



## HRL Holdings Limited Appendix 4E 2017 Final Report Results for Announcement to the Market

**21 August 2017**

### 1. Company Details and Reporting Period

Name of Entity:	HRL Holdings Limited
ABN:	99 120 896 371
Reporting Period:	30 June 2017
Previous Corresponding Period:	30 June 2016

### 2. Results for Announcement to the Market \$

Revenue from ordinary activities up 63% to: 13,648,858

Net profit for the period attributable to members up 11% to: 130,420

No dividends were paid or payable during the period.

Refer to pages 8 to 11 of the Financial Statements for the operational and financial review of the Entity.

### 3. Statement of Comprehensive income with Notes to the Statement

Refer to Page 26 of the 2016 Financial Statements and accompanying Notes.

### 4. Balance Sheet with Notes to the Statement

Refer to Page 27 of the 2017 Financial Statements and accompanying Notes.

### 5. Statement of Cash Flows with Notes to the Statement

Refer to Page 29 of the 2017 Financial Statements and accompanying Notes.

### 6. Dividends

No dividends were paid or payable during the period.

### 7. Statement of Changes in Equity

Refer to Page 28 of the 2017 Financial Statements and accompanying Notes.

### 8. Net Tangible Assets per Security

2017 \$0.029

2016 \$0.006



**9. Entities over which Control has been Gained or Lost during the Period.**

Refer to Page 59 of the 2017 Financial Statements.

**10. Associates and Joint Venture Entities**

Not applicable.

**11. Other Significant Information**

Not applicable.

**12. Accounting Standards used for Foreign Entities**

Not applicable.

**13. Commentary on the Results for the Period**

Refer to pages 8 to 11 of the Financial Statements for the operational and financial review of the Entity.

**14. Status of Audit**

The attached 2017 Financial Statements have been audited.

**15. Dispute or Qualifications if not yet audited**

Not applicable.

**16. Dispute or Qualifications if audited**

Not applicable.

A handwritten signature in blue ink that reads 'Paul Marshall'.

**Paul Marshall**  
Company Secretary  
21 August 2017



**HRL HOLDINGS LIMITED**

**ANNUAL REPORT**

**FOR THE YEAR ENDED**

**30 JUNE 2017**

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# CEO'S LETTER

Dear Shareholders,

Your Directors and I have much pleasure in presenting the 2017 Annual Financial Statements for the HRL Group.

## Introduction and the past year in review

2016-17 was the second full financial year for HRL as an environmental services business. It was an exciting and transformational year for HRL as we expanded across geographical locations and service lines. The group now operates from 12 branch locations and offers integrated services including field sampling, laboratory analysis and cloud hosted data management.

Throughout the year Precise Consulting and OCTIEF have focussed on developing a high performing culture sustainably expanding their business.

There has been substantial investment in organic expansion leveraging the expanded geographic coverage of the business. Whilst these organic expansion activities come at a cost to both short term cashflows and profits, the business is now more robust and we expect financial benefits will flow in coming periods from both increased volumes and margin protection.

All OCTIEF and Precise Consulting & Laboratory branches now offer methamphetamine investigation services. Precise Consulting achieved the highly regarded IANZ accreditation for field sampling work and the newest laboratory in Auckland obtained its asbestos analysis accreditation. OCTIEF recently achieved a NATA accreditation for gravimetric dust sampling and has begun expanding the Brisbane laboratory for additional chemistry services for soil analysis.

The key milestones achieved throughout the year include:

- March 2017 – \$8.5m capital raise to fund acquisitions. The raise was supported by existing shareholders, new institutional investors and all Board and Key Management.
- March 2017 – Acquisition of Morrison Geotechnic expanding HRL service offerings into engineering and construction material laboratory testing services
- April 2017 – Precise Consulting & Laboratory Auckland branch achieves IANZ laboratory accreditation
- April 2017 – Acquisition of the OCTFOLIO business - a SaaS platform for managing client compliance registers
- June 2017 – OCTIEF achieves NATA accreditation for gravimetric dust laboratory services

The core business of environmental services has grown substantially in the past year and is now characterised by:

- 12 branch locations across Australian and New Zealand, including 10 accredited laboratories
- The new Geotech service line will contribute upwards of 40% of the group turnover with the balance coming from HAZMAT and software
- Business scale has improved with corporate costs as a percentage of revenue decreasing from 15% in FY2016, to 11% in FY2017. This trend is expected to continue into FY2018 with full year contribution from the Morrison and OCTFOLIO businesses
- Expanded service capabilities, including:
  - Hazardous material consulting and laboratory services (such as asbestos, lead, synthetic mineral fibres, gravimetric dust, chemical contamination and illegal clandestine laboratory investigations);
  - Geotechnical engineering and the associated laboratory construction material testing;
  - Environmental management (such as contaminated land investigations, water quality, dust and noise monitoring); and
  - Training and technology solutions.

## Outlook for FY2018

We expect the Australian HAZMAT businesses to continue their improvement into the next financial year. OCTIEF has secured some large panel contracts within all states and territories across our existing and new branches. The New Zealand market for HAZMAT services is still in its infancy and through the Precise brand we expect to continue to see exciting growth in this region.

# CEO'S LETTER

The Australian outlook for infrastructure and civil projects is positive and Morrison Geotechnic is well positioned to capitalise on this. HRL will focus on investing in higher throughput laboratory equipment and streamlining field processes to ensure Morrison remain a market leader in both quality and value for money.

OCTFOLIO are focussing on growing the subscription revenue for the coming year and are targeting a strong pipeline of both government and corporate leads. All additional revenue generated from SaaS fees will contribute strongly to the bottom line.

HRL is focused on executing the following strategic objectives for FY2018:

1. Leverage the current branch network to expand new service lines and increase market share;
2. Expand laboratory services into higher end chemistry and environmental services through commissioning new services or strategic acquisitions;
3. Invest in high throughput technics for our laboratories to protect or increase margins; and
4. Continue to seek attractive new business opportunities to add to the group.

In closing, I would like to take this opportunity to thank our Chairman and Board for their guidance over the past year and also to thank all of the HRL Group's employees for their dedication and hard work. My thanks also to you, our shareholders for your ongoing support in FY17. I look forward to keeping you updated on our progress in FY18 and the transformation of HRL to one of Australia's and New Zealand's leading environmental services groups.



Steven Dabelstein  
CEO

# DIRECTORS' REPORT

## DIRECTORS' REPORT

Your Directors present their report on the Consolidated Entity consisting of HRL Holdings Limited ("HRL" or "Company") and the entities it controlled at the end of, or during, the year ended 30 June 2017.

## DIRECTORS

The following persons were directors of HRL Holdings Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Name	Position	Period of Directorship
Kevin Maloney	Non-Executive Chairman	Appointed 15 September 2014
Darren Anderson	Executive Director	Appointed 15 September 2014
Mark Elliott	Non-Executive Director	Appointed 11 August 2006
John Taylor	Non-Executive Director	Appointed 25 November 2014
Frederick Kempson	Alternate Non-Executive Director	Appointed 15 September 2014

### Kevin Maloney

*Non-Executive Chairman*

Mr Kevin Maloney is the founder and Chairman of the Australian investment entity Tulla Group and has built an extensive career in retail banking, finance and resources.

One of Kevin's many career highlights was as founder and Executive Chairman of The MAC Services Group (The MAC), which was sold to Oil States International in 2010 for \$651 million. Kevin was heavily involved in all stages of The MAC's growth, including its move into mining services accommodation in 1996.

Kevin has been involved with numerous public companies as both an executive and director. After spending 20 years with ANZ Bank, Kevin joined Elders Resources Finance Limited in 1981, progressing to Chief Executive Officer before moving on to his own business enterprises.

Mr Maloney is currently a director of the following other ASX listed company:

- Altona Mining Limited (appointed July 2009)

### Darren Anderson

*Executive Director*

Mr Darren Anderson was formerly the Executive Director and Chief Operating Officer of Diversified Mining Services Ltd, an unlisted public company that at its peak in mid-2012 had consolidated revenue in excess of \$200 million and 850 personnel.

Previous career highlights include 15 years spent as founder and Executive Director of the Anderson Group of Companies, which grew from a single person operation in Mackay to a company with in excess of 300 employees and 12 operating divisions across both Queensland and New South Wales that serviced the Australian and international coal industries.

He has not been a Director of any other Australian listed company in the last three years.

# DIRECTORS' REPORT

## **Mark Elliott**

*Non-Executive Director*

Dip App Geol., PhD, FAICD, FAusIMM(CP), FAIG

Dr Elliott is a Chartered Professional (CP) geologist with over 40 years' experience in economic geology, exploration, mining, project development and corporate management. He has extensive experience in managing companies and exploration/mining operations in a wide range of commodities including energy.

He has a diploma in Applied Geology from the Ballarat School of Mines and a Doctor of Philosophy degree from the University of New South Wales. He is a Fellow of the Australian Institute of Company Directors, Australasian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists.

Dr Elliott is currently a director of the following other ASX listed companies:

- Nexus Minerals Ltd (Oct 2006 – present)
- Aruma Resources Ltd (July 2017 – present)

## **John Taylor**

*Non-Executive Director*

LLB, Grad Dip ACG

Mr Taylor is the founding partner of Taylors Solicitors, Mackay, a Senior Counsellor of the Queensland Law Society and has over 30 years' experience in commercial and property transactions and litigation.

John Taylor was, from 2006 and 2010, a director of ASX listed The MAC Services Group Limited, where he was Chair of the Remuneration and Nomination Committee and a member of the Audit and Risk Management Committee. He is also a former Chair of the Mackay Port Authority and a Board member of Tourism Mackay and Mackay Regional Economic Bureau.

He has not been a Director of any other Australian listed company in the last three years.

## **Frederick Kempson**

*Alternate Non-Executive Director*

BComm

Fred Kempson brings a wealth of experience to the Board of Directors from the highly-specialised spectrum of international investment banking and corporate governance.

Fred has held a range of senior executive positions within the international investment banking arena including a significant period as Managing Director of ANZ's investment bank AIFC Limited, and Vice President of Security Pacific Limited.

During his time as Vice President of Security Pacific Bank, in 1992 the bank merged with San Francisco-based Bank America (now called Bank of America), in a deal that was at the time one of the largest bank mergers in history.

Fred is currently also Managing Director of Kempson Capital, Director of AHA Retail Partners Ltd a UK public company and holds a Bachelor of Commerce from the University of New South Wales.

Mr Kempson was a director of the following other ASX listed company:

- Victor Group Holdings (Jan 2014 – July 2015)



# DIRECTORS' REPORT

## DIRECTOR INTERESTS IN THE SHARES AND OPTIONS OF THE CONSOLIDATED ENTITY

As at the date of this report, the interests of the Directors in the shares and options of HRL Holdings Limited are shown in the table below:

Director	Fully Paid Ordinary Shares
Kevin Maloney	61,209,491
Darren Anderson	21,172,397
Mark Elliott	3,123,634
John Taylor	1,673,077
Frederick Kempson	-

## MEETINGS OF DIRECTORS

The following table sets out the number of meetings of the Company's Directors held during the year ended 30 June 2017 and the number of meetings attended by each Director.

	Meetings attended	Eligible to attend
Kevin Maloney	6	6
Darren Anderson	6	6
Mark Elliott	6	6
John Taylor	6	6
Frederick Kempson	5	6

There are no committees of directors. All relevant matters are considered by the Board.

## SENIOR MANAGEMENT

**Paul Marshall**  
*Company Secretary*

*LLB, ACA*

Mr Marshall holds a Bachelor of Law degree, a post Graduate Diploma in Accounting and is a Chartered Accountant. He has more than thirty years' experience initially with Ernst & Young and subsequently twenty years spent in commercial roles as Company Secretary and CFO for a number of listed and unlisted companies mainly in the resources sector. He has extensive experience in all aspects of company financial reporting, corporate regulatory and governance areas, business acquisition and disposal due diligence, capital raising and company listings and company secretarial responsibilities.

**Steven Dabelstein**  
*Chief Executive Officer*

*BComm, CPA*

Mr Dabelstein has a strong financial and operational background in various roles, including most recently as General Manager Commercial and QLD Mining/Maintenance Services with Diversified Mining Services Limited.

Mr Dabelstein's experience includes public practice accounting, manufacturing, service and the construction industries. Previous roles have provided exposure to large-scale international businesses reporting through and working with companies in the US, Asia and Europe.

# DIRECTORS' REPORT

## Michael Harvey

Chief Finance Officer

*BBus, B AppSci, Grad Dip ICAA, Grad Dip CSA, CA, GAIA*

Mr Harvey is a Chartered Accountant and Chartered Secretary. Mr Harvey holds Bachelor degrees in Business and Property Economics and post Graduate Diplomas in Accounting and Corporate Governance.

He has more than 15 years in the accountancy profession in Australia, having worked for PKF for eight years in audit, and subsequently over five years in commercial roles as financial controller for a number of listed companies mainly in the property and resources sector. Mr Harvey has experience in all aspects of company financial reporting, internal control, corporate regulatory and governance areas, business acquisition and disposal, due diligence, and company secretarial responsibilities.

## PRINCIPAL ACTIVITIES

The HRL Group is a diversified environmental and geotechnical service provider with offices and laboratory facilities across Australia and New Zealand.

The Group offers services including;

- industrial hygiene, with a focus on asbestos and hazardous materials management;
- geotechnical testing and engineering services;
- property contamination testing and work place drug testing;
- environmental services (air, water and soil including contaminated land);
- environmental and property management software solutions; and
- specialised NATA/IANZ - accredited laboratory analysis and on-site testing and monitoring.

## ENVIRONMENTAL REGULATION AND PERFORMANCE

The Company's operations are subject to environmental regulations in relation to its consulting and laboratory activities. The Directors are not aware of any breaches during the period covered by this report.

## REVIEW OF OPERATIONS

Over the last year HRL Holdings Limited has continued to focus on expanding its service capabilities. The Company has achieved a number of key milestones:

- Acquisition of Morrison Geotechnic in March 2017;
- Acquisition OCTFOLIO in April 2017;
- Service line expansion with a new laboratory opened in Auckland;

Below are the key highlights:

### Acquisition of Morrison Geotechnic

On 31 March 2017, HRL completed the acquisition of Morrison Geotechnic Holdings Pty Ltd (Morrison Geotechnic). The Morrison Geotechnic acquisition represents a strategic expansion into a new market for HRL.

Established for over 17 years, Morrison Geotechnic services the civil, engineering and construction industries primarily across South East Queensland. The Company has 3 branches covering Brisbane, Gold Coast and the Sunshine Coast. With a portfolio of over 12,000 completed projects, Morrison Geotechnic provides a breadth of engineering and laboratory expertise across its target sectors and geography.

Morrison Geotechnic provide a range of services and analysis including:

- Geotechnical investigations and studies;
- Temporary works designs and inspections;
- Construction phase verification;
- Earthworks supervision;
- Soil, concrete and aggregate testing in its NATA accredited laboratories; and
- Onsite mobile laboratory testing.

# DIRECTORS' REPORT

## Acquisition of OCTFOLIO

On 13 April 2017, HRL completed the acquisition of Integrated Holdings Group Pty Ltd (IHG) to acquire 100% of the issued capital in IHG. IHG is the holding entity of OCTFOLIO Pty Ltd (OCTFOLIO) and has no other operations or assets.

OCTFOLIO is an Australian-based specialised software vendor focused on the development and implementation of:

- Information management software solutions for asbestos and hazardous materials;
- Innovative field management software solutions; and
- Customised compliance solutions and applications relating to workplace health and safety.

