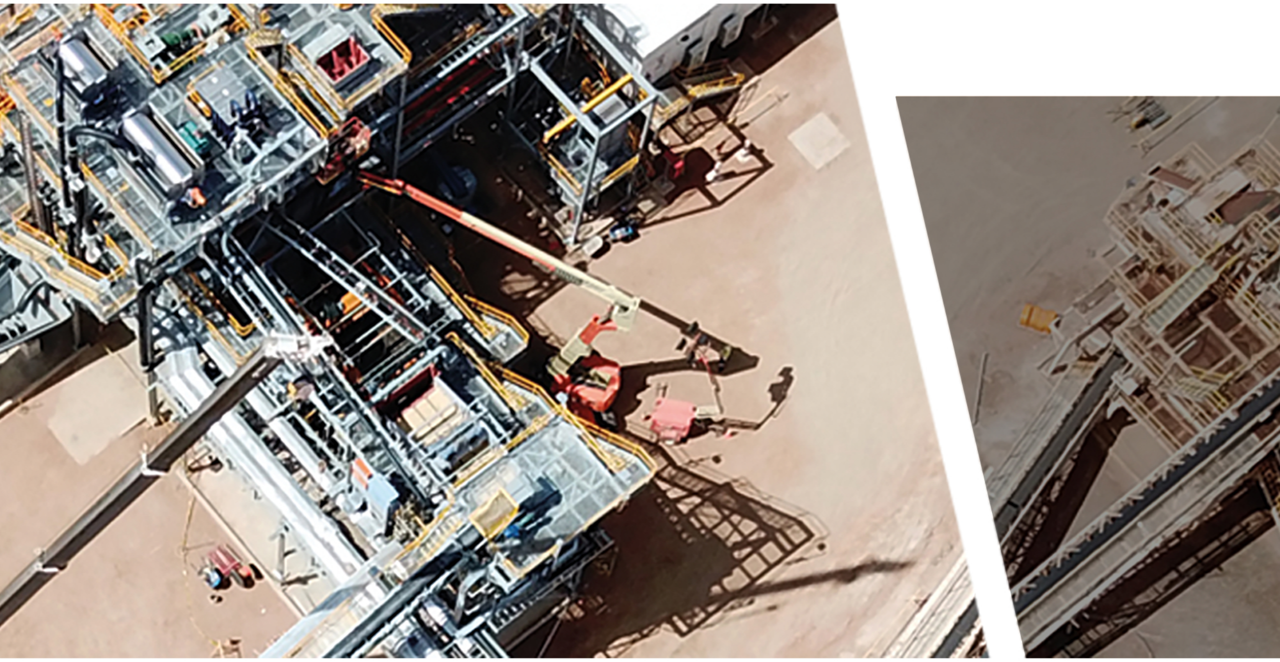
PRIMERO GROUP LIMITED

INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2018



DESIGN
CONSTRUCT
OPERATE

PRIMERO

Results for Announcement to the Market

Key Information

	Half-year Ended 31 Dec 2018 $	Half-year Ended 31 Dec 2017 $	Change $	%
Revenue	68,256,534	41,167,828	27,088,706	66%
Profit after tax from ordinary activities attributable to members	2,552,533	2,726,544	(173,991)	(6%)
Net profit attributable to members	2,552,553	2,726,544	(173,991)	(6%)

Dividends Paid and Proposed

The group does not propose to pay any dividend in the current period

Explanation of Key Information

An explanation of the above figures is contained in the "Review of Operations" included within the attached directors' report.

Net Tangible Assets per Share	Half-year Ended 31 Dec 2018	Half-year Ended 31 Dec 2017
Net tangible assets per share	$0.21	$0.06

Control Gained or Lost over Entities in the Half-year

No new entities were gained or lost in the half year

Dividend Reinvestment Plans

The Group does not have any dividend reinvestment plans in operation.

Investments in Associates and Joint Ventures

There are no investments in associates and joint ventures.

Accounting Standards

For foreign entity, the set of accounting standards used in the compiling report is IFRS.

