BARMINCO HOLDINGS PTY LIMITED

ABN 85 126 398 276

Annual Financial Report

For the year ended 30 June 2018

Barminco Holdings Pty Limited
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For the year ended 30 June 2018

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Barminco Holdings Pty Limited

Directors' Report

For the year ended 30 June 2018

The directors present their report on the Group comprising of Barminco Holdings Pty Limited, and its subsidiaries, and the Group's interest in jointly controlled entities both during the year and as at 30 June 2018.

Directors

The directors in office at any time during the financial year or since the end of the financial year are as follows. Directors were in office for the entire year unless otherwise stated.

Keith Gordon	**Chairman, Independent Non-executive Director**
Qualifications	Bachelor of Agricultural Science (Hons), MBA from The University of Western Australia, Member of the Australian Institute of Company Directors.
Experience	Keith has over 25 years of professional experience in large global organisations and is currently the Chairman of GMA Garnet Group, a director of Wright Prospecting Pty Ltd and a director of Red Emu Advisory. Prior to this Keith was the Managing Director and CEO of Emeco Holdings and a senior executive at Wesfarmers. Keith brings to Barminco strong skills in M&A and the management of equity markets and other public company stakeholders.

Peter M Bartlett	**Non-executive Director**
Qualifications	Graduate of the WA School of Mines, Kalgoorlie; member of Australasian Institute of Mining and Metallurgy; First Class Mine Manager Certificate – WA.
Experience	Peter was the founder and former Managing Director and Chief Executive Officer of the Barminco Group of companies. He founded the company in 1989 and has been an integral member of the board with over 30 years of mining experience. Prior to Barminco, Peter joined Western Mining as a graduate mining engineer in 1974 and was promoted to Resident Manager at its Windara Nickel operations in 1978 before moving to its Leinster Nickel operation in 1980. Peter is Managing Director of FMR Investments Pty Ltd.

Charles Graham	**Non-executive Director**
Qualifications	Bachelor of Engineering from Sydney University, Bachelor of Commerce from Sydney University, Masters of Technology from Deakin, MBA from Harvard University and Member of the Australian Institute of Company Directors.
Experience	Charles is Managing Director of Gresham Partners Limited. Prior to joining Gresham, Charles was a Managing Director at Goldman Sachs in New York and has previously worked for Rio Tinto (Comalco) in engineering roles covering operations and development. Charles is also a director of various Gresham companies, and HCA Philanthropy. He is Chairman of Musica Viva Australia and YPO Sydney. He is President of Harvard Club of Australia. Prior to being appointed as a Non-executive Director in March 2017, Charles was an Alternative Director since October 2013.

Sharon Warburton	**Independent Non-executive Director**
Qualifications	Bachelor of Business from Curtin University. Fellow of the Institute of Chartered Accountants Australia and New Zealand, Graduate of the Australian Institute of Company Directors, and Fellow of Australia Institute of Building.
Experience	Sharon has experience in the construction, infrastructure, resources and mining industries across Australia, the United Kingdom and the Middle East. Sharon also serves on the boards of ASX-listed Fortescue Metals Group, NEXTDC and Gold Road Resources and Not for Profit Perth Children's Hospital Foundation. She is a part-time member of the Australian Takeovers Panel. Prior to joining Barminco, Sharon previously held the roles of Executive Director of Strategy and Finance with Brookfield Multiplex, Chief Planning and Strategy Officer of United Arab Emirates based company, ALDAR Properties PJSC, and has held a variety of senior executive roles with Brookfield Multiplex, Citigroup and Rio Tinto.

Barry Lavin	**Independent Non-executive Director**
Qualifications	Bachelor of Science (Hons) Mining Engineering, MBA from Cranfield Business School, Chartered Engineer, Professional Engineer and MAIMM.
Experience	Barry has over 30 years of international mining experience, optimising shareholder value through the development and implementation of business strategy. As a mining engineer, Barry commenced his career in line management in deep underground gold mining, moving onto senior positions. From September 1991 until June 2009 Barry held senior positions within Rio Tinto, including positions as Managing Director of the Northparkes Joint Venture, Managing Director of Rio Tinto Technical Services and General Manager of Business Development for Rio Tinto Iron Ore. Barry was a Director of Oz Minerals Limited from August 2011 until March 2013, was a Director of Xanadu Mines Ltd, an ASX listed exploration company from September 2014 to July 2017 and is MD of privately-owned Teviot Resources Pty Ltd (an Australian diversified junior resources and trading company).

Phillip Manwarring	**Non-executive Director (Appointed September 2017)**
Qualifications	Bachelor of Arts and a Bachelor of Laws (Honours) from Macquarie University.
Experience	Phillip joined Gresham Partners Limited in 2005 and is Head of Legal and Company Secretary. He is responsible for the legal and regulatory functions of the Gresham Group and is also a company secretary of all Gresham entities. Prior to joining Gresham, Phillip was a structured finance lawyer, most recently with Minter Ellison and previously with Mallesons. During this time Phillip acted for a wide variety of domestic and international clients including leading financial institutions and intermediaries and private equity houses. Phillip has served on the boards of various Gresham Private Equity investee companies including Silk Logistics (trucking & logistics) and APPP (nappies).

Jon A Young	**Alternate Non-executive Director**
Qualifications	Bachelor of Commerce Degree, University of Western Australia; a member of the Chartered Accountants Australia and New Zealand; a Fellow of the Financial Services Institute of Australia.
Experience	Jon qualified as a Chartered Accountant with Price Waterhouse where he worked for several years in their Perth, Melbourne and Sydney offices. For over 30 years, Jon has worked in the financial markets and is currently Director, Wealth Management with leading Perth based national stockbroking firm Patersons Securities Limited. For 12 years, until the sale of the contracting business (Barminco) in August 2007, Jon served as Non-Executive Chairman of the Barminco Group of companies, including Barminco Limited. Jon has been an Alternate Director for Mr Bartlett since September 2008. He continues as the Chairman of FMR Investments Pty Ltd, Director, Wealth Management with Paterson Securities Limited and Non-Executive Director of ASX listed Barra Resources Limited.

Roger Casey	**Alternate Non-executive Director**
Qualifications	Bachelor of Economics and Master of Economics from Macquarie University.
Experience	Roger has worked in both the advisory and private equity businesses of Gresham and is currently Deputy Chairman of Gresham Private Equity Limited and a Director of Gresham Partners Limited. He is also an Adjunct Fellow of Macquarie University's Applied Finance Centre and is a member of the Chartered Accountants Australia and New Zealand. He has extensive investment banking experience, and has previously worked with ABN Amro, Turnbull & Partners and KPMG. Roger has represented Gresham Private Equity as a board member across a variety of companies in its investment portfolio, from later stage management buyouts to earlier stage expansion capital.

Principal activities

The Group's principal activities in the course of the financial year to date were underground contract development and production mining, underground diamond drilling, and surface crushing and screening for owners of mining projects in Australia, India, Egypt, Tanzania and West Africa. The West African and Tanzanian businesses are carried on through several jointly controlled entities referred to as African Underground Mining Services "AUMS".

Review of operations and results

Operating result including 50% share of AUMS proportionately consolidated

	2018 $'000	2017 $'000
Revenue		
Barminco Group	586,065	601,685
AUMS (50%)	145,801	89,355
Total revenue	**731,866**	**691,040**
Proportionately consolidated EBITDA		
Adjusted Barminco Trading EBITDA	116,220	86,043
AUMS EBITDA (50%)	50,095	30,256
Total	**166,315**	**116,299**

The accounting standards require the Group to equity account for the jointly controlled investment in AUMS. However, the table above includes AUMS on a proportionately consolidated basis to reflect the Group's share of revenue and EBITDA from AUMS. This represents a non-IFRS measure to enable understanding of the underlying performance of the Group and has not been audited.

Adjusted Barminco Trading EBITDA represents Barminco's earnings before net financing costs, income tax expense or benefit, depreciation of property, plant and equipment and amortization of intangible assets adjusted to exclude share of profit from equity accounted investments, net of tax and onerous provision.

The AUMS revenue represent 50% of the revenue and EBITDA represents 50% of earnings before net financing costs, income tax expense or benefit, depreciation of property, plant and equipment and amortisation of intangible assets.

The following table reconciles our profit/(loss) for the year, the most directly comparable IFRS financial measure, to Barminco Group Trading EBITDA for the periods indicated:

	2018 $'000	2017 $'000
Profit/(Loss) for the year	50,665	(93,771)
Income tax expense/(benefit)	(12,895)	32,198
Financing costs	44,389	96,071
Financing income	(730)	(709)
Share of profit from equity accounted investments, net of tax	(23,372)	(14,398)
Depreciation of property, plant and equipment	57,230	61,988
Amortisation of intangible assets	933	944
Onerous provision	-	3,720
Adjusted Barminco Trading EBITDA	**116,220**	**86,043**

Financial overview

	2018 $'000	2017 $'000
Revenue	586,065	601,685
Adjusted Barminco Trading EBITDA	116,220	86,043

Revenue

The Group primarily earns revenue for performing underground contract development and production mining, underground diamond drilling and surface crushing and screening for owners of mining projects.

Consolidated revenue decreased by $15,620,000 or 2.6% to $586,065,000 for the year ended 30 June 2018 ("the year") compared to $601,685,000 for the year ended 30 June 2017 ("the prior year").

The prior year included revenue in relation to the Kundana contract which concluded in June 2017. The impact of the concluded contract on the 2018 revenue was largely offset by strong operating performance from our current contracts which included a number of scope increases at key sites.

Operating expenses

The majority of the Group's operating expenses are the direct costs of performing contract mining, drilling and crushing services. The components of the Group's expenses include consumables used, employee benefits expense, contractor and consulting expenses, and other expenses.

Consolidated operating expenses decreased by $49,062,000 or 9.4% to $471,934,000 for the year compared to $520,996,000 for the prior year.

The decrease in expenses was due to the conclusion of the Kundana contract as well as various efficiency and technology improvements across the business and continued focus on expense management.

Adjusted Barminco Trading EBITDA

As a result of the strong operating performance from our current portfolio, scope expansions, efficiency improvements and the conclusion of the Kundana contract, Barminco's Adjusted Trading EBITDA for the year increased by $30,177,000 or 35.1% to $116,220,000 for the year compared to $86,043,000 for the prior year.

The Adjusted Barminco Trading EBITDA margin (Barminco Group Trading EBITDA/consolidated revenue) increased to 19.8% for the year compared to 14.3% for the prior year which was impacted by the Kundana and Rampura Agucha contracts. The 19.8% margin in the 2018 year is reflective of the strong performance across all our contracts and continued focus on efficiency improvements for our clients.

Depreciation

As the Group operates a large fleet of capital equipment, depreciation is a significant component of expenses. At 30 June 2018 the book value of the Group's property, plant and equipment was $124,864,000 (2017: $124,342,000).

Consolidated depreciation decreased by $4,758,000 or 7.7% to $57,230,000 for the year compared to $61,988,000 for the prior year. The decrease in depreciation reflects the additional capital requirements that formed part of the Kundana contract in the prior year.

The depreciation percentage (depreciation / revenue) improved to 9.8% from 10.3% reflecting the increased utilisation and focus on improved fleet productivities.

Financing costs

	2018 $'000	2017 $'000
Interest and finance charges paid/payable on borrowings	(36,147)	(44,391)
Gain/(loss) on repurchase of High Yield Bonds	-	(327)
Redemption premium on 2018 High Yield Bonds	-	(31,300)
Cash flow hedge settlement	-	(11,342)
Other financing costs, net	(7,512)	(8,002)
Total net financing costs	**(43,659)**	**(95,362)**

Total net financing costs of $43,659,000 decreased by $51,703,000 on the prior year of $95,362,000. In 2017, there was a one-off refinancing cost in relation to the early redemption of 2018 High Yield Bonds of $42,642,000. Interest and finance charges on borrowings decreased by $8,244,000 (18.6%) due to the reduction in coupon rate on the new Senior Notes to 6.625% from 9%.

Cash flow and capital expenditure

Cash at year end increased from $77,956,000 at 30 June 2017 to $80,288,000 at 30 June 2018.

Net cash flow from operating activities was $56,445,000 up from $36,359,000 as a result of the improved financial performance for the year.

Barminco received a dividend from AUMS of $13,045,000 down from $20,678,000 in the prior year. The reduction in dividend year on year was due to increased capital requirements within the AUMS business as a result of their continued growth in existing contracts as well as securing new contracts and our positive view on the pipeline.

Cash paid for capital expenditure (excluding finance leased assets) totalled $57,109,000 up from $35,921,000 in the prior year. This increase is due to Barminco funding the majority of capital expenditure by cash compared to prior year where the majority of capital expenditure was funded by finance leases.

Funding

On 26 April 2017 Barminco issued new 6.625% Senior Secured Notes due for repayment 15 May 2022 with a US$350,000,000 principal amount. The 6.625% Senior Secured Notes due in May 2022 have been fully hedged using Cross Currency Interest Rate Swaps (CCIRS). The interest on the new high yield bond is payable semi-annually on 15 May and 15 November. The High Yield Bonds are quoted on the Singapore Stock Exchange.