OCTFOLIO provides the following services:

- Hosting of HAZMAT compliance data and registers;
- Quality management systems;
- Laboratory management systems;
- Field surveying tools;
- On demand programming services;
- Data migrations; and
- Training.

OCTFOLIO is a versatile and adaptive application that provides asset owners the control and insight to their portfolio which is currently lacking from traditional paper based systems. The OCTFOLIO suite enables HRL businesses to position themselves as offering industry best practice solutions to our clients with larger asset portfolios – the key target market segment for the Group.

## Auckland laboratory expansion

During the year HRL commissioned and accredited laboratory facilities in its recently opened Auckland branch. The Auckland market is the largest market in New Zealand for Precise's major service offerings of asbestos and property contamination testing. It is also home to New Zealand's largest corporate, educational and government organisations – the key target customer segments for Precise.

The accredited laboratory is a key factor in growing Precise's operations in Auckland. Precise now offers an all in one audit, testing and compliance management service for the Auckland market. The branch will also be targeting the external laboratory market aggressively which is the largest by size in New Zealand.

## Trading Review

### New Zealand

New Zealand operations were strong in FY2017.

OCTIEF Limited (NZ) successfully completed its second large scale survey works project for Chorus New Zealand Limited (Chorus) across the North and South Islands of New Zealand.

Precise Consulting continued its strong performance with the Wellington, Dunedin and Palmerston North branches all performing above expectations.

With laboratory accreditation granted in late April, the Auckland branch can now focus on capturing work across the largest external laboratory market in New Zealand.

Earthquake rebuild activities in Christchurch have now tapered off. Anticipating this Precise has spent the last 6 months transitioning resources and focusing business development on its other branches.

### Australia

Australian activity saw significant improvement during the year.

The Queensland market was especially strong in the second half of the year. Asbestos audits for state based assets operate on a 3-year cycle. Q3 FY2017 represented the start of this cycle and this trend should continue across the remainder of this calendar year. The environmental engineering/sciences service line continued its recent growth securing a number of large contaminated land projects during the year.

# DIRECTORS' REPORT

Activity in the ACT branch remained strong with work continuing on NSW loose-fill asbestos insulation program. This work is expected to continue through calendar 2017 and will compliment normal ongoing work from ACT based projects.

OCTIEF was recently awarded a significant contract by the Northern Territory Department of Housing and Community Development to carry out asbestos surveys across a range of public housing assets throughout the Darwin, Casuarina and Palmerston regions of the Northern Territory. The contract is expected to be completed over a 6 month period and will be serviced out of the Darwin branch. The project commenced in early August 2017.

In the 3 months since acquisition, Morrison Geotechnic has performed very well contributing \$2.3M to group revenues. Morrison Geotechnic has a strong pipeline of works already secured focusing on civil works (roads and bridges), large property developments and industrial projects.

OCTFOLIO joined the group in mid-April. Since then it has won a new contract with South32. South32 will utilise the OCTFOLIO software platform for its asbestos registers on their Cannington and Groote Eylandt assets in Queensland and the Northern Territory respectively.

## FINANCIAL REVIEW

Key financial headlines of the HRL Group's 30 June 2017 results are:

- Statutory profit after tax of \$130,420
- Underlying profit after tax of \$789,784 <sup>1</sup>
- Revenues of \$13,646,447
- Net assets of \$15,111,992

<sup>1</sup> Underlying profit reflects statutory profit as adjusted to reflect the Directors' assessment of the result for the ongoing business activities of the Group, in accordance with AICD/Finsia principles of recording underlying profit. Underlying profit has not been audited.

The following table summarises key reconciling items between the Group's statutory profit and underlying profit after tax:

	June 2017	June 2016
	\$	\$
Underlying EBITDA	1,509,017	1,074,645
Operating depreciation and amortisation	(337,216)	(179,386)
Interest	(99,278)	(81,719)
Operating tax	(282,739)	(225,686)
<b>Underlying profit after tax</b>	<b>789,784</b>	<b>587,854</b>
<i><u>Non-operating adjustments</u></i>		
Acquisition related expenses	(86,633)	(91,378)
Amortisation of intangible assets arising from acquisitions	(528,975)	(307,598)
Morrison Geotechnic earn out	(62,500)	-
Precise earn out	-	(239,552)
Management performance shares & broker options	(203,636)	-
Geothermal costs	(16,884)	-
Non-operating tax	239,265	168,662
<b>Statutory profit after income tax</b>	<b>130,420</b>	<b>117,988</b>

In the opinion of the Directors, the Group's underlying profit reflects the results generated from ongoing operating activities and is calculated in accordance with AICD/Finsia principles. The non-operating adjustments outlined above are considered to be non-cash or non-recurring in nature. These items are included in the Group's consolidated statutory

# DIRECTORS' REPORT

result but excluded from the underlying result.

## Comparison with the Prior Period

Underlying profit after tax for the year increased by \$201,930 compared with the prior period. The key reasons for the movement were:

- The additional revenue and profit resulting from the acquisition of Morrison Geotechnic from 31 March 2017;
- The additional revenue and profit resulting from the acquisition of OCTFOLIO from 13 April 2017;
- Decline in activity in Christchurch;
- Additional employee, administration and corporate costs reflecting the increase in the size of the Group.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The following significant changes occurred during the year:

- Acquisition of Morrison Geotechnic Holdings Pty Ltd (March 2017);
- Acquisition of Integrated Holdings Group Pty Ltd (April 2017); and
- Issue of 85,283,375 ordinary shares at \$0.10 per share via a rights issue and share placement.

## LIKELY DEVELOPMENTS AND FUTURE OPERATIONS

During FY2018, the Group will continue to focus on growing its HAZMAT, geotechnical and software businesses:

- Focussed business development plans to target new customers and protect the existing customer base;
- Utilising new equipment and software platforms to improve efficiencies and margins;
- Continued focus on cross selling opportunities across the HAZMAT and geotechnical businesses;
- Development of new service lines in the Australian market;
- Geographical expansion into new markets when justified; and
- Development of new functionality for the OCTFOLIO software platform and aggressive targeting of new customers.

In addition, the Group will continue to evaluate acquisition opportunities of high quality businesses both within the environmental services sector and across other complimentary industries.

## INDEMNIFICATION OF OFFICERS OR AUDITOR

Each of the Directors and the Secretary of the Company has entered into a Deed with the Company whereby the Company has provided certain contractual rights of access to books and records of the Company and certain indemnification to those Directors and Secretary.

The Company has insured all of the Directors of HRL Holdings Limited. The contract of insurance prohibits the disclosure of the nature of the liabilities covered and amount of the premium paid. *The Corporations Act 2001* does not require disclosure of the information in these circumstances.

The Company has not indemnified its auditor.

## PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purposes of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

# DIRECTORS' REPORT

## SHARE OPTIONS AND PERFORMANCE SHARES

Details of options issued, exercised, and expired during the financial year are set out below:

Expiry Date	Exercise Price	Movements				30 June 2017
		1 July 2016	Issued	Exercised	Expired	
31 December 2019	\$0.18	-	1,600,000	-	-	1,600,000
31 December 2019	\$0.20	-	1,600,000	-	-	1,600,000
31 December 2019	\$0.23	-	1,600,000	-	-	1,600,000
		-	4,800,000	-	-	4,800,000

Details of performance shares issued, exercised and expired during the financial year are set out below:

Expiry Date	Exercise Price	Vesting Price <sup>1</sup>	Movements				30 June 2017
			1 July 2016	Issued	Exercised	Expired	
30 June 2019	\$Nil	\$0.156	-	1,029,556	-	-	1,029,556
30 June 2019	\$Nil	\$0.194	-	1,029,556	-	-	1,029,556
30 June 2019	\$Nil	\$0.234	-	1,029,555	-	-	1,029,555
			-	3,088,667	-	-	3,088,667

### <sup>1</sup> Vesting Conditions

#### Primary Vesting Condition

From the 30 day VWAP of HRL's share price at 1 July 2016, any of the following increases occur:

- HRL share price increases 33% within 1 year; or
- HRL share price increases 66% within 2 years; or
- HRL share price increases 100% within 3 years.

The HRL share price must remain above the nominated target for the relevant period for 14 consecutive trading days.

#### Secondary Vesting Condition

The Performance Shares will vest in proportion to the number of years' service after the plan is implemented:

- First 33% of the performance shares vest after 1 year of service from plan commencement;
- Next 33% performance shares vest after 2 years of service from plan commencement;
- Final 34% performance shares vest after 3 years of service from plan commencement.

The Performance Shares will lapse if none of the pricing conditions are met or the participant does not meet the service conditions.

## AFTER BALANCE DATE EVENTS

There have been no other events since 30 June 2017 that impact upon the financial report.

## REMUNERATION REPORT

The Remuneration Report set out on pages 14 to 22 provides details of the remuneration and equity holdings of the Directors and Key Management Personnel, including details of equity instruments issued or exercised during the financial year, or outstanding at the date of this report, and forms part of the Directors' Report.

## DIVIDENDS

No dividends were paid or declared during the financial year.

# DIRECTORS' REPORT

## NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important. Details of the amounts paid or payable to the auditor (BDO Audit Pty Ltd and its associated entities) for non-audit services provided during the year are set out below.

The Board of Directors has considered the position and, in accordance with advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermines the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

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

Taxation services	\$26,927
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## AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration on page 23 forms part of the Directors' Report.

Signed in accordance with a resolution of the board of directors of HRL Holdings.



Darren Anderson  
Director  
Brisbane, 21 August 2017

# REMUNERATION REPORT - AUDITED

This report details the nature and amount of remuneration for Directors and Key Management Personnel of the Company.

## Remuneration Policy

The performance of the Company depends upon the quality of its Directors and Executives. To prosper, the Company must attract, motivate and retain highly skilled Directors and Executives.

## Remuneration Committee

The Board does not have Remuneration or Nomination Committees. The full Board is responsible for determining and reviewing compensation arrangements for the Directors and the Executive team.

The Board assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and Executive team.

Officers are given the opportunity to receive their base emoluments in a variety of forms including cash and fringe benefits. It is intended that the manner of payments chosen will be optimal for the recipient without creating undue cost for the company.

## Remuneration structure

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and Executive team by remunerating Directors and other Key Management Personnel fairly and appropriately with reference to relevant employment market conditions.

To assist in achieving this objective, the Board considers the nature and amount of Executive Directors' and Officers' emoluments alongside the company's financial and operational performance. The expected outcomes of the remuneration structure are the retention and motivation of key Executives, the attraction of quality management to the Company and performance incentives which allow Executives to share the rewards of the success of the company.

In accordance with best practice corporate governance, the structure of Executive and Non-Executive Director remuneration is separate and distinct.

## Non-Executive Director Remuneration

The Board seeks to set aggregate remuneration at a level which provides the company with the ability to attract and retain Directors of the highest caliber, whilst incurring a cost which is acceptable to shareholders.

The Constitution of HRL Holdings Limited and the ASX Listing Rules specify that the Non-Executive Directors are entitled to remuneration as determined by the Company in a General Meeting to be apportioned among them in such manner as the Directors agree and, in default of agreement, equally. The maximum aggregate remuneration currently approved by shareholders for Directors' fees is for a total of \$250,000 per annum.

If a Non-Executive Director performs extra services, which in the opinion of the Directors are outside the scope of the ordinary duties of the Director, the company may remunerate that Director by payment of a fixed sum determined by the Directors in addition to or instead of the remuneration referred to above. Non-Executive Directors are entitled to be paid travel and other expenses properly incurred by them in attending Directors or General Meetings of the Company or otherwise in connection with the business of the Company.

The remuneration of Non-Executive Directors for the year ended 30 June 2017 is detailed in this Remuneration Report.

## Executive Director and Senior Management Remuneration

The Company aims to reward Executive Director and Senior Management with a level and mix of remuneration commensurate with their position and responsibilities within the company and so as to:

- reward Executives for Company and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of Executives with those of shareholders;
- link reward with the strategic goals and performance of the Company; and
- ensure total remuneration is competitive by market standards.

The remuneration of the Executive Director and Senior Management may from time to time be fixed by the Board. As noted above, the Board's policy is to align Executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering short-term and long-term incentives. The level of fixed remuneration is set



# REMUNERATION REPORT - AUDITED

so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market. Fixed remuneration is reviewed annually by the Board, and the process consists of a review of company wide and individual performance, relevant comparative remuneration in the market and internal, and where appropriate, external advice on policies and practices.

In relation to the payment of bonuses, options and other incentive payments, discretion is exercised by the Board, having regard to the overall performance of the Company and the performance of the individual during the year.

The remuneration of the Executive Directors and Senior Management for the period ended 30 June 2017 is detailed in this Remuneration Report.

## **Employment contracts**

It is the Board's policy that employment agreements are entered into with all Directors, Executives and employees. The current employment agreement with the Executive Director and CEO has a three month notice period. All other employment agreements have one month (or less) notice periods. No current employment contracts contain early termination clauses. All Non-Executive Directors have contracts of employment. None of these contracts have termination benefits.

### Non-Executive Chairman Arrangements

The Company entered into a service arrangement with Mr Kevin Maloney as Non-Executive Chairman of the Company commencing from 15 September 2014. The key terms of the arrangement are:

- Ongoing contract – no fixed term;
- Fee of \$75,000 per annum;
- No notice period.

### Non-Executive Director Arrangements

The Company entered into a service arrangement with Dr Mark Elliott and Mr John Taylor as Non-Executive Directors of the Company commencing from 15 September 2014 and 25 November 2014 respectively. The key terms of the arrangement are:

- Ongoing contract – no fixed term;
- Fee of \$40,000 per annum;
- No notice period.

### Executive Director Arrangements

The Company entered into an employment contract with Mr Darren Anderson as Executive Director of the Company commencing from 15 September 2014. The key terms of the contract are:

- Ongoing contract – no fixed term;
- Salary of \$250,000 per annum, inclusive of statutory superannuation contributions;
- 6 weeks annual leave;
- motor vehicle allowance;
- Annual bonus at the Board's discretion;
- 3 month notice period.

# REMUNERATION REPORT - AUDITED

## Chief Executive Officer Arrangements

The Company entered into an employment contract with Mr Steven Dabelstein as Chief Executive Officer of the Company commencing from 1 January 2015. The key terms of the contract are:

- Ongoing contract – no fixed term;
- Salary of \$250,000 per annum, inclusive of statutory superannuation contributions;
- 4 weeks annual leave;
- Use of a company motor vehicle;
- Annual bonus at the Board's discretion.
- 3 month notice period.

## Chief Finance Officer Arrangements

The Company entered into an employment contract with Mr Michael Harvey as Chief Finance Officer of the Company commencing from 1 September 2016. The key terms of the arrangement are:

- Ongoing contract – no fixed term;
- Fee of \$160,000 per annum, inclusive of statutory superannuation contributions;
- 4 weeks annual leave;
- 3 month notice period.

## Company Secretary Arrangements

The Company entered into a service arrangement with Mr Paul Marshall as Company Secretary of the Company commencing from 15 September 2014. The key terms of the arrangement are:

- Ongoing contract – no fixed term;
- Fee of \$52,000 per annum;
- One month notice period.

