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Announcement pursuant to rule 704(5) of the Listing Manual – Disclaimer of Opinion

Pursuant to Rule 704(5) of the Listing Manual, the Board of Directors of AusGroup Limited (the "Company") together with its subsidiaries (the "Group") wishes to announce that the independent auditor of the Company, KPMG LLP, has issued a disclaimer of opinion in their Independent Auditor's Report dated 25 September 2019 for the financial statements of the Company and the Group for the financial year ended 30 June 2019.

Please refer to the copy of the aforementioned Auditor's Report (Appendix 1), together with an extract of the relevant notes to the Financial Statements (Appendix 2) for further information.

By Order of the Board
AusGroup Limited

Shane Francis Kimpton
Managing Director
26 September 2019

Issued by AusGroup Limited.

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ABOUT AUSGROUP LIMITED
With 30 years' experience, AusGroup is an established project and asset services provider. We create ongoing value for our clients across construction and maintenance environments. Through our subsidiaries AGC, MAS and NT Port and Marine, we provide specialty services to the energy, resources, industrial, utilities and port & marine sectors. For more information, visit www.ausgroupltd.com

Appendix 1 - Independent auditor's report to the members of AusGroup Limited

Report on the Financial Statements

Disclaimer of opinion

We were engaged to audit the financial statements of AusGroup Limited (the Company) and its subsidiaries (the Group), which comprise the consolidated balance sheet of the Group and the balance sheet of the Company as at 30 June 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages FS1 to FS94.

We do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the 'Basis for disclaimer of opinion' section of our report and their possible cumulative effect on the financial statements, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

a) The Group's non-current assets at 30 June 2019 include property, plant and equipment of AU$58.3 million (2018: AU$45.2 million) and intangible asset of AU$33.0 million (2018: AU$32.1 million) attributable to the Port and Marine cash-generating unit ("CGU"). As disclosed in note 24 to the financial statements, the Group has estimated the recoverable amount of the Port and Marine CGU based on a fair value less cost of disposal method. We were unable to obtain sufficient appropriate audit evidence regarding the key assumptions applied to arrive at the recoverable amount of the Port and Marine CGU. Consequently, we were unable to determine whether any adjustments were necessary in respect of the Group's carrying amounts of property, plant and equipment as at 30 June 2019, and elements making up the consolidated statement of comprehensive income, changes in equity and cash flows for the year ended 30 June 2019.

b) Arising from above, we were also unable to determine whether any adjustment to the carrying amount of the investments in subsidiaries shown in the Company's balance sheet was necessary. Of the Company's non-current assets of AU$150.2 million as at 30 June 2019 (2018: AU$140.4 million), AU$32.5 million (2018: AU$30.9 million) relates to investments in subsidiaries and AU$60.8 million (2018: AU$50.9 million) pertains to receivables owing from subsidiaries which comprise the Group's Port and Marine CGU.

We considered the impact of the above items to be material and pervasive to the overall financial statements of the Group.

The financial statements for the year ended 30 June 2018 also included a disclaimer of opinion, arising from the same matters as described above in relation to the recoverable amount of the Port and Marine CGU.

We also draw attention to Notes 2(a) of the financial statements which disclose conditions that indicate the existence of material uncertainties surrounding the continuing use of the going concern assumption in the preparation of the financial statements. These material uncertainties relate to the ability to generate forecasted cash inflows from the conversion of unsecured customers contracts.

Responsibilities of management and directors for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Companies Act, Chapter 50 (the Act) and Singapore Financial Reporting Standards (International), and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our responsibility is to conduct an audit of the financial statements in accordance with Singapore Standards on Auditing and to issue an auditors' report. However, because of the matters described in the 'Basis for disclaimer of opinion' section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ('ACRA Code') together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code.

Report on other legal and regulatory requirements

In our opinion, in view of the significance of the matters referred to in the 'Basis for disclaimer of opinion' section of our report, we do not express an opinion on whether the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditors' report is Chiang Yong Torng.

KPMG LLP
Public Accountants and
Chartered Accountants

Singapore
25 September 2019

Appendix 2 - Extracts from the financial statements for the year ended 30 June 2019

Note 2 - Summary of significant accounting policies (extract)

(a) Basis of preparation (extract)

Going Concern

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be able to meet its obligations as and when they fall due.

The Group recognised a net profit after tax of AU$2.3 million (2018: AU$13.5 million) for the year ended 30 June 2019 and as at that date, current assets exceed current liabilities by AU$37.0 million (2018: net liability position of AU$40.8 million). The Group's net cash used in operating activities for the year ended 30 June 2019 was AU$28.5 million.