The Group benefits from lower financing costs as the coupon on the new bonds is 6.625%, down from the 9.0% on the old bonds.

As at 30 June 2018, the Group's available funding facilities were $75,000,000 upon which the only drawing made was $3,610,000 used for the purposes of bank guarantees under a revolving credit facility (RCF) which was agreed on 24 April 2017 for a term of three and half years.

In addition to the $75,000,000 draw down facility available under the RCF, the terms of the agreement allow the Group to draw up to an additional $75,000,000 in finance leasing from approved third party finance lease providers for plant and equipment purchases.

Dividends

The directors do not recommend the payment of a dividend and no dividends were declared by the Company during the year ended 30 June 2018.

Significant changes in the state of affairs

There have been no significant changes in the state of affairs during the year ended 30 June 2018.

Significant events subsequent to reporting date

No matters or significant events have arisen since 30 June 2018 that have or may significantly affect the operations, results, or state of affairs of the Group.

Likely developments

Other than as otherwise stated in this report, operations are expected to continue as normal in the foreseeable future.

Environmental regulation

The Group is not subject to any significant environmental regulations, however, the Group's clients have obligations under state-based environmental regulations and are reliant upon the Group to assist them in ensuring that their operations comply with those regulations.

Indemnification and insurance of directors and officers

The Group indemnifies all directors and officers of the group against liability for all costs and expenses incurred in proceedings brought against them in their role as a director or officer of the Group to the extent permitted under the law. An insurance policy has been taken out to cover any such costs. The policy prohibits the disclosure of the nature of the liability covered by the policy, the limit of the liability, and the premium paid.

Rounding of amounts

The Company is of a kind referred to in Instrument 2016/191 issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that class order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Auditor independence

The auditor, KPMG, has provided a written independence declaration to the directors in relation to its audit of the financial report for the year ended 30 June 2018. The independence declaration which forms part of this report is on page 8.

This report is made in accordance with a resolution of the directors.

K. Gordon
Chairman
Perth, WA, 14 August 2018

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Barminco Holdings Pty Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Barminco Holdings Pty Ltd for the financial year ended 30 June 2018 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

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

KPMG

KPMG

Graham Hogg
Partner
Perth
14 August 2018

Barminco Holdings Pty Limited

Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2018

	Note	2018 $'000	2017 $'000
Revenue	5	586,065	601,685
Other income		2,089	1,634
Consumables used		(182,877)	(199,020)
Employee benefits expense	6(a)	(220,726)	(233,819)
Contractor and consultant expenses		(35,980)	(45,152)
Depreciation of property, plant and equipment	13	(57,230)	(61,988)
Amortisation of intangible assets	14	(933)	(944)
Other expenses	6(b)	(32,351)	(43,005)
Results from operating activities		**58,057**	**19,391**
Share of profit from equity accounted investments, net of tax	12	23,372	14,398
Financing income	6(d)	730	709
Financing costs	6(c)	(44,389)	(96,071)
Profit/(Loss) before income tax		**37,770**	**(61,573)**
Income tax benefit/(expense)	8(a)	12,895	(32,198)
Profit/(Loss) for the year attributable to equity holders of the Company		**50,665**	**(93,771)**
Other comprehensive income/(loss)			
Items that may be reclassified to profit or loss			
Effective portion of changes in fair value of cash flow hedges	20(b)	(5,955)	(15,845)
Net change in fair value of cash flow hedges reclassified to profit or loss	20(b)	-	14,165
Foreign currency translation differences – foreign operations	20(c)	2,718	(3,233)
Other comprehensive loss for year, net of tax		**(3,237)**	**(4,913)**
Total comprehensive income/(loss) attributable to equity holders of the Company		**47,428**	**(98,684)**
Earnings/(Loss) per share		**$**	**$**
Basic and diluted earnings/(loss) per share	9	10.1	(18.8)

The above consolidated statement of profit and loss and other comprehensive income should be read in conjunction with the accompanying notes.

Barminco Holdings Pty Limited

Consolidated statement of financial position

As at 30 June 2018

	Note	30 June 2018 $'000	30 June 2017 $'000
ASSETS			
Cash and cash equivalents		80,288	77,956
Trade and other receivables	10	83,472	79,052
Inventories	11	20,700	18,785
Prepayments		2,773	3,966
Total current assets		**187,233**	**179,759**
Other non-current assets		1,037	1,946
Investments accounted for using the equity method	12	71,232	58,377
Property, plant and equipment	13	124,864	124,342
Intangibles	14	258,995	259,781
Deferred tax asset	8	63,268	47,612
Total non-current assets		**519,396**	**492,058**
TOTAL ASSETS		**706,629**	**671,817**
LIABILITIES			
Trade and other payables	15	72,581	78,851
Borrowings	17	13,202	11,814
Employee benefits	18	25,760	26,445
Provisions	19	-	4,086
Total current liabilities		**111,543**	**121,196**
Derivative financial instruments	16	19,652	23,741
Borrowings	17	479,478	476,043
Employee benefits	18	1,734	4,043
Total non-current liabilities		**500,864**	**503,827**
TOTAL LIABILITIES		**612,407**	**625,023**
NET ASSETS		**94,222**	**46,794**
EQUITY			
Contributed equity	20	394,662	394,662
Reserves	20	4,092	6,427
Accumulated losses		(304,532)	(354,295)
TOTAL EQUITY		**94,222**	**46,794**

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Barminco Holdings Pty Limited

Consolidated statement of cash flows

For the year ended 30 June 2018

	Notes	2018 $'000	2017 $'000
Cash flows from operating activities			
Receipts from customers		632,240	623,724
Payments to suppliers and employees		(536,018)	(545,419)
Interest received		730	693
Interest paid		(40,299)	(42,639)
Income taxes paid		(208)	-
Net cash inflow from operating activities	24	**56,445**	**36,359**
Cash flows from investing activities			
Payments for property, plant and equipment and intangibles		(57,112)	(35,921)
Proceeds from sale of property, plant and equipment		8,377	6,683
Dividends received from joint venture entities		13,045	20,678
Net cash outflow from investing activities		**(35,690)**	**(8,560)**
Cash flows from financing activities			
Proceeds from borrowings		-	469,068
Redemption Premium on 2018 High Yield Bonds		-	(31,300)
Payments for borrowing costs and CCIRS termination		(159)	(30,251)
Proceeds/(payments) from CCIRS reset		-	(358)
Repayment of borrowings		-	(414,356)
Payment of finance lease liabilities		(18,275)	(13,302)
Net cash outflow from financing activities		**(18,434)**	**(20,499)**
Net increase/(decrease) in cash and cash equivalents		2,321	7,300
Cash and cash equivalents at beginning of period		77,956	70,647
Effect of exchange rate fluctuations on cash held		11	9
Cash and cash equivalents at end of period		**80,288**	**77,956**

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Barminco Holdings Pty Limited
Consolidated statement of changes in equity
For the year ended 30 June 2018

	Note	Ordinary Shares $'000	Redeemable Preference Shares $'000	Total Contributed equity $'000	Hedging Reserve $'000	Foreign Currency Translation Reserve $'000	Interest Free Loan Reserve $'000	Legal Reserve $'000	Accumulated losses $'000	Total $'000
Balance at 1 July 2017		4,722	389,940	**394,662**	(7,055)	5,359	6,421	1,702	(354,295)	46,794
Total comprehensive income for the year										
Profit/(loss) for the year		-	-	-	-	-	-	-	50,665	50,665
Other comprehensive income/(loss)										
Changes in the fair value of cash flow hedges, net of tax	20(b)	-	-	-	(5,955)	-	-	-	-	(5,955)
Changes in the foreign exchange translation reserve	20(c)	-	-	-	-	2,718	-	-	-	2,718
Total other comprehensive income/ (loss)		-	-	-	(5,955)	2,718	-	-	-	(3,237)
Total comprehensive Income/ (loss) for the year		**-**	**-**	**-**	**(5,955)**	**2,718**	**-**	**-**	**50,665**	**47,428**
Transactions with owners of the Company										
Changes in the legal reserve	20(d)	-	-	-	-	-	-	902	(902)	-
Total transactions with owners of the Company		-	-	-	-	-	-	**902**	**(902)**	-
Balance at 30 June 2018		**4,722**	**389,940**	**394,662**	**(13,010)**	**8,077**	**6,421**	**2,604**	**(304,532)**	**94,222**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Barminco Holdings Pty Limited
Consolidated statement of changes in equity (continued)
For the year ended 30 June 2017

	Note	Ordinary Shares $'000	Redeemable Preference Shares $'000	Total Contributed equity $'000	Hedging Reserve $'000	Foreign Currency Translation Reserve $'000	Interest Free Loan Reserve $'000	Legal Reserve $'000	Accumulated losses $'000	Total $'000
Balance at 1 July 2016		4,722	391,720	**396,442**	(5,375)	8,592	6,421	1,032	(259,854)	147,258
Total comprehensive income for the year										
Profit/(loss) for the year		-	-	**-**	-	-	-	-	(93,771)	(93,771)
Other comprehensive income/(loss)										
Changes in the fair value of cash flow hedges, net of tax	20(b)	-	-	**-**	(1,680)	-	-	-	-	(1,680)
Changes in the foreign exchange translation reserve	20(c)	-	-	**-**	-	(3,233)	-	-	-	(3,233)
Total other comprehensive income/ (loss)		-	-	**-**	(1,680)	(3,233)	-	-	-	(4,913)
Total comprehensive Income/ (loss) for the year		**-**	**-**	**-**	**(1,680)**	**(3,233)**	**-**	**-**	**(93,771)**	**(98,684)**
Transactions with owners of the Company										
Derecognition of Redeemable preference shares	20(a)	-	(1,780)	**(1,780)**	-	-	-	-	-	(1,780)
Changes in the legal reserve	20(d)	-	-	**-**	-	-	-	670	(670)	-
Total transactions with owners of the Company		-	**(1,780)**	**(1,780)**	**-**	**-**	**-**	**670**	**(670)**	**(1,780)**
Balance at 30 June 2017		**4,722**	**389,940**	**394,662**	**(7,055)**	**5,359**	**6,421**	**1,702**	**(354,295)**	**46,794**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Contents of the notes to the financial statements

1. Corporate information

Barminco Holdings Pty Limited ("the Company") is a for profit company limited by shares, incorporated and domiciled in Australia. The Company was registered on 5 July 2007. The address of the Company's registered office is 390 Stirling Crescent Hazelmere, Western Australia, 6055. The Group is a for profit entity and is primarily involved in underground contract development and production mining, and development projects in Australia, India, Egypt, Tanzania and West Africa. The West African and Tanzanian businesses are carried on through several jointly controlled entities referred to as African Underground Mining Services "AUMS".

The annual financial report of the Company for the year ended 30 June 2018 comprises the Company and its subsidiaries (the "Group") and the Group's interest in joint arrangements.

The annual financial report was authorised for issue by the Board of Directors on 14th of August 2018.

2. Basis of preparation

a) Statement of Compliance

The annual financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The annual financial report complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

b) Basis of measurement

The annual financial report is prepared in accordance with the historical cost convention, except for certain derivative financial instruments which, as noted, are at fair value.

c) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial report is presented in Australian dollars, which is Barminco Holdings Pty Limited's functional and presentation currency and also the functional currency of the majority of the Group.

d) Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(i) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

<u>Goodwill and other indefinite life intangible assets</u>

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 3(k). The recoverable amounts of cash-generating units have been determined based on fair value less costs of disposal. These calculations require the use of assumptions, including the continued performance of contracted work, estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences and tax losses only if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets are reviewed at each reporting date and adjusted accordingly to reflect the related tax benefit that will be realised.

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

Significant valuation issues are reported to the Group Audit and Risk Committee.

When measuring the fair value of an asset or liability, the Group uses market observable data as far as possible. Fair values categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 21 – Financial Instruments
- Note 25 – Share based payments

(ii) Critical judgements in applying the entity's accounting policies

Useful lives of plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its plant and equipment. The Group's business depends on a large quantity of plant and equipment. At 30 June 2018, the Group's property, plant and equipment had a total book value of $124,864,000 (2017: $124,342,000) largely consisting of heavy mining equipment that has a finite operational life. As a result, depreciation has a significant impact on the Group's financial results.

When the Group acquires new heavy mining equipment, it is recorded as an asset on the balance sheet at cost, and then depreciated on a usage basis over its estimated useful life, after which it is carried at a predetermined residual value until sold, disposed of or rebuilt.

The estimation of the useful lives of this equipment therefore has a substantial effect on the amount of depreciation charged to the income statement and the residual book value of the plant and equipment recorded on the balance sheet.

The usage basis of depreciation means when strategic heavy mining equipment is not working at a site for an extended period, usually a minimum of one month, depreciation is charged to the income statement at a rate of 10% until the equipment returns to service.

From time to time, the Group sells used equipment; this includes sales under some of its mining contracts that include the option to purchase. If the sale price differs from the carrying value of the equipment at the time, the gain or loss is recorded as other income on the Group's income statement.