# REMUNERATION REPORT - AUDITED

## Details of Directors and other Key Management – HRL Holdings Limited

Name	Position	Period of Service
<b>Directors</b>		
Kevin Maloney	Non-Executive Chairman	Appointed 15 September 2014
Darren Anderson	Executive Director	Appointed 15 September 2014
Mark Elliott	Non-Executive Director	Appointed 11 August 2006
John Taylor	Non-Executive Director	Appointed 25 November 2014
Frederick Kempson	Alternate Non-Executive Director	Appointed 15 September 2014
<b>Key Management</b>		
Steven Dabelstein	Chief Executive Officer	Appointed 1 January 2015
Michael Harvey	Chief Finance Officer	Appointed 15 September 2014
Paul Marshall	Company Secretary	Appointed 2 July 2007

# REMUNERATION REPORT

## Remuneration of Directors and other Key Management Personnel – 2017

	Short Term Benefits		Non-monetary benefits	Long Term Benefits	Post Employment Benefits	Equity based Benefits	Total	Performance Related %	% of bonus forfeited
	Salary/ Director fees	Consulting fees		Leave benefits	Superannuation	Performance Shares			
<b>Directors</b>									
Kevin Maloney	47,780	-	-	-	27,220	-	75,000	-	-
Darren Anderson	228,310	-	17,606	(2,885)	21,690	-	264,721	-	100%
Mark Elliott	40,000	10,000	-	-	-	-	50,000	-	-
John Taylor	40,000	-	-	-	-	-	40,000	-	-
<b>Alternate Director</b>									
Frederick Kempson	-	13,205	-	-	-	-	13,205	-	-
<b>Key Management</b>									
Steven Dabelstein	230,384	-	-	962	19,615	40,874	291,835	14%	100%
Michael Harvey	133,942	-	-	5,538	12,724	26,159	178,363	15%	-
Paul Marshall	52,000	-	-	-	-	-	52,000	-	-
	<b>772,416</b>	<b>23,205</b>	<b>17,606</b>	<b>3,615</b>	<b>81,249</b>	<b>67,033</b>	<b>965,124</b>		

There were no termination benefits paid or accrued for the year ended 30 June 2017.

# REMUNERATION REPORT

## Remuneration of Directors and other Key Management Personnel – 2016

	Short Term Benefits		Non-monetary benefits	Long Term Benefits	Post Employment Benefits	Equity based Benefits	Total	Performance Related %	% of bonus forfeited
	Salary/ Director fees	Consulting fees		Leave benefits	Superannuation	Options			
<b>Directors</b>									
Kevin Maloney	43,668	-	-	-	31,332	-	75,000	-	-
Darren Anderson	228,417	-	28,895	(5,769)	21,583	-	273,126	-	100%
Mark Elliott	40,000	5,850	-	-	-	-	45,850	-	-
John Taylor	40,000	-	-	-	-	-	40,000	-	-
<b>Alternate Director</b>									
Frederick Kempson	-	17,150	-	-	-	-	17,150	-	-
<b>Key Management</b>									
Steven Dabelstein	230,692	-	-	(8,017)	19,308	-	241,983	-	100%
Michael Harvey	71,833	-	-	2,665	5,784	-	80,282	-	-
Paul Marshall	52,000	-	-	-	-	-	52,000	-	-
	<b>706,610</b>	<b>23,000</b>	<b>28,895</b>	<b>(11,121)</b>	<b>78,007</b>	<b>-</b>	<b>825,391</b>		

There were no termination benefits paid or accrued for the year ended 30 June 2016.

# REMUNERATION REPORT - AUDITED

## Key management personnel equity holdings

### Shareholdings

	Balance 1 July 2016	Acquired through capital raising	Acquired on market	Other additions /disposals/transfers	Balance 30 June 2017
<b>Directors</b>					
Kevin Maloney	47,459,491	13,750,000	-	-	61,209,491
Darren Anderson	16,589,064	4,583,333	-	-	21,172,397
Mark Elliott	2,848,634	275,000	-	-	3,123,634
John Taylor	923,077	750,000	-	-	1,673,077
<b>Alternate Director</b>					
Frederick Kempson	-	-	-	-	-
<b>Key Management</b>					
Steven Dabelstein	680,500	597,043	-	-	1,277,543
Michael Harvey	286,259	291,958	-	-	578,217
Paul Marshall	2,014,536	500,000	-	-	2,514,536
	<b>70,801,561</b>	<b>20,747,334</b>	<b>-</b>	<b>-</b>	<b>91,548,895</b>

### Performance Shares

	Balance 1 July 2016	Granted	Exercised	Lapsed	Balance 30 June 2017
<b>Directors</b>					
Kevin Maloney	-	-	-	-	-
Darren Anderson	-	-	-	-	-
Mark Elliott	-	-	-	-	-
John Taylor	-	-	-	-	-
<b>Alternate Director</b>					
Frederick Kempson	-	-	-	-	-
<b>Key Management</b>					
Steven Dabelstein	-	1,068,376	-	-	1,068,376
Michael Harvey	-	683,761	-	-	683,761
Paul Marshall	-	-	-	-	-
	<b>-</b>	<b>1,752,137</b>	<b>-</b>	<b>-</b>	<b>1,752,137</b>

# REMUNERATION REPORT - AUDITED

## Performance Shares Details

The performance shares granted under the long term incentive plan focuses on long term shareholder wealth creation and retention of key personnel. Participants receive Performance shares with the following terms and conditions:

<b>Primary Vesting Conditions</b>	<p>From the 30 day VWAP of HRL's share price at 1 July 2016, any of the following increases occur:</p> <ol style="list-style-type: none"> <li>1. HRL share price increases 33% within 1 year; or</li> <li>2. HRL share price increases 66% within 2 years; or</li> <li>3. HRL share price increases 100% within 3 years.</li> </ol> <p>The HRL share price must remain above the nominated target for the relevant period for 14 consecutive trading days</p>
<b>Secondary Vesting Conditions</b>	<p>The Performance Shares will vest in proportion to the number of years' service after the plan is implemented:</p> <ol style="list-style-type: none"> <li>1. First 33% of the performance shares vest after 1 year of service from plan commencement;</li> <li>2. Next 33% performance shares vest after 2 years of service from plan commencement;</li> <li>3. Final 34% performance shares vest after 3 years of service from plan commencement.</li> </ol>
<b>Exercise Price</b>	\$Nil
<b>Forfeiture</b>	<p>The Performance Shares will lapse if:</p> <ul style="list-style-type: none"> <li>- None of the pricing conditions are met; or</li> <li>- the participant does not meet the service conditions.</li> </ul>
<b>Change of Control Event</b>	<p>In the event a bona fide Takeover Bid is declared unconditional and the bidder has acquired a relevant interest of at least 50.1%, the Performance Share vest immediately, irrespective of any unmet vesting conditions.</p>

### Fair value of performance shares granted

The assessed fair value at the date of grant of performance shares issued is determined using a option pricing models that takes into account the exercise price, the underlying share price at the time of issue, the term of the performance share, the underlying share's expected volatility, expected dividends and the risk free interest rate for the expected life of the instrument.

## Transactions with related parties

### Transactions with Key Management Personnel related parties

Transaction	Entity	Association	2017 \$	2016 \$
Rental of office space	Paget Developers	Darren Anderson Kevin Maloney	107,369	101,979
Software and hosting services <sup>1</sup>	Octfolio	Darren Anderson Kevin Maloney	322,725	249,253
Sublet of office space to Octfolio <sup>1</sup>	Octfolio	Darren Anderson Kevin Maloney	33,773	30,858

<sup>1</sup> Services provided from 1 July 2016 to 13 April 2017.

All of the above transactions were based on normal commercial terms and conditions.

# REMUNERATION REPORT - AUDITED

## Trade payable balances with related parties

Nature	Entity	Association	2017 \$	2016 \$
Software and hosting services	Octfolio	Darren Anderson Kevin Maloney	NA	31,573

## Loans to related parties

There were no loans given to related parties.

## Relationship between remuneration and Company performance

The factors that are considered to affect shareholder return in the past 5 years are summarised below:

Measures	2017 \$	2016 \$	2015 \$	2014 \$	2013 \$
Share price at end of financial year	0.08	0.11	0.068	0.005	0.008
Market capitalisation at end of financial year (\$M)	19.53	17.48	10.51	1.73	2.76
Net Profit/(loss) for the financial year	130,420	117,988	(1,583,755)	2,147,825	(7,696,487)
Director and Key Management Personnel remuneration	965,124	825,391	638,557	526,968	897,944

Fixed remuneration is not linked to Group performance. It is set with reference to the individual's role, responsibilities, and performance and remuneration levels for similar positions in the market.

Profit targets are deemed an appropriate performance measure for the granting of short and long term incentives to senior executives given that it is the key target hurdle referenced by the Board in preparing its annual budgets and measuring Group performance. Profit targets reflects the Directors' assessment of the result for the ongoing business activities of the Group by excluding non-cash, one-off market related items that are usually out of management's control. The annual target is determined by the Board having regard to the Group's annual budget. The target could be higher or lower than budget, and is adjusted for the effect of material equity issues.

Prior to the restructure in FY2015, the link between remuneration, Company financial performance and shareholder wealth generation was tenuous, particularly in the exploration and development stage of a geothermal company. Share prices are subject to the influence of international energy prices and market sentiment towards the sector and increases or decreases may occur independently of executive performance or remuneration.

Both the CEO and Executive Director had the opportunity to earn up to 50% of their base salary each upon the Group meeting certain profit targets. No bonuses were paid or are due to be paid as the profit targets were not met.

No dividends were paid by HRL Holdings Limited nor was there any return of capital over the past 5 years.

No shares were issued on exercise of options issued as part of remuneration in 2017.

No options expired during the period.

1,752,137 performance share equity instruments were issued to key management as remuneration in 2017.

The Company did not engage any remuneration consultants during the financial year.

----- END OF REMUNERATION REPORT -----



# AUDITOR'S INDEPENDENCE DECLARATION



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## DECLARATION OF INDEPENDENCE BY T R MANN TO THE DIRECTORS OF HRL HOLDINGS LIMITED

As lead auditor of HRL Holdings Limited for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of HRL Holdings Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'T R Mann', with a long horizontal flourish extending to the right.

**T R Mann**  
Director

**BDO Audit Pty Ltd**

Brisbane, 21 August 2017

# ADDITIONAL ASX INFORMATION

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 14 August 2017.

## Distribution of equity securities

### HRL – Ordinary Fully Paid Shares

Number of Securities Held	No's of holders
1 to 1,000	300
1,001 to 5,000	318
5,001 to 10,000	105
10,001 to 100,000	316
100,001 and over	160
<b>Total</b>	<b>1,199</b>

Number of unmarketable parcels of shares	633
--	-----

## Twenty largest holders

### HRL – Ordinary Fully Paid Shares

No.	Name of Shareholder	Holding	% Held
1	TULLA PROPERTY PARTNERS PTY LTD	61,209,491	25.07%
2	J P MORGAN NOMINEES AUSTRALIA LIMITED	33,646,457	13.78%
3	DARREN ANDERSON & JULIE ANDERSON	13,480,089	5.52%
4	CRAIG ANDERSON & AMANDA ANDERSON	11,160,858	4.57%
5	GREG ANDERSON & NANCY ANDERSON	10,937,711	4.48%
6	DIXSON TRUST PTY LIMITED	5,075,585	2.08%
7	ANDERSON PROPERTY HOLDINGS PTY LTD	4,322,898	1.77%
8	HGT INVESTMENTS PTY LTD	3,979,269	1.63%
9	BNP PARIBAS NOMS PTY LTD	3,791,556	1.55%
10	DARREN G ANDERSON & GREGORY J ANDERSON & JULIE E ANDERSON	3,369,410	1.38%
11	H K PRICE PTY LTD	3,330,624	1.36%
12	CITICORP NOMINEES PTY LIMITED	3,292,947	1.35%
13	G4 INVESTORS PTY LTD	2,924,419	1.20%
14	ELLIOTT NOMINEES P/L	2,921,710	1.20%
15	MATARANKA PTY LTD	2,633,077	1.08%
16	MR JONATHAN PAUL KERSHAW MARSHALL	2,511,456	1.03%
17	ESTANZA PTY LTD	2,308,000	0.95%
18	NOVUS CAPITAL NOMINEES PTY LIMITED	2,000,000	0.82%
19	DENBASS PTY LTD	2,000,000	0.82%
20	MERRIWEE PTY LTD	1,819,842	0.75%
		<b>176,715,399</b>	<b>72.37%</b>

## Voting Rights

All fully paid ordinary shares carry one vote per share without restriction.

## Substantial Shareholders

The company has received the following substantial shareholder notices as at 14 August 2017:

- Mr Kevin Maloney holds an interest in 61,209,491 shares (25.07%)
- Mr Darren Anderson holds an interest in 21,172,397 shares (8.67%)
- Viburnum Funds Pty Ltd holds an interest in 29,928,178 shares (12.26%)

# ADDITIONAL ASX INFORMATION

## Interests in Exploration Tenements

Type	Location	Status	Grant	Expiry Date	HRL Interest
GEP 6	Portland	Granted	14/05/2007	13/09/2019	100%
GEP 8	Warrnambool	Granted	14/05/2007	13/09/2019	100%

# STATEMENT OF COMPREHENSIVE INCOME

## Consolidated Statement of Comprehensive Income For the year ended 30 June 2017

	Note	2017 \$	2016 \$
Services revenue	3	13,646,447	8,385,178
Interest revenue		2,411	4,888
Costs and consumables relating to the provision of services		(2,186,035)	(983,578)
Employee benefits expense	4	(7,228,818)	(4,425,802)
Depreciation and amortisation expenses		(866,191)	(486,984)
Finance costs		(101,690)	(81,719)
Rent and property expenses		(688,715)	(451,177)
Travel and business development expenses		(471,639)	(372,568)
Other expenses		(1,553,495)	(1,076,713)
Impairment of receivables		(25,613)	(5,583)
Settlement expense		-	(79,119)
Employee benefits expense on earn-out payments	15 & 4	(62,500)	(160,433)
Employee benefits expense – share based payments		(118,166)	-
Consulting expense – share based payments		(85,470)	-
Acquisition expenses		(86,633)	(91,378)
Profit before income tax		173,893	175,012
Income tax expense	5	(43,473)	(57,024)
Profit after income tax		130,420	117,988
<b>Other comprehensive income</b>			
<i>Items that may be reclassified to profit or loss</i>			
Foreign currency translation differences for foreign operations		(36,064)	343,138
Income tax		-	-
Other comprehensive income for the period, net of tax		(36,064)	343,138
<b>Total comprehensive income</b>		<b>94,356</b>	<b>461,126</b>
		<b>Cents</b>	<b>Cents</b>
<b>Earnings per share</b>			
Basic earnings per share	7	0.07	0.07
Diluted earnings per share	7	0.07	0.07

The Statement of Comprehensive Income should be read in conjunction with the Notes to the Financial Statements.

# BALANCE SHEET

## Consolidated Balance Sheet As at 30 June 2017

	Note	2017 \$	2016 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	6	728,165	392,863
Trade and other receivables	9	3,418,836	1,354,351
Other current assets	10	268,161	4,771
<b>TOTAL CURRENT ASSETS</b>		<b>4,415,162</b>	<b>1,751,985</b>
<b>NON-CURRENT ASSETS</b>			
Trade and other receivables	9	122,619	122,861
Plant and equipment	11	1,458,961	672,956
Intangible assets	12	3,477,212	646,418
Goodwill	13	8,186,266	5,054,138
Deferred tax assets	5	1,170,288	875,167
<b>TOTAL NON-CURRENT ASSETS</b>		<b>14,415,346</b>	<b>7,371,540</b>
<b>TOTAL ASSETS</b>		<b>18,830,508</b>	<b>9,123,525</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	14	1,308,692	671,034
Current tax liabilities		286,605	199,354
Short-term provisions	15	969,172	120,962
Borrowings	16	615,576	491,856
<b>TOTAL CURRENT LIABILITIES</b>		<b>3,180,045</b>	<b>1,483,206</b>
<b>NON-CURRENT LIABILITIES</b>			
Long-term provisions	15	240,044	-
Borrowings	16	220,773	878,189
Deferred tax liabilities	5	77,654	77,796
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>538,471</b>	<b>955,985</b>
<b>TOTAL LIABILITIES</b>		<b>3,718,516</b>	<b>2,439,191</b>
<b>NET ASSETS</b>		<b>15,111,992</b>	<b>6,684,334</b>
<b>EQUITY</b>			
Contributed capital	17	16,349,948	8,220,282
Reserves	18	1,244	(166,328)
Retained earnings/(Accumulated losses)		(1,239,200)	(1,369,620)
<b>TOTAL EQUITY</b>		<b>15,111,992</b>	<b>6,684,334</b>

The Balance Sheet should be read in conjunction with the Notes to the Financial Statements.

