24 April 2020

ARQ GROUP (ASX: ARQ)

Annual General Meeting
Notice of Meeting, Proxy Form and Annual Report

Attached are copies of the following documents in relation to the Annual General Meeting of Arq Group Limited:

- Notice of Meeting;
- Proxy Form;
- Annual Report,

which will be sent to shareholders today, 24 April 2019.

These documents will also be accessible from the Corporate Governance page of our website - https://arq.group/investor-centre/announcements

The Annual General Meeting will be held, and webcast live to shareholders from Arq's offices at Level 23, 680 George St, Sydney NSW 2000 on Thursday, 28 May 2019 at 11am (AEST).

Ends

Anne Jordan
Company Secretary

E: anne.jordan@arq.group

The release of this announcement to the ASX was authorized by Mr Andrew Reitzer, Chairman of Arq Group Limited.

About Arq Group

Arq Group, previously Melbourne IT Group, is Australia's leading digital solutions partner.

Arq Group is the dynamic space for smart thinkers. Creating unforgettable experiences, solving complex challenges, and providing seamless, end-to-end solutions – from design thinking to customer solutions, leading mobile, cloud and analytical insights, digital marketing to web design - Arq Group powers the growth of businesses, big and small.

Founded in 1996, Arq Group has evolved from the leading Australian domains and hosting business to a leading digital services partner. Today, the company builds and manages innovative channels to market for many of the country's largest enterprises, whilst simultaneously supporting half a million small businesses throughout their online journey.

Arq Group Ltd
ABN 21 073 716 793

All correspondence and enquiries to
Arq Group Share Registry

Link Market Services Limited
Locked Bag A14
SYDNEY SOUTH NSW 1235

T: 1300 554 474

F: (Proxy forms only) +61 (0)2 9287 0309

www.linkmarketservices.com.au

Notice of **Annual General Meeting**

Notice is hereby given that the
Annual General Meeting of Arq Group Ltd
will be held on Thursday, 28th May, 2020 at 11.00am

Details on our website.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting (**AGM**) of Arq Group Limited (the **Company**) will be held on Thursday, 28 May 2020 at 11.00 am (AEST).

The AGM will be held and webcast live to shareholders from Arq's offices at Level 23, 680 George St, Sydney NSW 2000.

The Notice of Meeting and Explanatory Memorandum explaining the formal business of the meeting and the Proxy Form are enclosed.

AGM and coronavirus (COVID 19)

As a result of the potential health risks and the Government's restrictions in response to the coronavirus (COVID 19) pandemic, the Company encourages shareholders to consider lodging a directed proxy in advance of the meeting rather than planning on attending the meeting in person.

Please note that food and refreshments will not be served at the AGM.

If you wish to lodge your proxy, please follow the steps on your enclosed personalised proxy form and lodge it by 11.00am (AEST) 26 May 2020.

Shareholders may also submit questions in advance of the meeting at https://www.linkmarketservices.com.au or via facsimile, by completing the attached form, to +61 (0)2 9287 0309 by no later than 5.00pm (AEST) on 14 May 2020. As many of the most frequently raised questions as possible will be covered in the Chair's address and the Chair's address will be lodged with the ASX prior to the meeting.

The live webcast of the AGM, and instructions on how to join the webcast, will be available to view on our website (https://arq.group).

Shareholders will also have the opportunity to ask Directors questions online during the meeting.

Any shareholder who may still wish to physically attend the AGM should be mindful of government warnings and recommendations and monitor the Company's website and ASX announcements for any updates about the AGM. If it becomes necessary or appropriate to make alternative arrangements for holding or conducting the meeting, we will make further information available via the ASX at asx.com.au (stock code: ARQ) and on our website at https://arq.group.

General Business

Item 1 - Financial Statements and Report

To receive and consider the Company's Annual Financial Report and the Reports of the Directors and Auditor for the financial year ended 31 December 2019.

Ordinary Business

Item 2 - Re-election of Andrew Macpherson

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

"That Andrew Macpherson, who retires by rotation and being eligible for re-election in accordance with rule 9.3 of the Company's Constitution, be re-elected as a director."

Item 3 - Election of Karl Siegling

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

"That Mr Karl Siegling, who was appointed as a director of the Company on 23 August 2019 in accordance with rule 9.9 of the Company's Constitution to hold office until the next annual general meeting and being eligible, be elected as a director."

Item 4 - Adoption of the Remuneration Report for the Year Ended 31 December 2019

To consider and, if thought fit, pass the following resolution as a non-binding resolution:

"That the Remuneration Report that forms part of the Annual Financial Report of the Company for the year ended 31 December 2019 be adopted for the purpose of section 250R(2) of the Corporations Act and for all other purposes."

This resolution is subject to voting exclusions as set out in the Explanatory Notes to the Notice of Meeting.

Special Business

Item 5 – Change of Name

To consider, and if thought fit, to pass the following resolution as a special resolution:

"That for the purposes of section 157(1) and section 136(2) of the Corporations Act and for all other purposes, the name of the Company be changed from "Arq Group Limited" to "Webcentral Group Limited" and that all references to "Arq Group Limited" in the Company's Constitution be replaced by references to "Webcentral Group Limited"

Explanatory Notes

General Business

These Explanatory Notes, accompanying this Notice of Annual General Meeting (AGM), are incorporated in and comprise part of this Notice of AGM and should be read in conjunction with this Notice of AGM.

Introduction

These Explanatory Notes have been prepared to provide shareholders with material information to enable them to make an informed decision on the business to be considered at the AGM of the Company. The Directors recommend shareholders read these Explanatory Notes in full before making any decision in relation to the items for resolution.

Terms defined in the Notice of AGM have the same meaning in these Explanatory Notes.

The information below is an explanation of the business to be considered at the AGM.

Item 1 - Financial Statements and Report

The Company's Annual Financial Report including the reports of the Directors and the Auditor for the financial year ended 31 December 2019 will be presented to the meeting for consideration. The Annual Financial Report is available on the Company's corporate website (https://arq.group/investor-centre/annual-reports) (and will be mailed to shareholders who have elected to receive a hard copy).

This item does not require a formal resolution and, accordingly, no vote will be held on this item. Shareholders will be provided a reasonable opportunity to ask questions about, or comment on, the Reports and the management and performance of the Company during discussions on this item.

The Company's external auditor will attend the meeting and shareholders will be given the opportunity to ask the auditor questions on the conduct of the audit, the preparation and content of the Auditor's report, the accounting policies adopted by the Company for the preparation of the financial statements and the independence of the auditor.

Item 2 - Re-election of Andrew Macpherson

In accordance with rule 9.3 of the Company's Constitution, Mr Andrew Macpherson retires by rotation and, being eligible, offers himself for re-election.

Personal particulars for Mr Macpherson are provided below:

Mr Andrew Macpherson was appointed to the Board on 19 July 2017 and in addition to being a director of the Board, is the Chair of the HRRN Committee.

Mr Macpherson is an experienced senior executive with strong interests, and specific experience, in the use of technology to transform traditional businesses. Mr Macpherson worked with global consulting firm Accenture for 27 years, specialising in implementing complex technology-enabled change projects in large enterprises and government in Australia, Asia and Europe. He retired as APAC Regional Managing Director - Technology in 2005. Over the following 13 years he has been actively involved as an investor, director and executive in the agribusiness, retail, hospitality and services sectors.

Mr Macpherson is also the Chair of Workventures and LifeCircle, and a non-executive director of the Rozetta Institute, all of which are not-for-profit enterprises.

Mr Macpherson holds a Bachelor of Industrial Engineering (Hons) – University of NSW.

The Board considers Mr Macpherson to be an independent director.

Board Recommendation

The Board (other than Mr Macpherson) recommends that shareholders vote in favour of this resolution.

Item 3 - Election of Karl Siegling

In accordance with rule 9.9 of the Company's Constitution, Mr Karl Siegling was appointed by the Board as a director and Chair of the Company to hold office until the next shareholder meeting. Mr Siegling, being eligible, now offers himself for election.

Personal particulars for Mr Siegling are provided below:

Mr Karl Siegling was appointed as a Non-Executive Director on 23 August 2019.

Appropriate background checks were completed before Mr Siegling was appointed to the Board.

Mr Siegling has over 25 years' investment experience in the financial sector in Australia and overseas.

Me Siegling commenced work in the Financial Services sector in Australia with Deutsche Morgan Grenfell, trading overnight currencies, bonds and bond options on the Sydney Futures Exchange. Mr Siegling then worked within the Equities Research Division of Deutsche Morgan Grenfell before studying an MBA at INSEAD and working as a Summer Associate within the equities division of Goldman Sachs in London.