Capital injection through placement and rights issue and debt restructure

Following the completion of the rights issue and share placement of S$46.4m in FY2019, additional debt to equity conversions and the extension to the maturity of the Notes by four years and the Shareholder loan by five years to 3 December 2022 and 31 October 2023 respectively, these major debt repayments are no longer due payable within one year (refer note 17). At 30 June 2019 the only debt due to be repaid in FY2020 is AU$7.1 million. Accordingly the short term focus on the Group's cashflow to meet short term debts has been substantially addressed as the Group has rescheduled the majority of its borrowings to longer term (non-current) tenure during the year.

The Group is now focused on options to reduce debt further prior to the new maturity dates in 2022 and 2023 and bolster working capital to support the expansion of services to its clients.

Cash flow forecasts

As part of the assessment of the going concern assumption applied in the preparation of the financial statements, management has prepared the Group's cash flow forecasts from 1 July 2019 to 31 December 2020, including sensitivities. These forecasts represent management's best estimate of revenues and costs in the coming periods and include cash inflows from secured and unsecured contracts from existing and new clients. Whilst these forecasts contain some uncertainties relating to the conversion of unsecured contracts, management remains confident that sufficient contracts will be secured to generate the Group's positive cash flows to meet obligations.

Preparation of the financial report on a going concern basis

There are some uncertainties over the cash flows to be generated for the conversion of future unsecured contracts that may cast doubt on the Group's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The directors, having considered these matters, believe that the Group will be able to meet its obligations as and when they fall due. This conclusion is based on the following:

- *the generation of positive cashflow from the Group from 1 July 2019 to 31 December 2020, including revenue from secured and unsecured contracts;*
- *the extension of the maturity date of the Notes to 3 December 2022;*
- *the availability of potential credit facilities to the Group; and*
- *the divestment of assets or businesses to raise proceeds, if needed, to extinguish the Group's debt obligations.*

Accordingly, the directors are of the opinion that the preparation of the financial report on a going concern basis remains appropriate.

Note 24 - Impairment of non-current assets (extract)

The Group performs its impairment testing for goodwill annually on 30 June. In addition, market conditions are monitored for indications of impairment for all the Group's operating assets. Where an indication of impairment is identified, a formal impairment assessment is performed.

The Group has identified the following indicators of impairment at 30 June 2019 which has led the Group to assess the recoverable value for CGUs:

- *Port Melville is now fully operational and has completed commercialisation of its facilities. Fuel sales during the year have been impacted by the general lack of activity in the oil and gas sector delaying the penetration across the market and this has also impacted the capacity required to reach operational steady state. As in the prior year, the CGU will require working capital injection until the business can operate freely on its cash flow.*

(i) Material impairment assessment of CGUs for the current year

Port and Marine: Fair value less costs of disposal basis

The valuation model uses an income based approach, and is based on the present value of expected cash flows in the business over the life of the right to operate the port held by the Group. The fair value measure was categorised as level 3 fair value based on the inputs in the valuation techniques used.

The recoverable amount of the Port and Marine CGU is estimated to be $93.1 million (2018: $87.9 million) on a fair value less costs of disposal ("FVLCD") basis. The carrying amount of the CGU as at 30 June 2019 was $91.3 million (2018: $71.7 million). There is no impairment recognised in the year (2018: Nil).

(ii) Key assumptions in FVLCD models

In 2019 the recoverable amount has been determined on a FVLCD basis for the Port and Marine CGU, with the valuation principle based on the present value of future cash flows. The following sets out the key assumptions in the Port and Marine FVLCD model.

The operations included in the valuation model of the Port and Marine CGU are based on the activity of Port Melville related assets and the activity of the supply base located in Darwin. The port commenced operations in November 2015 and following the re-structuring of the CGU at the end of FY2016, the CGU was reassessed and changes were made to the operating model, to ensure that the business model reflected a more focussed and targeted service offering based on marine fuel sales and woodchip sales. The main focus of the Port Melville operations based on these two activities is to provide the platform for the oil and gas operators to utilise not just the option of more accessible fuel but also the use of the Port Melville industrial precinct and storage laydown facilities.