# STATEMENT OF CHANGES IN EQUITY

## Consolidated Statement of Changes in Equity For the year ended 30 June 2017

	Contributed Capital \$	Accumulated Losses \$	Share Based Payment Reserve \$	Foreign Currency Reserve \$	Total \$
<b>Balance at 1 July 2015</b>	8,220,282	(1,487,608)	-	(509,466)	6,223,208
<b>Transactions with owners in their capacity as owners</b>					
Contributions of capital	-	-	-	-	-
Share issue costs (net of tax)	-	-	-	-	-
Total	-	-	-	-	-
<b>Comprehensive income</b>					
Profit after income tax	-	117,988	-	-	117,988
Foreign currency translation differences for foreign operations	-	-	-	343,138	343,138
Total comprehensive income	-	117,988	-	343,138	461,126
<b>Balance at 30 June 2016</b>	8,220,282	(1,369,620)	-	(166,328)	6,684,334
<b>Balance at 1 July 2016</b>	8,220,282	(1,369,620)	-	(166,328)	6,684,334
<b>Transactions with owners in their capacity as owners</b>					
Contributions of capital	8,528,338	-	-	-	8,528,338
Share issue costs (net of tax)	(398,672)	-	-	-	(398,672)
Share based payments	-	-	203,636	-	203,636
Total	8,129,666	-	203,636	-	8,333,302
<b>Comprehensive income</b>					
Profit after income tax	-	130,420	-	-	130,420
Foreign currency translation differences for foreign operations	-	-	-	(36,064)	(36,064)
Total comprehensive income	-	130,420	-	(36,064)	94,356
<b>Balance at 30 June 2017</b>	16,349,948	(1,239,200)	203,636	(202,392)	15,111,992

*The Statement of Changes in Equity should be read in conjunction with the Notes to the Financial Statements.*

# STATEMENT OF CASH FLOWS

## Consolidated Statement of Cash Flows For the year ended 30 June 2017

	Note	2017 \$	2016 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		14,713,803	9,254,475
Payments to suppliers and employees		(14,038,708)	(8,211,447)
Interest received		2,411	11,461
Income tax paid		(523,004)	(459,770)
Acquisition costs		(86,633)	(91,378)
Precise earn-out payments		-	(214,067)
Settlement payment		-	(50,000)
Finance costs		(101,690)	(81,719)
Net cash provided by/(used in) operating activities	6	(33,822)	157,555
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments for plant & equipment		(327,133)	(249,689)
Payments for intangible assets		(49,214)	-
Payments for security deposits		-	(93,126)
Net outflow of cash from the acquisition of Morrison	19	(3,483,988)	-
Net outflow of cash from the acquisition of IHG	20	(2,730,081)	-
Net outflow of cash from the acquisition of AAC		-	(992,203)
Net outflow of cash from the acquisition of RJL		-	(461,979)
Net cash used in investing activities		(6,590,416)	(1,796,997)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Contributions of capital		8,528,338	-
Capital raising costs		(569,531)	-
Proceeds/(repayment) of borrowings		(928,208)	1,170,608
Finance lease payments		(70,543)	(17,669)
Net cash provided by financing activities		6,960,056	1,152,939
Net increase/(decrease) in cash and cash equivalents held		335,818	(468,503)
Net foreign exchange differences		(516)	19,866
Cash and cash equivalents at the beginning of the financial period		392,863	859,500
<b>Cash and cash equivalents at the end of the financial period</b>	<b>6</b>	<b>728,165</b>	<b>392,863</b>

The Statement of Cash Flows should be read in conjunction with the Notes to the Financial Statements.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS INDEX

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# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Introduction

This financial report covers the Consolidated Entity of HRL Holdings Limited (the "Company") and its controlled entities (together referred to as the "Consolidated Entity"). HRL Holdings Limited is a listed public company, incorporated and domiciled in Australia.

The accounting policies have been consistently applied, unless otherwise stated.

### Operations and principal activities

The HRL Group is a diversified environmental and geotechnical service provider with offices and laboratory facilities across Australia and New Zealand.

The Group offers services including;

- industrial hygiene, with a focus on asbestos and hazardous materials management;
- geotechnical testing and engineering services;
- property contamination testing and work place drug testing;
- environmental services (air, water and soil including contaminated land);
- environmental and property management software solutions; and
- specialised NATA/IANZ - accredited laboratory analysis and on-site testing and monitoring.

### Currency

The financial report is presented in Australian dollars, rounded to the nearest dollar, which is the functional currency of the Company.

### Authorisation of financial report

The financial report was authorised for issue on 21 August 2017.

### Basis of preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. HRL Holdings Limited is a for-profit entity for the purpose of preparing the financial statements.

The financial statements of the Consolidated Entity also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

### Historical cost convention

The financial statements have been prepared under the historical convention, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

### Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Consolidated Entity's accounting policies.

The Directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on historical experiences and the best available current information on current trends and economic data, obtained both externally and within the Consolidated Entity. The estimates and judgements made assume a reasonable expectation of future events but actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period and future periods if the revision affects both current and future periods.

The following critical accounting estimates or judgements were made in the process of applying the Consolidated Entity's accounting policies that in management's assessment can significantly affect the amounts recognised in the financial statements:

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 13. The recoverable amounts of cash generating units have been determined based on value in use calculations. These calculations require the use of assumptions. Refer to Note 13 for details of these assumptions and the potential impact of changes to the assumptions.

### Provisions

The Group has estimated the likely payout under the earn out payment on acquisition of Morrison Geotechnic Holdings Limited and Integrated Holdings Pty Ltd (refer Note 15). This calculation requires the use of assumptions. Refer to Note 15 for details of these assumptions and the potential impact of changes to the assumptions.

## Accounting policies

### (a) Financial Instruments

#### Recognition and initial measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Consolidated Entity commits itself to either the purchase or sale of the asset.

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately.

#### Classification and subsequent measurement

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

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

### (b) Impairment of Assets

At the end of each reporting period, the Consolidated Entity assesses whether there is any indication that an asset may be impaired. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs of disposal and value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard. Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

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

### (c) Foreign Exchange

Exchange differences arising on the translation of monetary items are recognised in the statement of comprehensive income, except where deferred in equity as a qualifying cash flow or net investment hedges. Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the statement of comprehensive income.

#### Subsidiary companies

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

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

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### New Accounting Standards

The Consolidated Entity adopted all new Accounting Standards and Interpretations effective for the year ended 30 June 2017. There were no material impacts on the financial statements of the Consolidated Entity as a result of adopting these standards.

### New Standards and Interpretations Not Yet Adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2017 reporting periods. The Consolidated Entity has decided against early adoption of these standards. The Consolidated Entity's assessment of the impact of these new standards and interpretations is set out below:

#### AASB 9 Financial Instruments

This standard and its consequential amendments are currently applicable to annual reporting periods beginning on or after 1 January 2018. This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. To be classified and measured at amortised cost, assets must satisfy the business model test for managing the financial assets and have certain contractual cash flow characteristics. All other financial instrument assets are to be classified and measured at fair value. This standard allows an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income, with dividends as a return on these investments being recognised in profit or loss. In addition, those equity instruments measured at fair value through other comprehensive income would no longer have to apply any impairment requirements nor would there be any 'recycling' of gains or losses through profit or loss on disposal. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. The Consolidated Entity has not yet evaluated the impact adoption of this standard will have.

#### AASB 15 Revenue from Contracts with Customers

This standard and its consequential amendments are currently applicable to annual reporting periods beginning on or after 1 January 2018. This standard requires recognised revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This means that revenue will be recognised when control of goods or services is transferred, rather than on transfer of risks and rewards as is currently the case under IAS 18 Revenue. The Consolidated Entity has not yet evaluated the impact adoption of this standard will have.

#### AASB16 Leases

This standard and its consequential amendments are currently applicable to annual reporting periods beginning on or after 1 January 2019. When effective, this standard will replace the current accounting requirements applicable to leases in AASB117 Leases and related interpretations. AASB16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases. This means that for all leases, a right-to-use asset and a liability will be recognised, with the right-to-use asset being depreciated and the liability being unwound in principal and interest components over the life of the lease. The Consolidated Entity has not yet evaluated the impact adoption of this standard will have.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

### Comparative Figures

When required by accounting standards comparative figures have been adjusted to conform to changes in presentation for the current financial year.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 2 SEGMENT REPORTING

### Reportable Segments

For the period ended 30 June 2017 the Group has identified the operating segments based on internal reports that are reviewed and used by the executive team in assessing performance and determining the allocation of resources:

- HAZMAT services including:
  - industrial hygiene, with a focus on asbestos and hazardous materials management;
  - property contamination testing and work place drug testing;
  - environmental services (air, water and soil including contaminated land);
  - environmental and property management software solutions; and
  - specialised NATA/IANZ - accredited laboratory analysis and on-site testing and monitoring.
  
- Geotechnical services including:
  - Geotechnical investigations and studies;
  - Temporary works designs and inspections;
  - Construction phase verification;
  - Earthworks supervision;
  - Soil, concrete and aggregate testing; and
  - Onsite mobile laboratory testing.
  
- Software services including:
  - Information management software solutions for asbestos and hazardous materials;
  - Innovative field management software solutions; and
  - Customised compliance solutions and applications relating to workplace health and safety.

The Geotechnical services segment reflects the activities of Morrison Geotechnic for the 3 months since acquisition on 31 March 2017.

The Software services segment reflects the activities of OCTFOLIO for the 2.5 months since acquisition on 13 April 2017.

Unallocated amounts reflect corporate costs incurred by the HRL Holdings Limited parent entity as well as the financing activities of the Group.

Reported segment results include any acquisition costs and amortisation of intangible assets that arose on acquisition that are applicable to that segment.

### *Change to reportable segments*

For the year ended 30 June 2016 and the prior comparative period the Group identified the operating segments based on internal reports that were reviewed and used by the executive team in assessing performance and determining the allocation of resources. The internal reports and operating segments were based on branded locations (OCTIEF and Precise) for the year ended 30 June 2016.

With the addition of the Morrison Geotechnic and OCTFOLIO to the Group in the current year, the operating segments have been changed to reflect the distinctive business units of the Group. OCTIEF and Precise, which provide a similar suite of services have now been merged into the HAZMAT service segment. The comparatives have been restated. No geotechnical or software services were provided for the year ended 30 June 2016.

### *Geographical Information*

Segment revenue is based on the geographical location of customers and segment assets are based on the geographical location of the assets. The entity is domiciled in Australia

The amount of its revenue from external customers in Australia is \$6,345,317 (2016: \$2,795,007) Total revenues from customers domiciled in New Zealand is \$7,301,130 (2016: \$5,553,524).

The amount of non-current assets other than financial instruments and deferred tax assets located in Australia is \$7,952,123 (2016: \$1,125,213). Total non-current assets other than financial instruments and deferred tax assets located in New Zealand is \$5,170,316 (2016: \$5,248,299).

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 2 SEGMENT REPORTING (CONT'D)

### Segment Revenues and Results

30 June 2017	HAZMAT \$	Geotechnical \$	Software \$	Unallocated \$	Consolidated \$
<b>Revenue:</b>					
Services revenue	11,247,858	2,289,196	109,393	-	13,646,447
Interest income	-	-	-	2,411	2,411
<b>Expenses:</b>					
Interest expense	-	-	-	(101,690)	(101,690)
Other expenses	(9,308,982)	(1,894,332)	(54,002)	(1,437,852)	(12,695,168)
<b>Segment result before acquisition related expenses</b>	<b>1,938,876</b>	<b>394,864</b>	<b>55,391</b>	<b>(1,537,131)</b>	<b>852,000</b>
<b>Acquisition related expenses</b>					
Acquisition costs	-	(23,322)	(63,311)	-	(86,633)
Earn-out expenses	-	(62,500)	-	-	(62,500)
Amortisation of acquisition intangibles	(359,069)	(103,933)	(65,972)	-	(528,974)
<b>Segment result before tax</b>	<b>1,579,807</b>	<b>205,109</b>	<b>(73,891)</b>	<b>(1,537,131)</b>	<b>173,893</b>
Income tax	-	-	-	-	(43,473)
<b>Net Profit</b>					<b>130,420</b>
<u>Non-cash and other significant items:</u>					
Depreciation and amortisation	637,234	152,887	66,900	9,170	866,191
Impairment of receivables	25,613	-	-	-	25,613
Share based payments	-	-	-	203,636	203,636
Acquisition expenses	-	23,322	63,311	-	86,633
Earnout expenses	-	62,500	-	-	62,500
<u>Assets:</u>					
Segment assets	8,534,953	5,594,611	3,072,558	1,628,386	18,830,508
<u>Liabilities:</u>					
Segment liabilities	1,524,076	1,705,331	399,795	89,314	3,718,516
<u>Segment acquisitions:</u>					
Acquisition of property, plant and equipment	327,859	-	-	-	327,859
Acquisition of intangibles	49,214	1,768,000	1,550,000	-	3,367,214
Acquisition of goodwill	-	1,770,810	1,365,920	-	3,136,730
<u>Details on non-current assets:</u>					
Trade and other receivables	108,916	13,703	-	-	122,619
Plant and equipment	693,664	728,738	9,525	27,034	1,458,961
Intangibles	329,117	1,664,067	1,484,028	-	3,477,212
Goodwill	5,049,536	1,770,810	1,365,920	-	8,186,266
Deferred tax assets	-	-	-	1,170,288	1,170,288
	6,181,233	4,177,318	2,859,473	1,197,322	14,415,346

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 2 SEGMENT REPORTING (CONT'D)

### Segment Revenues and Results

30 June 2016	HAZMAT \$	Unallocated \$	Consolidated \$
<b>Revenue:</b>			
Services revenue	8,385,178	-	8,385,178
Interest income		4,888	4,888
<b>Expenses:</b>			
Interest expense	-	(81,179)	(81,179)
Other expenses	(6,136,667)	(1,178,680)	(7,495,347)
<b>Segment result before acquisition related expenses</b>	<b>2,068,511</b>	<b>(1,254,971)</b>	<b>813,540</b>
<b>Acquisition related expenses</b>			
Acquisition costs	(91,378)	-	(91,378)
Settlement expenses	(79,119)	-	(79,119)
Earn-out expenses	(160,433)	-	(160,433)
Amortisation of acquisition intangibles	(307,598)	-	(307,598)
<b>Segment result before tax</b>	<b>1,429,983</b>	<b>(1,254,971)</b>	<b>175,012</b>
Income tax	-	-	(57,024)
<b>Net Profit</b>			<b>117,988</b>
<u>Non-cash and other significant items:</u>			
Depreciation and amortisation	474,620	12,364	486,984
Impairment of receivables	5,583	-	5,583
Settlement expenses	79,119	-	79,119
Acquisition expenses	91,378	-	91,378
Earnout expenses	160,433	-	160,433
<u>Assets:</u>			
Segment assets	8,077,054	1,046,471	9,123,525
<u>Liabilities:</u>			
Segment liabilities	1,294,739	1,144,452	2,439,191
<u>Segment acquisitions:</u>			
Acquisition of property, plant and equipment	249,689	-	249,689
Acquisition of intangibles	693,143	-	693,143
Acquisition of goodwill	661,357	-	661,357
<u>Details on non-current assets:</u>			
Trade and other receivables	122,861	-	122,861
Plant and equipment	637,326	35,630	672,956
Intangibles	646,418	-	646,418
Goodwill	5,054,138	-	5,054,138
Deferred tax assets	7,544	867,623	875,167
	6,468,287	903,253	7,371,540

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 3 REVENUE

	2017	2016
	\$	\$
<u>Services Revenue</u>		
HAZMAT service revenue	11,247,858	8,385,178
Geotechnical service revenue	2,289,196	-
Software service revenue	109,393	-
<b>Total service revenue</b>	<b>13,646,447</b>	<b>8,385,178</b>

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

Revenue from the provision of services is recognised on an accruals basis in the period in which the service is provided. Revenue from the provision of these services is calculated with reference to the professional staff hours incurred on each client assignment adjusted for any time that may not be recoverable.