Upon returning to Australia, Mr Siegling was the Managing Director of eFinancial Capital Limited (a subsidiary of Challenger international Limited) focused on investing in early stage and expansion capital for financial services and technology companies. Mr Siegling also worked as a consultant for Wilson Asset Management, researching stocks, before setting up Cadence Asset Management Proprietary Limited.

Mr Siegling is an Executive Director and Chairman of Cadence Capital Limited (ASX: CDM) and unlisted Cadence Asset Management Pty Limited.

Mr Siegling holds a Bachelor of Commerce and Bachelor of Law from the University of Melbourne, a Masters in Business Administration – INSEAD (France) and Post Graduate Diploma in Finance with the Securities Institute of Australia (FINSIA).

The Board does not consider Mr Siegling to be an independent director as Cadence Capital Limited and Cadence Asset Management Pty Limited are one of Arq's substantial shareholders.

Board Recommendation

The Board (other than Mr Siegling) recommends that shareholders vote in favour of this resolution.

Item 4 - Adoption of the Remuneration Report for the Year Ended 31 December 2019

The Remuneration Report for the year ended 31 December 2019 (2019 Remuneration Report) forms part of the Directors' Report in the Company's Annual Report for the year ended 31 December 2019. It is also available on the Company's corporate website (https://arq.group/investor-centre/annual-reports). Shareholders will be asked to vote on a resolution to adopt the 2019 Remuneration Report at the AGM. The vote on the resolution will be advisory only and will not bind the directors or the Company.

Board Recommendation

The Board refrains from making a recommendation in relation to this resolution as the Board is excluded from voting on this resolution.

Voting exclusion statement

Please refer to Item 4 of 'Voting Exclusion Statements' in General Information below on page 7.

Special Business

Item 5 – Change of Name

This Item seeks shareholder approval to effect a change in the Company's name from "Arq Group Limited" to "Webcentral Group Limited".

On 11th February 2020 we announced the divestment of the Enterprise business, and with it the Arq Group brand. As a result of this announcement, a new corporate trading name for the Company is required.

With the business under strategic review, the core principles for this corporate entity name change are minimal resource and financial investment and speed of execution. The corporate brand name must be aligned to the evolution of the business; is relevant to our people and investors, supports possible divestment paths and may be interim in nature.

Due to time and cost constraints, the company performed an internal review of existing trademarks held within the Group and assessed these trademarks against a series of requirements. These requirements included; speed to execute, low cost implementation, engage our people, reflective of full product offering, relevant to shareholders, undamaged sentiment and futureproofed for various growth and divestment paths. Scoring the existing trademarks against these requirements, Webcentral Group was recommended. Webcentral Group will be the corporate brand housing the customer facing brands of Netregistry, Melbourne IT, Domainz, and WME.

The Board considers the change of company name to Webcentral Group, provides maximum flexibility to support multiple possible futures of the Company.

Section 157(1)(a) of the Corporations Act provides that a company may change its name if the company passes a special resolution adopting a new name. For a special resolution to be passed, at least 75% of the votes validly cast on the resolution by shareholders present and eligible to vote (in person, by proxy, by attorney, or in the case of a shareholder which is a corporation, by representative) (by the number of shares) must be in favour of the resolution. If the resolution is passed, the change of name will take effect when ASIC alters the details of the Company's registration. The proposed name has been reserved by the Company and if the resolution is passed, the Company will lodge a copy of that special resolution with ASIC in order to effect the change.

If the name change is successful, the Board will request that ASX change the Company's ASX ticker code from "ARQ" to "WCG".

The Company also seeks approval under section 136(2) of the Corporations Act to amend the Company's constitution to reflect the change of name.

Board Recommendation

The Board recommends that Shareholders vote in favour of the change of name to Webcentral Group Limited and all references in the Company's Constitution be updated accordingly.

General Information

Definitions

ASIC means the Australian Securities and Investments Commission.

Closely Related Party, in relation to a member of the KMP means the member's spouse, child or dependant (or a child or dependant of the member's spouse), anyone else in the member's family who may be expected to influence or be influenced by the member in the member's dealings with the Company or the Group, and any company the member controls.

Company means ARQ Group Ltd ABN 21 073 716 793.

Corporations Act means the Corporations Act 2001 (Cth).

Group means the Company and its related bodies corporate from time to time (as that term is defined in the Corporations Act).

KMP or **Key Management Personnel** means those persons having authority and responsibility for planning, directing and controlling the activities of the Company or the Group, whether directly or indirectly, including all directors (whether executive or otherwise) of the Company. The Key Management Personnel during the financial year ended 31 December 2019 are listed in the 2019 Remuneration Report and include directors (both executive and nonexecutive) of the Company and certain senior executives.

Voting Exclusion Statements

Item 4: Adoption of the Remuneration Report for the Year Ended 31 December 2019

In accordance with the Corporations Act, the Company will disregard any votes cast on Item 4:

- by or on behalf of a member of the Company's KMP named in the Remuneration Report for the year ended 31 December 2019 or their Closely Related Parties, regardless of the capacity in which the vote is cast; or
- as a proxy by a person who is a member of the Company's KMP at the date of the AGM or their Closely Related Parties, unless the vote is cast as a proxy for a person entitled to vote on Item 4:
    - in accordance with a direction on the proxy form; or
    - by the Chair of the Meeting in accordance with an express authorisation in the proxy form to exercise the proxy even though Item 4 is connected with the remuneration of the Company's KMP.

If you appoint the Chair of the Meeting as your proxy for Item 4 and you do not direct your proxy how to vote on this resolution, you will be expressly authorising the Chair of the Meeting to exercise your proxy even though this resolution is connected directly or indirectly with the remuneration of a member of the KMP, which includes the Chair of the Meeting.

How to vote

As a shareholder, you can vote on the items of business by:

- attending the AGM; or
- appointing a proxy, representative or attorney to attend the AGM and vote on your behalf.

Proxies

A shareholder entitled to attend and vote at the AGM may appoint a person to attend and vote at the meeting as the shareholder's proxy. If a shareholder is entitled to cast two or more votes at the AGM, they may appoint two proxies. If you wish to appoint a second proxy, you will need to complete a second form. Please contact Link Market Services Limited (Link) on 1300 55 44 74 or +61 (0)2 8280 7761 to obtain an additional proxy form.

A proxy need not be a shareholder and can be an individual or a body corporate. If two proxies are appointed, each proxy must be appointed to represent a specified proportion of the shareholder's voting rights. If the vote split is not specified, it is deemed to be equally divided between the two proxies.

Proxies may only be appointed by returning the enclosed proxy form to Link no later than 11.00am (AEST) 26 May 2019. Proxy forms can be sent to Link by facsimile on +61 (0)2 9287 0309, by post to Locked Bag A14, Sydney NSW 1235, or lodged online in accordance with the instructions below. If returning the proxy form by post, you may need to allow extra time for delivery to ensure it is received no later than 11.00am (AEST) 26 May 2020.

The proxy form must be signed by the shareholder or an attorney duly authorised in writing. If the shareholder is a company, the form must be executed under the seal of the company or by its duly authorised officer or attorney. Where two or more persons are registered as shareholders each person must sign the proxy form. If the proxy form is signed under a power of attorney on behalf of a shareholder, the attorney must ensure that either the original power of attorney or a certified copy is sent with the proxy form (unless it has already been provided to Link). A proxy cannot be appointed under a power or attorney (or similar authority) online.

The Company offers shareholders the ability to lodge proxy forms online. **To lodge your proxy form online, please go to https://arq.group/investor-centre-home.** Click on the link that states "Login to the secure Investor Centre". You will then need to enter your Security Reference Number (SRN) or Holder Identification Number (HIN), your surname or company name, and your postcode. Then choose "Proxy Voting" from the "Actions" drop down box and follow the online prompts. Note: If you lodge your proxy form online, you do not need to return a hard copy proxy form. You will be taken to have signed your proxy form if you lodge it in accordance with the instructions given on the website.

Voting by proxies

Shareholders should consider directing their proxy how to vote on each resolution by crossing a "For" or "Against" box when completing their proxy form to ensure that their proxy is permitted to vote on their behalf in accordance with their instructions.