Table of Contents

DIRECTORS' REPORT

Your directors submit the financial report of the consolidated group for the half-year ended 31 December 2018.

Directors

The names of directors who held office during or since the end of the half-year:

Cameron Henry	Dean Ercegovic
Mark Connelly	Luke Graham
Brett Grosvenor	

Principle 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 are in Western Australia. Its head office is in Perth with other offices in Port Hedland, Adelaide and Montreal, Canada.

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

Review of Results and Operations

On 9 July 2018, Primero Group listed on the Australian Securities Exchange. The Initial Public Offering of Primero Group raised $20 million of new equity funds, providing the company with additional working capital to fund future projects.

Since listing, Primero Group has experienced significant growth with revenue for the six months ending 31 December 2018 increasing by 66% compared to the previous corresponding period (the six months ending 31 December 2017).

Primero Group's increasing level of service revenue diversification was evidenced by total service revenue of $68.1 million for the half year ended 31 December 2018 being comprised of relative business segment contributions of 47% from Energy, 29% from NPI and 24% from Minerals.

The Energy division achieved outstanding growth during the half ended 31 December 2018 with revenue of $31.9 million, compared to $1.8 million in 1H FY18. This exceptional uplift was primarily the result of the progressive execution of Primero's contract with Finnish company Wartsila for the 211MW Barker Inlet Power Station in South Australia, which is being developed for AGL Energy. The other major Energy revenue for the half ended 31 December 2018 flowed from the contract with Quadrant Energy for Phase 1 construction of its Varanus Island Tank B Refurbishment.

DIRECTORS' REPORT

Revenue from the NPI business rose substantially to $19.9 million for the half ended 31 December 2018, compared to $3.4 million in 1H FY18. This considerable growth was driven predominantly by the execution of major design and construct work on the following Rio Tinto projects: Marandoo iron ore waste fines distribution pipeline; B2/PBO heavy vehicle washbays; West Angelas iron ore fuel infrastructure modifications; and Marandoo iron ore HME workshop extension.

Revenue from the Minerals division in 1H FY19 was $16.3 million. This was lower than 1H FY18 ($36.0 million) due to the execution of the large-scale EPC contract for Alliance Minerals' Bald Hill Lithium Project processing facility during that prior period. Major Minerals contract revenues for the half ended 31 December 2018 were derived from: EPC work for Northern Minerals' Browns Range Rare Earths Project pilot plant installation; ongoing operations and maintenance work on the Bald Hill lithium processing facility; and EPC work on various sustaining projects at Independence Group's Nova Nickel Mine.

Normalised EBITDA increased 19% to $5.2m (normalised for one off costs as discussed below) compared to $4.4m achieved in the previous corresponding period (the six months ending 31 December 2017).

The one off costs related to the listing. They were:

- Issue of shares to employees funded by non-recourse loan ($0.51 m);
- Initial Public Offering (IPO) costs ($0.15); and
- There was also one off due diligence costs for potential business acquisition of ($0.12 m).

Capital expenditure of $2.4 million was higher than 1H FY18 ($0.8 million) due to the major purchase of 2 cranes for the construction of the Barker Inlet Power Station.

At balance date, Primero Group held $26.1 million cash. Total current and non-current borrowings stood at $3.6 million. Total net assets were $30.7 million. No divided was declared or paid in respect of the 1H FY19 results.

Rounding of Amounts

The consolidated group has applied the relief available to it in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* and accordingly certain amounts in the financial report and the directors' report have been rounded off to the nearest $1,000.

Auditor's Independence Declaration

The auditor's independence declaration under s 307C of the *Corporations Act 2001* is set out on page 6 for the half-year ended 31 December 2018.

This directors' report is signed in accordance with a resolution of the Board of Directors.