Interest revenue is recognised using the effective interest rate method.

## NOTE 4 EXPENSES

<b>Employee benefits expenses</b>	<b>Note</b>		
Defined contribution superannuation expense		262,985	144,520
Other employee benefits expenses		6,965,833	4,281,282
<b>Total employee benefits expenses</b>		<b>7,228,818</b>	<b>4,425,802</b>
Employee benefits expense – share based payments	21	118,166	-
Remuneration expense on Morrison Geotechnic earn-out	15	62,500	-
Remuneration expense on Precise Consulting earn-out		-	160,433

Contributions to defined contribution plans are expensed when incurred.

### Rental expense relating to operating leases

Minimum lease payments	791,320	360,695
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Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as expenses on a straight-line basis over the lease term.

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

<b>Net loss on disposal of plant and equipment</b>	-	29,119
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Gains and losses on plant and equipment disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 5 INCOME TAX

	2017	2016
	\$	\$
<b>Income tax expense:</b>		
<u>Current tax</u>		
Current tax on profit/loss for the year	395,122	412,305
Adjustments for current tax of prior periods	(11,277)	10,572
<b>Total current tax expense</b>	<b>383,845</b>	<b>422,877</b>
<u>Deferred tax</u>		
Movement in deferred tax assets	(204,996)	(309,268)
Movement in deferred tax liabilities	(135,376)	(56,585)
<b>Total deferred tax expense/(benefit)</b>	<b>(340,372)</b>	<b>(365,853)</b>
<b>Total income tax expense/(benefit)</b>	<b>43,473</b>	<b>57,024</b>
<b>Reconciliation of income tax expense to prima facie tax payable:</b>		
Profit before tax	173,893	175,012
Prima facie tax at 30%	52,168	52,504
<u>Tax effect of not deductible (taxable) amounts in calculating taxable income:</u>		
Entertainment expenses	2,409	2,887
Amortisation of intangible assets	-	17,381
Share based payments	25,641	-
Other items	(2,158)	-
	<b>78,060</b>	<b>72,772</b>
Difference in overseas tax rate	(23,310)	(26,321)
Adjustments for tax of prior periods	(11,277)	10,573
<b>Total income tax expense</b>	<b>43,473</b>	<b>57,024</b>

The income tax expense (benefit) for the year comprises current income tax expense (income) and deferred tax expense (income). Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority. Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses. Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

The charge for current income tax expense is based on the profit/(loss) for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance date.



# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 5 INCOME TAX (CONT'D)

### Amounts recognised directly in equity:

Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity:

	2017	2016
	\$	\$
Current tax: share issue costs	-	-
Deferred tax: share issue costs	170,859	-
	<b>170,859</b>	<b>-</b>

### Deferred tax assets:

Balance comprises temporary differences attributable to:

Employee benefits payable	24,587	10,975
Employee leave provisions	230,200	35,248
Accrued expenses	-	9,472
Provision for doubtful debts	2,503	3,604
Vendor earn-outs	18,750	60,432
Lease liabilities	125,897	14,265
Carried forward tax losses	1,450,512	885,760
	<b>1,852,449</b>	<b>1,019,756</b>
Set-off of deferred tax liabilities	(682,221)	(144,589)
<b>Net deferred tax assets</b>	<b>1,170,288</b>	<b>875,167</b>

A deferred tax asset has been recognised as the consolidated entity is forecasting to generate taxable profits over the next five years.

### Movements during the period:

Year ended June 2017	Charged/credited to					30 June 2017
	1 July 2016	Profit or Loss	Other Comp. Income	Directly to equity	Acquisition of subsidiary	
Employee benefits payable	10,975	13,612	-	-	-	24,587
Employee leave provisions	35,248	19,898	-	-	175,054	230,200
Accrued expenses	9,472	(9,472)	-	-	-	-
Provision for doubtful debts	3,604	(1,101)	-	-	-	2,503
Vendor earn-out provision	60,432	(41,682)	-	-	-	18,750
Lease liabilities	14,265	(7,282)	-	-	118,914	125,897
Carried forward tax losses	885,760	231,023	-	170,859	162,870	1,450,512
	<b>1,019,756</b>	<b>204,996</b>	<b>-</b>	<b>170,859</b>	<b>456,838</b>	<b>1,852,449</b>

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 5 INCOME TAX (CONT'D)

Year ended June 2016	Charged/credited to					30 June 2016
	1 July 2015	Profit or Loss	Other Comp. Income	Directly to equity	Acquisition of subsidiary	
Employee benefits payable	8,909	2,066	-	-	-	10,975
Employee leave provisions	30,540	4,708	-	-	-	35,248
Accrued expenses	13,818	(4,346)	-	-	-	9,472
Provision for doubtful debts	4,587	(983)	-	-	-	3,604
Precise earn-out provision	14,462	45,970	-	-	-	60,432
Lease liabilities	16,966	(2,701)	-	-	-	14,265
Carried forward tax losses	620,551	265,209	-	-	-	885,760
Other amounts	654	(655)	-	-	-	-
	<b>710,488</b>	<b>309,268</b>	-	-	-	<b>1,019,756</b>

	2017	2016
	\$	\$

### Deferred tax liabilities:

Balance comprises temporary differences attributable to:

Intangibles assets	594,013	181,440
Plant and equipment	140,188	10,426
Other amounts	25,674	30,519
	<b>759,875</b>	<b>222,385</b>
Set-off of deferred tax assets	(682,221)	(144,589)
<b>Net deferred tax liabilities</b>	<b>77,654</b>	<b>77,796</b>

### Movements during the period:

Year ended June 2017	Charged/credited to					30 June 2017
	1 July 2016	Profit or Loss	Other Comp. Income	Directly to equity	Acquisition of subsidiary	
Intangible assets	181,440	(132,827)	-	-	545,400	594,013
Plant and equipment	10,426	2,296	-	-	127,466	140,188
Other amounts	30,519	(4,845)	-	-	-	25,674
	<b>222,385</b>	<b>(135,376)</b>	-	-	<b>672,866</b>	<b>759,875</b>

Year ended June 2016	Charged/credited to					30 June 2016
	1 July 2015	Profit or Loss	Other Comp. Income	Directly to equity	Acquisition of subsidiary	
Intangible assets	60,874	(81,425)	-	-	201,991	181,440
Plant and equipment	13,901	(3,475)	-	-	-	10,426
Other amounts	2,204	28,315	-	-	-	30,519
	<b>76,979</b>	<b>(56,585)</b>	-	-	<b>201,991</b>	<b>222,385</b>

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 5 INCOME TAX (CONT'D)

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

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

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

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

Deferred tax is accounted for using the balance sheet method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

### Tax consolidation

HRL Holdings Limited and its wholly-owned Australian controlled entities have formed a tax-consolidated group. HRL Holdings NZ Limited (a wholly-owned subsidiary of HRL Holdings Limited) and its wholly-owned New Zealand controlled entities have formed a tax-consolidated group. The entities in the tax group have entered into a tax sharing agreement to limit the joint and several liability of the wholly-owned entities in the case of a default by the relevant Head Entity.

A tax funding agreement where the wholly-owned entities fully compensate the Head Entity for any current tax receivable and deferred tax assets related to unused tax losses or unused tax credits that are transferred to the Head Entity under the tax consolidation legislation has also been entered into. The transfer of such amounts to the Head Entity is recognised as inter-company receivables or payables.

Each entity in the tax-consolidated group continues to account for its 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.

In addition to its own current and deferred tax amounts, each relevant Parent entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

### Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the relevant tax authority. 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 relevant tax authority is included with other receivables or payables in the balance sheet.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 6 CASH FLOW INFORMATION

	2017	2016
	\$	\$
<b>Reconciliation of cash flows from operations with profit after tax</b>		
Profit after income tax	130,420	117,988
<i>Non-cash items in profit/(loss) after income tax</i>		
Depreciation and amortisation	866,191	486,984
Loss on sale of plant and equipment	-	29,119
Impairment of receivables	25,613	5,583
Share based payments	203,636	-
<i>Movements in operating assets and liabilities</i>		
Trade and other receivables	(459,857)	(108,907)
Other assets	(128,163)	101,491
Trade and other payables	(321,873)	(30,339)
Provisions	129,742	(41,618)
Tax balances	(479,531)	(402,746)
<b>Net cash provided by/ (used in) operating activities</b>	<b>(33,822)</b>	<b>157,555</b>

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 relevant tax authority are presented as operating cash flows included in receipts from customers or payments to suppliers.

### Non-cash Investing and Financing Activities

There were no non-cash investing and financing activities during the year (2016: \$Nil).

### Cash and Cash Equivalents

Cash at bank and on hand	608,029	317,413
Cash on deposit	120,136	75,450
	<b>728,165</b>	<b>392,863</b>

For statement of cash flow presentation purposes cash and cash equivalents include cash on hand, deposits available on demand with banks, other short-term highly liquid investments with original maturities of 3 months or less, and bank overdrafts. Bank overdrafts are reported within short-term borrowings in current liabilities in the balance sheet.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 7 EARNINGS PER SHARE

	2017	2016
	\$	\$
<b>Earnings</b>		
Earnings used to calculate basic and diluted EPS	130,420	117,988
<b>Weighted average number of shares and options</b>		
	<b>Number of shares</b>	<b>Number of shares</b>
Weighted average number of ordinary shares outstanding during the period, used in calculating basic earnings per share	179,593,908	158,903,031
Weighted average number of dilutive options outstanding during the period	-	-
Weighted average number of ordinary shares and potential ordinary shares outstanding during the period, used in calculating diluted earnings per share	179,593,908	158,903,031

The Consolidated Entity presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

Options and performance shares could potentially dilute basic earnings per share in the future but were not included in the calculation of diluted earnings per share for 2017 as they were anti-dilutive.

## NOTE 8 DIVIDENDS

No dividends were paid during the financial year ended 30 June 2017 (2016: nil) and no dividend is recommended for the current year.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 9 TRADE AND OTHER RECEIVABLES

	2017	2016
	\$	\$
<b>CURRENT</b>		
Trade receivables	3,035,283	1,173,562
Provision for impairment	(8,609)	(5,583)
	3,026,674	1,167,979
Accrued income	330,142	146,536
Other receivables	62,020	39,836
	<b>3,418,836</b>	<b>1,354,351</b>
<b>NON-CURRENT</b>		
Bonds and other deposits	<b>122,619</b>	<b>122,861</b>

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Trade receivables are generally due for settlement within 30 days and therefore are all classified as current.

Other receivables generally arise from transactions outside the usual operating activities of the group.

The non-current bonds and other deposits receivables are due and payable within three years from the end of the reporting period.

### Impairment of receivables

The Group recognised a loss of \$25,163 during the year (2016: \$5,583) in relation to impaired receivables.

Movement in the provision for impairment of receivables was:

	2017	2016
	\$	\$
Opening balance	5,583	-
Impaired receivables provided for during the period	25,613	5,583
Receivables written off during the year as uncollectible	(22,587)	-
<b>Closing balance</b>	<b>8,609</b>	<b>5,583</b>

### Past due but not impaired

Customers with balances past due but with no provision for impairment at 30 June 2017 were \$81,586 (2016: \$85,744). Based on payments received after 30 June 2017 from these customers, recent collection history and other relevant factors, no impairment was necessary for these customer balances.

The ageing of receivables past due but not provided for is:

Past due 0-30 days	31,422	63,888
Past due 30-60 days	37,513	11,801
Past due > 60 days	12,651	10,055
	<b>81,586</b>	<b>85,744</b>

At the end of each reporting period, the Group assesses whether there is objective evidence that a receivable has been impaired. Impairment losses are recognised in profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 10 OTHER ASSETS

	2017	2016
	\$	\$
CURRENT		
Prepaid expenses	268,161	4,771

## NOTE 11 PLANT AND EQUIPMENT

Leasehold improvements at cost	72,368	63,279
Accumulated depreciation	(27,039)	(11,733)
	45,329	51,546
Motor vehicles at cost	953,170	353,370
Accumulated depreciation	(158,561)	(62,435)
	794,609	290,935
Office furniture and equipment at cost	342,960	164,402
Accumulated depreciation	(158,338)	(71,104)
	184,623	93,298
Lab and field equipment at cost	644,181	329,994
Accumulated depreciation	(209,780)	(92,817)
	434,401	237,177
Total plant and equipment at cost	2,012,679	911,045
Total accumulated depreciation	(553,718)	(238,089)
<b>Total plant and equipment</b>	<b>1,458,961</b>	<b>672,956</b>

### Movements during the year

Year ended 30 June 2017	Leasehold Improvements	Motor Vehicles	Office Furniture and Equipment	Lab and field Equipment	Total
Balance at 1 July 2016	51,546	290,935	93,298	237,177	672,956
Additions	9,038	11,154	143,659	164,008	327,859
Business combinations	-	601,779	23,492	161,892	787,163
Foreign exchange movements	(4)	(8,904)	7,742	2,858	1,692
Depreciation	(15,251)	(100,355)	(83,568)	(131,534)	(330,708)
<b>Balance at 30 June 2017</b>	<b>45,329</b>	<b>794,609</b>	<b>184,623</b>	<b>434,401</b>	<b>1,458,962</b>

Year ended 30 June 2016	Leasehold Improvements	Motor Vehicles	Office Furniture and Equipment	Lab and field Equipment	Total
Balance at 1 July 2015	24,613	141,549	60,423	146,348	372,933
Additions	37,815	34,546	42,799	134,529	249,689
Additions – leases	-	49,934	-	-	49,934
Business combinations	-	151,760	20,237	27,076	199,073
Disposals	-	(29,119)	-	-	(29,119)
Foreign exchange movements	687	3,767	5,932	(554)	9,832
Depreciation	(11,569)	(61,502)	(36,093)	(70,222)	(179,386)
<b>Balance at 30 June 2016</b>	<b>51,546</b>	<b>290,935</b>	<b>93,298</b>	<b>237,177</b>	<b>672,956</b>

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 11 PLANT AND EQUIPMENT (CONT'D)

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

In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised in profit or loss. A formal assessment of recoverable amount is made when impairment indicators are present.