Pursuant to the Corporations Act, if the appointment of a proxy specifies the way the proxy is to vote on a particular resolution:

- the proxy is not required to vote on a show of hands, but if the proxy does so, the proxy must vote as directed (subject to any applicable voting exclusions);
- if the proxy has two or more appointments that specify different ways to vote on the resolutions, the proxy must not vote on a show of hands;
- if the proxy is not the Chair of the meeting, the proxy need not vote on a poll but if the proxy does so, the proxy must vote as directed (subject to any applicable voting restrictions); and
- if the proxy is the Chairman of the AGM, the proxy must vote on a poll and must vote as directed.

Default to Chairman

If:

- a poll has been called on a resolution; and
- a shareholder has appointed a proxy other than the Chairman of the AGM and the appointment of the proxy specifies the way the proxy is to vote on the resolution; and the shareholder's proxy is either:
  - not recorded as attending the AGM; or
  - attends the AGM but does not vote on the resolution,

then the Chairman of the AGM, will before voting on the resolution closes, be taken to have been appointed as the proxy for that shareholder for the purposes of voting on that resolution. In these circumstances, the Chairman of the AGM must vote in accordance with the written direction of that shareholder.

The Chair of the Meeting intends to vote all available proxies in favour of each resolution.

Corporate Representatives

For a Corporate Representative to vote, they must produce at the Meeting or return with the proxy form (unless it has already been provided to Link) a Certificate of Appointment of Corporate Representative executed in accordance with the Corporations Act.

Voting Entitlements

Voting on resolutions at the Meeting is expected to be conducted by poll.

In accordance with the Corporations Act, shares will be taken to be held by those persons recorded on the Company's register as at 7.00pm (AEST) on 26 May 2019.

Submission of Written Questions to the Company or Auditor

A shareholder who is entitled to vote at the meeting may submit a written question to the Company or Auditor in advance of the meeting:

(1) about the business of the Company;

(2) about the Remuneration Report (see Explanatory Notes); or

(3) if the question is directed to the Auditor, provided it relates to:

- (a) the content of the Auditor's Report to be considered at the meeting; or
- (b) the conduct of the audit or the Auditor's independence.

All questions must be sent to and received by the Company no later than 5.00pm (AEST) on Thursday, 14 May 2020. Please submit questions in advance of the meeting at https://www.linkmarketservices.com.au or via facsimile, by completing the attached form, to +61 (0)2 9287 0309.

The Chairman will endeavour to address as many of the more frequently raised relevant questions to the Company as possible during the course of the Meeting. However, there may not be sufficient time available at the Meeting to address all of the questions raised. Please note that individual responses will not be sent to shareholder. The auditor is not obliged to provide written answers.

ARQ group

ABN 21 073 716 793

LODGE YOUR VOTE

ONLINE
www.linkmarketservices.com.au

BY MAIL
ARQ Group Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235 Australia

BY FAX
+61 2 9287 0309

BY HAND
Link Market Services Limited
1A Homebush Bay Drive, Rhodes NSW 2138; or
Level 12, 680 George Street, Sydney NSW 2000

ALL ENQUIRIES TO
Telephone: 1300 554 474 Overseas: +61 1300 554 474

PROXY FORM

I/We being a member(s) of ARQ Group Limited and entitled to attend and vote hereby appoint:

STEP 1

APPOINT A PROXY

☐ **the Chairman of the Meeting (mark box)**

OR if you are **NOT** appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate you are appointing as your proxy

or failing the person or body corporate named, or if no person or body corporate is named, the Chairman of the Meeting, as my/our proxy to act on my/our behalf (including to vote in accordance with the following directions or, if no directions have been given and to the extent permitted by the law, as the proxy sees fit) at the Annual General Meeting of the Company to be held at **11:00am (AEST) on Thursday, 28 May 2020 at Arq's offices at 23/680 George St, Sydney NSW 2000** (the **Meeting**) and at any postponement or adjournment of the Meeting.

Important for Resolution 4: If the Chairman of the Meeting is your proxy, either by appointment or by default, and you have not indicated your voting intention below, you expressly authorise the Chairman of the Meeting to exercise the proxy in respect of Resolution 4, even though the Resolution is connected directly or indirectly with the remuneration of a member of the Company's Key Management Personnel (**KMP**).

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

STEP 2

VOTING DIRECTIONS

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the Meeting.

Please read the voting instructions overleaf before marking any boxes with an ☒

Resolutions	For	Against	Abstain*
2 Re-election of Andrew Macpherson			
3 Election of Karl Siegling			
4 Adoption of the Remuneration Report for the Year Ended 31 December 2019			
5 To approve the change of the Company's name			

* If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

STEP 3

SIGNATURE OF SHAREHOLDERS – THIS MUST BE COMPLETED

Shareholder 1 (Individual)	Joint Shareholder 2 (Individual)	Joint Shareholder 3 (Individual)
Sole Director and Sole Company Secretary	Director/Company Secretary (Delete one)	Director

This form should be signed by the shareholder. If a joint holding, all shareholders must sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).

HOW TO COMPLETE THIS SHAREHOLDER PROXY FORM

YOUR NAME AND ADDRESS

This is your name and address as it appears on the Company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

APPOINTMENT OF PROXY

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If you wish to appoint someone other than the Chairman of the Meeting as your proxy, please write the name of that individual or body corporate in Step 1. A proxy need not be a shareholder of the Company. If you leave this section blank, or your named proxy does not attend the Meeting, the Chairman of the Meeting will be your proxy. If your named proxy attends the Meeting but does not vote on a poll on a resolution in accordance with your directions, the Chairman of the Meeting will become your proxy in respect of that resolution.

PROXY VOTING BY THE CHAIRMAN OF THE MEETING

On a poll, the Chairman of the Meeting will vote directed proxies as directed and may vote undirected proxies as the Chairman of the Meeting sees fit. If the Chairman of the Meeting is your proxy or becomes your proxy by default, and you do not provide voting directions, then by submitting the Proxy Form you are expressly authorising the Chairman of the Meeting to exercise your proxy on resolutions that are connected directly or indirectly with the remuneration of the KMP.

VOTES ON ITEMS OF BUSINESS – PROXY APPOINTMENT

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

APPOINTMENT OF A SECOND PROXY

You are entitled to appoint up to two persons as proxies to attend the Meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the Company's share registry or you may copy this form and return them both together.

To appoint a second proxy you must:

(a) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and

(b) return both forms together.

PROXY VOTING BY KEY MANAGEMENT PERSONNEL (KMP)

The KMP of the Company (which includes each of the Directors) and their closely related parties will not be able to vote as your proxy on Resolution 4 unless you direct them how to vote or the Chairman of the Meeting is your proxy. If you intend to appoint a member of the KMP or one of their closely related parties as your proxy, you can direct them how to vote by following the instructions on this Proxy Form.

SIGNING INSTRUCTIONS

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, all shareholders must sign.

Power of Attorney: to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

CORPORATE REPRESENTATIVES

If a representative of the corporation is to attend the Meeting the appropriate "Certificate of Appointment of Corporate Representative" must be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the Company's share registry or online at www.linkmarketservices.com.au.

LODGEMENT OF A PROXY FORM

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by **11:00am (AEST) on Tuesday, 26 May 2020,** being not later than 48 hours before the commencement of the Meeting. Any Proxy Form received after that time will not be valid for the scheduled Meeting.

Proxy Forms may be lodged using the reply paid envelope or:

ONLINE
www.linkmarketservices.com.au
Login to the Link website using the holding details as shown on the Proxy Form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, shareholders will need their "Holder Identifier" - Securityholder Reference Number (SRN) or Holder Identification Number (HIN).

BY MAIL
ARQ Group Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Australia

BY FAX
+61 2 9287 0309

BY HAND
delivering it to Link Market Services Limited*
1A Homebush Bay Drive
Rhodes NSW 2138

or

Level 12
680 George Street
Sydney NSW 2000

* During business hours (Monday to Friday, 9:00am–5:00pm)

IF YOU WOULD LIKE TO ATTEND AND VOTE AT THE ANNUAL GENERAL MEETING, PLEASE BRING THIS FORM WITH YOU. THIS WILL ASSIST IN REGISTERING YOUR ATTENDANCE.

ARQ group

ABN 21 073 716 793

LODGE YOUR QUESTIONS

ONLINE
www.linkmarketservices.com.au

BY MAIL
ARQ Group Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235 Australia

BY FAX
+61 2 9287 0309

BY HAND
Link Market Services Limited
1A Homebush Bay Drive, Rhodes NSW 2138; or
Level 12, 680 George Street, Sydney NSW 2000

ALL ENQUIRIES TO
Telephone: 1300 554 474 Overseas: +61 1300 554 474

Please use this form to submit any questions about ARQ Group Limited ("the Company") that you would like us to respond to at the Company's 2020 Annual General Meeting. Your questions should relate to matters that are relevant to the business of the meeting, as outlined in the accompanying Notice of Meeting and Explanatory Memorandum to be considered at the AGM". (This reflects s 250PA(1) of the Corporations Act). If your question is for the Company's auditor it should be relevant to the content of the auditor's report, or the conduct of the audit of the financial report.

