Loans from other key management personnel related entities:</i>		
Beginning of the year	-	3
Loans advanced	-	-
Loan repayment received	-	(3)
Interest charged	-	-
End of the year	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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 AASB9: *Financial Instruments* as detailed in the accounting policies to these financial statements, are as follows:

	Note	Consolidated Group	
		2020	2019
		\$000	\$000
Financial assets			
Cash and cash equivalents	10	15,241	21,865
Loans and receivables	11	31,302	13,378
Total financial assets		46,543	35,243
Financial liabilities			
Financial liabilities at amortised cost:			
– trade and other payables	17	45,566	30,339
– borrowings	18	2,974	2,963
Total financial liabilities		48,540	33,302

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 had significant concentration with two of their clients at the 30 of June 2020. One client represents \$52,497,947 of work in progress and accrued revenue while the other represents \$8,742,457 in trade debtors, work in progress and accrued revenue receivable. 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	
		2020	2019
		\$000	\$000
Cash and cash equivalents:			
– AA rated	10	15,241	21,865

The following sets out the Group's internal credit evaluation practices and basis for recognition and measurement for expected credit losses ('ECL'):

Internal rating system	Definition	Basis for recognition and measurement of ECL
1. Performing	The counterparty has a low risk of default and does not have any past-due amount	12-month ECL
2. Under-performing	There has been a significant increase in credit risk since initial recognition	Lifetime ECL (not impaired)
3. Non-performing	There is evidence indicating that the asset is credit impaired.	Lifetime ECL (not impaired)
4. Write-off	There is evidence indicating that there is no reasonable expectation of recovery as the debtor is in severe financial difficulty	Asset is written off

Trade receivables and contract assets

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group has adopted the policy of dealing with customers with an appropriate credit history as a means of mitigating the credit risk exposures. Credit evaluation which takes into account qualitative and quantitative profile of each customer is performed and approved by management before credit is granted and debtor balance insured as assessed by Insurance company. The Group also closely monitors customers' payment patterns, coverage by debtor insurance and credit exposures on an on-going basis.

The Group applies the simplified approach to provide for the ECL for all trade receivables and contract assets. The simplified approach requires the loss allowance to be measured at an amount equal to the lifetime ECL.

The Group uses a provision matrix to measure the lifetime ECL allowance for trade receivables and contract

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTE 27: FINANCIAL RISK MANAGEMENT (CONTINUED)

assets. In measuring the ECL, trade receivables and contract assets are Grouped based on shared credit risk characteristics and days past due.

The contract assets relate mainly to unbilled work in progress, which have substantially the same risk characteristics as the trade receivables for the same type of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

In calculating the ECL rates, the Group considers historical loss rates for each category of customers and adjusts for forward-looking macroeconomic data. The Group considers a financial asset as in default when the counterparty fail to make contractual payments for a prolonged period of time when they fall due, and the Group may also consider internal and external information, such as significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtor's ability to meet its obligation. Financial assets are written off when there is no reasonable expectation of recovering the contractual cash flow, such as a debtor failing to engage in a repayment plan with the Group and it becoming probable that the debtor will enter bankruptcy or other financial reorganisation. Where receivables have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognised in profit or loss.

Management has assessed and concluded that the ECL rate for trade receivables past due less than 1 year is immaterial. There is no ageing analysis for contract assets as these mainly relate to variable considerations which have yet to be invoiced. The Group has assessed and concluded that trade receivables are subject to immaterial credit loss. As reported in the consolidated statement of profit and loss the Group reported a bad debt expense of \$493k.