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

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

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

The depreciation rates used for each class of asset is:

<u>Class of Fixed Asset</u>	<u>Depreciation Rate</u>
Leasehold improvements	20%
Motor vehicles	25%
Office equipment	40% - 67%
Laboratory equipment	20% - 40%

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

## NOTE 12 INTANGIBLE ASSETS

	2017	2016
	\$	\$
Customer contracts at cost	1,740,619	389,377
Accumulated amortisation	(238,082)	(43,264)
	1,502,537	346,113
Licences and accreditations at cost	937,356	471,356
Accumulated amortisation	(485,189)	(228,085)
	452,167	243,271
Software at cost	1,549,214	-
Accumulated amortisation	(69,062)	-
	1,480,152	-
Other intangibles at cost	64,038	64,164
Accumulated amortisation	(21,682)	(7,129)
	42,356	57,034
<b>Total intangible assets</b>	<b>3,477,212</b>	<b>646,418</b>



# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 12 INTANGIBLE ASSETS (CONT'D)

### Movements during the year

Year ended 30 June 2017	Customer Contracts	Licences and Accreditations	Software	Other Intangibles	Total
Balance at 1 July 2016	346,113	243,271	-	57,034	646,418
Additions	-	-	49,214	-	49,214
Business combinations	1,352,000	466,000	1,500,000	-	3,318,000
Foreign exchange movements	(758)	-	(54)	(125)	(937)
Amortisation	(194,818)	(257,104)	(69,008)	(14,553)	(535,483)
<b>Balance at 30 June 2017</b>	<b>1,502,537</b>	<b>452,167</b>	<b>1,480,152</b>	<b>42,356</b>	<b>3,477,212</b>

Year ended 30 June 2016	Customer Contracts	Licences and Accreditations	Other Intangibles	Total
Balance at 1 July 2015	57,937	193,976	-	251,913
Additions	-	-	-	-
Business combinations	380,450	250,000	62,693	693,143
Disposals	-	-	-	-
Foreign exchange movements	7,693	-	1,267	8,960
Amortisation	(99,967)	(200,705)	(6,926)	(307,598)
<b>Balance at 30 June 2016</b>	<b>346,113</b>	<b>243,271</b>	<b>57,034</b>	<b>646,418</b>

#### Customer contracts

Customer contracts acquired as part of a business combination are recognised separately from goodwill. The customer contracts are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation is calculated based on the timing of projected cash flows of the contracts over their estimated useful lives, which currently vary from 2 to 5 years.

#### Licenses and accreditations

Licenses and accreditations acquired as part of a business combination are recognised separately from goodwill. The licenses and accreditations are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation is calculated based on the timing of projected cash flows of the contracts over their estimated useful lives, which is estimated at 2 to 3 years.

#### Software

Costs associated with maintaining software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use
- management intends to complete the software and use or sell it
- there is an ability to use or sell the software
- it can be demonstrated how the software will generate probable future economic benefits
- adequate technical, financial and other resources to complete the development and to use or sell the software are available, and
- the expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software include employee costs and an appropriate portion of relevant overheads.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 13 GOODWILL

	2017	2016
	\$	\$
Opening balance	5,054,138	4,079,678
Goodwill arising on acquisition of Morrison Geotechnic	1,770,810	-
Goodwill arising on acquisition of OCTFOLIO	1,365,920	-
Goodwill arising on acquisition of AAC	-	661,357
Foreign exchange movements	(4,602)	313,103
	<b>8,186,266</b>	<b>5,054,138</b>

### Impairment tests for goodwill

Goodwill is monitored by management at the Company level for Precise Consulting, Morrison Geotechnic and OCTFOLIO and at the geographic branch level for AAC. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. The group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of a cash generating unit (CGU) is determined based on value-in-use calculations which require the use of assumptions.

The calculations use cash flow projections based on financial budgets covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. These growth rates are consistent with forecasts included in industry reports specific to the industry in which each CGU operates. Refer to Note 3 for the segment level of goodwill. The following table sets out the key assumptions for the value in use:

Assumption	Precise	AAC	Morrison	OCTFOLIO	Approach
Sales volume annual growth	2.5%	1%	1%	18%	Average annual growth rate over the five-year forecast period based on management's expectations of market development.
Sales price annual growth	2.5%	1%	1%	2%	Average annual growth rate over the five-year forecast period based on current industry trends
Fixed costs per annum	\$2.1M	\$0.3M	\$2.4M	\$0.4M	Fixed costs of the Company, which do not vary significantly with sales volumes or prices. Management forecasts these costs based on the current structure of the business, adjusting for inflationary increases but not reflecting any future restructurings or cost saving measures.  The amounts disclosed are the average operating costs for the five-year forecast period.
Annual capital expenditure	\$100,000	\$25,000	\$200,000	\$10,000	Expected capital cash costs based on the historical experience of management, and the planned refurbishment expenditure.  No incremental revenue or cost savings are assumed in the value-in-use model as a result of this expenditure.
Long term growth rate	2%	2%	2%	1%	This is the weighted average growth rate used to extrapolate cash flows beyond the budget period.  The rates are consistent with forecasts included in industry reports.
Pre-tax discount rate	18%	18%	18%	18%	Reflects specific risks relating to the relevant segments and the countries in which they operate.  In performing the value-in-use calculations for each CGU, the group has applied post-tax discount rates to discount the forecast future attributable post-tax cash flows. The equivalent pre-tax rates are disclosed in the table.

There is sufficient headroom in the value in use calculation such that in management's opinion a reasonably possible change in a key assumption on which management has based its determination of the cash generating unit's recoverable amount would not cause the cash generating unit's carrying amount to exceed its recoverable amount.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 14 TRADE AND OTHER PAYABLES

	2017	2016
	\$	\$
<b>CURRENT</b>		
Trade payables	509,375	293,262
Other payables and accrued expenses	789,317	357,772
Payables to Directors – outstanding wages and fees	10,000	20,000
	<b>1,308,692</b>	<b>671,034</b>

Trade payables are amounts due to suppliers for goods purchased or services provided in the ordinary course of business. Trade payables are generally due for settlement within 30 days and therefore are all classified as current.

Other payables and accrued expenses generally arise from normal transactions within the usual operating activities of the group and comprise items such as employee taxes, employee on costs, GST and other recurring items.

## NOTE 15 PROVISIONS

<b>CURRENT</b>		
Employee benefits	719,172	120,962
Morrison earn-out	62,500	-
OCTFOLIO contingent consideration at fair value	187,500	-
	<b>969,172</b>	<b>120,962</b>
<b>NON-CURRENT</b>		
Employee benefits	52,544	-
OCTFOLIO contingent consideration at fair value	187,500	-
	<b>240,044</b>	-

### Employee Benefit Provisions

#### Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

#### Other long-term employee benefit obligations

The liabilities for long service leave and annual leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows.

### Morrison Geotechnic Earn-out Provision

On 31 March 2017, HRL acquired 100% of the issued capital of Morrison Geotechnic Holdings Limited. The agreed purchase consideration was:

- initial payment of \$3,750,000 cash; and
- earn-out consideration of up to \$750,000.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 15 PROVISIONS (CONT'D)

The amount of earn out consideration is based on Morrison Geotechnic's earnings before interest and taxes (EBIT) for the year 1 April 2017 to 31 March 2018:

EBIT	Earn Out Consideration
Less than \$1.1 million	Nil
\$1.1 – 1.3 million	\$250,000
\$1.3 – 1.5 million	\$500,000
More than \$1.5 million	\$750,000

If applicable, one half of the earn-out consideration will be paid 12 months after settlement. Payment of the remaining half of the earn-out consideration will be paid in 12 equal monthly instalments thereafter.

Payment of the earn-out consideration is contingent on the four vendor's ongoing service with Morrison Geotechnic. The vendors will remain employed with Morrison Geotechnic for a minimum period of two years after acquisition. In the situation where employment is terminated prior to completing one year of service, no earn-out is payable. If employment is terminated after one but before the minimum two-year period, the earn-out consideration will be reduced proportionately to the length of time not employed.

As the earn-out consideration is contingent on the vendors' ongoing service, the principles and guidance as set out in AASB 3 *Business Combinations* require that any earn-out consideration be expensed as an employment cost in the relevant period the service was provided. HRL estimates that Morrison Geotechnic will exceed an EBIT of \$1,300,000 for the 12 months ended 31 March 2017, resulting in an estimated earn-out of \$500,000.

As at 30 June 2017, the vendors had performed 3 months of the 24 month service period (12.5%). Accordingly, an amount of \$62,500 (being 12.5% of \$500,000) has been recognised in profit or loss.

### OCTFOLIO contingent consideration at fair value

On 13 April 2017, HRL acquired 100% of the issued capital of Integrated Holdings Group Limited. The agreed purchase consideration was:

- initial payment on completion of the IHG acquisition of \$2,750,000 in cash; and
- earn-out consideration of up to \$750,000 in cash.

The amount of earn out consideration is based on OCTFOLIO's earnings before interest and taxes (EBIT) for the 24 months after settlement:

#### Tranche 1

12 Months Post-Acquisition EBIT	Earn Out Consideration
Less than \$300,000	Nil
More than \$300,000	\$375,000

#### Tranche 2

13 Months to 24 Months Post-Acquisition EBIT	Earn Out Consideration
Less than \$450,000	Nil
More than \$450,000	\$375,000

Payment of the earn-out consideration is not contingent on any individual providing ongoing service. As per the principles and guidance as set out in AASB 3, the value of the estimated earn-out is reflected as an increase in the total consideration paid for the entity. Any subsequent changes in the estimate earn-out will be reflected in profit or loss.

HRL estimates that there is 50% probability of OCTFOLIO's meeting the EBIT targets for both tranches. Accordingly, a total liability of \$375,000 has been recognised as a provision.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 15 PROVISIONS (CONT'D)

### Movements during the year

	2017	2016
	\$	\$
Opening balance	-	51,650
Morrison Geotechnic earn-out expense recognised	62,500	-
OCTFOLIO earn-out provision recognised	375,000	-
Precise Consulting earn-out expense recognised	-	160,433
Foreign exchange movements	-	1,984
Payment of Precise Consulting earn-out	-	(214,067)
	<b>437,500</b>	<b>-</b>

## NOTE 16 BORROWINGS

### CURRENT

Finance leases	198,884	25,856
Bank loans	287,334	466,000
Insurance financing	129,358	-
	<b>615,576</b>	<b>491,856</b>

### NON-CURRENT

Finance leases	220,773	67,959
Bank loans	-	810,230
	<b>220,773</b>	<b>878,189</b>

### Bank loans and insurance financing

Bank loans and insurance financing (excluding financial guarantees) are measured at amortised cost. Amortised cost is the amount at which the financial liability is measured at initial recognition less principal repayments and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

The effective interest method is used to allocate interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial liability.

The bank loan is secured against all current and non-current assets of the Group by floating charge. The facility has a variable interest rate of 4.535% per annum on the drawn balance and a facility line fee of 1% on the total available balance. The bank loan expires in September 2019.

Insurance financing is unsecured. The facilities have an average interest rate of 5.51% per annum and expire between July 2017 and March 2018.

### Finance leases

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

Finance leases are capitalised by recognising an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values.

Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

The finance leases are secured over the individual motor vehicles that the lease relates to. The leases have interest rates of 4.35% - 7.37% per annum and expire between July 2017 and June 2021.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 16 BORROWINGS (CONT'D)

### Financing Facilities

The Group has access to the following lines of credit:

	2017	2016
	\$	\$
<i>Total facilities available</i>		
Finance leases and equipment financing	852,220	547,553
Insurance financing	129,358	-
Bank loans	1,332,953	2,307,856
	<b>2,315,531</b>	<b>2,855,409</b>
<i>Facilities used at balance date</i>		
Finance leases and equipment financing	419,657	93,815
Insurance financing	129,358	-
Bank loans	287,334	1,276,230
	<b>836,349</b>	<b>1,370,045</b>
<i>Unused facilities at balance date</i>		
Finance leases and equipment financing	433,563	453,738
Insurance financing	-	-
Bank loans	1,045,619	1,031,626
	<b>1,479,182</b>	<b>1,485,364</b>

### Restrictions as to use or withdrawal

The bank loan facility is subject to the Group complying with covenants listed below.

#### Covenants

The bank loan facility is subject to the below covenants:

##### Debt Service Cover Ratio greater than 1

Debt Service Cover Ratio means: Operating EBITDA divided by the total minimum principal and interest payments for that period.

This ratio will be assessed every 12 months.

##### Gearing Ratio of less 60%

Gearing ratio means: Total liabilities divided by total tangible assets (including goodwill and other acquisition based intangibles).

This ratio will be assessed every 12 months.

##### Provision of bi-annual compliance certificates

HRL must provide within 60 days of 30 June a compliance certificate (and relevant supporting information as set out in the agreement) that states both the above covenants have been met.

There were no breaches of covenants during the period.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 16 BORROWINGS (CONT'D)

### Assets pledged as security

In accordance with the security arrangements of the bank loans, all current and non-current assets of the Group are secured by floating charge.

Finance leases are also secured by mortgage over the relevant motor vehicle which at 30 June 2017 had a carrying value of \$467,293 (2016: \$79,536).

### Defaults and breaches

During the current and prior year, there were no defaults or breaches on any of the loans.

### Terms and conditions

Bank loan facilities may be drawn at any time and have a remaining maturity of 2.25 years. The bank loan facilities are principal and interest and amortise equally over the loan period.

	2017	2016
	\$	\$
244,186,406 fully paid ordinary shares (June 2016: 158,903,031)	16,349,948	8,220,282

## NOTE 17 CONTRIBUTED CAPITAL

	June 2017 Number	June 2016 Number	June 2017 \$	June 2016 \$
<b>Movements during the period</b>				
Balance at beginning of period	158,903,031	154,550,025	8,220,282	8,220,282
Rights issue – issued at \$0.10 per share	57,783,375	-	5,783,338	-
Placement – issued at \$0.10 per share	27,500,000	-	2,750,000	-
Share issue costs (net of tax)	-	-	(398,672)	-
Shares issued to OCTIEF vendors on achieving Milestones	-	4,353,006	-	-
<b>Balance at end of period</b>	<b>244,186,406</b>	<b>158,903,031</b>	<b>16,349,948</b>	<b>8,220,282</b>

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands. Ordinary shares do not have a par value.

Issued and paid up capital is recognised at the fair value of the consideration received by the Consolidated Entity. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

## NOTE 18 RESERVES

	2017	2016
	\$	\$
Foreign currency translation reserve	(202,392)	(166,328)
Share based payment reserve	203,636	-
	<b>1,244</b>	<b>(166,328)</b>

The foreign currency translation reserve records exchange rate differences arising from the translation of the financial statements of foreign subsidiaries.

The share based payments reserve is used to record the value of share based payments provided to employees as part of their remuneration and to consultants for services provided.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 18 RESERVES (CONT'D)

### Movements during the year

	2017	2016
	\$	\$
Opening balance	(166,328)	(509,466)
Foreign exchange differences	(36,064)	343,138
Share based payments	203,636	-
<b>Closing balance</b>	<b>1,244</b>	<b>(166,328)</b>

## NOTE 19 MORRISON GEOTECHNIC HOLDINGS PTY LTD ACQUISITION ACCOUNTING

On 31 March 2017, HRL acquired 100% of the issued capital of Morrison Geotechnic Holdings Pty Ltd (Morrison Geotechnic). Established for over 17 years, Morrison Geotechnic services the civil, engineering and construction industries primarily across South East Queensland. The Company has 3 branches covering Brisbane, Gold Coast and the Sunshine Coast.