During the last year, the port has continued its commercialisation activities started in FY17/18 and has now seen a full year of fuel sales in FY2019. There has also been continued development of the oil and gas exploration activities primarily in the Bonaparte basin which is adjacent to Port Melville. There have been a number of near term developments in the oil and gas sector along with other strategic opportunities that will enable the Port & Marine CGU to capture revenue in the near term. Accordingly the incorporation of these near term developments would more fairly reflect the value of the port in its expanded state rather than in its current state, therefore a valuation on the basis of FVLCD is still the most appropriate option. This will allow management to take into account the expected investment in order for the port to offer a diverse range of services. It more fairly reflects the value of the port in its expanded state rather than in its current state.

In prior years, the Group engaged external specialists in the field of Port and Marine Services with specific expertise in the economic forecast for oil and gas developments, to perform a FVLCD valuation on a discounted cash flow basis as at 30 June 2016 of the oil and gas related opportunities for the Port and Marine CGU. This information has been used in the current year FVLCD valuation as the market conditions have not materially changed from the date of the report. The value derived from the woodchip and fuel sales revenue stream assumptions have been added to expert's valuation to determine the FVLCD for the current year.

Forecast revenue assumptions

Fuel Supply & Sales

Port Melville has continued deliveries of fuel to a diverse range of clients operating in various industries including Australian Commonwealth Government departments, oil and gas exploration companies, commercial maritime transport industry, domestic market consumption and various NT Government departments.

Port & Marine CGU has also provided services to the Tiwi Islands and vessels servicing NT waters such as port services and accommodation.

These services will continue to expand and will provide an alternative fuel supply and port service offering to Darwin Port, with the continuing focus to increase the CGU's footprint across the fuel supply market, targeting a market penetration of both the domestic fuel market on the Tiwi Islands and securing supply contracts with international oil and gas operators.

Woodchips and Pine log sales

The other key source of revenue included in the Port & Marine CGU valuation is the revenue earned on the forestry product sales. There is ample resource on the Tiwi Islands to service this industry and the client requirements for the life of the model as they adopt more mature plantation and forestry techniques.

Other sales revenues (Oil and Gas exploration)

The market share attributed to Port Melville in relation to servicing the oil and gas industry in exploration basins within the proximity of Port Melville has been based on the independent expert's assessment of the overall market, combined with a review of other competing facilities in the area, in order to capture the share expected to be attributable to the Port Melville operation through successful award of oil and gas contracts.

The independent valuation expert's report was produced at the end of calendar year 2016 and is still relevant for 2019/20. The report has considered revenue from expected/foreseeable contracts based on the current operations of Port Melville, ongoing discussions with potential customers as advised by management from Port Melville, associated with the oil and gas exploration sector. The approach taken to modelling forecast revenue has been bottom up, beginning with a view on oil and gas activity expected to take place in the catchment area. From this assessment, typical tonnage and fuel assumptions through ports have been estimated, which form the basis of a view on total revenues. These revenues have then been risk adjusted according to the ability of Port Melville to secure them.

Over the life of the right to operate the port lease (valid until 2059), the total market has been assessed based on the current activity in the area, but has also taken into account possible development and capital spend in oil and gas as this may lead to additional revenue streams when these projects come online. These include development of various fields, primarily within the Bonaparte basin, but excludes revenue for development of fields currently expected to occur after 2035 as the income is not considered to have sufficient certainty at this stage. Revenue has been included for the full valuation period up to 2059 for some other areas, where the Group has existing revenue streams, as there is considered to be a greater level of certainty attached to these items.

The value of the revenue streams identified above has been determined based on application of the Group's published port tariff.

Other revenue (storage and laydown services)

Other revenue included in the model relates to similar revenue which may arise from future potential contracts and from laydown and storage rental to oil and gas customers. The same port tariff has been applied to these sources of revenue as for direct oil and gas revenues described above.

Discount rate

The discount rate applied to the valuation model was 8.91% post tax nominal (pre-tax equivalent: 12.73% for the Port and Marine business). It was determined by calculating the most appropriate rate to apply to the forecast cash flows, after considering risk adjusted forecast oil and gas revenue and the current operations of the Port and Marine business which are not linked to the oil and gas industry and after including the adjusted cost of servicing external debts which has reduced in the current year due to completion of the debt re-structuring exercise referred to in note 17.