When the Group rebuilds equipment, the direct costs of the labour and materials, together with an allocation of the fixed workshop overhead costs, are added to the carrying value of the rebuilt asset, and the asset continues to be depreciated based on a revised estimated useful life, determined by management on the basis of historical average operational usage for rebuilt equipment.

e) Rounding of amounts

The Company is of a kind referred to in Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the ''rounding off'' of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

f) Accounting standards and interpretations issued but not yet effective

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the year of initial application. They are not yet mandatory and have not been early adopted by the Group for the annual reporting period ended 30 June 2018.

- *AASB 9 Financial Instruments (effective 1 July 2018 for the Group)*

AASB 9 replaces the existing guidance in AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition for financial instruments from AASB 139.

Based on the impact assessment undertaken by the Group, there is no material impact to the Group upon adoption of AASB 9 on the classification and measurement of its financial assets and financial liabilities. As permitted by AASB 9, the Group has chosen to continue to apply the hedge accounting requirements of AASB 139 Financial Instruments: Recognition and Measurement.

- *AASB 15 Revenue from Contracts with Customers (effective 1 July 2018 for the Group)*

AASB 15 replaces AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer and therefore the notion of control replaces the existing notion of risks and rewards. Revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled when control of the goods or services passes to the customer.

The Group has reviewed a representative sample of sales contracts to identify potential changes in: timing of revenue recognition and measurement of the amount of revenue and note disclosure between the current standard, AASB 118, and AASB 15. Based on assessments undertaken to date, the Group's view is there will be minimal change to our revenue recognition and measurement processes. However, we note a potential timing change in respect of the recognition of mobilisation revenue for new contracts. Under AASB 118 mobilisation revenue is recognised as the services are completed. Under AASB 15 mobilisation revenue may, in certain circumstances, be deferred and recognised over the estimated contract life. The Group has a reasonable expectation that the transition to AASB 15 will not have a material impact to the financial statements of the Group.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 July 2018 and that comparatives will not be restated. The new standard will only be applied to contracts that remain in force at the transition date.

- *AASB 16 Leases (effective 1 January 2019)*

AASB 16 will result in majority of the leases being recognised on the Balance Sheet as the distinction between operating and finance leases is removed. The standard will primarily affect the accounting for the Group's operating leases which will require the present value of the leases captured by the standard being recognised as right to use asset and lease liabilities on the balance sheet. Short-term leases (less than 12 months) and leases of low-value assets (such as computers) are exempt from the lease accounting requirements. Refer to note 22 for information on the amount of the Group's operating lease commitments under AASB 117 *Leases.* The new standard is expected to impact leases which are currently classified as operating leases; primarily, lease over office, equipment, and motor vehicles. A reliable estimate of the impact is still being determined.

Mandatory for financial years commencing on or after 1 January 2019, and therefore mandatory for the Group's 30 June 2020 financial statements. The Group does not intend to adopt the standard before its effective date.

g) New and amended accounting standards and interpretations

For the group, there were no standards that had a material impact on the Group and became effective during the year.

3. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in these annual financial reports, and have been applied consistently by the Group.

a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group 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. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated.

Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) Interests in equity-accounted investees

A joint venture is an arrangement in which the Group controls jointly with one or more other investors, and over which the Group has rights to a share of the net assets of the arrangement, rather than direct rights to underlying assets and obligations for underlying liabilities.

Interests in the joint ventures are accounted for using the equity method.

The carrying amount of the investment in joint ventures is increased or decreased to recognise the Group’s share of profit or loss and other comprehensive income of the joint venture, adjusted where necessary to ensure consistency with the accounting policies of the Group.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising for intra-group transactions, are eliminated. Unrealised gains arising for transactions with equity accounted investees are eliminated against the investment to the extent of the Group’s interest in those entities. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b) Business combinations

For every business combination, the Group identifies the acquirer, which is the combining entity that obtains control of the other combining entities or businesses. The Group 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. The acquisition date is the date on which control is transferred to the acquirer. Judgement is applied in determining the acquisition date and determining whether control is transferred from one party to another.

Measuring goodwill

The Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Group to the previous owners of the acquiree, and equity interests issued by the Group. Consideration transferred also includes the fair value of any contingent consideration and share-based payment awards of the acquiree that are replaced mandatorily in the business combination.

If a business combination results in the termination of pre-existing relationships between the Group and the acquiree, then the lower of the termination amount, as contained in the agreement, and the value of the off-market element is deducted from the consideration transferred and recognised in other expenses.

Contingent liabilities

A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably.

Non-controlling interest

The Group measures any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree.

Transaction costs

Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, are expensed as incurred.

c) Foreign Currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial report is presented in Australian dollars, which is Barminco Holdings Pty Limited's functional and presentation currency and also the functional currency of the majority of the Group.

(i) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss, except when they are recognised in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. Translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in the profit or loss as part of the fair value gain or loss. Translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income (OCI).

(ii) Foreign operations

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each profit or loss are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the profit or loss, as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of trade allowances and rebates.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved.

(i) Rendering of services

Sales of contracting and consulting services are recognised in the accounting year in which the services are rendered.

(ii) Sale of goods

Revenue on sale of goods is recognised once risks of ownership have been transferred to the buyer.

e) Income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the annual financial report. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences only if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and they relate to income taxes levied by the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Barminco Holdings Pty Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. The head entity, Barminco Holdings Pty Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

f) Cash and cash equivalents

For the purposes of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known accounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

g) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment (note 3 k)). Trade receivables are generally due for settlement within 15 to 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

The amount of the impairment loss is recognised in the profit or loss in other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent year, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the profit or loss.

Accrued revenue represents the unbilled amount at period end in respect of mining services provided.

h) Property, plant and equipment

All items of property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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. The carrying amount of the replaced part is derecognised. The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant of dismantling the items and an appropriate proportion of production overheads. All other repairs and maintenance are charged to the profit and loss during the reporting year in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line or the usage method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

Plant and equipment (including finance leased items)	1 – 10 years
Motor vehicles	2 – 8 years
Buildings	2 – 25 years
Furniture and fittings	2 – 15 years

The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each reporting date.

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 (note 3 k)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the profit or loss.

i) Inventories

Stores, work in progress and finished goods are stated at the lower of cost and net realisable value.

Costs of purchased inventory are determined after deducting rebates and discounts. The cost of work in progress comprises direct materials, direct labour, and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on a weighted average cost basis.

Barminco inventory is categorised into a number of groupings across consumables and equipment spares.

Management carries out a detailed review of inventory in these groups to determine the level of obsolescence required based on usage, recoverable amounts, and alignment to current equipment fleet.

Net realisable value is the estimated ordinary selling price less the costs necessary to make the sale.

j) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

Goodwill on acquisition of a subsidiary is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested annually for impairment (note 3 k)), or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(ii) Customer contracts and customer relationships

Customer contracts and customer relationship intangibles arising from a business combination are recorded at fair value at the date of acquisition (separate from goodwill), being the present value of identified contracted net cash flow streams and estimated net cash flow streams on estimated contract renewals, respectively, and are amortised based on their expected pattern of consumption of the expected future economic benefits embodied in the contracts and relationships. Accumulated impairment losses are deducted from the cost of the customer contracts and relationships.

The estimated useful life of customer relationships is 2 – 13 years.

(iii) Capitalised Software

Capitalised Software, including internally developed software, is measured on initial recognition at cost. Following initial recognition, capitalised software is carried at cost less any accumulated amortisation and accumulated impairment losses. All costs incurred during the preliminary stage of a software project and post implementation costs are expensed to profit and loss as incurred. Amortisation of capitalised software begins when implementation is complete and the software is available for use. It is amortised over the period of expected future benefit, and is recorded in profit and loss. Amortisation of software is calculated using the straight-line method over estimated useful lives which is between 5- 6 years.

k) Impairment of non-financial assets

The carrying amounts of the Group's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see below).

For goodwill, the recoverable amount is estimated annually or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

(i) Calculation of recoverable amount

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purposes of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

Impairment losses, other than in respect of goodwill, are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

l) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property, or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in current and non-current lease liabilities.

Each lease payment is allocated between the liability and the finance cost. The finance cost is charged to the profit or loss over the lease year so as to produce a constant periodic rate of interest on the remaining balance of the liability for each year.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 22). Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

For an arrangement that is not in the legal form of a lease, the Group performs an assessment under IFRC 4 to conclude if the arrangement is, or contains, a lease of equipment.

Financial liabilities are derecognised when the contractual obligations are discharged or cancelled, or expired.

m) Investments and other financial assets

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in trade and other receivables (note 10) or other non-current assets in the statement of financial position.

(iii) Recognition and de-recognition

Regular purchases and sales of financial assets are recognised on trade-date, that is the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs with the exception of financial assets carried at fair value through the profit or loss which are recognised at fair value with transaction costs expensed to the profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iv) Subsequent measurement

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Financial assets at fair value through profit or loss are subsequently carried at fair value.

(v) Impairment

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired (note 3(k)).

n) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group documents at the inception of the hedging transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 16.

(i) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the profit or loss within finance costs.

Amounts accumulated in equity are recognised in the profit or loss in the years when the hedged item affects profit or loss. When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit or loss.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit or loss.

(ii) Fair value hedge

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognised in profit or loss. The hedged item is adjusted to reflect changes in its fair value in respect of the risk being hedged, the gain or loss attributable to the hedged risk is recognised in profit or loss with an adjustment to the carrying amount of the hedged item.

o) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 – 60 days of recognition.

p) Borrowings and financing costs

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the profit or loss over the year of the borrowings using the effective interest method.

Transaction costs that are directly related to financing facilities are recognised as an expense on a straight line basis over the commitment period. Transaction costs for facilities are recognised as a prepayment in the statement of financial position.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the profit or loss as finance costs. Preference shares, which are not mandatorily redeemable on a specific date, are classified as equity. The dividends on these preference shares are recognised in the Statement of Changes in Equity.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled, or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Borrowing costs incurred on the construction of qualifying assets are capitalised during the period of time required to complete and prepare the asset for its sale or use. Other borrowing costs are expensed.

Interest expense is recognised on a time proportion basis using the effective interest method.

q) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

A provision for onerous contract is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

r) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Long service leave

The liability for long service leave is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and years of service. Expected future payments are discounted using market yields at the reporting date on corporate bond rates with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Share based payment transactions

The Group provided benefits to employees in the form of share based payment transactions, approved by shareholders, whereby employees render services in exchange for shares or rights over shares. The last options expired in 2015. There are currently no share option and performance rights programmes which provide benefits to executives and other employees.

The fair value of awards granted are recognised as an employee benefits expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the year during which the employees become unconditionally entitled to the awards. The fair value of the awards granted is measured using a Black Scholes model, taking into account the terms and conditions upon which the awards were granted. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

The amount recognised as an expense is adjusted to reflect the actual number of share awards that vest except where forfeiture is only due to total shareholder returns or market prices not achieving the threshold for vesting.

(iv) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Re-measurements are recognised in profit or loss in the period in which they arise.

(v) Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

s) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Redeemable preference shares with no mandatory redeemable date are classified as equity.

t) Goods and Services Tax (GST)

Revenues, expenses, and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case, it is recognised as part of the cost of acquisition of the asset or as part of the expense.

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 taxation authority 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 taxation authority, are presented as operating cash flows.

u) Segment reporting

The Group determines and presents operating segments based on the information that internally is provided to the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), who are collectively the Group's chief decision makers.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

All operating segments' operating results are regularly reviewed by the Group's CEO and CFO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

4. Financial risk management

The Group has exposure to the following risks from their use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this annual financial report.

a) Risk management

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Audit and Risk Committee ("ARC") is responsible for the review of the risk management policy which identifies, assesses, monitors, and manages the material risk throughout the Group. The ARC reports regularly to the Board of Directors on its activities.

The Board of Directors oversees how management monitors compliance with the Group's risk management policies and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Board of Directors is assisted in its oversight role by the ARC.

b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and cash and cash equivalents.

(i) Cash and cash equivalents

The cash and cash equivalents of the Group are held with management approved financial institutions. Currently these institutions are Secured Creditors of the Group. Counterparty credit worthiness is assessed on an ongoing basis.

(ii) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk. Approximately 22% (year ended 30 June 2017: 19%) of the Group's revenue is attributable to sales transactions with a single customer. Geographically, the concentration of credit risk is in Australia.

Under the Group's systems and procedures each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The exposure to credit risk is monitored on an ongoing basis. The Group's review includes external ratings, when available.

Credit risk is minimised by entering into credit insurance for customers whose individual exposure is considered to be material to the Group. Currently all customers have been assessed as credit worthy and no credit insurance is in place.

The Group has established a process to review for impairment that represents its estimate of incurred losses in respect of trade and other receivables. No impairment charges were recognised for the year (year ended 30 June 2017: Nil).

(iii) Guarantees

The Group's policy is to provide financial guarantees only to or for subsidiaries. Refer to note 31.

(iv) Derivatives

The derivatives are entered into with management approved bank and financial institution counterparties.

c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate reserves, banking facilities, and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group has banking facilities that mature as follows:

- High Yield Bonds: $468,036,000 (in 15 May 2022)
- Revolving credit facility: $75,000,000 (in 24 October 2020)

As at 30 June 2018, the Revolving credit facility is effectively undrawn, the only drawing made was $3,610,000 used for the purposes of bank guarantees.