The agreed purchase consideration was:

- initial payment of \$3,750,000 cash; and
- earn-out consideration of up to \$750,000.

The amount of earn out consideration is based on Morrison's earnings before interest and taxes (EBIT) for the year 1 April 2017 to 31 March 2018:

EBIT	Earn Out Consideration
Less than \$1.1 million	Nil
\$1.1 – \$1.3 million	\$250,000
\$1.3m to \$1.5 million	\$500,000
More than \$1.5 million	\$750,000

If applicable, half of the earn-out consideration will be paid 12 months after settlement. Payment of the remaining half of the earn-out consideration will be paid in 12 equal monthly instalments thereafter.

Payment of the earn-out consideration is contingent on the four vendor's ongoing service with Morrison Geotechnic. The vendors will remain employed with Morrison Geotechnic for a minimum period of two years after acquisition. In the situation where employment is terminated prior to completing one year of service, no earn-out is payable. If employment is terminated after one but before the minimum two-year period, the earn-out consideration will be reduced proportionately to the length of time not employed.



# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 19 MORRISON GEOTECHNIC HOLDINGS PTY LTD ACQUISITION ACCOUNTING (CONT'D)

The assets and liabilities recognised as a result of the acquisition are as follows:

	31 March 2017
	\$
<b>Purchase consideration:</b>	
Cash payment	3,750,000
<b>Fair value of assets and liabilities acquired:</b>	
Cash and cash equivalents	266,012
Trade and other receivables	1,539,457
Other assets	120,607
Property, plant and equipment	776,510
Deferred tax assets	293,413
Intangibles – customer contracts and relationships	1,302,000
Intangibles – licences and accreditations	466,000
Trade and other payables	(833,810)
Employee provisions	(581,663)
Finance leases	(396,381)
Borrowings – insurance financing	(68,670)
Income tax payable	(246,419)
Deferred tax liabilities	(657,866)
<b>Net identifiable assets acquired</b>	<b>1,979,190</b>
Goodwill on acquisition	1,770,810
<b>Net assets acquired</b>	<b>3,750,000</b>

### Revenue and profit contribution

Morrison Geotechnic contributed revenues of \$2,289,457 and net profit of \$276,587 to the group for the period from 1 April 2017 to 30 June 2017.

If the acquisition had occurred on 1 July 2016 and the operations of Morrison Geotechnic been included from that date then the consolidated pro-forma revenue and profit for the year ended 30 June 2017 would have been \$9,434,982 and \$804,637 respectively.

### Outflow of cash to acquire Morrison Geotechnic, net of cash acquired

	31 March 2017
	\$
Cash consideration	3,750,000
Less: cash and cash equivalents acquired	(266,012)
<b>Net outflow of cash – investing activities</b>	<b>3,483,988</b>

### Acquisition related costs

Acquisition-related costs of \$23,322 that were not directly attributable to the issue of shares are included in 'Acquisition expenses' profit or loss and in operating cash flows in the statement of cash flows.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 20 INTEGRATED HOLDINGS GROUP ACQUISITION ACCOUNTING

On 13 April 2017, HRL acquired 100% of the issued capital of Integrated Holdings Group Pty Ltd (IHG). IHG is the holding entity of OCTFOLIO Pty Ltd (OCTFOLIO) and has no other operations or assets. OCTFOLIO is an Australian-based specialised software vendor focused on the development and implementation of:

- Information management software solutions for asbestos and hazardous materials;
- Innovative field management software solutions; and
- Customised compliance solutions and applications relating to workplace health and safety.

The agreed purchase consideration was:

- initial payment on completion of the IHG acquisition of \$2,750,000 in cash; and
- earn-out consideration of up to \$750,000 in cash.

The amount of earn out consideration is based on OCTFOLIO's earnings before interest and taxes (EBIT) for the 24 months after settlement:

### Tranche 1

12 Months Post-Acquisition EBIT	Earn Out Consideration
Less than \$300,000	Nil
More than \$300,000	\$375,000

### Tranche 2

13 Months to 24 Months Post-Acquisition EBIT	Earn Out Consideration
Less than \$450,000	Nil
More than \$450,000	\$375,000

Payment of the earn-out consideration is not contingent on any individual providing ongoing service. As per the principles and guidance as set out in AASB 3, the value of the estimated earn-out is reflected as an increase in the total consideration paid for the entity. Any subsequent changes in the estimate earn-out will be reflected in profit or loss. HRL estimates that there is 50% probability of OCTFOLIO's meeting the EBIT targets for both tranches. Accordingly, a total liability of \$375,000 has been recognised as a provision.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 20 INTEGRATED HOLDINGS GROUP ACQUISITION ACCOUNTING (CONT'D)

The assets and liabilities recognised as a result of the acquisition are as follows:

	13 April 2017
	\$
<b>Purchase consideration:</b>	
Cash payment	2,750,000
Contingent consideration recognised	375,000
	<b>3,125,000</b>
<b>Fair value of assets and liabilities acquired:</b>	
Cash and cash equivalents	19,919
Trade and other receivables	107,094
Other assets	8,409
Property, plant and equipment	10,653
Intangibles – customer contracts and relationships	50,000
Intangibles – software	1,500,000
Deferred tax assets	163,425
Trade and other payables	(83,571)
Deferred tax liabilities	(15,000)
Employee provisions	(1,849)
<b>Net identifiable assets acquired</b>	<b>1,759,080</b>
Goodwill on acquisition	1,365,920
<b>Net assets acquired</b>	<b>3,125,000</b>

### Revenue and profit contribution

OCTFOLIO contributed revenues of \$109,394 and net profit of \$38,775 to the group for the period from 14 April 2017 to 30 June 2017.

If the acquisition had occurred on 1 July 2016 and the operations of OCTFOLIO been included from that date then the consolidated pro-forma revenue and profit for the year ended 30 June 2017 would have been \$556,965 and \$198,950 respectively.

### Outflow of cash to acquire IHG, net of cash acquired

	13 April 2017
	\$
Cash consideration	2,750,000
Less: cash and cash equivalents acquired	(19,919)
<b>Net outflow of cash – investing activities</b>	<b>2,730,081</b>

### Acquisition related costs

Acquisition-related costs of \$63,311 that were not directly attributable to the issue of shares are included in 'Acquisition expenses' profit or loss and in operating cash flows in the statement of cash flows.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 21 PARENT ENTITY INFORMATION

The legal Parent Entity of the Consolidated Entity is HRL Holdings Limited.

	2017	2016
	\$	\$
<b>Parent Entity Financial Information</b>		
Current assets	106,931	88,635
Non-current assets	13,262,940	6,938,519
<b>Total assets</b>	<b>13,369,871</b>	<b>7,027,154</b>
Current liabilities	520,720	564,067
Non-current liabilities	28,113	848,310
<b>Total liabilities</b>	<b>548,833</b>	<b>1,412,377</b>
<b>Net assets</b>	<b>12,821,038</b>	<b>5,614,777</b>
Issued capital	27,388,480	19,258,814
Reserves	203,636	-
Accumulated losses	(14,771,078)	(13,644,037)
<b>Total equity</b>	<b>12,821,038</b>	<b>5,614,777</b>
Loss after income tax	(1,127,041)	(957,762)
Other comprehensive income	-	-
<b>Total comprehensive income</b>	<b>(1,127,041)</b>	<b>(957,762)</b>

### Commitments, Contingencies and Guarantees of the Parent Entity

The Parent Entity has no material commitments for the acquisition of property, plant and equipment.

The Parent Entity's exposure to contingent liabilities is detailed in Note 25. The Parent Entity has no contingent assets or guarantees at balance date.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 21 PARENT ENTITY INFORMATION (CONT'D)

Controlled Entities of the Parent Entity	Percentage Owned		Country of Incorporation
	2017 %	2016 %	
OCTIEF Pty Ltd	100%	100%	Australia
OCTIEF ACT Pty Ltd	100%	-	Australia
Hot Rock Geothermal Pty Ltd	100%	100%	Australia
HRL Holdings NZ Limited	100%	100%	New Zealand
Octief Limited	100%	100%	New Zealand
Precise Consulting and Laboratory Limited	100%	100%	New Zealand
Morrison Geotechnic Holdings Pty Ltd	100%	-	Australia
Morrison Geotechnic Pty Ltd	100%	-	Australia
Integrated Holdings Pty Ltd	100%	-	Australia
OCTFOLIO Pty Ltd	100%	-	Australia

### Principles of Consolidation

Subsidiaries are all entities (including structured entities) over which the Consolidated Entity has control. The Consolidated Entity controls an entity when the Consolidated Entity 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Consolidated Entity. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Consolidated Entity.

Intercompany transactions, balances and unrealised gains on transactions between Consolidated Entity companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Consolidated Entity.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and balance sheet respectively.

### Business combinations

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

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

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

All transaction costs incurred in relation to the business combination are expensed to the statement of comprehensive income. The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 22 SHARE BASED PAYMENTS

### Performance Shares

The Company has granted performance shares to incentivise senior management. The performance shares were granted for nil consideration and are not quoted on the ASX. Performance shares granted carry no dividend or voting rights. When vested, each performance share is convertible into one ordinary share.

Details of performance shares issued, exercised and expired during the financial year are set out below:

Expiry Date	Vesting Price	Movements				30 June 2017
		1 July 2016	Issued	Exercised	Expired	
30 June 2019	\$0.156	-	1,029,556	-	-	1,029,556
30 June 2019	\$0.194	-	1,029,556	-	-	1,029,556
30 June 2019	\$0.234	-	1,029,555	-	-	1,029,555
		-	3,088,667	-	-	3,088,667

The remaining contractual life of performance shares outstanding at the end of the prior period was 2 years.

The performance shares have the following key terms and conditions:

<b>Primary Vesting Conditions</b>	<p>From the 30 day VWAP of HRL's share price at 1 July 2016, any of the following increases occur:</p> <ol style="list-style-type: none"> <li>HRL share price increases 33% within 1 year; or</li> <li>HRL share price increases 66% within 2 years; or</li> <li>HRL share price increases 100% within 3 years.</li> </ol> <p>The HRL share price must remain above the nominated target for the relevant period for 14 consecutive trading days</p>
<b>Secondary Vesting Conditions</b>	<p>The Performance Shares will vest in proportion to the number of years' service after the plan is implemented:</p> <ol style="list-style-type: none"> <li>First 33% of the performance shares vest after 1 year of service from plan commencement;</li> <li>Next 33% performance shares vest after 2 years of service from plan commencement;</li> <li>Final 34% performance shares vest after 3 years of service from plan commencement.</li> </ol>
<b>Exercise Price</b>	\$Nil
<b>Forfeiture</b>	<p>The Performance Shares will lapse if:</p> <ul style="list-style-type: none"> <li>None of the pricing conditions are met; or</li> <li>the participant does not meet the service conditions.</li> </ul>
<b>Change of Control Event</b>	<p>In the event a bona fide Takeover Bid is declared unconditional and the bidder has acquired a relevant interest of at least 50.1%, the Performance Share vest immediately, irrespective of any unmet vesting conditions.</p>

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 22 SHARE BASED PAYMENTS (CONT'D)

### Fair value of performance shares granted

The assessed fair value at the date of grant of performance shares issued is determined using a option pricing models that takes into account the exercise price, the underlying share price at the time of issue, the term of the performance share, the underlying share's expected volatility, expected dividends and the risk free interest rate for the expected life of the instrument.

The value of the performance shares was calculated using the inputs shown below:

Inputs into pricing model	Tranche 1
Grant date	31 August 2016
Exercise price	\$Nil
Vesting conditions	See above table
Share price at grant date	\$0.12
Life of the instruments	3 years
Underlying share price volatility	52%
Expected dividends	Nil
Risk free interest rate	1.52%
Pricing model	Binomial
Fair value per instrument	\$0.0746

The expected price volatility is based on the historic volatility (based on the remaining life of the performance shares), adjusted for any expected changes to future volatility due to publicly available information.

### Options

During the period the Company granted performance options to its capital advisors, Canaccord Genuity (Australia) Limited in connection with the ongoing capital markets strategy requirements of the Company. The performance shares were granted for nil consideration and are not quoted on the ASX. Options granted carry no dividend or voting rights. When exercised, each option converts into one ordinary share.

Details of options issued, exercised and expired during the financial year are set out below:

Expiry Date	Exercise Price	Movements				30 June 2017
		1 July 2016	Issued	Exercised	Expired	
31 December 2019	\$0.18	-	1,600,000	-	-	1,600,000
31 December 2019	\$0.20	-	1,600,000	-	-	1,600,000
31 December 2019	\$0.23	-	1,600,000	-	-	1,600,000
		-	4,800,000	-	-	4,800,000

The remaining contractual life of options outstanding at the end of the prior period was 2.5 years. The weighted average exercise price of the options is \$0.203.

### Fair value of options granted

The assessed fair value at the date of grant of options issued is determined using a option pricing models that takes into account the exercise price, the underlying share price at the time of issue, the term of the option, the underlying share's expected volatility, expected dividends and the risk free interest rate for the expected life of the instrument.

The value of the options was calculated using the inputs shown below:

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 22 SHARE BASED PAYMENTS (CONT'D)

Inputs into pricing model	Tranche A - \$0.18	Tranche B - \$0.20	Tranche C - \$0.23
Grant date	2 June 2017	2 June 2017	2 June 2017
Exercise price	\$0.18	\$0.18	\$0.18
Vesting conditions	Nil	Nil	Nil
Share price at grant date	\$0.10	\$0.10	\$0.10
Life of the instruments	2.5 years	2.5 years	2.5 years
Underlying share price volatility	59%	59%	59%
Expected dividends	Nil	Nil	Nil
Risk free interest rate	1.55%	1.55%	1.55%
Pricing model	Binomial	Binomial	Binomial
Fair value per instrument	\$0.02054	\$0.01800	\$0.01488

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

### Expenses arising from share-based payment transactions

	2017	2016
	\$	\$
Performance shares issued to senior management	118,166	-
Options issued to capital advisors	85,470	-
	<b>203,636</b>	<b>-</b>

## NOTE 23 RELATED PARTY TRANSACTIONS

### Key Management Personnel Compensation

Short-term benefits	813,227	758,505
Post-employment benefits	81,249	78,007
Long-term benefits	3,615	(11,121)
Termination benefits	-	-
Share-based payments	67,033	-
	<b>965,124</b>	<b>825,391</b>

Detailed remuneration disclosures are provided in the remuneration report on pages 14 to 22.

### Transactions with related parties

Transaction	Entity	Association	2017	2016
			\$	\$
Rental of office space	Paget Developers	Darren Anderson Kevin Maloney	107,369	101,979
Software and hosting services <sup>1</sup>	Octfolio	Darren Anderson Kevin Maloney	322,725	249,253
Sublet of office space to Octfolio <sup>1</sup>	Octfolio	Darren Anderson Kevin Maloney	33,773	30,858

<sup>1</sup> Services provided from 1 July 2016 to 13 April 2017.

All of the above transactions were based on normal commercial terms and conditions.



# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 23 RELATED PARTY TRANSACTIONS (CONT'D)

### Trade payable balances with related parties

Nature	Entity	Association	2017 \$	2016 \$
Software and hosting services	Octfolio	Darren Anderson Kevin Maloney	NA	31,573

## NOTE 24 FINANCIAL RISK MANAGEMENT

The Consolidated Entity's financial instruments consist mainly of deposits with banks and accounts receivable and payable. The main risk arising from the financial instruments is credit risk and foreign exchange risk.