Cameron Henry
Managing Director

Dated this 25th day of February 2019

MOORE STEPHENS

Level 15, Exchange Tower,
2 The Esplanade, Perth, WA 6000

PO Box 5785, St Georges Terrace,
WA 6831

T +61 (0)8 9225 5355

F +61 (0)8 9225 6181

www.moorestephens.com.au

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 half year ended 31 December 2018, there have been:

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

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

Neil Pace

NEIL PACE

Partner

Moore Stephens

MOORE STEPHENS

Chartered Accountants

Signed at Perth this 25th day of February 2019.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

		Consolidated Group	
	Note	Half-year Ended 31 Dec 2018	Half-year Ended 31 Dec 2017
		$000	$000
Revenue from Operations	2	68,257	41,168
Other income	2	49	51
Expenses			
Cost of sales		(58,856)	(34,823)
Other expenses		(4,182)	(1,995)
Depreciation and amortisation expense	2	(499)	(355)
Finance costs	2	(77)	(126)
Employee incentive scheme		(28)	-
Bad debts		(2)	-
IPO Costs		(155)	-
Due diligence cost for potential business acquisition		(119)	-
Share based payments expense – employees		(512)	-
Profit before income tax		3,876	3,920
Income tax expense		(1,323)	(1,193)
Profit for the period		2,553	2,727
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		11	-
Unrealised gain(loss) on investments		(83)	-
Total other comprehensive income for the year, net of tax		(72)	-
Total comprehensive income for the period		2,481	2,727
Earnings per share			
Basic earnings per share		$0.017	$0.029
Diluted earnings per shares		$0.017	$0.029

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	Note	Consolidated Group	
		As at 31 Dec 2018	As at 30 June 2018
		$000	$000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		26,080	424
Trade and other receivables		24,378	15,486
Inventories		668	658
Work-in-progress and accrued income		3,757	4,337
Other assets		900	1,151
TOTAL CURRENT ASSETS		55,783	22,056
NON-CURRENT ASSETS			
Property, plant and equipment		5,652	3,793
Deferred tax assets		923	715
Investments		957	110
TOTAL NON-CURRENT ASSETS		7,532	4,618
TOTAL ASSETS		63,315	26,674
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		18,590	12,300
Employee benefits		1,454	1,059
Borrowings		1,371	857
Current tax liabilities		2,630	1,641
Unearned Revenue		6,088	1,207
TOTAL CURRENT LIABILITIES		30,133	17,064
NON-CURRENT LIABILITIES			
Borrowings		2,234	1,060
Employee benefits		259	173
TOTAL NON-CURRENT LIABILITIES		2,493	1,233
TOTAL LIABILITIES		32,626	18,297
NET ASSETS		30,689	8,377
EQUITY			
Issued capital	4	19,772	348
Reserves		464	(4)
Retained earnings		10,453	8,033
TOTAL EQUITY		30,689	8,377

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

Consolidated Group	Note	Ordinary Share Capital	Foreign Currency Translation Reserve	Share Based Payments Reserve	Asset Revaluation Reserve	Retained Earnings	Total
		$000	$000	$000	$000	$000	$000
Balance at 1 July 2017		348	-	-	-	3,377	3,725
Comprehensive income							
Profit for the period		-	-	-	-	2,727	2,727
Total comprehensive income for the period		-	-	-	-	2,727	2,727
Transactions with owners, in their capacity as owners, and other transfers							
Dividends recognised for the period	3	-	-	-	-	(559)	(559)
Total transactions with owners and other transfers		-	-	-	-	(559)	(559)
Balance at 31 December 2017		348	-	-	-	5,545	5,893
Balance at 30 June 2018		348	(4)	-	-	8,033	8,377
Opening balance adjustment on application of AASB 15	9	-	-	-	-	(133)	(133)
Balance at 1 July 2018		348	(4)	-	-	7,900	8,244
Comprehensive income							
Profit for the period		-	-	-	-	2,553	2,553
Other comprehensive income for the period		-	11	-	(83)	-	(72)
Total comprehensive income for the period		-	11	-	(83)	2,553	2,481
Transactions with owners, in their capacity as owners, and other transfers							
Capital raising costs		(836)	-	-	-	-	(836)
Issued capital		20,260	-	-	-	-	20,260
Employee share based payments		-	-	540	-	-	540
Total transactions with owners and other transfers		19,424	11	540	(83)	-	19,964
Balance at 31 December 2018		19,772	7	540	(83)	10,453	30,689