The Group's High Yield Bonds (fully hedged using CCIRS) were issued subject to various covenants. A future breach of covenant may require the Group to repay the bonds earlier than 15 May 2022.

The Group's revolving credit facility is subject to debt covenants. A future breach of covenant may prevent the Group from drawing down against the facility or result in any future drawdowns becoming due before the maturity date of 24 October 2020. The Revolving Credit Facility, finance leases and the cross-currency interest rate swap are secured by the Barminco Group Australian assets. Refer to note 17.

d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group enters into derivative contracts to hedge market risk on its variable interest bearing financial liabilities. The Group applies hedge accounting to manage volatility in profit and loss.

(i) Currency risk

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the functional currencies of the Group, primarily of the Australian dollar (AUD). Other currencies in which these transactions primarily are denominated are United States Dollar (USD), Egyptian Pound (EGP) and Indian Rupee (INR).

The Group is exposed to foreign currency risk on plant and equipment purchases that are denominated in a currency other than the AUD. The currency giving rise to this risk is primarily USD.

In respect of other monetary assets and liabilities held in currencies other than the AUD, the Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

In April 2017 the Group issued High Yield Bonds in United States Dollars for US$350 million. The face value of these outstanding notes as at 30 June 2018 is US$350 million (AU$468 million, note 17). The currency risk attached to the bonds is being hedged 100% by a cross currency interest rate swap which has fixed principal and a combination of fixed interest to fixed interest United States/Australian dollar and floating interest to fixed interest United States/Australian dollar (note 16). The swap is being accounted for as a cash flow and fair value hedge and is 100% effective in eliminating currency risk with respect to the High Yield Bonds.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

To manage this risk, the Group enters into cross currency interest rate swaps, in which it agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. At 30 June 2018, after taking into account the effect of interest rate swaps, approximately 70% of the Group's borrowings are at a fixed rate of interest (2017: 70%).

e) Capital management

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 17, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves, and accumulated losses as disclosed in note 20. The Group operates globally, primarily through subsidiary companies established in the markets in which the Group trades. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements except for gearing covenants.

The Board of Directors seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The Board of Directors monitors the capital structure periodically. As a part of this process the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Board the Group will balance its overall capital structure through new share issues and the issue of new debt.

(i) Capital risk management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

	2018 $'000	2017 $'000

5. Revenue

	2018 $'000	2017 $'000
Services	579,444	596,168
Sale of goods	6,621	5,517
	586,065	**601,685**

6. Expenses

a) Employee benefits expenses

	2018 $'000	2017 $'000
Wages and salaries	(207,492)	(214,478)
Compulsory superannuation payments	(16,228)	(16,693)
(Increase)/decrease in employee leave entitlements	2,994	(2,648)
	(220,726)	**(233,819)**

b) Other expenses

	2018 $'000	2017 $'000
Operating lease expense	(8,790)	(9,182)
Freight	(8,273)	(8,229)
Travel	(2,890)	(5,503)
Onerous provision expense / reversal	564	(3,720)
Custom import duty and sales tax	(870)	(3,447)
Other	(12,092)	(12,924)
	(32,351)	**(43,005)**

	2018 $'000	2017 $'000
c) Financing costs		
Amortisation of borrowing costs	(3,290)	(6,283)
Interest and finance charges paid/payable on borrowings	(36,147)	(44,391)
Interest paid/payable on finance leases	(1,969)	(1,507)
Loss on repurchase of High Yield Bonds	-	(327)
Redemption premium on 2018 High Yield Bonds *	-	(31,300)
Cash flow hedge settlement	-	(11,342)
Other interest paid/payable	(2,983)	(921)
	(44,389)	**(96,071)**

* The redemption premium represents the expense incurred as a result of redeeming the 2018 High Yield Bonds before the maturity date.

d) Financing income

Interest income	730	709

7. Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

Audit services		
KPMG Australia		
Audit of financial report	195,000	175,000
Half year review of financial report in connection with the High Yield Bond refinancing	-	300,000
Overseas KPMG firms		
Audit services	84,990	72,666
	279,990	**547,666**
Other services		
KPMG Australia		
Assurance and other services (including services in connection with the High Yield Bond refinancing)	46,125	357,000
Overseas KPMG firms		
Assurance, tax compliance and other services (including services in connection with the High Yield Bond refinancing)	29,730	76,540
	75,855	**433,540**

8. Income tax

a) Income tax benefit/(expense)

(i) Tax recognised in profit and loss

Current income tax		
Current year	(208)	(1,510)
Adjustments in respect of current income tax of previous years	-	-
	(208)	**(1,510)**
Deferred income tax		
Recognition of previously unrecognised deferred tax assets	12,626	-
Adjustment in respect of current income tax of previous years	623	(939)
Origination and reversal of temporary differences previously recognised	(660)	(30,683)
Benefit from current year tax loss recognised	514	934
	13,103	**(30,688)**
Total tax recognised in profit and loss	**12,895**	**(32,198)**

(ii) Tax recognised directly in equity

Income tax of $2,552,344 was charged directly to equity for the year ending 30 June 2018 (year ended 30 June 2017: $3,023,390).

(iii) Tax recognised in other comprehensive income

No net income tax amounts were recognised in other comprehensive income for the year ending 30 June 2018 (year ended 30 June 2017: $ Nil).

b) Numerical reconciliation of income tax expense to prima facie tax payable

	2018 $'000	**2017 $'000**
Profit/(Loss) for the year before income tax	37,770	(61,573)
Tax benefit at the Australian tax rate of 30%	(11,331)	18,472
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible expenses	(1,805)	(1,950)
Effect of tax rates in foreign jurisdictions	4,438	3,968
Effect of share of profits of equity accounted investees	7,011	4,319
Tax losses utilised current year	194	-
Temporary difference not recognised current year	1,199	(1,287)
Changes in temporary differences	-	2,059
Tax losses not recognised in the current year	-	(56,794)
Recognition of previously unrecognised tax losses	12,626	-
Foreign tax credits not recoverable	(60)	(46)
Adjustments in respect of deferred income tax of previous years	623	(939)
	12,895	**(32,198)**

c) Unrecognised deferred tax assets

	2018 $'000	2017 $'000
Deferred tax assets have not been recognised in respect on the following items:		
Australia		
Tax losses (gross)	-	181,468
Other deferred tax assets (gross)	-	-
	-	181,468
Overseas		
Tax losses (gross)	6,134	6,802
Other deferred tax assets (gross)	252	3,720
	6,386	10,522
Total unrecognised deferred tax assets (gross)	**6,386**	**191,990**

A Deferred Tax Benefit will only be obtained if:

(i) the relevant company in the Group derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;

(ii) the relevant company in the Group continues to comply with the conditions for deductibility imposed by tax legislation, including continuity of ownership or same business test in Australia; and

(iii) no changes in tax legislation adversely affect the relevant company in realising the benefit from the deductions for the losses.

The tax losses and the deductible temporary differences do not expire under the current tax legislation in Australia. At 30 June 2018 the Group has $207,553,000 (2017: $345,890,000) tax losses and $10,039,000 (2017: $5,219,000) deductible temporary differences that are available for offset against future taxable profits of which $211,206,000 have been recorded at year end (2017: $159,119,000).

Deferred tax assets for unused tax losses of $201,419,000 (30 June 2017: $157,620,000) and deductible temporary differences of $9,787,000 (30 June 2017: $1,499,000), have been recognised because it is probable that future taxable profit will be available against which the Group can utilise the benefits therefrom. Management revised its estimates, resulting in a recognition of an additional deferred tax assets of $15,656,000 in the current year. The recovery of deferred tax assets requires the use of assumptions around maintaining existing contracts, award of new contracts and continuing to meet forecasted cash flows. Changes in these assumptions could impact on the amount and probability of estimated taxable profits and accordingly the recoverability of deferred tax assets.

During the financial year the group underwent a tax audit with the Australian Tax Office (ATO). The audit reviewed the tax income years from 2008 through to 2016. In order to resolve the matter in a timely and a cost-effective manner a commercial settlement was agreed with the ATO under which the company agreed to forego some of the previously unrecognised tax losses.

In accordance with the Group's accounting policies for deferred taxes, a deferred tax asset is recognised for unused tax losses only if it is probable that future taxable profits will be available to utilise those losses. The Group has not recorded $6,134,000 of carry forward tax losses and $252,000 of deductible temporary differences in relation to Indian operations that equate to unrecognised deferred tax assets at 30 June 2018 of $2,143,000 (2017: $56,794,000) and $88,000 (2017: $1,287,000) respectively. The Group reviews evidence of the recoverability of these tax losses at each reporting date and additional evidence indicating recoverability may result in recognition at a future reporting date.

d) Recognised deferred tax assets and liabilities

	Assets		Liabilities		Net	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Trade and other receivables	-	-	43	30	43	30
Inventories	-	-	1,246	1,025	1,246	1,025
Property, plant and equipment	(282)	(370)	9,813	9,140	9,531	8,770
Derivative financial instruments	(5,896)	(7,122)	-	-	(5,896)	(7,122)
Trade and other payables	(2,983)	(1,038)	-	-	(2,983)	(1,038)
Employee benefits	(7,734)	(8,654)	-	-	(7,734)	(8,654)
Provisions	(22)	(152)	-	-	(22)	(152)
Borrowings	-	-	2,836	6,822	2,836	6,822
Other items	(105)	(141)	242	134	137	(7)
Tax losses carried forward	(60,426)	(47,286)	-	-	(60,426)	(47,286)
Tax (assets)/ liabilities	(77,448)	(64,763)	14,180	17,151	(63,268)	(47,612)
Set off of liabilities	14,180	17,151	(14,180)	(17,151)	-	-
Net tax (assets)/liabilities	**(63,268)**	**(47,612)**	**-**	**-**	**(63,268)**	**(47,612)**

The above recognised deferred tax asset and deferred tax liabilities are payable/refundable from different tax authorities and have been disclosed in the consolidated statement of financial position separately as follows:

e) Movement in temporary differences during the year

	Balance 1 July 2016 $'000	Recognised in profit or loss $'000	Recognised in equity $'000	Balance 30 June 2017 $'000	Recognised in profit or loss $'000	Recognised in equity $'000	Balance 30 June 2018 $'000
Trade and other receivables	28	3	-	31	12	-	43
Inventories	992	32	-	1,024	222	-	1,246
Property, plant and equipment	8,260	509	-	8,769	762	-	9,531
Derivative financial instruments	(1,626)	1,638	(7,135)	(7,123)	(1,370)	2,597	(5,896)
Trade and other payables	(585)	(453)	-	(1,038)	(1,945)	-	(2,983)
Employee benefits	(7,896)	(758)	-	(8,654)	920	-	(7,734)
Provisions	(77)	(75)	-	(152)	130	-	(22)
Borrowings	(28,299)	31,010	4,112	6,823	1,163	(5,149)	2,837
Other items	1,729	(1,735)	-	(6)	142	-	136
Tax loss carry forwards	(47,803)	517	-	(47,286)	(13,140)	-	(60,426)
DTA not recognised/(recognised)	-	-	-	-	-	-	-
	(75,277)	**30,688**	**(3,023)**	**(47,612)**	**(13,104)**	**(2,552)**	**(63,268)**

9. Earnings per share

	2018 $'000	2017 $'000

Basic earnings per share

The calculation of basic earnings/(loss) per share at 30 June 2018 was based on the profit attributable to ordinary shareholders of $50,665,000 (Loss 2017: $93,771,000) and a weighted average number of ordinary shares outstanding of 5,000,000 (2017: 5,000,000) calculated as follows:

(i) Profit/(loss) attributable to ordinary shareholders

	2018	2017
Profit/(loss) attributable to ordinary shareholders	50,665	(93,771)

(ii) Weighted average number of ordinary shares

	2018	2017
Weighted average number of ordinary shares	5,000,000	5,000,000

	$	$
Basic earnings/(loss) per share	**10.1**	**(18.8)**

Diluted earnings per share

There were no dilutive instruments outstanding during the year.

10. Trade and other receivables

	2018	2017
Trade receivables	26,022	20,151
Accrued revenue	53,855	57,155
Related party receivables	2,743	635
Other receivables	852	1,111
	83,472	**79,052**

Refer to note 21 b) for information on the aging of the Group's trade receivables.

11. Inventories

Inventory balances at end of year

	2018	2017
Stores	20,700	18,785

Inventory expense

Write-downs of inventories to net realisable value recognised as an expense during the year were $151,000 (2017: $191,000). In 2018, inventories (excluding consignment stock) of $82,277,000 (2017: $78,486,000) were recognised as an expense during the period and included in consumables used.

12. Jointly controlled entities

The Group has the following investments in jointly controlled entities:

Name of entity	Country of incorporation	Principal activities	Ownership 2018 %	Ownership 2017 %
African Underground Mining Services Ltd (“AUMS”) Joint Venture	Ghana	Mining services	50	50
African Underground Mining Services Mali SARL (“AUMSM”) Joint Venture	Mali	Mining services	50	50
African Underground Mining Services Burkina Faso SARL (“AUMSB”) Joint Venture	Burkina Faso	Mining services	50	50
African Underground Mining Services Tanzania Ltd (“AUMST”) Joint Venture	Tanzania	Mining services	50	50

There are no other investments in equity in any of the above entities. AUMS and AUMST have a 30 June reporting date whilst AUMSM and AUMSB have a 31 December reporting date.