There has been no change in the estimation techniques or significant assumptions made during the current reporting year.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTE 27: FINANCIAL RISK MANAGEMENT (CONTINUED)

FINANCIAL LIABILITY AND FINANCIAL ASSET MATURITY ANALYSIS

	Within 1 Year		1 to 5 Years		Over 5 Years		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
Consolidated Group	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Financial liabilities due for payment								
Bank overdrafts and loans	-	10	-	-	-	-	-	10
Trade and other payables	45,566	30,339	-	-	-	-	45,566	30,339
Amounts payable to related parties	-	-	-	-	-	-	-	-
Borrowings	1,371	896	4,333	2,067	-	-	5,704	2,963
Total expected outflows	46,937	31,245	4,333	2,067	-	-	51,270	33,312
Financial assets - cash flows realisable								
Cash and cash equivalents	15,241	21,875	-	-	-	-	15,241	21,875
Trade, term and loan receivables	31,302	13,378	-	-	-	-	31,302	13,378
Total anticipated inflows	46,543	35,253	-	-	-	-	46,543	35,253
Net (outflow)/inflow on financial instruments	(394)	4,008	(4,333)	(2,067)	-	-	(4,727)	1,941

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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 2020 approximately 100% 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 amounts	of notional		2020	2019	2020	2019
			%	%	\$000	\$000
Less than 1 year			5.25	6.07	146	370
1 to 2 years			5.04	5.38	416	681
2 to 5 years			4.68	4.92	2,412	1,911
					2,974	2,962

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:

Floating rate instruments	Note	Consolidated Group	
		2020	2019
		\$000	\$000
Bank overdrafts	10	-	10
		-	10

(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)

2020 Net Financial Assets/(Liabilities) in AUD (000)					
Consolidated Group	USD	AUD	GBP	Other	Total AUD
Functional currency of entity:					
Canadian dollar	-	2,050	-	-	2,050
Statement of financial position exposure	-	2,050	-	-	2,050

2019 Net Financial Assets/(Liabilities) in AUD (000)					
Consolidated Group	USD	AUD	GBP	Other	Total AUD
Functional currency of entity:					
Canadian dollar	-	1,688	-	-	1,688
Statement of financial position exposure	-	1,688	-	-	1,688

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
	\$000	\$000
Year ended 30 June 2020		
+/-10% in interest rates	1/(1)	-
+/-10% in \$A/\$CAD	-	228/(186)
Year ended 30 June 2019		
+/-10% in interest rates	1/(1)	-
+/-10% in \$A/\$CAD	-	187/(153)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTE 28: RESERVES

Foreign currency translation reserve	Note	Consolidated Group	
		2020	2019
		\$000	\$000
Opening		33	(4)
Movement in foreign currency translation reserve	5	(23)	37
Closing		10	33
Asset revaluation reserve			
Opening		176	-
Movement in unrealised gain (loss) on investments	5	(110)	24
Movement in gain (loss) on investments	5	-	152
Closing		66	176
Share based payments reserve			
Opening		787	-
Movement in share reserve		143	787
Closing		930	787
Other comprehensive income for the year attributable to:		(133)	213
Owners of the parent entity		(133)	213
Non-controlling interest		-	-
Total		(133)	213

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 37%, 17% and 16% of external revenue (2019: 46%, 20% and 7%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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:

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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTE 30: FAIR VALUE MEASUREMENTS (CONTINUED)

		30 June 2020			
	Note	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Recurring fair value measurements					
<i>Financial assets</i>					
Financial assets at fair value through other comprehensive income:					
– Australian listed shares	16	14	-	-	14
– Australian private company shares	16	-	2,000	-	2,000
Total financial assets recognised at fair value on a recurring basis		14	2,000	-	2,014

		30 June 2019			
	Note	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Recurring fair value measurements					
<i>Financial assets</i>					
Financial assets at fair value through profit or loss:					
– Australian listed shares	16	95	-	-	95
Total financial assets recognised at fair value on a recurring basis		95	-	-	95

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: EVENTS AFTER THE REPORTING PERIOD

Primero appointed two new non-executive directors on the 19th of August 2020 being Kristie Young and Bryn Hardcastle.