This form must be received by the Company's share registrar, Link Market Services Limited, by **5:00pm (AEST) on 14 May 2020.**

Questions will be collated. During the course of the Annual General Meeting, the Chairman of the Meeting will endeavour to address as many of the more frequently raised shareholder topics as possible and, where appropriate, will give a representative of the Company's auditor, the opportunity to answer written questions submitted to the auditor. However, there may not be sufficient time available at the meeting to address all topics raised. Please note that individual responses will not be sent to shareholders.

QUESTIONS

My question relates to *(please mark the most appropriate box)*

- ☐ Performance or financial reports
- ☐ Remuneration Report
- ☐ My question is for the auditor
- ☐ A resolution being put to the AGM
- ☐ Sustainability/Environment
- ☐ Future direction
- ☐ General suggestion
- ☐ Other

- ☐ Performance or financial reports
- ☐ Remuneration Report
- ☐ My question is for the auditor
- ☐ A resolution being put to the AGM
- ☐ Sustainability/Environment
- ☐ Future direction
- ☐ General suggestion
- ☐ Other

Arq Group

Annual Report

2019

Corporate Directory

Arq Group Ltd

ABN: 21 073 716 793

Arq Group Limited is a publicly listed company, limited by shares. It is incorporated and domiciled in Australia.

Non-Executive Directors

Mr. A. Reitzer (Chair)

Mr. A. Macpherson

Ms. G. Pemberton, AO (Chair to 29 May 2018, retired on 29 May 2018)

Mr. L. Bloch

Ms. N. Sparks, AM (retired on 27 February 2020)

Mr. S. Martin (retired on 27 February 2020)

Chief Executive Officer

Mr. B. Fenton (Interim Chief Executive Officer from 11 February 2020)

Mr. T. Sternson (from 24 September 2019 to 11 February 2020)

Mr. M. Mercer (until 24 September 2019)

Chief Financial Officer

Mr. F. Bearsley (ceased employment 23 March 2020)

Mr. B. White (Interim Chief Financial Officer from 23 March 2020)

Company Secretary

Mr. F. Bearsley (ceased employment 23 March 2020)
Ms. A. Jordan

Stock Exchange Listing

Arq Group Limited shares (ARQ) are listed on the Australian Stock Exchange.

Registered Office

Level 23, 680 George St
Sydney, New South Wales 2000

T +61 2 9215 6300

www.arq.group

Auditors

Ernst & Young
8 Exhibition Street
Melbourne, Victoria 3000

T +61 3 9288 8000
F +61 3 8650 7777

Share Registry

Link Market Services Limited
Tower 4, 727 Collins Street
Melbourne, Victoria 3000

Postal Address
Locked Bag A14
Sydney South, New South Wales 1235

T +61 1300 554 474
E registrars@linkmarketservices.com.au

www.linkmarketservices.com.au

Corporate Governance Statement

https://arq.group/investor-centre/corporate-governance

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Chair's Review

2019 was a challenging year for Arq Group. The Board has undertaken a number of strategic initiatives over the last 18 months, including the implementation of a turnaround plan for the SMB division, the divestment of the non-core TPP Wholesale reseller business, the appointment of Macquarie Capital to undertake an independent strategic review of the business with a focus on assessing a range of options to maximise shareholder value, and the divestment of the underperforming Enterprise business in February 2020.

SMB

With an unrelenting focus on customers, a change in operating model, effective cost management and an integrated approach in sales account management and fulfillment, the SMB division has finished 2019 with strong sales momentum in its digital marketing business, and has delivered real integration of the legacy domain name and hosting business with digital marketing solutions.

This continuation of the turnaround of the SMB division has resulted in a return to positive Underlying EBITDA[1] growth in 2019 and continued momentum leading into 2020.

Enterprise

2019 was a challenging year. After years of sustained organic growth, our Enterprise division encountered market headwinds in the second half of 2019. The resultant slowing down of the business prevented the Group from meeting revenue and EBITDA[1] targets.

Despite management actions, these trends did not turn around resulting in our advisors recommending a disposal of the Enterprise division. The sale of Enterprise was completed on 2 March 2020.

Looking Forward

SMB continues to improve its sales momentum with a deeper focus on customer value creation, cost optimisations and operational excellence. As Australia moves closer towards a digital economy, the ever-growing demand for digital solutions by SMB customers will strengthen our market position.

[1] Earnings before Interest, Tax, Depreciation and Amortisation.

Enterprise

2019 was a challenging year for the Enterprise division. After years of sustained organic growth, the Enterprise division encountered market headwinds in the second half of 2019.

The growth anticipated from existing and new accounts tracked below expectations. This prevented the Enterprise division and subsequently the Group from meeting revenue growth targets.

Proactive management

The management team identified factors driving the Enterprise division's inconsistent performance over the past year and took appropriate measures to address these. Those measures included overhead cost management, tighter pipeline forecasting processes and organisational changes.

As a result, Enterprise had a stronger than expected finish to the year due to higher billable utilisation, in what was a disappointing overall result.

Update

Following a strategic review by the Company's advisers recommending a disposal of the business, on 11 February 2020, the Group announced that it had entered a binding agreement to sell the Enterprise division to a consortium comprising Quadrant Private Equity and certain members of the Enterprise leadership team (being current Arq Group Interim CEO, Tristan Sternson, Justin Parcell and Cameron Boog), for $35 million on a cash and debt free basis. The sale was completed on 2 March 2020.

SMB

In 2019, there has been a positive turnaround in the SMB division. Across our Netregistry, WME, and Melbourne IT brands we are well positioned to offer small and medium business customers affordable domain, hosting, email and digital marketing services to help them get online, improve their online performance, and protect their online brand. We are committed to delivering outcomes for customers with a clearly defined return on their digital investment. Going forward, our focus is on our customers, achieving operational excellence and brand consolidation.

Revenue growth

Throughout 2019, the SMB division focussed on revenue growth within its two customer proposition categories of 'Get Online' and 'Improve Online Performance'. 'Get Online' domain, website hosting, email products, and templated website builds were the primary products sold, supporting small business customers in the initial stage of their online journey primarily through the Netregistry brand. Bespoke website builds and scalable integrated digital performance marketing programs sold under the WME brand helped our customers improve their online performance. And in 2019, it was pleasing to see acquisition synergies achieved with both the WME and Netregistry brands supporting customers with PPC and SEO services.

Top-line revenue growth in WME, our primary digital marketing brand, was achieved through capability improvements and smart marketing automation. We invested in sales capability through sales leadership training and improved capability with frontline sales to support the acquisition of customers. We also focused on developing smart marketing automation to improve sales efficiency when servicing inbound leads. The net result is new digital marketing product sales revenue growth month on month.

Improving the profitability in Netregistry, our foundational business for domain registrations, productivity suites and websites business, was realised through improved marketing automation and operational cost efficiencies. This underlying profit improvement facilitated diversification in the business in the form of digital marketing product and customer experience investments to build growth potential in 2020 and beyond.

A return to fundamentals

In 2019 Underlying EBITDA increased by 7%[2]. The performance improvement can be attributed to a fundamentals approach, characterised by a focus on customers, a change in operating model and effective cost management.

We moved away from solely being an acquisition and retention business in subscriptions and shifted our focus to creating success for our customers.

[2] Relates to the SMB Direct business only, excluding the SMB Indirect (non-core) segment as a result of the sale of the TPP Wholesale reseller business.

Customer focus

During the year the SMB division adopted new sales and account management approaches to better service our customers. Within both the WME and Netregistry brands, a pre-sales and sales 'wheeler-and-dealer' structure was introduced to improve customer sales conversations and deliver increased sales order value. Within our WME brand we introduced an integrated approach to sales account management and fulfilment teams to improve the customers' experience throughout their entire journey.

This change in approach led to a deeper understanding of customers and segments. Importantly, we identified metrics to measure our customers' success supported by our fulfillment teams.

The introduction of a new onboarding program helped customers get established and set up for success quickly. We worked closely with customers to proactively guide them through the key milestones of adoption, value and growth within their first 90 days with us.