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	Consolidated Group	
	Half-year Ended 31 Dec 2018	Half-year Ended 31 Dec 2017
	$000	$000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	65,865	40,471
Payments to suppliers and employees	(58,064)	(32,160)
Interest received	143	10
Other revenue	49	25
Income tax paid	(459)	(480)
Net cash (used in)/provided by operating activities	7,535	7,866
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property, plant and equipment	(2,358)	(777)
Proceeds from disposal of property, plant and equipment	-	3
Recepts for investments	-	103
Payments for investments	-	(40)
Loans made to employees	(82)	-
Repayment of loans made to employees	76	-
Net cash (used in)/provided by investing activities	(2,364)	(711)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	20,010	-
Proceeds from borrowings	2,238	816
Repayment of borrowings	(524)	(1,881)
Finance costs	(3)	(37)
Dividends paid	-	(559)
Payments for issue of shares	(1,247)	-
Net cash (used in)/provided by financing activities	20,474	(1,661)
Net increase (decrease) in cash and cash equivalents	25,645	5,494
Cash and cash equivalents at beginning of period	424	(268)
Effects of exchange rate changes of balances of cash held in foreign currencies	11	13
Cash and cash equivalents at end of period	26,080	5,239

The accompanying notes form part of these financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Preparation

These general purpose interim financial statements for half-year reporting period ended 31 December 2018 have been prepared in accordance with requirements of the *Corporations Act 2001* and Australian Accounting Standard AASB 134: *Interim Financial Reporting*. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Primero Group Ltd and its controlled entities (referred to as the “consolidated group” or “group”). As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2018, together with any public announcements made during the following half-year.

These interim financial statements were authorised for issue on 25th February 2019.

b. Accounting Policies

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements except for those changes described below.

New and Amended Standards Adopted by the Group

The Group has considered the implications of new or amended Accounting Standards which have become applicable for the current financial reporting period. The Group had to change its accounting policies as a result of adopting the following standards:

- AASB 9: *Financial Instruments*, and
- AASB 15: *Revenue from Contracts with Customers*.

The impact of the adoption of these standards and the respective accounting policies are disclosed in Note 9.

Impact of Standards Issued but Not Yet Applied by the Group

- AASB 16: *Leases*

AASB 16: *Leases* (issued February 2016) will supersede the existing lease accounting requirements in AASB 117: *Leases* and the related Interpretations. It introduces a single lessee accounting model by eliminating the current requirement to distinguish leases as either operating leases or finance leases depending on the transfer of risks and rewards of ownership. The key requirements of AASB 16 are summarised as follows:

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

AASB 16 will affect primarily the accounting for the Group's operating leases. The Group has assessed the full impact of the standard and assuming its existing lease arrangements remain substantially unchanged, expects to recognise a Right of Use Asset and Lease Liability of approximately $700,000 and $700,000 respectively as at 1 July 2019. The Group does not expect any significant impact to Net Profit After Tax (NPAT) from the application of the standard. Adjustments to these balances could arise if new leases are entered into during the year ended 30 June 2019 and any resulting changes shall be disclosed in the Company's next annual financial statements.

The Standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The Group does not intend to adopt the Standard before its effective date.