Other assumptions

In addition to revenue assumptions outlined in detail above, the following are also considered to have a significant impact on the resulting CGU valuation:

Area	*Basis of assumption*
Port tariff	*The rates used in the valuation are based on the Group's current published tariff table. Historic data concerning annual increases in port tariff applied by other ports has been used in order to determine the inflation rate used in the calculation of model revenue in future years. The forecast tariff rates were benchmarked by the independent expert based on their prior experience in valuing ports.*
Fuel Volumes	*Fuel sales have been determined after research into the total NT / Darwin market volumes for prior years and factoring in expected growth for 2020 (base years for the model). Growth in volumes has been assumed based on a growing market share as market participation and penetration increases.*
Fuel Sales	*Prices have been based on initial sales made during the last couple of years with sales made both in the domestic market (Tiwi Island) and to Oil and gas operators and international customers. There is a continual process into market research and through discussions with stakeholders to determine a range of values that could be applied for domestic based customers and a different sales mix for the international customers. The independent fuel sales expert has provided indications on likely sales price ranges indicative of the respective market sectors.*
Fuel Prices (cost of purchase)	*Prices have been based on the two parcels of fuel purchased in the previous year after extensive research into the fuel supply market and increasing knowledge of the industry. The prices have all been quoted for deviation costs from the normal shipping routes to call at Port Melville and have been included as a sunk cost in all pricing.*
Costs	*The costs used in the valuation model are consistent with the current operating costs required to operate the facilities at East Arm, Darwin, Port Melville and are deemed appropriate to operate the facilities in future years.*
Capex	*The level of Capex in the valuation model has been determined based on what is required to develop a full service offering to support the business operations foreseen in the model. The majority of Capex already spent on the Port Melville assets (approximately $60 million pre-impairments) relates to the fuel farm and the three 10 million litre tanks.*
Period of cash flows	*The model has been based on the remaining term of the right to operate the port already held in the Group (terminates in 2060). No activity has been assumed beyond the current term of this right and no terminal value has been assumed. Please also refer to discussion of forecast revenue above which highlights a distinction in assumptions adopted pre and post 2035 based on assessment of the level of certainty attached to particular revenue streams.*
Cost inflation	*Costs have been assumed to increase based on the consumer price index issued by the RBA.*

The valuation presented in the financial statements is therefore calculated based on a number of significant assumptions. The stated assumptions for the valuation have been determined in accordance with the following background and uncertainties concerning future activity:

- *Estimates of revenue are partially dependent on securing contracts in relation to specific customer projects in all chosen market sectors including the oil and gas industries and in the newly developed target markets of potential marine fuel sales over the remaining 41 year asset life, and although management remain confident that there will be projects available to support the revenue assumptions, there is uncertainty that all these projects will be available or that Port Melville will capture the proportion of these projects foreseen in the model (refer to note 24 (c) in relation to sensitivities in revenue);*
- *Fuel prices may vary over time and therefore the amount of inventory held at any one time will be estimated such that there are sufficient volumes to meet imminent shipping requirements in order to avoid price erosion on margins based on spot sales contracts.*
- *Market penetration and market share criteria data are largely untested although knowledge of the industry is now based on the two years' sales and fuel purchases and will grow as sales increase.*
- *Some of the projected revenue is also dependent on activity in the oil and gas industry which tends to be cyclical and therefore modelled activity may differ in timing and/or extent from that actually experienced in the coming years.*
- *Estimates of fuel volumes available in the market are determined by management's best estimates based on available market information coupled with considered opinion from the independent fuel expert.*
- *There are other ports, including Port Darwin, operating in the area which may take a different proportion of the market than projected, although projections of estimated revenue volume (which in turn is a key driver of other key model inputs such as estimated costs and capital expenditure) have taken into account the relative positions of these ports and therefore the risk in this area has been carefully considered.*

Please refer to note 24(c) for numerical information regarding the sensitivity of the impairment charge recognised to reasonably possible changes in key assumptions. This includes the key assumption of revenue, but also considers other reasonably possible changes in the most significant assumptions discussed in this section.

(c) Sensitivity of impairment models to changes in assumptions

The following table sets out the sensitivity of the Group's results in relation to reasonably possible changes in assumptions used in determining recoverable value in relation to CGUs:

	Potential increase/(decrease) in FVLCD
	2019
Port and Marine	***$'million***
Fuel sales price decreased by 10%	***29.1***
Fuel sales price increased by 10%	***(27.5)***
Fuel volumes increased by 10%	***(7.1)***
Fuel volumes decrease by 10%	***7.2***
Discount rate increased by 1.0%	***11.6***
Discount rate decreased by 1.0%	***(14.3)***
Fuel purchase price increased by 10%	***21.2***
Fuel purchase price decreased by 10%	***(20.4)***