Cost management and operational efficiencies

A key ingredient in the successful turn-around of SMB was stringent cost management. The sustainable and ongoing cost management program sought to take cost out without impacting the ability of the business to deliver both strong top line revenue growth in digital solutions or negatively impact our ability to service and retain the large base of Foundations customers. As a result, we were able to reduce our underlying operational cost base by over $5 million.

At the brand level, the 'fundamentals' approach encompassed a simplification of our brands. We continued to retire our legacy brands (Webcentral and Results First), consolidating them under Netregistry, Melbourne IT and WME. There will be further brand consolidation during the first half of 2020 with the Domainz brand and customers migrating to Netregistry.

The sale of the TPP Wholesale business to CentralNic was finalised for $21.3 million. CentralNic is a world-leading registry and registrar with a large wholesale business whose customer base is closely aligned to TPP Wholesale's. The sale enables the SMB division to focus on the core products and services that will accelerate the digital services growth strategy.

SEMrush awards

In November 2019 our digital expertise was recognised with a prominent industry award. The SEMrush AU awards celebrate the success of online marketing professionals in the Australian market and recognise top marketing campaigns and teams that work in the online space that bring exceptional growth and revenues to companies. WME won the "Best Integrated Campaign" award for our work with our client Unique Laser. Our expertise in search engine optimisation and PPC, helped Unique Laser grow traffic to their website from 400 monthly visits to more than 10,000.

Outlook

Small to medium-sized businesses are the backbone of the Australian economy. The SMB division has evolved to become a leading supplier of digital marketing solutions to more than 330,000 customers across Australia and New Zealand. We spent 2019 consolidating and building a platform for growth. SMB will continue to strengthen its business, grow market share and deliver on our brand promise to become the most impactful digital marketing partner in Australia - unlocking the growth potential of local small and medium businesses.

People & Culture

Arq Group implemented significant organisational changes in 2019.

Martin Mercer, the CEO and Managing Director exited the business in September 2019, as a result of poor performance in both the Enterprise and SMB divisions. Tristan Sternson was promoted to Interim CEO in September 2019 and stepped down on the successful completion of the sale of the Enterprise division in March 2020. Brett Fenton, the then head of SMB, was promoted to Interim CEO to drive the remainder of the strategic review process, including the potential sale of SMB.

We also moved our people into new premises. During 2019, we finalised the last of our relocations with the move of our Brisbane employees to 192 Ann Street in the CBD. This relocation followed those of our Sydney and Melbourne people to more contemporary office spaces.

We recognise that gender balance is a key business issue. In 2019 we increased the number of women in our workforce from 29% to 31%.

We have conducted a great deal of work on pay equity. In December 2018 our gender pay gap was less than 5%, compared to the national average gender pay gap of 14.6% as at March 2019.

We have a highly diverse workforce. Our employees represent more than 50 nationalities and we actively celebrate cultural diversity. 2019 was a challenging year, and one in which our people experienced many changes. We recognize the hard work and commitment of our people and thank them for their patience, dedication and loyalty.

Board of Directors

Andrew Reitzer

Non-Executive Director and Chair
(Appointed 1 August 2018)

Qualifications
Bachelor of Commerce - University of South Africa
Master of Business Leadership - University of South Africa

Experience and Expertise
Andrew Reitzer brings more than 35 years of global experience in the technology, retail and wholesaling industries. Andrew has extensive experience in M&A, post-acquisition integration and organisational change.

From 1988 to 30 June 2013, Andrew was CEO of Metcash Limited. Prior to his appointment to CEO, Andrew held various management roles at METRO Cash & Carry and led the establishment of METRO's operations in Israel and Russia and served as the Group Operations Director.

In addition to the Non-Executive Directorships listed below, Andrew is a Director of several private companies.

Other Current Listed Company Directorships
Amaysim Limited (ASX: AYS) (Non-Executive Chair) (appointed June 2015)
SG Fleet Limited (ASX: SGF)) (Non-Executive Chair) (Appointed February 2014)

Former Listed Company Directorships In Last Three Years
Nil

Special Responsibilities
Chair of the Board

Andrew Macpherson

Non-Executive Director
(Appointed 19 July 2017)

Qualifications
Bachelor of Industrial Engineering (Hons) – University of NSW

Experience and Expertise
Andrew Macpherson is an experienced senior executive with strong interests, and specific experience, in the use of technology to transform traditional businesses.

Andrew worked with global consulting firm Accenture for 27 years, specialising in implementing complex technology-enabled change projects in large enterprises and government in Australia, Asia and Europe. He retired as APAC Regional Managing Director - Technology in 2005. Over the following 13 years he has been actively involved as an investor, director and executive in the agribusiness, retail, hospitality and services sectors.

Andrew is also the Chair of Workventures and LifeCircle, and a non-executive director of the Rozetta Institute, all of which are not-for-profit enterprises.

Other Current Listed Company Directorships
Nil

Former Listed Company Directorships In Last Three Years
OneVue Holdings (ASX: OVH) (appointed October 2016, retired June 2019)
Ruralco Holdings (ASX: RHL) (appointed December 2017, retired September 2019)

Special Responsibilities
Chair of the Human Resources, Remuneration and Nomination Committee
Member of the Audit and Risk Management Committee

Karl Siegling

Non-Executive Director
(Appointed 23 August 2019)

Qualifications
Bachelor of Commerce - University of Melbourne
Bachelor of Law - University of Melbourne
Masters in Business Administration – INSEAD (France)
Post Graduate Diploma in Finance with the Securities Institute of Australia (FINSIA)

Experience and Expertise
Karl Siegling has over 25 years' investment experience in the financial sector in Australia and overseas.

Me Siegling commenced work in the Financial Services sector in Australia with Deutsche Morgan Grenfell, trading overnight currencies, bonds and bond options on the Sydney Futures Exchange. Mr Siegling then worked within the Equities Research Division of Deutsche Morgan Grenfell before studying an MBA at INSEAD and working as a Summer Associate within the equities division of Goldman Sachs in London.

Upon returning to Australia, Mr Siegling was the Managing Director of eFinancial Capital Limited (a subsidiary of Challenger international Limited) focused on investing in early stage and expansion capital for financial services and technology companies. Mr Siegling also worked as a consultant for Wilson Asset Management, researching stocks, before setting up Cadence Asset Management Proprietary Limited.

Other Current Listed Company Directorships
Cadence Capital Limited (Executive Chair)
(appointed 9 February 2005)

Former Listed Company Directorships In Last Three Years
Nil

Special Responsibilities
Nil

Larry Bloch

Non-Executive Director
(Appointed 3 April 2014)

Qualifications
Bachelor of Science and Post-graduate Honours degrees in Pure Mathematics and Computer Science - University of Cape Town

Experience and Expertise
Mr Bloch has been a serial entrepreneur, pioneer and leader in the online business services industry for 20 years. He was the founder and former MD of NetBenefit (UK) in 1994, which rapidly became the largest domain and hosting provider in Europe. He also founded Virtual Internet (France) in 1996. After re-locating to Australia in 1997, he co-founded Netregistry Group and was its major shareholder, CEO and Chair for 17 years, before selling it to Arq Group in 2014.

Other Current Listed Company Directorships
Nil

Former Listed Company Directorships In Last Three Years
Nil

Special Responsibilities
Member of the Human Resources, Remuneration and Nomination Committee

Simon Martin

Non-Executive Director
(Retired 27 February 2020)

Qualifications
Bachelor of Commerce - University of Melbourne
Master of Business Administration (MBA) – University of Melbourne
Member of Chartered Accountants Australia and New Zealand, Member of the Australian Institute of Company Directors

Experience and Expertise
Mr Martin has more than 25 years of financial and commercial experience, most recently as an investor and Director. The majority of his executive career was spent in leadership, strategy and finance roles in the technology sector. He was CFO and a Director of MYOB from 2004 to 2012, before joining iCareHealth as CEO until the sale of its Australian operations to Telstra Health in 2014.
Mr Martin is also an investor in, and Director of, a number of technology businesses focused on the SME and healthcare sectors in Australia and the UK.
Mr Martin is also a Non-Executive Director of Tandem Corporation Pty Ltd (appointed April 2018), BIG4 Holiday Parks of Australia Pty Ltd (appointed May 2016) and Methodist Ladies' College Ltd in Melbourne (appointed January 2016).