NOTE 2: PROFIT FOR THE PERIOD

	Consolidated Group	
	Half-year Ended 31 Dec 2018	**Half-year Ended 31 Dec 2017**
	$000	**$000**
The following revenue and expense items are relevant in explaining the financial performance for the interim period:		
Revenue		
Service revenue	68,115	41,160
Interest	142	8
Total	68,257	41,168
Other Income		
Other	49	25
Gain on disposal of property, plant and equipment	-	26
Total	49	51
Expenses		
Depreciation	499	355
Finance cost	77	126

NOTE 3: DIVIDENDS

	Consolidated Group	
	Half-year Ended 31 Dec 2018	Half-year Ended 31 Dec 2017
	$000	$000
Distributions paid/provided for:		
Dividends Nil (2017: Final fully franked ordinary dividend declared and paid on 8th and 23rd of November of $559,250, $8.375 per share franked at the tax rate of 30%)	-	559

NOTE 4: ISSUED CAPITAL

	No	$000
Fully paid ordinary share at 31 December 2017	66,779	348
Shares split (1:1400)	93,423,821	-
Fully paid ordinary shares at 30 June 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	-	(836)
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 31 December 2018	149,628,100	19,772

NOTE 5 CONTROLLED ENTITIES

The consolidated financial statements include the financial statement of Primero Group Ltd and the subsidiary listed in the following table:

		% Equity Interest	
Subsidiary	**Country of Incorporation**	**31 Dec 2018**	**31 Dec 2017**
Primero Group Americas Inc.	Canada	100%	100%

On 25 May 2017, the Company incorporated a new wholly owned subsidiary, Primero Group Americas Inc., a Canadian domiciled entity.

NOTE 6: OPERATING SEGMENTS

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 constructions. 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.

NOTE 7: CONTINGENT LIABILITIES

Primero Group Ltd has provided bank guarantees to various customers for satisfactory contract performance in the amount of $10,801,602.

There are no contingent liabilities other than those listed above.

NOTE 8: EVENTS AFTER THE END OF THE INTERIM PERIOD

The directors are not aware of any significant events since the end of the interim period that have not been reflected in this financial statement.

NOTE 9: CHANGES IN ACCOUNTING POLICIES

This note describes the nature and effect of the adoption of AASB 9: *Financial Instruments* and AASB 15: *Revenue from Contracts with Customers* on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

a. **AASB 9: *Financial Instruments***

1. Accounting Policies

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 relationships).

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.

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 groupings 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.

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 of 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

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

At each reporting date, the Group recognises the movement in the loss allowance as an impairment gain or loss in 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.

2. *Impact on the application of AASB 9*

The Group has adopted AASB 9 with a date of initial application of 1 July 2018. As a result, the impact of the change in accounting policy is as follows:

There were financial assets/liabilities which the Group had previously designated as fair value through profit or loss under AASB 139: *Financial Instruments: Recognition and Measurement* that were subject to reclassification/elected reclassification upon the application of AASB 9. There were no financial assets/liabilities which the Group has elected to designate as at fair value through profit or loss at the date of initial application of AASB 9.

The Group applied AASB 9 and the related consequential amendments to other Standards. New requirements were introduced for the classification and measurement of financial assets and financial liabilities, as well as for impairment.

When an equity investment at fair value through other comprehensive income has a gain or loss previously recognised in other comprehensive income it is not reclassified to profit or loss.

There is no significant impact on the Group's financial statements from the application of AASB 9.

Impairment

As per AASB 9, an expected credit loss model is applied and not an incurred credit loss model as per AASB 139. To reflect changes in credit risk, this expected credit loss model requires the group to account for expected credit loss since initial recognition.

A simple approach is followed in relation to trade receivables, as the loss allowance is measured at lifetime expected credit loss.

There is no significant impact on the Group's financial statements from the application of AASB 9.

AASB 15: Revenue from Contracts with Customers

<u>Accounting Policies and Impact on the application</u>

Revenue Recognition

Revenue was previously recognised when it is probable that work performed will result in revenue whereas the new standard requires a higher threshold of probability for recognition of contract claims and variations whereby revenue is recognised when it is highly probable that a significant reversal of revenue will not occur in the future. Primero Group Limited has operations across different industry sectors and geographical locations which are subject to different legal and contractual frameworks. Significant judgements and estimates are used in determining the impact of AASB 15, such as the assessment of the probability of approval of variations and acceptance of claims, estimation of project completion date and assumed levels of project productivity. In making this assessment we have considered, for applicable contracts, the individual status of each contract variations.