In late April 2020, Primero was awarded the sum of approximately \$16.9 million in an adjudication determination against Wartsila under the South Australian Security of Payment Act (**SOPA**). Wartsila elected to transfer payment into the courts of South Australia and seek judicial review of the adjudication decision in the Supreme Court of South Australia (**Court**).

The judicial review did not seek to challenge the adjudicator's findings with respect to the merits of Primero's claims, but rather whether the adjudicator had jurisdiction to make a determination in circumstances where the trigger for payment (namely Sub-Contractor Works (**SW**) Completion) had been satisfied on the date claimed by Primero, being 28 February 2020. These proceedings were heard on the 2nd September 2020. The Court directed that the adjudication decision of 27 April 2020 be quashed on the basis that the trigger for payment (i.e. SW Completion) had not been achieved on 28 February 2020.

Primero has reserved all its legal rights in relation to the SOPA process and its contract with Wartsila

NOTE 32: 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 28 to 87, 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 2020 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 25th day of September 2020

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

www.moore-australia.com.au

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Primero Group Limited (the Company) and its controlled entity (the "Group"), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended 30 June 2020, 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 company's financial position as at 30 June 2020 and of its performance for the period ended; and
- ii. complying with Australian Accounting Standards and complying with 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 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 with the Code.

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.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF PRIMERO GROUP LIMITED (CONTINUED)**

Key Audit Matters (continued)

Recognition of Revenue from Construction Contracts	
<p>Refer to Note 1(v)(iii) to (v) under “Critical Accounting Estimates & Judgements”, Note 3 “Revenue and Other Income”, Note 12 “WIP & Accrued Income” and Note 21 “Unearned Revenue”</p>	
<p>The Group's revenue arising from engineering, consulting, construction and operational services amounted to \$205.6 million for the financial year ended 30 June 2020, the majority of which is based on contracts which determine the services, materials and rates to be charged.</p> <p>Contract revenue comprises the initial amount agreed in the contract and variations in the contract as constrained to the extent that is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with variable consideration is subsequently removed.</p> <p>Revenue is recognised by reference to the stage of completion of the contract activity (using the input method under AASB 15) at the balance sheet date. These determinations will also impact on other account balances being Work in Progress (WIP), Accrued Income and Unearned Revenue.</p> <p>Estimates of revenues, costs or the extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.</p> <p>We have focused on this area as a key audit matter because the determination of estimated contract revenue, total contract costs and costs to complete require significant judgement which may impact on the amounts of construction contract revenue and profits recognised during the year.</p>	<p>Our audit procedures included, amongst others, the following:</p> <ul style="list-style-type: none"> • 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. • We assessed management's assumptions in determining forecast contract revenue, percentage of completion of projects and total budgeted costs for each project. • 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 and whether it is highly probable that the revenue recognised will not subsequently be reversed. • We selected a sample of sales invoices raised during the year and contract assets and liabilities and performed the following procedures: <ul style="list-style-type: none"> – agreed to contractual terms and rates. – agreed to general ledger accounts and subsequent receipts from the customer. – for variations or claims we checked they were in accordance with contract terms and evaluated for risk of non-recovery. • 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. • 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.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF PRIMERO GROUP LIMITED (CONTINUED)**

Key Audit Matters (continued)

Recognition of Revenue from Construction Contracts

Refer to Note 1(v)(iii) to (v) under “Critical Accounting Estimates & Judgements”, Note 3 “Revenue and Other Income”, Note 12 “WIP & Accrued Income” and Note 21 “Unearned Revenue”

	<ul style="list-style-type: none">• In relation to the Wartsila contract, we held discussions with senior operational and financial management, as well as the Group's legal advisors, and reviewed specialist consultant reports where appropriate, to evaluate management's assessment that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently removed.• We also checked management's assessment of foreseeable losses on projects by reviewing projects with low or negative margins.• We recomputed the percentage of completion based on actual cumulative contract costs incurred to-date to the total estimated contract costs for individually significant projects.• We checked the arithmetic accuracy of the revenue and profit recognised based on the percentage of completion computation for individually significant projects and traced the revenue for the current year based on the measurement of progress to the accounting records.• We also reviewed and assessed the adequacy of the disclosures in relation to key accounting estimates.
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**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF PRIMERO GROUP LIMITED (CONTINUED)**