Other Current Listed Company Directorships
Nil

Former Listed Company Directorships In Last Three Years
Nil

Special Responsibilities
Chair of the Audit and Risk Management Committee
Member of the Human Resources, Remuneration and Nomination Committee

Naseema Sparks AM

Non-Executive Director
(Retired 27 February 2020)

Qualifications
Master of Business Administration - Melbourne Business School, University of Melbourne
Fellow of the Australian Institute of Company Directors

Experience and Expertise
Ms Sparks is an experienced top-line growth director with experience across a range of sectors, particularly technology. Her expertise includes corporate strategy, mobile digital, data, customer and consumer segmentation, media, branding and marketing. She was formerly Managing Director and Global Partner of M&C Saatchi Ltd.

Ms Sparks is a Non-Executive Director of Knight Frank Australia (appointed February 2017) and AIG Australia (appointed 2010).

Ms Sparks also serves on the boards of several emerging technology companies at scale-up and pre-IPO stage.

Other Current Listed Company Directorships
Australian Vintage Ltd (McGuigan Wines) (ASX: AVG) (appointed February 2015)

Former Listed Company Directorships In Last Three Years
PMP Ltd (2010 – 2016)
Grays eCommerce Group Ltd (2014 – 2016)
IncentiaPay Ltd (ASX: INP) (Non-Executive Chair) (appointed May 2018, retired June 2019)

Special Responsibilities
Member of the Audit and Risk Management Committee
Member of the Human Resources, Remuneration and Nomination Committee

Martin Mercer

Managing Director & CEO
(Appointed 7 April 2014 and resigned 24 September 2019)

Qualifications
Bachelor of Arts (Hons) and Laws – University of Sydney
Graduate Diploma Finance – Securities Institute of Australia

Experience and Expertise
Mr Mercer has over 20 years' experience in the telecommunications and technology sectors.

Prior to joining Arq Group (formerly Melbourne IT), he was Managing Director, Strategy and Fixed, at Optus following four years as CEO of Vividwireless, and ten years in a number of positions at Telstra.

Other Current Listed Company Directorships
Nil

Former Listed Company Directorships In Last Three Years
Nil

Special Responsibilities
Managing Director

Directors’ Report

Your Directors submit their report for the year ended 31 December 2019.
Directors were in office for the entire period unless otherwise stated.

Directors

Mr. A. Reitzer	
Mr. A. Macpherson	
Mr. M. Mercer	(Resigned 24 September 2019)
Mr. L. Bloch	
Ms. N. Sparks, AM	(Retired 27 February 2020)
Mr. S. Martin	(Retired 27 February 2020)
Mr. K. Siegling	(Appointed 23 August 2019)

Company Secretaries

Mr. F. Bearsley	(Ceased employment 23 March 2020)
Ms. A. Jordan	

Details of Directors' experience, expertise and directorships

Full details of the Directors' experience, expertise and directorships can be found on the Arq Group Limited website at www.arq.group

Interests in the shares and performance rights of the company

As of the date of this report, directors hold the following interests in the shares and performance rights in the company:

	Ordinary shares	Performance rights[1] over ordinary shares
Mr Andrew Reitzer (Chair)	122,500	-
Mr Larry Bloch	6,708,363	-
Mr Andrew Macpherson	171,340	-
Mr Karl Siegling[2]	22,873,712	-

(1) Performance rights are zero-priced options over ordinary shares of Arq Group Limited.

(2) Included in his shareholding is 21,230,532 of shares attributed to Cadence Asset Management Pty Ltd ATF Cadence Capital Fund and Cadence Capital Limited, in which Mr Karl Siegling has an indirect relevant interest.

Principal activities

The principal activities of the Group during the year by operating segment are described as follows:

Continuing operations(1) – SMB

SMB provides domain name registrations and renewals, website and email hosting, website development, search engine marketing and social advertising campaigns in Australia and New Zealand.

Discontinued operations(1) – Enterprise

Enterprise provides services including cloud, mobile application development, data and analytics to Australian enterprise and government organisations. The Enterprise division was sold on 2 March 2020.

Review and results of operations

Earnings per Share

	2019 cents	2018 cents
Continuing operations(1)		
Basic loss per share	(38.01)	(0.13)
Diluted loss per share	(38.01)	(0.13)

	2019 cents	2018 cents
Attributable to members of the parent		
Basic loss per share	(108.62)	(2.08)
Diluted loss per share	(108.62)	(2.08)

(1) Continuing operations refers to the SMB segment, as a result of the classification of the Enterprise business as a discontinued operation for the year ended 31 December 2019. For comparability, the prior year comparative has been re-presented.

Reported loss per share from continuing operations at 31 December 2019 was 38.01 cents (2018: loss per share of 0.13 cents). Loss per share attributable to members of the parent at 31 December 2019 was 108.62 cents (2018: 2.08 cents). This is driven principally by non-cash impairment charge to goodwill, as well as a non-cash loss on the revaluation of the Enterprise disposal group to fair value less costs of disposal.

Dividends

During the year, a final dividend of 4.5 cents per share, amounting to $5.36 million was paid on 30 April 2019. No interim dividend was paid.

No final dividend has been declared related to the current period.

Sale of the TPP Wholesale reseller business

The Group divested certain assets and liabilities related to the TPP Wholesale reseller business to CentralNic Group plc on 31 July 2019. The Group received $21,300,000 cash of total transaction proceeds, with $3,100,000 expected over the next two years associated with the separation of the business from the Group as part of the Transitional Services Agreement. The transaction proceeds were used to reduce the Group's debt. As a result of the transaction, the Group recognised a $554,000 net gain on disposal of the net assets associated with the TPP Wholesale reseller business.

Strategic Review

During the year, the Company had received preliminary approaches from parties interested in discussing value-creating opportunities relating to both the SMB and Enterprise business units. In light of this, the Company appointed Macquarie Capital (Australia) Limited to undertake a strategic review, exploring all avenues for maximising shareholder value including, but not limited to, the sale of one or more of the Enterprise or SMB business units, as well as other various capital management changes.

One of the outcomes arising from the Strategic Review was the sale of the Enterprise business unit, as described below. The Strategic Review is ongoing as at the date of this report, focusing on the remainder of the Group's business.

Sale of Enterprise

On 11 February 2020, the Group entered into an agreement to divest the Enterprise division to a consortium consisting of Quadrant Private Equity and members of management for $35,000,000 in cash, less transaction costs and working capital adjustments. This transaction was completed on 2 March 2020. As the divestment of the Enterprise division was considered to be highly probable at 31 December 2019, the Enterprise division has been separately presented as held for sale in accordance with AASB 5: Non-current Assets Held for Sale and Discontinued Operations as at 31 December 2019. Given the significance of the Enterprise division to the Group's operations, the Enterprise division has also been determined to be a discontinued operation. The financial information in this report (including the restatement of the prior year comparative) has therefore been presented in accordance with AASB 5.

The assets and liabilities of the Enterprise division have been written down to their fair value less costs of disposal, resulting in the Group incurring a $81,258,000 revaluation loss against the value of non-monetary assets allocated to the Enterprise division.

Accordingly, the remainder of the Group's business has been defined as "continuing operations" in accordance with Australian accounting standards. This consists of the SMB division, which includes both the SMB Direct business as well as the remainder of the SMB Indirect business following the sale of the TPP Wholesale reseller business, and associated corporate costs that continue to be incurred by the Group.

Overview

The following table summarises the results for the year ended 31 December 2019.

	2019 $'000 AASB 16[1]	2019 $'000 AASB 117[1]	2018 $'000 AASB 117
Continuing operations[2]			
Revenue from contracts with customers			
Registration revenue	66,425	66,425	74,376
Solutions, hosting & services	17,190	17,190	25,718
Total revenue from contracts with customers	**83,615**	**83,615**	**100,094**
Underlying EBITDA from continuing operations[3]	**14,795**	**12,212**	**15,362**
Total EBITDA loss from continuing operations[2,3]	**(30,699)**	**(33,282)**	**(1,550)**
Depreciation and amortisation expense	(10,537)	(8,124)	(13,379)
Net interest expense	(4,477)	(4,160)	(2,714)
Loss before tax from continuing operations	**(45,713)**	**(45,566)**	**(17,643)**
Income tax (expense) / benefit	(238)	(429)	2,216
Loss for the year from continuing operations	**(45,951)**	**(45,995)**	**(15,427)**
(Loss) / profit for the year from discontinued operations[2]	(85,272)	(85,165)	13,101
Loss for the year	**(131,223)**	**(131,160)**	**(2,326)**
Profit/(loss) for the year attributable to:			
Members of the parent	(131,303)	(131,240)	(2,456)
Non-controlling interests	80	80	131
	(131,223)	**(131,160)**	**(2,326)**
Continuing and discontinued operations			
Cash flow from operations	**11,272**	**7,180**	**18,267**

(1) The Group applies, for the first time, AASB 16: *Leases* ('AASB 16') for the year ended 31 December 2019. The Group has adopted the modified retrospective approach which does not require the restatement of previous financial statements. The nature and effect of these changes are disclosed in Note B4 to the Financial Statements. For comparative purposes to the year ended 31 December 2018, the Group has also presented unaudited results for the year ended 31 December 2019 under the previous accounting standard AASB 117: *Leases*.