The terms of the shareholder agreement require the Company to meet any shareholder cash calls to AUMS on a 50:50 basis with its joint venture partner.

The investments in AUMS are accounted for using the equity method in accordance with AASB 128.

During 2018 AUMSM paid dividends to the company of CFA 5,700,000,000 (A$13,045,000). In 2017 AUMS paid dividends to the Company in the amount of USD$3,350,000 (A$4,110,000) and AUMSM paid dividends of CFA 7,695,557,375 (A$16,568,000).

Summarised financial information for AUMS is set out in the following page.

	2018 $'000	2017 $'000
a) Share of net assets/ (liabilities) of jointly controlled entities		
Total current assets	130,715	95,250
Total non-current assets	91,037	60,028
Total assets	**221,752**	**155,278**
Total current liabilities	(57,605)	(32,979)
Total non-current liabilities	(21,237)	(5,264)
Total Liabilities	**(78,842)**	**(38,243)**
Net Assets (100%)	**142,910**	**117,035**
Group's share of net assets (50%)	71,455	58,517
Elimination of unrealised profit on downstream sales	(223)	(140)
Carrying amount of interest in joint venture	**71,232**	**58,377**

b) Share of profits of jointly controlled entities

	2018 $'000	2017 $'000
Revenue	291,602	178,710
Other income	2,578	11,414
Operating and other expenses	(193,989)	(129,612)
Depreciation	(37,077)	(21,921)
Operating profit	**63,114**	**38,591**
Net finance costs	(2,597)	(1,170)
Tax	(14,887)	(11,875)
Profit for the year (100%)	**45,630**	**25,546**
Profit for the year (50%)	**22,815**	**12,773**
Elimination of unrealised profit on downstream sales	(82)	241
Realised gain on dividend income	639	1,384
Group's share of profit for the year	**23,372**	**14,398**

13. Property, plant and equipment

Reconciliation of the movement in carrying amounts

30 June 2018	Plant and equipment $'000's	Leased plant and equipment $'000's	Land and buildings $'000's	Furniture and fittings $'000's	Total $'000's
Opening net book amount	84,916	36,049	2,550	827	124,342
Additions	56,483	6,831	402	322	64,038
Disposals	(6,273)	(9)	-	(4)	(6,286)
Transfers	-	-	-	-	-
Depreciation charge	(40,559)	(15,784)	(454)	(433)	(57,230)
Closing net book amount	**94,567**	**27,087**	**2,498**	**712**	**124,864**
Cost	334,303	46,617	5,414	3,838	390,172
Accumulated depreciation	(239,736)	(19,530)	(2,916)	(3,126)	(265,308)
Net book amount	**94,567**	**27,087**	**2,498**	**712**	**124,864**
30 June 2017					
Opening net book amount	98,103	14,340	2,830	1,108	116,381
Additions	35,755	52,097	-	178	88,030
Disposals	(3,032)	(15,114)	-	-	(18,146)
Transfers	-	-	-	65	65
Depreciation charge	(45,910)	(15,274)	(280)	(524)	(61,988)
Closing net book amount	**84,916**	**36,049**	**2,550**	**827**	**124,342**
Cost	334,838	43,467	5,076	3,616	386,997
Accumulated depreciation	(249,922)	(7,418)	(2,526)	(2,789)	(262,655)
Net book amount	**84,916**	**36,049**	**2,550**	**827**	**124,342**

a) Assets in the course of construction

The carrying amounts of the assets disclosed above include $4,934,000 (2017: $6,661,000) in expenditure recognised in relation to property, plant and equipment which is in the course of construction.

b) Non-current assets pledged as security

Refer to note 17 for information on non-current assets pledged as security by the Group.

14. Intangibles

a) Reconciliation of the movement in carrying amounts

30 June 2018	Goodwill	Customer Relationships	Computer Software	Total
	$'000's	$'000's	$'000's	$'000's
Opening net book amount	256,930	1,172	1,679	259,781
Additions	-	-	147	147
Amortisation charge	-	(538)	(395)	(933)
Closing net book amount	**256,930**	**634**	**1,431**	**258,995**
Cost	256,930	76,400	2,433	335,763
Accumulated amortisation	-	(75,766)	(1,002)	(76,768)
Net book amount	**256,930**	**634**	**1,431**	**258,995**
30 June 2017				
Opening net book amount	256,930	1,728	2,132	260,790
Additions	-	-	(65)	(65)
Amortisation charge	-	(556)	(388)	(944)
Closing net book amount	**256,930**	**1,172**	**1,679**	**259,781**
Cost	256,930	76,400	2,286	335,616
Accumulated amortisation and impairment	-	(75,228)	(607)	(75,835)
Net book amount	**256,930**	**1,172**	**1,679**	**259,781**

b) Impairment assessment – customer relationships

Each year the Group reviews the recoverable amount of intangible assets represented by customer relationships by assessing whether the originally assessed future economic benefits continue to exist based on estimated contracts renewals and cash flows. This resulted in no impairment of customer relationships during the current year (2017: $Nil).

c) Impairment testing for the cash-generating unit containing goodwill

	2018 $'000	2017 $'000
The following unit has significant carrying amount of goodwill:		
Barminco Australia, Egypt and India	**256,930**	**256,930**

Goodwill is reviewed at each reporting year end for impairment and an impairment test is performed annually. A goodwill impairment test and a review of the impairment indicators was last conducted at 30 June 2018 with no impairment noted.

At 30 June 2018 the recoverable amount of the Barminco Holdings cash-generating unit was based on fair value less costs of disposal, estimated using discounted cash flows and the resulting value exceeded the carrying amount of the unit including goodwill. The fair value measurement was categorised as a Level 3 fair value based on the inputs in the valuation technique used (Note 2 d)).

The calculations used cash flow projections based on the budget forecast for the 2019 to 2023 financial years. Financial years from 2019 to 2023 (2017: 2018 to 2022) incorporate an estimated annual EBITDA margin of 20% to 21% (2017: 18% to 20%). The 2019 budget forecast was determined as a result of a comprehensive exercise where the operational divisions evaluate each individual contract and project and update the forecast on which the revenues and costs are based. Additionally, a terminal value was calculated after 5 years incorporating a perpetual growth rate of 2.25% (2017: 2%).

Weighted average cost of capital post-tax discount rates in the range of 9.3% and 10.4% (2017: 9.4% and 10.5%) were used in discounting projected cash flows. The present value of cash flows is sensitive to the growth and discount rates used. A higher discount rate or lower EBITDA growth rate will result in a lower fair value.

15. Trade and other payables

	2018 $'000	2017 $'000
Trade payables	39,473	41,092
Other creditors and accruals	33,108	37,760
	72,581	**78,851**

16. Derivative financial instruments

Non-current liability

Cross currency interest rate swap contract cash flow hedge	19,652	23,741

The Group entered into cross currency interest rate swaps in April 2017 for a notional principal of US$350,000,000 maturing on 15 May 2022. The Group entered into four separate cross currency interest rate swaps with two different financial institutions to fully hedge the debt using CCIRS. The cross currency interest rate swaps are a combination of fixed interest to fixed interest United States/Australian dollar and floating interest to fixed interest United States/Australian dollar.

17. Borrowings

	Note	Currency	Nominal interest rate	Year of maturity	30-Jun-18 Current $'000's	30-Jun-18 Non-current $'000's	30-Jun-17 Current $'000's	30-Jun-17 Non-current $'000's
High Yield Bond 2022	(a)	USD	6.63%	2022	-	468,036	-	455,499
Shareholder loans	(c)	AUD	0%	2026	-	10,750	-	10,000
Finance lease liabilities	(b)	AUD	5.9%	2018 - 2020	15,587	7,547	14,238	20,339
					15,587	**486,333**	**14,238**	**485,838**
Capitalised borrowings costs - High Yield Bonds		AUD			(2,385)	(6,855)	(2,424)	(9,795)
Total interest bearing liabilities					**13,202**	**479,478**	**11,814**	**476,043**

(a) High Yield Bonds

The 2022 High Yield Bonds relate to the senior notes issued on 26 April 2017 for the total issue price of US$350,000,000 and due for repayment 15 May 2022. The 2022 notes were issued by Barminco Finance Pty Ltd are secured and have been guaranteed by Barminco Holdings Pty Limited, Barminco Finance Pty Limited, Barminco Limited, Barminco AUMS Holdings Pty Limited, Barminco India Investments Pty Limited and Barminco India Holdings Pty Limited. Under the terms of the notes issued, interest is payable on 15 May and 15 November. The High Yield Bonds are quoted on the Singapore Stock Exchange.

(b) Finance lease liabilities

Lease liabilities are effectively secured, as the rights to the leased assets which are recognised in the financial statements revert to the lessor in the event of a default.

(c) Shareholder loan notes

In June 2016, the Shareholder Loan Note Deed Poll was amended and annual interest of 14% ceased to be accrued from 29 June 2016. Consequently, the liability was reduced by discounting the loan and the difference (net of the tax effect) between the nominal value of the loan ($19.2 million) and the discounted value ($10 million) was transferred to an Interest Free Loan Reserve (Note 20). A cost of debt at 7.5% per annum was used to discount the loan to its fair value. The Shareholder loan notes mature on 1 May 2026. Refer to note 26b(i) for further details.

(d) Assets pledged as security

	2018 $'000	2017 $'000
Current		
Fixed and floating charge		
Cash and cash equivalents	76,068	66,534
Trade and other receivables	62,799	75,907
Inventories	13,517	12,353
Other assets	2,694	3,700
Total current assets pledged as security	**155,078**	**158,494**
Non-current		
Fixed and floating charge		
Receivables	2,815	3,729
Property, plant and equipment	82,404	77,668
	85,219	**81,397**
Property plant and equipment under finance leases and chattel mortgages		
Finance leases	27,087	36,049
Total non-current assets pledged as security	**112,306**	**117,446**
Total assets pledged as security	**267,384**	**275,940**

The assets pledged support the Revolving Credit Facility, finance leases and the cross currency interest rate swap of the Barminco Group Australian assets.

18. Employee benefits

Current Liability		
Annual leave	15,890	16,032
Long service leave	9,870	10,413
	25,760	**26,445**
Non-current Liability		
Long service leave	**1,734**	**4,043**

19. Provisions

Onerous contract provision	-	3,720
Other provisions	-	366
	-	**4,086**

In 2017, onerous contract provision represented the present value of the unavoidable forecasted future cash outflows in regards to the finalisation of mining services under the Rampura Agucha contract. The onerous contract concluded on 31 August 2017. Barminco Indian Underground Mining Services LLP entered into a new contract with Hindustan Zinc Limited commencing 1 September 2017.

Movements in provisions	Onerous contract provision $'000	Other provisions $'000
Balance at the beginning of year	3,720	366
Additional provisions recognised	-	200
Amounts used during the year	(3,156)	(566)
Amounts reversed during the year	(564)	-
	-	**-**

20. Capital and reserves

a) Share capital

	2018		2017	
	#'000	$'000	#'000	$'000
Ordinary shares - fully paid	5,000	4,722	5,000	4,722
Redeemable preference shares	122,165	389,940	122,165	389,940
	127,165	**394,662**	**127,165**	**394,662**

At 30 June 2018 all ordinary shares had been fully paid with no ordinary shares partly paid (30 June 2017: Nil).

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. This is subject to the prior entitlements of the redeemable preference shares.

Redeemable preference shares (RPS) were issued on 31 August 2007 at $1 each with an interest rate of 14% compounded annually until 29 June 2016 and unpaid interest was capitalised to the RPS balance. The RPS's are subordinated to the High Yield Bonds. The number and face value of RPS, to which loans to management under the Management Incentive plan related to, were derecognised during the year as a result of classification of the instruments as equity for accounting purposes. Refer to note 25.

b) Hedging reserve

	2018 $'000	2017 $'000
Balance at the beginning of year	(7,055)	(5,375)
Revaluation	(5,955)	(15,845)
Reclassified to profit or loss	-	14,165
	(13,010)	**(7,055)**

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in other comprehensive income, as described in note 3 n). Amounts are recognised in the profit or loss when the associated hedged transaction affects profit or loss.

	2018 $'000	2017 $'000
c) Translation reserve		
Balance at the beginning of year	5,359	8,592
Currency translation differences	2,718	(3,233)
	8,077	**5,359**

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the Group.

d) Legal reserve

	2018 $'000	2017 $'000
Balance at the beginning of year	1,702	1,032
Legal reserve increase	902	670
	2,604	**1,702**

The Group has an Egyptian subsidiary that is required by Egyptian law to set aside a percentage of its retained earnings as a legal reserve.

e) Interest Free Loan Reserve

	2018 $'000	2017 $'000
Balance at the beginning of year	6,421	6,421
Effect of discounting Shareholder Loan Note	-	-
	6,421	**6,421**

Interest on the Shareholder Loan Notes ceased to accrue from 29 June 2016. Consequently, the liability was reduced by discounting the loan and the difference (net of the tax effect) between the nominal value of the loan ($19.2 million) and the discounted value ($10.0 million) was transferred to an Interest Free Loan Reserve.