Construction revenue

The Group derives revenue from short-term and long-term construction projects including minerals, energy, and non-process infrastructure. Contracts entered into may be for the construction of one or several separate inter-linked pieces of large infrastructure. The construction of each individual piece of infrastructure is generally taken to be one performance obligation. Where contracts are entered for the building of several projects the total transaction price is allocated across each project based on stand-alone selling prices. The transaction price is normally fixed at the start of the project. It is normal practice for contracts to include bonus and penalty elements based on timely construction or other performance criteria known as variable consideration, discussed below.

The performance obligation is fulfilled over time and as such revenue is recognised over time. As work is performed on the assets being constructed, they are controlled by the consumer and have no alternative use to the Primero Group, with the Group having a right of payment for performance to date.

Generally, contracts identify various inter-linked activities required in the construction process. Revenue is recognised on the measured output of each process based on appraisals that are agreed with the customer on a regular basis.

Revenue earned is typically invoiced monthly or in some cases on achievement of milestones or to match major capital outlay. Invoices are paid on normal commercial terms, which may include the customer withholding a retention amount until finalisation of the construction. Certain construction projects entered into receive payment prior to work being performed in which case revenue is deferred on the balance sheet.

Impact on application of AASB 15

As a result of the change to a higher threshold of probability, the Group estimated that there is no significant impact on the Group's financial statements from the application of AASB 15. The Board and management have implemented a highly probable threshold for revenue recognition in prior reporting periods hence no material adjustment noted.

Services revenue

The Group performs maintenance and other services for mineral industry. Contracts entered into can cover servicing of related assets which may involve various different processes. These processes and activities tend to be highly inter-related and the Group provides a significant service of integration for these assets under contract. Where this is the case, these are taken to be one performance obligation. The total transaction price is allocated across each service or performance obligation and, where linked, the construction of the relevant asset. The transaction price is allocated to each performance obligation based on contracted prices. The total transaction price may include variable consideration.

Performance obligations are fulfilled over time as the Group enhances assets which the customer controls, for which the Group does not have an alternative use and for which the Group has right of payment for performance to date. Revenue is recognised in the accounting period in which the services are rendered based on the amount of the expected transaction price allocated to each performance obligation.

Customers are in general invoiced on a monthly basis for an amount that is calculated on either a schedule of rates or a cost-plus basis that are aligned with the stand-alone selling prices for each performance obligation. Payment is received following invoice on normal commercial terms.

Impact on application of AASB 15

The Group estimated that there is no significant impact on the Group's financial statements from the application of AASB 15.

Variable consideration

It is common for contracts to include performance bonuses or penalties assessed against the timeliness or cost effectiveness of work completed or other performance related KPIs. Where consideration is respect of a contract is variable, the expected value of revenue is only recognised when the uncertainty associated with the variable consideration is subsequently resolved, known as "constraint" requirements. The Group assesses the constraint requirements on a periodic basis when estimating the variable consideration to be included in the transaction price. The estimate is based on all available information including historic performance. Where modifications in design or contract requirements are entered into, the transaction price is updated to reflect these. Where the price of the modification has not been confirmed, an estimate is made of the amount of revenue to recognise whilst also considering the constraint requirement.

Impact on application of AASB 15

As a result of the change to a higher threshold of approval of claims or variations, the Group estimated that there is no significant impact on the Group's financial statements from the application of AASB 15. The Board and management have implemented a highly probable threshold for revenue recognition in prior reporting periods hence no material adjustments noted.

Tender costs & contract costs

Costs incurred prior to the commencement of a contract may arise due to mobilisation/site setup costs, feasibility studies, environmental impact studies and preliminary design activities as these are costs incurred to fulfil a contract. Under AASB 111 *Construction Contracts,* costs incurred during the tender process are capitalised when it is deemed probable the contract will be won. Under the new standard, costs can only be capitalised if they are incremental to obtaining the contract and the Group expects to recover those costs or where they are explicitly chargeable to the customer regardless of whether the contract is obtained.