Key Audit Matters (continued)

Valuation of Receivables	
<p>Refer to Note 1(v)(ii) under "Critical Accounting Estimates & Judgements", Note 11 "Trade and Other Receivables" and Note 12 "WIP & Accrued Income"</p>	
<p>The carrying amount of trade and other receivables of the Group was \$31.3 million and contract assets was \$55.2 million as at 30 June 2020.</p> <p>We focussed on this area as a key audit matter because of its significance and the degree of judgement required in determining their carrying values as at the reporting date.</p> <p>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, current and forward-looking loss experience for assets with similar credit risk characteristics.</p>	<p>Our audit procedures included, amongst others, the following:</p> <ul style="list-style-type: none"> • We obtained an understanding of the Group's credit policy and evaluated the processes for identifying impairment of trade and other receivables including contract assets. • We have reviewed and tested the ageing of trade and other receivables. • We reviewed the level of credit insurance cover for each debtor, subsequent receipt collections from debtors and ageing analysis post year-end. • We audited expected credit loss workings and assessments prepared by management in relation to trade and other receivables including an analysis of the credit risk characteristics attributed to significant trade debtors and contract assets as part of our assessment of the adequacy of impairment provisions. • We have discussed with management as to the existence of any arrears or disputes with debtors, review of correspondence and the impact these factors have had on the assessment of impairment provisions raised by management. • We assessed current balances of significant contracts subject to modifications/legal review, to identify if the collectability of contract consideration is highly probable. • We reviewed assessments of the financial viability of debtors, where considered necessary. • We have also assessed the adequacy of the disclosures in relation to key accounting estimates.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF PRIMERO GROUP LIMITED (CONTINUED)**

Key Audit Matters (continued)

Existence and Ownership of Assets – Plant and Equipment	
Refer to Note 15 “Property, Plant and Equipment”	
<p>The carrying amount of plant and equipment as at 30 June 2020 was \$6.2 million. Existence and ownership of plant and equipment is a key audit matter.</p> <p>It is due to the size of this account balance and the location of plant and equipment (most located at client sites throughout Australia) that this is a key area of audit focus.</p>	<p>Our audit procedures included, amongst others, the following:</p> <ul style="list-style-type: none"> • We tested a sample of plant and equipment additions to supplier invoices and to Capital Expenditure Request Forms (for appropriate authority). • We agreed a sample of plant and equipment to hire purchase financing agreements and bank confirmation obtained. • We tested the existence of a sample of plant and equipment in Australia by obtaining date stamped photographs taken by senior company personnel and other supporting certificates and invoices.

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 2020 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.

Responsibility of the Directors for the Financial Report

The directors of the Company 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.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF PRIMERO GROUP LIMITED (CONTINUED)****Auditor's Responsibility 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 include the economic decisions of the users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standard Board website at:

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf This description forms part of our audit report.

Report on the Remuneration Report**Opinion on the Remuneration Report**

We have audited the Remuneration Report included within the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Primero Group Limited, for the financial year ended 30 June 2020 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company 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.



SUAN-LEE TAN
PARTNER



MOORE AUSTRALIA AUDIT (WA)
CHARTERED ACCOUNTANTS

Signed at Perth on the 25th day of September 2020

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

The following information is current as at 25/09/2020:

1. Shareholding

a. Distribution of Shareholders

Category (size of holding):	Number of Holders	Ordinary Shares	% Issued Capital
1 – 1,000	19	2,624	0.00%
1,001 – 5,000	137	413,520	0.24%
5,001 – 10,000	96	469,456	0.45%
10,001 – 100,000	407	16,980,202	9.89%
100,001 and over	81	153,521,513	89.42%
Total	740	171,687,315	100.00%

b. The number of shareholders holding less than a marketable parcel of fully paid ordinary shares is 8.