21. Financial instruments

a) Accounting classifications and fair value

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

30 June 2018	Carrying amount				Fair value			
	Fair value hedging instruments	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets not measured at fair value								
Cash and equivalents	-	80,288	-	80,288	-	-	-	-
Trade and Other Receivables	-	83,472	-	83,472	-	-	-	-
	-	**163,760**	**-**	**163,760**				
Financial liabilities measured at fair value								
Cross currency interest rate swaps used for hedging	(19,652)	-	-	(19,652)	-	(19,652)	-	(19,652)
	(19,652)	**-**	**-**	**(19,652)**				
Financial liabilities not measured at fair value								
Trade and other payables	-	-	(72,581)	(72,581)	-	-	-	-
Finance lease liabilities	-	-	(23,134)	(23,134)	-	(23,134)	-	(23,134)
High Yield Bonds *	-	-	(468,036)	(468,036)	(456,357)	-	-	(456,357)
Shareholder loan notes	-	-	(10,750)	(10,750)	-	-	(10,750)	(10,750)
	-	**-**	**(574,501)**	**(574,501)**				
	(19,652)	**163,760**	**(574,501)**	**(430,393)**				

* Carrying amount of High Yield Bonds is excluding capitalised borrowing costs.

	Carrying amount				Fair value			
30 June 2017	**Fair value hedging instruments**	**Loans and receivables**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets not measured at fair value								
Cash and cash equivalents	-	77,956	-	77,956	-	-	-	-
Trade and other receivables	-	79,052	-	79,052	-	-	-	-
	-	**157,008**	**-**	**157,008**				
Financial liabilities measured at fair value								
Cross currency interest rate swaps used for hedging	(23,741)	-	-	(23,741)	-	(23,741)	-	(23,741)
	(23,741)	**-**	**-**	**(23,741)**				
Financial liabilities not measured at fair value								
Trade and other payables	-	-	(78,851)	(78,851)	-	-	-	-
Finance lease liabilities	-	-	(34,577)	(34,577)	-	(34,771)	-	(34,771)
High Yield Bonds	-	-	(455,499)	(455,499)	(453,452)	-	-	(453,452)
Shareholder loans	-	-	(10,000)	(10,000)	-	-	(10,000)	(10,000)
	-	**-**	**(578,927)**	**(578,927)**				
	(23,741)	**157,008**	**(578,927)**	**(445,660)**				

(i) Valuation techniques and significant unobservable inputs

The following tables show the valuation techniques used in measuring level 2 and level 3 fair values, as well as the significant unobservable inputs used.

Financial instruments measured at fair value

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Cross currency interest rate swaps	*Discounted cash flows*	Not applicable	Not applicable

Financial instruments not measured at fair value

Type	Valuation technique	Significant unobservable inputs
Other financial liabilities	*Discounted cash flows*	Not applicable

(ii) Transfers between level 1 and 2

There were no transfers between level 1 and 2 during the year (2017: Nil).

(iii) Level 3 fair values

Reconciliation of level 3 fair values

The following table shows a reconciliation from the opening balances to the closing balances for level 3 fair values.

	Shareholder loan notes $'000
Balance at 1 July 2016	(10,000)
Net change in fair value	-
Interest included in finance costs	-
Balance as at 30 June 2017	**(10,000)**
Balance at 1 July 2017	(10,000)
Net change in fair value	-
Interest included in finance costs	(750)
Balance as at 30 June 2018	**(10,750)**

There were no transfers out of level 3 during the year (2017: Nil).

(iv) Interest rates used for determining fair value

The fair value of cash and cash equivalents, trade and other receivables, trade and other payables, bank loans and interest rate swaps is considered to be equal to carrying amount as carrying amount is considered to be a reasonable approximation of fair value.

The carrying amount of the High Yield Bonds, excluding capitalised borrowing costs (refer to Note 17), recognised at 30 June 2018 was US$350,000,000 (A$469,110,000) (as at 30 June 2017: US$350,000,000, A$455,499,000). Fair value reflects the closing price of the notes as listed on the Singapore stock exchange as at 30 June 2018 and 30 June 2017.

b) Credit risk

(i) Exposure to credit risk (refer also to note 4b)).

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

	2018 $'000	2017 $'000
Cash and cash equivalents	80,288	77,956
Trade and other receivables	83,472	79,052
	163,760	**157,008**

The Group's maximum exposure to credit risk for receivables at the reporting date by geographic region was:

	2018 $'000	2017 $'000
Australia	64,455	70,165
Africa	14,231	6,467
India	4,786	2,420
	83,472	**79,052**

The Group's maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

	2018 $'000	2017 $'000
Mining customers	80,729	78,417
Jointly controlled entity	2,743	635
	83,472	**79,052**

The aging of the Group's trade receivables which are past due at the reporting date but not impaired was:

	2018 $'000	2017 $'000
Past due 0-30 days	1,017	226
Past due 31-60 days	476	1,108
Past due more than 90 days	1,383	109
	2,876	**1,443**

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables as all customers have a good credit history with the Group.

(ii) Impairment losses

There were no impairment losses recognised with respect to receivables during the year (2017: Nil).

(iii) Liquidity risk (refer also to note 4c)).

The following are contractual maturities of financial liabilities at reporting date. The amounts are gross and undiscounted and include estimated interest payments:

30 June 2018	Carrying amount $'000	Contractual cash flows $'000	12 months or less $'000	1-5 years $'000	More than 5 years $'000
Non-derivative financial liabilities					
Trade and other payables	72,581	(72,581)	(72,581)	-	-
Finance lease liabilities	23,134	(24,280)	(16,533)	(7,747)	-
High Yield Bonds	468,036	(597,745)	(31,305)	(566,440)	-
Shareholder loan notes	10,750	(19,172)	-	(19,172)	-
	574,501	**(713,778)**	**(120,419)**	**(593,359)**	**-**
Derivative financial (assets)/liabilities					
Gross settled cross currency interest rate swaps used for hedging the High Yield Bonds					
- Inflows	-	597,745	31,305	566,440	-
- Outflows	-	(612,072)	(36,260)	(575,812)	-
Cross currency interest rate swaps used for hedging	**-**	**(14,327)**	**(4,955)**	**(9,372)**	**-**

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

30 June 2017	**Carrying amount $'000**	**Contractual cash flows $'000**	**12 months or less $'000**	**1-5 years $'000**	**More than 5 years $'000**
Non-derivative financial liabilities					
Trade and other payables	78,852	(78,852)	(78,852)	-	-
Finance lease liabilities	34,578	(37,151)	(15,894)	(21,257)	-
High Yield Bonds	455,499	(606,200)	(30,168)	(576,032)	-
Shareholder loan notes	10,000	(19,172)	-	-	(19,172)
	578,929	**(741,375)**	**(124,914)**	**(597,289)**	**(19,172)**
Derivative financial (assets)/liabilities					
Gross settled cross currency interest rate swaps used for hedging the High Yield Bonds					
- Inflows	-	606,200	30,168	576,032	-
- Outflows	-	(648,274)	(36,202)	(612,072)	-
Cross currency interest rate swaps used for hedging	**-**	**(42,074)**	**(6,034)**	**(36,040)**	**-**

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

c) Currency risk

(i) Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

		2018	
	USD* $'000	**INR* $'000**	**EGP* $'000**
Cash and cash equivalents	18	2,056	182
Trade and other receivables	-	4,786	300
Derivative financial instruments	(19,652)	-	-
Gross statement of financial position exposure	**(19,634)**	**6,842**	**482**

The USD denominated debt is fully hedged and currency fluctuations have no impact to the profit and loss account.

	2017		
	USD*	INR*	EGP*
	$'000	$'000	$'000
Cash and cash equivalents	25	1,452	31
Trade and other receivables	-	2,420	93
Derivative financial instruments	(23,741)	-	-
Gross statement of financial position exposure	**(23,716)**	**3,872**	**124**

*Australian dollar equivalent of USD / EGP

The following significant exchange rates applied during the year:

	2018	2017
	USD	USD
Reporting date spot rate	0.7407	0.7686
Average rate	0.7754	0.7555

(ii) Sensitivity analysis

The Group is subject to the impact of changes in foreign currency exchange rates due to exposures to USD and EGP. A strengthening of each of the following currencies against AUD at 30 June would have increased/ (decreased) profit and loss by the amounts shown below. The USD denominated debt is fully hedged and currency fluctuations have no impact to the profit and loss account. The analysis is based on foreign currency exchange rate variances of 10% against all other currencies, and reflects a variation that the Group considered to be reasonably possible at the end of the reporting years. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for each reporting year, albeit that reasonably possible exchange rate variances were different, as indicated below.

	2018		2017	
	Strengthening	Weakening	Strengthening	Weakening
	$'000	$'000	$'000	$'000
United States Dollar (USD)	(1,964)	1,964	(2,372)	2,372
Indian Rupee (INR)	684	(684)	387	(387)
Egyptian Pound (EGP)	48	(48)	12	(12)

d) Interest rate risk

The Group entered into four different cross currency interest rate swaps in 2017. The cross currency interest rate swaps (hedging instrument) are accounted for as both cash flow hedges and fair value hedges. The cross currency interest rate swaps are designated to hedge the exposure to variability in foreign exchange rates and exposure to liquidity risk through the benchmark interest rate.

(i) Profile

At the reporting date, the interest rate profile of the Group's interest-bearing financial instruments was:

	2018 $'000	2017 $'000
Fixed rate instruments		
Financial liabilities	**(516,913)**	**(523,921)**
Variable rate instruments		
Financial assets	**72,824**	**65,359**

(ii) Fair value sensitivity analysis for fixed rate instruments

The fixed-to-floating cross currency interest rate swaps (hedging instrument) are accounted for as fair value hedges. Therefore, a change in interest rates at the reporting date affects profit or loss. The interest rate swaps are designated to hedge the exposure to liquidity risk through the benchmark interest rate.

The Group accounts for a portion of its fixed rate financial liabilities at fair value through profit or loss, as the Group designates derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would affect profit or loss and not equity on these instruments.

A change of 100 basis points ("bp") in interest rates at the reporting date would have increased/(decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit or loss		Equity	
	100 bp Increase $'000	**100 bp Decrease $'000**	**100 bp Increase $'000**	**100 bp Decrease $'000**
30 June 2018				
Fixed rate instruments	(8,554)	8,554	-	-
Cross currency interest rate swap *	8,554	(8,554)	-	-
	-	-	-	-
30 June 2017				
Fixed rate instruments	(5,406)	5,406	-	-
Cross currency interest rate swap *	5,406	(5,406)	-	-
	-	-	-	-

* The cross currency interest rate swap has AUD pay and USD receive legs with different underlying interest rate structures. A 100bp increase in both the USD and AUD interest rates will result in a fair value cost to Barminco. Independently calculated, the fixed to floating AUD leg of the swaps are valued at A$1,942,046 (2017: A$943,919) and USD leg A$10,495,926 (2017: A$6,349,984).

Detailed below is the profit and loss impact of fair value hedges during the year.

	Profit or loss	
	30 June 2018	30 June 2017
	$'000	$'000
Fixed to floating cross currency interest rate swap		
- Swap	4,799	(104)
- Hedged item (debt)	(4,797)	137
Net profit and loss impact before tax	**2**	**33**

(iii) Cash flow sensitivity analysis for variable rate instruments

The fixed to fixed cross currency interest rate swaps (hedging instrument) are accounted for as cash flow hedges. Therefore, a change in interest rates at the reporting date affects equity. The interest rate swaps are designated to hedge the exposure to liquidity risk through the benchmark interest rate.

A change of 100 basis points ("bp") in interest rates at the reporting date would have increased / (decreased) profit or loss and equity by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2017.

	Profit or loss		Equity	
	100 bp Increase	100 bp Decrease	100 bp Increase	100 bp Decrease
	$'000	$'000	$'000	$'000
30 June 2018				
Variable rate instruments	728	(728)	-	-
Cross currency interest rate swap *	-	-	473	(473)
	728	**(728)**	**473**	**(473)**
30 June 2017				
Variable rate instruments	654	(654)	-	-
Interest rate swap	-	-	566	(566)
	654	**(654)**	**566**	**(566)**

* The cross currency interest rate swap has AUD pay and USD receive legs with different underlying interest rate structures. A 100bp increase in both the USD and AUD interest rates will result in a fair value cost to Barminco. Independently calculated, the fixed to fixed AUD leg of the swaps are valued at A$12,400,935 (2017: A$15,382,910) and USD leg A$11,928,274 (2017: A$14,816,629).

Master netting or similar agreements

The group enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements. In general, under such agreements the amounts owned by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other.

The following table set out the carrying amounts of recognised financial instruments that are subject to the above agreements.