(2) Due to the presentation of the Enterprise business as a discontinued operation for the year ended 31 December 2019, the prior period comparatives have been restated in accordance with *AASB 5: Non-current Assets Held for Sale and Discontinued Operations*. Refer to the explanation provided in the 'Sale of Enterprise' section.

(3) EBITDA = Earnings before Interest, Tax, Depreciation and Amortisation. The Group believes this unaudited non-IFRS information is relevant to the user's understanding of the Group's underlying performance.

Upon adoption of AASB 16, reported EBITDA loss from continuing operations decreased by $2,583,000, due to a reduction in lease rental expenses. Loss after tax attributable to members of the parent increased by $66,000, owing to a combination of a reduction in lease rental expenses offset by depreciation expense of right-of-use assets and interest on lease liabilities recognised on the Statement of Financial Position.

Operating cash flow for the year ended 31 December 2019, including both continuing and discontinued operations, was $11,272,000 (2018: $18,267,000), a decrease of 38.3%. This was driven by the lower performance of the Enterprise division as well as an ongoing dispute with a major customer impacting the level of our trade receivables, offset by $4,092,000 of net cash outflows associated with payments of lease liabilities now presented in Financing cash flows, less increased interest payments presented in Operating cash flows, on adoption of AASB 16.

Performance from continuing operations

The following table provides a summary of our key financial metrics related to our continuing operations, being Revenue and Underlying Earnings before Interest, Tax, Depreciation and Amortisation (Underlying EBITDA)(1):

Continuing operations	2019 $’000 AASB 16(2)	2019 $’000 AASB 117(2)	2018 $’000 AASB 117
Revenue from contracts with customers			
SMB Direct	66,425	66,425	74,376
SMB Indirect	17,190	17,190	25,718
Total Revenue from contracts with customers	**83,615**	**83,615**	**100,094**
Underlying EBITDA(1)			
SMB Direct	9,948	9,948	9,284
SMB Indirect	8,042	8,042	13,004
Unallocated corporate costs	(3,195)	(5,778)	(6,922)
Total Underlying EBITDA	**14,795**	**12,212**	**15,362**
Reported EBITDA loss(1)	**(30,699)**	**(33,282)**	**(1,550)**

(1) The Group believes this unaudited non-IFRS information is relevant to the user's understanding of the Group's underlying performance.

(2) The Group applies, for the first time, AASB 16: *Leases* ('AASB 16') for the year ended 31 December 2019. The Group has adopted the modified retrospective approach which does not require the restatement of previous financial statements. The nature and effect of these changes are disclosed in Note B4 to the Financial Statements. The impact upon adopting AASB 16 for continuing operations was attributed entirely to corporate costs. For comparative purposes to the year ended 31 December 2018, the Group has also presented unaudited results for the year ended 31 December 2019 under the previous accounting standard AASB 117: *Leases*.

With costs being controlled during the year, along with new sales generated across the business, this resulted in a stronger underlying EBITDA position for the SMB Direct business, meeting our issued guidance.

Both Revenue and Underlying EBITDA has decreased for SMB Indirect following the Group divesting certain assets and liabilities related to the TPP Wholesale reseller business on 31 July 2019.

Reported EBITDA loss from continuing operations (1) increased compared to the prior year by 1,880.6% (2,147.2% on a pre-AASB 16 basis), driven principally by the impairment charge recognised against the carrying value of goodwill in the SMB business. In assessing the recoverable value of the goodwill allocated to the SMB business, an impairment charge of $41,123,000 has been recognised, based on expected fair value less costs of disposal.

The following table shows a reconciliation of Reported EBITDA loss to Underlying EBITDA from continuing operations:

	2019 $'000 AASB 16[2]	2019 $'000 AASB 117[2]	2018 $'000 AASB 117
Reported EBITDA loss from continuing operations	**(30,699)**	**(33,282)**	**(1,550)**
Adjustments to calculate underlying EBITDA[1]:			
Loss / (Gain) on reassessment of contingent consideration liability	(98)	(98)	9,702
Gain on sale of TPP Wholesale reseller business	(554)	(554)	-
Net TPP Wholesale reseller separation income	(68)	(68)	-
Arq Group brand costs	486	486	2,835
Integration costs	1,567	1,567	2,727
Transaction costs	2,259	2,259	892
Restructuring costs	365	365	-
Property costs	642	642	619
Impairment of goodwill	41,123	41,123	-
Other net non-operating (income) / expense	(228)	(228)	137
Underlying EBITDA from continuing operations[1]	**14,795**	**12,212**	**15,362**

(1) The Group believes this unaudited non-IFRS information is relevant to the user's understanding of the Group's underlying performance.

(2) The Group applies, for the first time, AASB 16: *Leases* ('AASB 16') for the year ended 31 December 2019. The Group has adopted the modified retrospective approach which does not require the restatement of previous financial statements. The nature and effect of these changes are disclosed in Note B4 to the Financial Statements. For comparative purposes to the year ended 31 December 2018, the Group has also presented unaudited results for the year ended 31 December 2019 under the previous accounting standard AASB 117: *Leases*.

	2019 $'000
Reported EBITDA loss (under AASB 117)[1]	**(33,282)**
Leases previously classified as operating expenditure	2,583
Reported EBITDA loss (under AASB 16)[1]	**(30,699)**

Performance from discontinued operations

The following table presents a summary of the performance of the Enterprise business that has been classified as a discontinued operation:

	2019 $’000 AASB 16[(2)]	2019 $’000 AASB 117[(2)]	2018 $’000 AASB 117
Revenue from contracts with customers	86,167	86,167	112,918
Underlying EBITDA[(1)]	2,555	238	22,206

(1) The Group believes this unaudited non-IFRS information is relevant to the user's understanding of the Group's underlying performance.

(2) The Group applies, for the first time, AASB 16: *Leases* ('AASB 16') for the year ended 31 December 2019. The Group has adopted the modified retrospective approach which does not require the restatement of previous financial statements. The nature and effect of these changes are disclosed in Note B4 to the Financial Statements. For comparative purposes to the year ended 31 December 2018, the Group has also presented unaudited results for the year ended 31 December 2019 under the previous accounting standard AASB 117: *Leases*.

Underlying EBITDA from discontinued operations for the year ended 31 December 2019 was $238,000 (2018: $22,206,000), a decrease of 98.9%. Contributing to this decline in Underlying EBITDA was a general decline in the performance of the Mobile practice and deferrals of revenue to the back half of 2019 and 2020.

The following table presents a reconciliation of Reported EBITDA loss to Underlying EBITDA from continuing operations:

	2019 $’000 AASB 16[(2)]	2019 $’000 AASB 117[(2)]	2018 $’000 AASB 117
Reported EBITDA loss from discontinued operations	**(79,996)**	**(82,313)**	**21,063**
Adjustments to calculate underlying EBITDA[(1)]:			
Integration costs	440	440	1,084
Restructuring costs	853	853	59
Loss on revaluation of disposal group to fair value	81,258	81,258	-
Underlying EBITDA from continuing operations[(1)]	**2,555**	**238**	**22,206**

(1) The Group believes this unaudited non-IFRS information is relevant to the user's understanding of the Group's underlying performance. Please refer to Note D2 to the Financial Statements for the reconciliation between reported EBITDA loss and loss before tax.

(2) The Group applies, for the first time, AASB 16: *Leases* ('AASB 16') for the year ended 31 December 2019. The Group has adopted the modified retrospective approach which does not require the restatement of previous financial statements. The nature and effect of these changes are disclosed in Note B4 to the Financial Statements. For comparative purposes to the year ended 31 December 2018, the Group has also presented unaudited results for the year ended 31 December 2019 under the previous accounting standard AASB 117: *Leases*.