c. Substantial shareholders as disclosed in substantial shareholders notices given to the company are as follows:

Shareholder:	Ordinary Shares	% of Voting Power	Date Notified
Cameron Henry and Associated Entities	23,869,872	13.90	6/03/2020
Perennial Value Management	22,033,107	12.83	10/10/2019
Dean Ercegovic and Associated Entities	18,791,060	10.94	7/07/2020
Peter Grigsby and Associated Entities	14,062,595	8.19	7/07/2020
Ben Davies and Associated Entities	9,491,082	5.53	30/10/2019
Brett Grosvenor and Associated Entities	9,135,177	5.32	6/03/2020

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. NATIONAL NOMINEES LIMITED	29,708,390	17.30
2. MEESHA INVESTMENTS PTY LTD <THE HENRY FAMILY A/C>	23,732,372	13.82
3. RAVCA PTY LTD <THE MAKARSKA A/C>	18,687,060	10.88
4. PRITA HOLDINGS PTY LTD <THE PRITA INVESTMENT A/C>	14,062,595	8.19
5. MATUVI ENTERPRISES PTY LTD <THE DAVIES FAMILY A/C>	9,491,082	5.53
6. SALVADOR CONSULTING PTY LTD <THE B&U FAMILY A/C>	9,045,177	5.27
7. MORGAN STANLEY AUSTRALIA SECURITIES (NOMINEE) PTY LIMITED <NO 1 ACCOUNT>	5,720,947	5.53
8. BNP PARIBAS NOMS PTY LTD <DRP>	5,652,148	3.29
9. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	3,911,022	2.28
10. CITICORP NOMINEES PTY LIMITED	3,690,421	2.15
11. TWO BEANIES PTY LTD <MCFARLANE FAMILY A/C>	3,272,314	1.91
12. CS FOURTH NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 11 A/C>	1,731,888	1.01
13. BNP PARIBAS NOMS PTY LTD <IOOF INSMT MGMT LTD DRP>	1,450,000	0.84
14. UBS NOMINEES PTY LTD	1,243,664	0.72
15. DMX CAPITAL PARTNERS LIMITED	1,200,000	0.70
16. JP MORGAN NOMINESS AUSTRALIA PTY LTD	1,056,487	0.62
17. BRISPOT NOMINEES PTY LTD <HOUSE HEAD NOMINEE A/C>	1,056,347	0.62
18. BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAIL CLIENT DRP>	1,008,803	0.59
19. MR SHAUN BORNSTEIN	900,000	0.52
20. ROSSDALE SUPERANNUATION PTY LTD <ROSSDALE SUPERANNUATION FUND AC>	781,618	0.46
	137,402,335	80.03

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

1. **Company Secretaries:** Ryan McFarlane and Darryl Edwards
2. **Address and Telephone of Registered Office:** 78 Hasler Road, Osborne Park WA 6018: Telephone (08) 6500 9500.
3. **Share Registry:**
Automic Pty Ltd Level 5, 126 Phillip Street, Sydney NSW 2000
4. **Stock Exchange Listing:**
Primero Group Limited shares are listed on the Australian Securities Exchange (ASX), ASX Code: PGX
5. **Unquoted Equity Securities:**
Options over Unissued Shares:
A total of 8,565,359 Options are on issue, to 31 holders.
6. **Voluntary Escrow:** There are no securities subject to voluntary escrow:
7. **Buyback:** There is no current on market buyback
8. **Other:** There are no issues approved for the purposes of Item 7 of Section 611 of the Corporations Act and no securities were purchased on market under or for the purposes of an employee incentive scheme or to satisfy the entitlements of the holders of options or other rights to acquire securities granted under an employee incentive scheme.

PRIMERO

DESIGN | CONSTRUCT | OPERATE