Impact on application of AASB 15

As a result of the application of the new standard, tender costs on contracts of $132,191 previously capitalised was written off through opening retained earnings at 1 July 2018 using the cumulative approach method on initial application. The cumulative impact of the adoption is recognised in the opening retained earnings at 1 July 2018 with no restatement of comparatives.

Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer represents a financing component.

Impact on application of AASB 15

As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

Loss-making contracts

Previously for contracts under the percentage of completion method, the expected loss on a contract is recognised immediately when it is probable that the contract costs will exceed total contract revenue. These loss-making contracts will now be recognised under AASB 137 *Provisions, Contingent Liabilities and Contingent assets* as onerous contracts.

Impact on application of AASB 15

The Group estimated that there is no significant impact on the Group's financial statements from the application of AASB 15.

Other Revenue

- Interest revenue is recognised using the effective interest method
- Dividend revenue is recognised when the dividend is declared

Impact on application of AASB 15

The Group has applied AASB 15 with the cumulative effect of initially applying the standards as an adjustment to the opening balance of equity and comparative figures are therefore not restated. The opening equity adjustment due to the application of the new standard is analysed by financial statement line item below.

Impact on assets, liabilities and equity at 1 July 2018

	As reported	AASB 15 Transition adjustments	Opening balance
	30-Jun-18		1-Jul-18
	$000	$000	$000
Work-in-progress and accrued income	4,337	(133)	4,204
Other current assets	17,719	0	17,719
Non-current assets	4,618	0	4,618
Total assets impact	26,674	(133)	26,541
Current and non-current liabilities	18,297	0	18,297
Total liabilities impact	18,297	0	18,297
Net asset impact	8,377	(133)	8,244
Issued capital	348	0	348
Reserves	(4)	0	(4)
Retained earnings	8,033	(133)	7,900
Total equity impact	8,377	(133)	8,244

.

NOTE 10: 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 at fair value through other comprehensive income

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:

		31 December 2018			
	Note	**Level 1 $000**	**Level 2 $000**	**Level 3 $000**	**Total $000**
Recurring fair value measurements					
Financial assets					
Financial assets at fair value through other comprehensive income:					
– Australian listed shares		957	-	-	957
Total financial assets recognised at fair value on a recurring basis		957	-	-	957

		30 June 2018			
	Note	**Level 1 $000**	**Level 2 $000**	**Level 3 $000**	**Total $000**
Recurring fair value measurements					
Financial assets					
Financial assets at fair value through other comprehensive income:					
– Australian listed shares		110	-	-	110
Total financial assets recognised at fair value on a recurring basis		110	-	-	110

There were no changes during the reporting period in the valuation techniques used by the Group to determine Level 1, Level 2 and Level 3 fair values.

There were no transfers between Level 1, Level 2 and Level 3 during the reporting period.

DIRECTORS' DECLARATION

In the opinions of the directors of Primero Group Ltd:

1. The financial statements and notes, as set out in this half year report, are in accordance with the *Corporations Act 2001*, including:

    a. complying with Accounting Standard AASB 134: *Interim Financial Reporting*; and

    b. giving a true and fair view of the company's and the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date.

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.

This declaration is made in accordance with a resolution of the Board of Directors.

Cameron Henry

Director

Dated this 25th day of February 2019

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

MOORE STEPHENS

Level 15, Exchange Tower,
2 The Esplanade, Perth, WA 6000

PO Box 5785, St Georges Terrace,
WA 6831

T +61 (0)8 9225 5355

F +61 (0)8 9225 6181

www.moorestephens.com.au

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Primero Group Limited (the Company and its controlled entity) (the "Group"), which comprises the condensed consolidated statement of financial position as at 31 December 2018, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

a. giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
b. complying with Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standards on Review Engagements ASRE 2410: *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including:

a. giving a true and fair view of the Group's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and
b. complying with Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*.

As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

MOORE STEPHENS

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Neil Pace

NEIL PACE

Partner

Moore Stephens

MOORE STEPHENS

Chartered Accountants

Signed at Perth this 25th day of February 2019.