	Gross and net amounts of financial instruments in the statement of financial position $'000	Related financial instruments that are not offset $'000	Net amount $'000
30 June 2018			
Financial liabilities			
Other investments, including derivatives			
- Cross currency Interest rate swaps used for hedging	(19,652)	-	(19,652)
	(19,652)	**-**	**(19,652)**
30 June 2017			
Financial liabilities			
Other investments, including derivatives			
- Cross currency Interest rate swaps used for hedging	(23,741)	-	(23,741)
	(23,741)	**-**	**(23,741)**

22. Commitments

Operating leases

		2018 $'000	2017 $'000
Non-cancellable operating lease rentals are payable as follows:			
Within one year		3,214	3,291
Later than one year but not later than five years		11,331	12,531
Later than five years		203	3,372
		14,748	**19,194**

During the year an amount of $8,790,000 was recognised as an other expense (refer to note 6 b)) in profit or loss in respect of operating leases (2017: $9,182,000).

The Group leases various offices, warehouses and items of IT equipment under non-cancellable operating leases expiring within two to fifteen years. The leases have varying terms and renewal rights. On renewal, the terms of the leases are renegotiated.

Finance leases

		2018 $'000	2017 $'000
Commitments in relation to finance leases are payable as follows:			
Within one year		16,533	15,894
Later than one year but not later than five years		7,746	21,256
Minimum lease payments		**24,279**	**37,150**
Future finance charges		(1,145)	(2,573)
Recognised as a liability		**23,134**	**34,577**
Representing lease liabilities			
Current	17	15,587	14,238
Non-current	17	7,547	20,339
		23,134	**34,577**

Representing lease liabilities

The Group leases various plant and equipment with a carrying amount at 30 June 2018 of $37,497,000 (2017: $36,049,000) under finance leases expiring within one to five years. Finance leases, net of future finance charges are recognised as a liability in the consolidated statement of financial position.

	2018 $'000	2017 $'000
Capital commitments		
Capital commitments are as follows:		
Within one year	20,379	38,813
Later than one year but not later than five years	-	-
	20,379	**38,813**

23. Segment reporting

The Group has identified its operating segments based on the internal reports that are reviewed and used by the CEO in assessing performance and in determining the allocation of resources.

Management has determined that the nature of the company's services and products are the same across the whole business. The same equipment is acquired from the same suppliers in order to perform similar services contracted by the respective clients. The same types of equipment are used, and the same processes are applied as they relate to each underground mine. Additionally, the company's customers are involved in the same industry and several customer sites are operated under common client ownership. Accordingly, management believes there is only the single reportable segment.

Geographical information

In presenting information on the basis of geographical information, revenue is based on the geographical location of customers. Assets are based on the geographical location of the assets.

	2018		2017	
	Revenue/ Other income $'000	Non-current assets $'000	Revenue/ Other income $'000	Non-current assets $'000
Australia	502,588	432,421	525,980	422,599
Egypt	73,956	15,211	72,118	10,433
India	11,610	532	5,221	649
Africa- AUMS Joint Venture	-	71,232	-	58,377
	588,154	**519,396**	**603,319**	**492,058**

Major customers

Revenues from the Group's major customers for the year ending 30 June 2018 represented A$561 million (2017: A$583 million) of the Group's total revenues.

	2018 Revenue $'000
Highest customer	128,591
2nd Highest	102,374
3rd Highest	100,266
4th Highest	79,311
5th Highest	77,021
6th Highest	73,935
	561,498

	2017 Revenue $'000
Highest customer	113,054
2nd Highest	102,318
3rd Highest	97,188
4th Highest	72,117
5th Highest	70,966
6th Highest	65,634
7th Highest	62,177
	583,454

24. Notes to the consolidated statement of cash flows

	2018 $'000	2017 $'000
Reconciliation of cash flows from operating activities		
Profit/(loss) for the year after tax	50,665	(93,771)
Adjustments for:		
Depreciation of property, plant and equipment	57,230	61,988
Amortisation of intangibles	933	944
Gain on disposal of property, plant and equipment	(2,089)	(1,634)
Redemption premium on 2018 High Yield Bonds	-	31,300
Amortisation of cash flow hedge reserve to profit or loss	-	2,827
Gain on repurchase of High Yield Bonds	-	327
Accrued interest on shareholder loan notes	750	-
Accrued interest bank	111	1,185
Fair value adjustment to derivatives	(60)	33
Non-cash employee benefit	-	68
Share of profit from equity accounted investments	(23,372)	(14,398)
Amortisation of borrowing costs	3,023	6,283
Net unrealised foreign exchange (gain)/loss	(39)	112
Income tax expense/(benefit)	(13,103)	32,198
Cash flow hedge settlement	-	11,342
Changes in assets and liabilities:		
(Increase)/decrease in trade and other receivables	(4,421)	(30,583)
(Increase)/decrease in other assets	2,102	(927)
(Increase)/decrease in inventory	(1,915)	911
(Decrease)/increase in trade and other payables	(6,290)	21,627
(Decrease)/increase in employee benefits and other provisions	(7,080)	6,527
Net cash from operating activities	**56,445**	**36,359**

a) Non-cash financing and investing activities

The Group has acquired property, plant and equipment of $6,831,000 using finance leases during the year (2017: $52,097,000). In 2017 the amount included $24,585,000 of assets related to Kundana contract awarded to the Group on 1 July 2016 and concluded on 30 June 2017.

25. Share-based payments

Management incentive plan

In August 2014 the Company introduced the Barminco Holdings Management Incentive Plan which provides key management with an opportunity to purchase ordinary shares and redeemable preference shares. The plan also provides for interest bearing and non-interest bearing loans to purchase the shares.

A summary of the main aspects of the plan are as follows:

- The Board may determine the key management (and/ or their Nominees) who are eligible to participate in the Plan and make an invitation to participate in the Plan.
- An invitation to apply for Plan Shares or Plan Interests may be made on such terms and conditions as the Board decides from time to time.
- Interest bearing loans of $570,000 have been provided with a fixed interest rate granted at market rates and interest payments due quarterly, with principle repayments due in October 2022.
- Interest free loans of $1,210,000 have been provided and currently have a maximum term of 9 years from the date of agreement. These loans may be net settled against proceeds from disposal of equity interests.

The number and face value of redeemable preference shares (RPS), to which loans to management under the Management Incentive plan related to, were derecognised during the 2017 year as a result of classification of the instruments as equity for accounting purposes.

26. Related parties

	2018 $	2017 $
a) Key management personnel compensation		
Key management personnel compensation comprised:		
Short term employee benefits	2,411,405	2,465,309
Termination payments	760,834	-
Post employment benefits	90,811	105,395
	3,263,050	**2,570,704**

Key management personnel include the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer (resigned 14 January 2018) and Directors.

b) Key management personnel and director transactions

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

(i) Mr P M Bartlett - Director of Barminco Holdings

<u>Shareholding</u>

Bremerton Pty Ltd (an entity controlled by Mr Bartlett), in its capacity as trustee of the PM Bartlett Family Trust is the holder of 1,499,500 ordinary shares representing 30% of the ordinary shares on issue as at 30 June 2018 and 30 June 2017, and 35,854,834 (2017: 35,854,834) redeemable preference shares at $1 each, representing 29% of the redeemable preference shares on issue as at 30 June 2018 and 30 June 2017. Interest on the redeemable preference shares was compounded annually until 29 June 2016 and the accumulated interest (included as part of equity) as at 30 June 2018 is $78,428,234 (2017: $78,428,234). The redeemable preference shares are subordinated to the High Yield Bond, Revolving Credit Facility, finance leases and the cross currency interest rate swap.

Loan notes

A loan note with a face value of $6,015,000 was issued to Bremerton Pty Ltd on 31 August 2007 with an expiry date of 31 July 2017, which was extended to 31 January 2019 in 2013 by mutual consent. In June 2016, the Shareholder Loan Note Deed Poll was amended which had the effect of the expiry date changed to 1 May 2026 and interest ceased to accrue from 29 June 2016. The loan is subordinated to the High Yield Bond, Revolving Credit Facility, finance leases and the cross currency interest rate swap. The accumulated interest as at 30 June 2018 is $13,156,908 (2017: $13,156,908). As interest has ceased to accrue on the loan, the carrying value of the loan was reduced by discounting the loan and the difference (net of the tax effect) between the nominal value of the loan ($19,172,000) and the discounted value ($10,000,000) was transferred to an Interest Free Loan Reserve (see Note 20 e)). The carrying amount of the loan as at 30 June 2018 is $10,750,000.

Provision of electrical services – Hahn Electrical Contracting Pty Ltd

Hahn Electrical Contracting Pty Ltd (“Hahn”) supplies Barminco with electrical labour hire and electrical consumables under an ongoing agreement and provides electrical services on an order basis. Peter Bartlett has a 49% interest in Hahn. Each contract with Hahn either contains price management mechanisms or has a limited term (generally one year) at the end of which Barminco can review Hahn’s pricing against that of other suppliers. Settlement of payables to Hahn is in line with similar third party creditors.

Costs incurred during the year: $15,714,934 (2017: $15,786,939).

Consulting fee

A consultancy agreement between Peter Bartlett and the Group was made in August 2007 as part of the sale of Barminco Limited to Barminco Finance Pty Ltd. The consultancy fee of $333,333 per annum (exclusive of GST) is payable for the provision of management advice. Costs incurred during the year: $333,333 (2017: $333,333).

Director fees and business expenses

Director fees were payable to Peter Bartlett during the year (exclusive of GST) and he is reimbursed for all business related expenses.

Costs incurred during the year: $100,000 (2017: $95,836).

Leased property – 390 Stirling Crescent Hazelmere, Western Australia

The Group has entered into a contract, negotiated at arm’s length, with Peter Bartlett for the lease of the property located at 390 Stirling Crescent Hazelmere, Western Australia.

The terms and conditions of the lease are as follows:

- Commencement date: 29 July 2008
- Annual rent: $1,650,000 (before rent review increases)
- Expiry date: 28 July 2023
- Options: two five year options for Barminco to extend the lease to 29 July 2033
- Annual fixed rent review (annual increase of 5%)

Costs incurred during the year: $2,184,747 (2017: $2,217,141).

Mining services contract

The Group provided mining services to Gordon Sirdar, a mine controlled by Peter Bartlett. Revenues for the year to 30 June 2018 were $Nil (2017: $3,031,090). At 30 June 2018, $Nil was owed by Gordon Sirdar to the Group (2017: $32,000). The mining services contract was terminated during 2017.

(ii) Mr K Gordon – Chairman and Independent Non-executive Director of Barminco Holdings

Provision of consulting services – Red Emu Advisory

Red Emu Advisory provided Barminco with organisational consulting services during the period. Keith Gordon is a director of Red Emu Advisory.

Cost incurred during the year: $19,000 (2017: $20,800).

(iii) Existing Gresham Investors

Shareholding

The Existing Gresham Investors hold 3,000,500 ordinary shares representing 60% of the ordinary shares on issue as at 30 June 2018 and 2017 and 83,701,025 (2017: 83,701,025) redeemable preference shares at $1 each, representing 68% of the redeemable preference shares on issue as at 30 June 2018 (2017: 68.0%).

Interest on the redeemable preference shares was compounded annually until 29 June 2016 and the accumulated interest (included as part of equity) as at 30 June 2018 is $183,074,153 (2017: $183,074,153). The redeemable preference shares are subordinated to the High Yield Bond, Revolving Credit Facility, finance leases and the cross currency interest rate swap.

Existing Gresham Investors comprise Perpetual Corporate Trust Limited as custodian for Gresham Funds Management Limited (in its capacity as responsible entity of the Gresham Private Equity Co-Investment Fund), Gresham Nominees 1 Pty Limited in its capacity as trustee of the Gresham Private Fund No.2a, Gresham Nominees 2 Pty Limited in its capacity as trustee of the Gresham Private Fund No.2b, Gresham Private Equity Limited in its capacity as custodian for the Plan Members in the Gresham Private Fund No.2 Co-Investment Plan, and Gresham Partners Capital Limited in its capacity as custodian for the wholesale investors.

Consulting fees

A consultancy agreement between Gresham Private Equity Limited and the Group was made in August 2007 as part of the sale of Barminco Limited to Barminco Finance Pty Ltd. The consultancy fee of $666,666 (2017: $666,666) per annum (exclusive of GST) is payable for the provision of corporate and financial advice. In the prior year Gresham Advisory Partners Limited was paid $1,052,226 for the provision of consultancy services for the refinancing of High Yield Bonds.

Director fees

Board members on the Barminco Holdings Board representing Gresham Private Equity are entitled to director fees.

Costs incurred during the year: $283,333 (2017: $200,833).

Travel costs

Travel costs reimbursed to Gresham Private Equity Limited for the period was $175,053 (2017: $93,070).

c) Other related party transactions

(i) Key Management Personnel

At 30 June 2018 management and prior management are the beneficial owners of 500,000 ordinary shares representing 10% of Barminco Holdings (2017: 500,000) and 3,396,157 redeemable preference shares representing 3% of the redeemable preference shares on issue at that date (2017: 3,396,157), see Note 20 a).

Interest on the redeemable preference shares was compounded annually until 29 June 2016 and the accumulated interest (included as part of equity) as at 30 June 2018 is $6,043,650 (2017: $6,043,650).

(ii) AUMS Joint Ventures

Barminco has a 50% interest in the AUMS Joint Ventures (see Note 12), which provides underground hard-rock contract mining services to mining companies in certain countries in West Africa and Tanzania. The other 50% is owned by ASX-listed Ausdrill Limited (Ausdrill). 6.38% of Ausdrill was owned by Peter Bartlett until 12 March 2018. Ausdrill provide services to AUMS at normal commercial terms.