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for day to day management of these risks to the Chief Finance Officer. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

### Credit Risk

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Consolidated Entity incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to the Consolidated Entity. It arises from exposure to customers as well as through deposits with financial institutions.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements. There is no collateral held as security at 30 June 2017. Credit risk is reviewed regularly by the Board.

The Group does not have any material credit risk exposure to any single counterparty, except for its holdings of cash which is held with the Westpac Bank.

### Maximum exposure to credit risk

	2017 \$	2016 \$
<u>Summary exposure</u>		
Cash and cash equivalents	728,165	392,863
Trade receivables	3,026,674	1,167,979
Other receivables	392,162	186,372
	<b>4,147,001</b>	<b>1,747,214</b>

### Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulties raising funds to meet financial obligations as they fall due. Liquidity risk is reviewed regularly by the Board.

The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate cash resources are maintained. Refer to Note 16 for the Group's financing facilities available at balance date.

### Remaining contractual maturities

The tables below reflects the contractual maturity of fixed and floating rate financial liabilities. Cash flows for financial liabilities without fixed amount or timing are based on the conditions existing at period end. The amounts disclosed represent undiscounted cash flows. The tables include both interest and principal cash flows and therefore the totals may differ from their carrying amount in the balance sheet.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 24 FINANCIAL RISK MANAGEMENT (CONT'D)

The remaining contractual maturities of the financial liabilities are:

30 June 2017	Fixed interest rate	1 year or less \$	1 to 5 years \$	Over 5 years \$	Total \$
Trade payables	-	509,375	-	-	509,375
Other payables	-	799,317	-	-	799,317
OCTFOLIO contingent consideration	-	187,500	187,500	-	375,000
Bank loan	-	287,334	-	-	287,334
Insurance financing	5.51%	129,358	-	-	129,358
Finance leases	4.90%	215,016	233,718	-	488,734
		<b>2,127,900</b>	<b>233,718</b>	-	<b>2,589,118</b>

30 June 2016	Fixed interest rate	1 year or less \$	1 to 2 years \$	Over 2 years \$	Total \$
Trade payables	-	293,262	-	-	293,262
Other payables	-	377,772	-	-	377,772
Bank loan	-	774,000	502,230	-	1,276,230
Finance leases	4.73%	31,239	31,239	40,186	102,664
		<b>1,476,273</b>	<b>533,469</b>	<b>40,186</b>	<b>2,049,928</b>

### Market Risk

Market risk arises from the use of interest bearing, tradeable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk).

### Interest rate risk

Interest rate risk is managed by constant monitoring of interest rates.

Interest rates over the 12 month period were analysed and a sensitivity determined to show the effect on profit and equity after tax if the interest rates at reporting date had been 100 basis points higher or lower, with all other variables held constant. This level of sensitivity was considered reasonable given the current level of both short-term and long-term Australian and New Zealand interest rates. The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance sheet date.

All cash assets and the bank loan have floating interest rates. At 30 June, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post-tax profit and equity would have been affected as follows:

	2017 \$	2016 \$
<u>Impact on profit and equity</u>		
+1.00% (100 basis points)	3,155	(9,588)
-1.00% (100 basis points)	(3,155)	9,588

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 24 FINANCIAL RISK MANAGEMENT (CONT'D)

### Foreign Currency Risk

Foreign currency risk arises as a result of having assets/cash flows denominated in a currency other than the home currency in which they are reported. At 30 June, the Group had the following exposure to foreign currency, shown in Australian Dollars:

	2017	2016
	\$	\$
<u>Financial assets</u>		
Cash and cash equivalents (NZD)	348,378	258,843
Trade and other receivables (NZD)	873,497	864,052
	<b>1,221,875</b>	<b>1,122,895</b>
<u>Financial liabilities</u>		
Trade and other payables (NZD)	273,338	361,600
	<b>273,338</b>	<b>361,600</b>

Exchange rates over the 12 month period were analysed and a sensitivity determined to show the effect on profit and equity after tax if the NZD:AUD exchange rates at reporting date had been 10% basis higher or lower, with all other variables held constant. The following sensitivity analysis is based on the foreign currency risk exposures in existence at the balance sheet date:

	2017	2016
	\$	\$
<u>Impact on equity</u>		
+10.00%	(94,854)	(76,130)
-10.00%	94,854	76,130

### Capital Risk Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of ordinary shares and retained earnings of the Group. The Board of Directors monitors the return on capital as well as considers the potential of future dividends to ordinary shareholders. The Board 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.

As part of complying with its borrowing covenants, the Group has an externally imposed requirement to maintain a *Gearing Ratio* of less than 60% at June 2017. *Gearing ratio* is defined as: Total liabilities divided by total tangible assets (including goodwill arising from the Precise Consulting acquisition). The actual gearing ratio at 30 June 2017 was 31%.

### Fair Values

The fair values of financial assets and financial liabilities approximate their carrying values due to their short term nature. No financial assets or liabilities are readily traded on organised markets in standardised form.

### Fair value hierarchy

AASB 13 Fair Value Measurement requires disclosure of fair value measurements by level in the fair value measurement hierarchy as follows:

- Level 1 - the instrument has quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 - a valuation technique is used using inputs other than quoted prices within level 1 that are observable for the financial instrument, either directly (i.e. as prices), or indirectly (i.e. derived from prices)
- Level 3 - a valuation technique is used using inputs that are not observable based on observable market data (unobservable inputs).

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 24 FINANCIAL RISK MANAGEMENT (CONT'D)

### Recurring fair value measurements

The following financial instruments are subject to recurring fair value measurements:

	2017	2016
	\$	\$
Contingent consideration – level 3	375,000	-

The fair value of the contingent consideration of \$375,000 has been estimated by calculating the present value of the future expected cash outflows.

### Reconciliation of level 3 movements

The following table sets out the movements in level 3 fair values for contingent consideration payable.

Opening balance 1 July 2017	-	-
Recognised on business combination	375,000	-
Payments of contingent consideration	-	-
<b>Closing balance 30 June 2017</b>	<b>375,000</b>	<b>-</b>

### Valuation processes for level 3 fair values

The following table sets out the valuation techniques used to measure fair value within Level 3, including details of the significant unobservable inputs used and the relationship between unobservable inputs and fair value.

Description	Valuation approach	Unobservable inputs	Relationship between unobservable inputs and fair value
Contingent consideration	Expected EBIT is estimated based on the terms of the sale contract (see Note 20) and the entity's knowledge of the business and how the current economic environment is likely to impact it.	Expected EBIT of OCTFOLIO Risk adjusted discount rate	The higher the expected EBIT the higher the fair value of the liability.  The lower the risk adjusted discount rate the higher the fair value of the liability.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 25 COMMITMENTS

	2017	2016
	\$	\$
<b>Operating leases</b>		
<i>Minimum lease payments:</i>		
Payable within one year	771,972	482,862
Payable within one year and five years	1,123,115	806,376
<b>Total contracted at balance date</b>	<b>1,895,087</b>	<b>1,286,238</b>

The Group leases various properties and motor vehicles under non-cancellable operating leases expiring within one to five years. The property leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

### Finance leases

<i>Future minimum lease payments:</i>		
Payable within one year	215,016	31,239
Payable between one year and five years	233,718	71,425
	448,734	102,664
Less future interest payments	(29,077)	(9,149)
	<b>419,657</b>	<b>93,515</b>
<i>Present value of minimum lease payments:</i>		
Current (Note 16)	198,884	25,856
Non-Current (Note 16)	220,773	67,959
	<b>419,657</b>	<b>93,515</b>

### Future exploration

<i>Exploration obligations to be undertaken:</i>		
Payable within one year	-	800,000
Payable between one year and five years	-	18,500,000
	-	<b>19,300,000</b>

The Group has certain obligations to expend minimum amounts on exploration in tenement areas. On 29 June 2017 entered into an agreement to transfer its interest in Geothermal Exploration Permit 8 to a third party. HRL informed the Victorian Government that it would relinquish Geothermal Exploration Permit 6. As a result of these events HRL no longer has any ongoing exploration obligations.

The Group has previously impaired the value of these tenement areas to \$Nil in prior periods with all subsequent costs immediately expensed through the statement of comprehensive income.

## NOTE 26 CONTINGENT LIABILITIES

The Consolidated Entity has arranged bank guarantees of \$30,000 to the Victorian Government as security over the granted geothermal tenement. No liability has been recognised by the Group as bank deposits totalling \$30,000 are in place to satisfy any obligation to the bank. Upon transfer or relinquishment of the tenements, the Victorian Government will release the security.

The Consolidated Entity has arranged bank guarantees of \$38,500 as security for rental premises.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 27 AUDITOR'S REMUNERATION

	2017	2016
	\$	\$
<hr/>		
<u>Audit services – BDO Audit Pty Ltd</u>		
Audit and review of financial reports	69,026	59,500
<b>Total audit services</b>	<b>69,026</b>	<b>59,500</b>
<hr/>		
<u>Non-audit services – BDO (QLD) Pty Ltd</u>		
Taxation services	26,927	2,500
<b>Total non-audit services</b>	<b>26,927</b>	<b>2,500</b>

## NOTE 28 EVENTS AFTER BALANCE DATE

There have been no other events since 30 June 2017 that impact upon the financial report.

# DIRECTORS' DECLARATION

## DIRECTORS' DECLARATION

In the Directors opinion:

- (a) the attached consolidated financial statements and notes and the remuneration report in the Directors' Report are in accordance with the *Corporations Act 2001* and other mandatory professional reporting requirements, including:
  - (i) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
  - (ii) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2017 and of its performance for the financial year ended on that date; and
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1 to the consolidated financial statements; 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.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of directors.



Darren Anderson  
Director

Brisbane  
21 August 2017

## INDEPENDENT AUDITOR'S REPORT

To the members of HRL Holdings Limited

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of HRL Holdings Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated balance sheet as at 30 June 2017, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

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

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

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

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

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



## Key audit matters

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

### Acquisition of Morrison Geotechnic Holdings Pty Ltd (Morrison)

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>The Group's disclosures about the acquisition of Morrison Geotechnic Holdings Pty Ltd (Morrison) are included in Note 19, which details the key events that occurred in the transaction including the consideration transferred and assets and liabilities acquired.</p> <p>The acquisition of Morrison is considered a significant transaction for the group. The presentation, measurement and disclosures around this transaction are important in the users' understanding of the financial statements. The transaction is material in the context of the audit and involved significant auditor effort, and was therefore key to our audit.</p> <p>Management have completed a process to determine the purchase consideration and the fair value of the identifiable net assets acquired, including customer contracts, customer relationships and licenses and accreditations and the allocation of the difference to goodwill. This process involved estimation and judgement to calculate both the consideration and the fair value of identified intangible assets.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>• Assessing management's determination of whether the acquisition was a business combination or an asset acquisition</li> <li>• Evaluating management's assessment of the fair value of the identifiable assets and liabilities acquired including: <ul style="list-style-type: none"> <li>• Obtaining management's external valuation of the identifiable assets and liabilities acquired</li> <li>• Assessing the professional competence and objectivity of the valuer</li> <li>• Evaluating the appropriateness of the methods and assumptions used</li> <li>• Challenging management in relation to the inputs and assumptions used by the valuer</li> <li>• Providing the external valuation to the internal experts to assess the reasonableness of the structure and assumptions applied in the model including the discount rate.</li> </ul> </li> <li>• Assessing the disclosures related to the acquisition to ensure they are in compliance with applicable accounting standards.</li> </ul>

## Acquisition of Integrated Holdings Group Pty Ltd (IHG)

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>The Group’s disclosures about the acquisition of Integrated Holdings Group Pty Ltd (IHG), and its subsidiary OCTFOLIO Pty Ltd (OCTFOLIO), are included in Note 20, which details the key events that occurred in the transaction including the consideration transferred and assets and liabilities acquired.</p> <p>The acquisition of IHG is considered a significant transaction for the group. The presentation, measurement and disclosures around this transaction are important in the users’ understanding of the financial statements. The transaction is material in the context of the audit and involved significant auditor effort, and was therefore key to our audit.</p> <p>Management have completed a process to determine the purchase consideration and the fair value of the identifiable net assets acquired, including customer contracts, customer relationships and software and the allocation of the difference to goodwill. This process involved estimation and judgement to calculate both the consideration (including contingent consideration) and the fair value of identified intangible assets.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>• Assessing management’s determination of whether the acquisition was a business combination or an asset acquisition</li> <li>• Challenging management’s calculation of contingent consideration in accordance with requirements of AASB 3 <i>Business Combinations</i>.</li> <li>• Evaluating management’s assessment of the fair value of the identifiable assets and liabilities acquired including: <ul style="list-style-type: none"> <li>• Obtaining management’s internal valuation of the identifiable assets and liabilities acquired</li> <li>• Evaluating the appropriateness of the methods and assumptions used</li> <li>• Challenging management in relation to the inputs and assumptions used in the valuation</li> <li>• Providing the internal valuation to the internal experts to assess the reasonableness of the structure and assumptions applied in the model including the discount rate.</li> </ul> </li> <li>• Critically assessing the disclosures related to the acquisition to ensure they are in compliance with applicable accounting standards.</li> </ul>

## Valuation of goodwill

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>The Group's disclosures about goodwill impairment are included in Note 13, which details the allocation of goodwill to the groups various CGU's, sets out the key assumptions for value-in-use calculations and the impact of possible changes in these assumptions.</p> <p>This annual impairment test was significant to our audit because the balance of \$8,186,266 as of 30 June 2017 is material to the financial statements. In addition, management's assessment process is complex and highly judgmental and is based on assumptions, specifically forecast future cash flows, growth rate, and discount rate, which are affected by expected future market or economic conditions.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>• Assessing management's allocation of goodwill and assets and liabilities, including corporate assets to Cash Generating Units ("CGU's")</li> <li>• Evaluating the inputs used in the value in use calculation including the growth rates, discount rates and underlying cash flows applied by management</li> <li>• Assessing the sensitivity of the assumptions used by management on the value in use calculation</li> <li>• Involving our internal specialists to assess the discount rates and terminal growth rates against comparable market information</li> <li>• Assessing the disclosures related to the goodwill and the impairment assessment by comparing these disclosures to our understanding of the matter and the applicable accounting standards.</li> </ul>

## Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and the auditor's report thereon.

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

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

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

## Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*

and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

#### **Auditor's responsibilities for the audit of the Financial Report**

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf)

This description forms part of our auditor's report.

#### **Report on the Remuneration Report**

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

We have audited the Remuneration Report included in pages 14 to 22 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of HRL Holdings Limited, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

##### **Responsibilities**

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

**BDO Audit Pty Ltd**



**T R Mann**  
Director

Brisbane, 21 August 2017

## HRL HOLDINGS LIMITED CORPORATE INFORMATION

### DIRECTORS

Kevin Maloney (Chairman)  
Darren Anderson (Executive Director)  
Mark Elliott (Non-executive Director)  
John Taylor (Non-executive Director)

Frederick Kempson (Alternate Non-executive Director)

### COMPANY SECRETARY

Paul Marshall

### REGISTERED OFFICE

HopgoodGanim Lawyers  
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### SHARE REGISTRY

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Brisbane QLD 4000  
Phone: 1300 554 474

### AUDITORS

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Brisbane QLD 4000  
Phone: + 61 7 3237 5999

### COUNTRY OF INCORPORATION

Australia

### STOCK EXCHANGE LISTING

Australian Securities Exchange Limited  
ASX Code: HRL

### INTERNET ADDRESS

[www.hrlholdings.com](http://www.hrlholdings.com)

### AUSTRALIAN BUSINESS NUMBER

ABN 99 120 896 371