At 30 June 2018 a subsidiary of the Group, Barminco Ltd had a related party trade debtor of $2,742,828 (2017: $634,937) which is recognised in the Group's statement of financial position.

27. Subsequent events

No matters or significant events have arisen since 30 June 2018 that have or may significantly affect the operations, results, or state of affairs of the Group.

28. Subsidiaries

The annual financial report incorporates the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 3a).

Name of entity	Country of incorporation	Class of shares	Equity holding 2018 %	Equity holding 2017 %
Barminco Finance Pty Limited (formerly Barbidco Pty Limited)	Australia	Ordinary	100	100
Barminco Limited	Australia	Ordinary	100	100
SLR Australia Pty Limited	Australia	Ordinary	100	100
Barminco Holdings (EIS) Pty Limited	Australia	Ordinary	100	100
Barminco (Egypt) LLC	Egypt	Ordinary	100	100
Barminco Egypt Underground Mining Services	Egypt	Ordinary	100	100
Barminco South Africa (Pty) Ltd	South Africa	Ordinary	100	100
Barminco AUMS Holdings Pty Limited	Australia	Ordinary	100	100
Barminco India Holdings Pty Ltd	Australia	Ordinary	100	100
Barminco India Investments Ltd	Australia	Ordinary	100	100
Barminco Indian Underground Mining Services LLP	India	Ordinary	100	100

29. Deed of cross guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly-owned subsidiaries listed above are relieved from the Corporations Act 2001 requirements for preparation and lodgement of financial reports, and directors' reports.

It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001.

If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up. The subsidiaries subject to the deed are Barminco Holdings Pty Limited, Barminco Finance Pty Ltd, Barminco AUMS Holdings Pty, Barminco Ltd, Barminco India Investments Pty Limited and Barminco India Holdings Pty Limited.

A consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position, comprising the Company and controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, for the year ended 30 June 2018 is set out as follows:

a) Statement of profit and loss and other comprehensive income and retained earnings

	2018 $'000's	2017 $'000's
Revenue	500,521	530,825
Other income	14,328	12,875
Consumables used	(161,098)	(179,044)
Employee benefits expense	(192,510)	(205,819)
Contractor and consultant expenses	(34,357)	(42,830)
Depreciation and impairment of property, plant & equipment	(51,286)	(57,321)
Amortisation and impairment of intangible assets	(933)	(944)
Other expenses	(34,773)	(33,616)
Results from operating activities	**39,892**	**24,126**
Share of net profit from joint venture	23,372	14,398
Financing costs	(44,386)	(96,215)
Financing income	653	692
Profit/(Loss) before income tax	**19,531**	**(56,999)**
Income tax benefit	12,982	(32,086)
Profit/(Loss) for the year	**32,513**	**(89,085)**
Other comprehensive income/(loss)		
Effective portion of changes in fair value of cash flow hedges	(5,955)	(15,845)
Net change in fair value of cash flow hedges reclassified to profit or loss	-	14,165
Foreign currency translation differences	2,738	(3,233)
Other comprehensive loss for year, net of tax	**(3,217)**	**(4,913)**
Total comprehensive income/(loss) attributable to equity holders of the Company	**29,296**	**(93,998)**

b) Statement of financial position

	2018	2017
Assets	**$'000**	**$'000**
Cash and cash equivalents	76,068	66,534
Trade and other receivables	62,799	75,907
Inventories	13,517	12,353
Other assets	2,694	3,698
Total current assets	**155,078**	**158,492**
Receivables	2,815	3,730
Investments	89,696	72,773
Property, plant and equipment	109,491	113,716
Intangibles	258,995	259,781
Deferred tax assets	62,986	47,243
Total non-current assets	**523,983**	**497,243**
Total assets	**679,061**	**655,735**
Liabilities		
Trade and other payables	67,487	73,586
Borrowings	13,202	11,814
Employee benefits	24,046	24,803
Provisions	-	366
Total current liabilities	**104,735**	**110,569**
Borrowings	479,478	476,043
Borrowings related parties	18,240	15,411
Employee benefits	1,734	4,043
Derivative financial instruments	19,652	23,741
Total non-current liabilities	**519,104**	**519,238**
Total liabilities	**623,839**	**629,807**
Net assets	**55,222**	**25,928**
Equity		
Contributed equity	394,661	394,661
Reserves	1,386	4,605
Accumulated losses	(340,825)	(373,338)
Total equity	**55,222**	**25,928**

30. Parent entity disclosures

As at, and throughout, the financial year ending 30 June 2018 the parent entity of the Group was Barminco Holdings Pty Limited.

	2018 $'000	2017 $'000
Result of parent entity		
Profit for the period	18,175	4,994
Total comprehensive income for the period	**18,175**	**4,994**
Financial position of parent entity at year end		
Current assets	70	70
Total assets	197,374	178,449
Total liabilities	(10,750)	(10,000)
Total equity of the parent comprising of:		
Share capital	394,662	394,662
Interest free loan reserve	6,421	6,421
Accumulated losses	(214,459)	(232,634)
Total equity	**186,624**	**168,449**

Parent entity contingencies

Barminco Holdings Pty Limited has no contingent liabilities as at 30 June 2018. (2017: Nil)

Parent entity capital commitments

Barminco Holdings Pty Limited has no capital commitments as at 30 June 2018. (2017: Nil)

Parent entity guarantees in respect of the debts of its subsidiaries

The parent entity has entered into a Deed of Cross Guarantee with the effect that the Company guarantees debts in respect of its subsidiaries.

Further details of the Deed of Cross Guarantee and the subsidiaries subject to the deed are disclosed in note 29.

31. Contingencies

Contingent liabilities

Contingent liabilities include;

(i) bank guarantees provided under the syndicated debt working capital facilities;

(ii) insurance performance bonds for mining clients.

The table below outlines the exposure and limits respectively.

	Outstanding as at 30 June 2018 $'000	Limit as at 30 June 2018 $'000	Outstanding as at 30 June 2017 $'000	Limit as at 30 June 2017 $'000
Bank guarantee	3,610	3,610	2,760	2,760
Insurance bond	-	-	-	-
	3,610	**3,610**	**2,760**	**2,760**

A jointly controlled entity (AUMS Mali) was subject to a routine taxation inspection by the Mali tax authority in 2016. The authority has assessed additional taxes. The company is currently working with the tax authorities in Mali for resolution. The total additional tax assessed on the jointly controlled entity is $21,500,000 of which $8,300,000 has been paid. Based on legal advice received, the company believes that no additional tax liability exists and therefore no additional taxation provision is recognised. The maximum assessment for additional tax that has not been provided for is the equivalent of A$6,600,000 being the 50% Group's share.

Off balance sheet arrangements

Other than operating leases, as set out in note 22, the Group does not have any material off balance sheet arrangements.

Barminco Holdings Pty Limited

Directors' Declaration
For the year ended 30 June 2018

1) In the opinion of the directors of Barminco Holdings Pty Limited:
   a) the annual financial report and notes that are set out on pages 9 to 67, are in accordance with the Corporations Act 2001, including:
      i) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and
      ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
   b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2) There are reasonable grounds to believe that the Company and the group entities identified in note 28 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Class Order 98/1418.
3) The directors draw attention to note 2a) to the annual financial report, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Keith Gordon

K. Gordon
Chairman
Perth, WA, 14 August 2018

Independent Auditor's Report

To the shareholders of Barminco Holdings Pty Ltd

Opinion

We have audited the ***Financial Report*** of Barminco Holdings Pty Ltd (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group***'s financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 30 June 2018
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the year end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 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 fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

The ***Key Audit Matters*** we identified are:

- Valuation of goodwill
- Recoverability of deferred tax assets in Australia

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.

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<table>
<tr><th colspan="2">Valuation of goodwill ($256.9 million)</th></tr>
<tr><td colspan="2">Refer to Note 14 to the financial report</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>A key audit matter for us was the Group's annual testing of goodwill for impairment, given the size of the balance (being 36% of total assets). Certain market conditions impacting the Group increased the judgement applied by us when evaluating the evidence available. We focused on the significant forward-looking assumptions the Group applied in their fair value less costs of disposal model, including:

Forecast cash flows – the global underground mining services sector, within which the Group operates, has experienced competitive market conditions as a result of volatility in commodity prices. These conditions increase the risk of inaccurate forecasts.
Forecast growth rates and terminal growth rates – the Group's fair value less costs of disposal model is highly sensitive to small changes in these assumptions which reduces headroom. This drives additional audit effort specific to their reasonability and consistency of application to the Group's strategy.
Discount rate - these are complicated in nature and vary according to the conditions and environment the specific Cash Generating Unit (CGU) is subject to from time to time. The Group's modelling is sensitive to small changes in the discount rate.

The Group's model to perform their annual testing of goodwill for impairment is largely manually developed, using adjusted historical performance, and a range of internal and external sources as inputs to the assumptions. These conditions necessitate additional scrutiny and professional scepticism by us, in particular to address the objectivity of sources used for assumptions, and their consistent application.

We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.</td>
<td>Our procedures included:

We considered the appropriateness of the fair value less costs of disposal method applied by the Group to perform the annual test of goodwill for impairment against the requirements of the accounting standards.
We assessed the accuracy of the underlying calculation formulas in the fair value less costs of disposal model used.
We compared the forecast cash flows contained in the fair value less costs of disposal model to Board approved forecasts.
We assessed the accuracy of previous Group forecasts by comparing to actual results to determine the reasonability of forecasts incorporated in the model. We noted previous trends where competitive market conditions existed and how they impacted the business, and evaluated their impact on current forecasts including sensitivities.
We considered the sensitivity of the model by varying key assumptions, such as project profit margins, forecast growth rates, terminal growth rates and the discount rate, within a reasonably possible range, to identify those assumptions at higher risk of bias or inconsistency in application and to focus our further procedures.
We challenged the Group's significant forecast cash flows and growth assumptions. We compared forecast growth rates and terminal growth rates to published studies of industry trends and expectations, and considered differences for the Group's operations. We used our knowledge of the Group, their past performance, business and customers, and our industry experience.
</td></tr>
</table>

- Working with our valuation specialists we analysed the Group's discount rate against publicly available data of a group of comparable entities.
- We assessed the disclosures in the financial report using the results of our testing and against the requirements of the accounting standards.

Recoverability of deferred tax assets in Australia ($63.3 million)

Refer to Note 8 to the financial report

The key audit matter

The Group has recognised deferred tax assets of $63.3 million as at 30 June 2018, of which $60.4 million arises from tax losses carried forward in Australia.

During the year, the Group revised its estimates, resulting in the recognition of additional deferred tax assets of $15.7 million. Of this amount, $12.6 million relates to the recognition of previously unrecognised tax losses.

Deferred tax assets are only recognised if certain conditions under Australian tax law are satisfied and if it is probable that sufficient taxable profits will be generated in order for the benefits of the deferred tax assets to be realised. These benefits are realised by reducing tax payable on future taxable profits.

Recoverability of deferred tax assets in Australia was a key audit matter due to:

- The significance of these assets recognised by the Group and the significant judgement required to assess the probability that sufficient taxable profits can be generated in light of the tax losses recorded in the current and previous financial years.
- As described in the valuation of goodwill key audit matter above, the global underground mining services sector, within which the Group operates, has experienced competitive market conditions as a result of volatility in commodity prices of the Group's customers. This impacted the Group through continued pricing and margin pressure. These conditions increase the possibility that deferred tax assets are not

How the matter was addressed in our audit

Working with our specialists, our procedures included:

- We examined the documentation prepared by the Group and the Group's external tax advisors underlying the availability of tax losses that were recognised in accordance with Australian tax law.
- We assessed the availability of tax losses by comparing the Group's schedule of tax losses carried forward to the revised schedule contained within the Deed of Settlement with the ATO.
- We assessed the factors that led to the Group incurring tax losses in the current year and previous years and challenged the Group's assessment that taxable profits will be generated in the foreseeable future. The Group's assessment of future taxable profits is based on forecast cash flows. The basis for which were as described and tested in the valuation of goodwill Key Audit Matter. We challenged the differences in forecast cash flows to taxable profits by evaluating whether cash flows had been appropriately adjusted for differences between accounting profits, as presented in the Board approved budget and forecast, to taxable profits in accordance with Australian tax legislation.
- We assessed the disclosures in the financial report using the results from our testing and against the requirements of the accounting standards.

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recoverable. • The requirements under the Australian Accounting Standards and Australian tax law to recognise deferred tax assets for tax losses are complex and the incorrect application of these requirements could result in a substantial effect on the Group's statement of profit or loss and other comprehensive income. • As disclosed in Note 8, the Group has settled a dispute the Australia Tax Office (ATO) and total carry forward tax losses in Australia have reduced. This increases our focus on the availability of tax losses carried forward. We involved tax specialists to supplement our senior team members in assessing this key audit matter.	

Other Information

Other Information is financial and non-financial information in Barminco Holdings Pty Ltd's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we 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.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

• preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*

• implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error

• assessing the Group and Company's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

• 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 *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our Auditor's Report.

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Graham Hogg
Partner
Perth
14 August 2018