The following table presents total underlying EBITDA as an aggregation of both continuing and discontinuing operations:

	2019 $’000 AASB 16	2019 $’000 AASB 117	2018 $’000 AASB 117
Underlying EBITDA			
Continuing operations	14,795	12,212	15,362
Discontinued operations	2,555	238	22,206
Total	**17,350**	**12,450**	**37,568**

The financial measures of EBITDA and Underlying EBITDA used in the Directors’ Report are non-IFRS measures and are unaudited. The company believes this non-IFRS information is relevant to the user's understanding of its results, given its use in determining financial performance.

Outlook 2020 and beyond

Following the sale of the Enterprise business on 2 March 2020, the Group's key focus includes:

- Completion of the Strategic Review announced to the market on 24 September 2019, focusing on unlocking and maximising shareholder value for the rest of the Group's business. This may involve the potential sale of the SMB division.
- Smooth transition of the Enterprise business following its divestment, ensuring the key service deliverables in the Transition Services Agreement (TSA) are met whilst minimising impact to customers.
- Continuing our momentum in solutions revenues as our large portfolio of SMB customers move closer to a digital economy.
- Progressing our cost management initiatives for the remaining business, including the removal of "stranded" shared costs previously shared with the Enterprise business.

Risks review

The Group's ability to achieve its strategic objectives and secure its future financial prospects may be impacted by the following key risks:

- **Business structure** – the outcome of the Strategic Review for the remaining SMB business is not yet known and is likely to have significant impacts on the Group's structure and ownership going forward. The Group is progressing through discussions with interested parties and any material updates will be made known to the market as part of our continuous disclosure obligations.
- **Financial risk** – the Company is largely dependent on funding provided by its financiers. As described in 'Significant changes in affairs', the Group is currently working with its lenders to manage the debt facilities and ensuring the Group has sufficient working capital and liquidity to be able to continue as a going concern.
- **Competition** – the online business world is rapidly evolving with a heightened environment of change characterised by disruptive technologies. The Group remains abreast of the competitive landscape by investing in new products and customer experience. The acquisitions of Netregistry, Uber Global and WME Group assist in risk mitigation with access to a larger customer pool, increased skill sets, funds available for market investment and product enhancements.
- **Markets** – a material proportion of registration revenue is derived from the performance of its reseller channel. These revenue streams can be difficult to predict. The Group works closely with its customers to understand their challenges in order to mitigate these risks.
- **Regulatory** – The Group operates in highly regulated global markets. Success can be impacted by changes to the regulatory environment. The Group plays an active role in consulting with regulators on changes which could impact our business.
- **Other macroeconomic factors** – at the date of this report, the Group is exposed to general economic risks posed by the ongoing COVID-19 coronavirus outbreak. Whilst the Group currently monitors the impact of COVID-19, the Group to date has executed its business continuity framework and implemented crisis management tools to mitigate the impacts of COVID-19 on its business operations to a sufficiently acceptable level. At this time the Group is unable to estimate what financial impact (if any) the COVID-19 coronavirus may have on the Group's operations in the future.

Risk management

The Group takes a proactive approach to risk management and an active risk management plan is in place. The Group's approach to risk management is to determine the material areas of risk it is exposed to in running the organisation and to put in place plans to manage and/or mitigate those risks.

In addition, risk areas are reviewed by the Group’s risk management staff, with the assistance of external advisors on specific matters, where appropriate. Internal audit of key business processes is scheduled across the Group. The entire risk management plan is reviewed at least annually.

The Audit and Risk Management Committee is responsible for the governance of the risks management framework, including the effectiveness of risk management and compliance systems and the internal control framework.

Significant changes in affairs

As described on page 13, the Group sold the TPP Wholesale reseller business on 31 July 2019, and the Enterprise business on 2 March 2020.

On 12 November 2019, the Group and its financiers revised the terms of the existing finance facility with ANZ Bank and National Australia Bank. The facility provides committed funding of $61,200,000 and an additional $7,500,000 of uncommitted working capital funding tranches. The facility is secured against the Group’s assets and replaced the Company’s existing debt facilities of $142,000,000. This agreement was executed on 23 December 2019.

The Company has sought and received waivers for financial covenant breaches for the quarter ended 30 September 2019 and quarter ended 31 December 2019. As a condition of those waivers, a review event in January 2020 was included in the facility terms, allowing the Company’s financiers discretion to withdraw the facilities by providing 60 days’ advance written notice. The Group is working with its lenders to manage the debt facilities, including an agreed repayment of debt from the net proceeds of sale of the Enterprise business. No action has yet been taken by the Company’s financiers in respect of the January 2020 Review Event.

In the absence of any additional refinancing of facilities, the Company expects to breach its financial covenants during 2020, such that the financiers have the discretion to withdraw the facilities by providing 60 days’ advance written notice, and may also require additional short-term funding whilst it continues to execute actions from the Strategic Review, including the potential sale of the SMB business and implementation of the planned cost reduction program. Therefore, the Company requires the ongoing support of its lenders to continue to provide the existing facilities and any required additional facilities to be able to continue as a going concern.

The identification of the COVID-19 coronavirus as a post-balance date event is described in Note E7 to the Financial Statements. Given the rapid spread of the virus post-balance date, future revenues may be negatively impacted. However, in forecasting future cash flows, the Company is currently unable to reliably estimate the potential future impact of the virus. The Company has identified further cost reduction and cash preservation strategies in the event that revenues are materially negatively impacted. The impacts of the COVID-19 coronavirus on financial markets may also impact the Company’s ability to execute elements of its Strategic Review, including the potential sale of the SMB business or the price at which a sale may occur.

Whilst reliance on the ongoing support of its lenders and the potential impact of the COVID-19 coronavirus on forecast cash flows represents a material uncertainty, the Company is continuing to work with its financiers, and based on current financier interactions as well as forecasted cash flows and potential opportunities arising from the Strategic Review, the Directors are satisfied there are reasonable grounds to conclude the Company can continue as a going concern. Should the Company sell the SMB business within the short term, the Company will need to further consider whether it can continue as a going concern from that time.

Other than as stated above, there have been no other significant changes in the state of affairs during the year ended 31 December 2019.

Significant events after reporting date

As described on page 13, the Group completed the sale of the Enterprise business on 2 March 2020. The Group is currently working with the buyers to transition essential services under the terms of the Transition Services Agreement (TSA). Proceeds from the sale of Enterprise of $22,108,000 have been allocated against the outstanding drawn-down debt balance, resulting in $39,092,000 remaining in drawn-down debt.

The Company has received an extension on repayments of $2,500,000, due on 31 March 2020 until 31 August 2020 and is in the process of requesting further short-term support.

On 27 February 2020, Mr Simon Martin and Ms. Naseema Sparks, AM retired from their directorships, following the completion of the sale of the Enterprise business.

On 23 March 2020, Mr Fraser Bearsley (Chief Financial Officer) ceased his employment with the Company. Mr Brendan White was appointed as Interim Chief Financial Officer from this date.

As at the date of this report, it is not yet known whether the current COVID-19 coronavirus outbreak will have a significant impact on the financial results of the Group or its business operations.

Other than the above, there has not been any other matter or circumstance in the interval between the end of the year and the date of this report that has materially affected or may materially affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial periods.

Likely developments and expected results

For further information about the likely developments and expected results of the Group, refer to the 'Outlook 2020' section on page 18 of this report.

Indemnification and insurance of Directors and Officers

The Company has entered into a Deed of Insurance and Indemnity with each of the non-executive Directors, certain Officers and Executive Directors of controlled entities. Under the Deed, the Company has agreed to indemnify these Directors and Officers against any claim or for any costs, which may arise as a result of work performed in their capacity as Directors and Officers, to the extent permitted by law.

During the financial year, the Company paid an insurance premium in respect of a Directors and Officers Liability Policy covering all Directors and Officers of the Company and related bodies corporate. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young Australia (EY), as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify EY during or since the financial year.

Performance rights

Unissued shares

Refer to note E4 to the Financial Statements for further details of the performance rights outstanding at 31 December 2019. As at the date of this report, there were 137,730 unissued ordinary shares under performance rights (2018: 1,185,303), due to the forfeiture of Mr Fraser Bearsley’s (former Chief Financial Officer) performance rights of 31,426 on 23 March 2020 as he did not meet the relevant service conditions associated with the 2018 LTI Plan. Performance right holders do not have any right, by virtue of the performance right rules, to participate in any share issue of the Company or any related body corporate or in the issue of any other registered scheme.

Shares issued as a result of the vesting of performance rights

A total of 271,100 performance rights were vested during the year ended 31 December 2019 (2018: 584,054). During the financial year, there were nil rights granted (2018: 295,375 rights) and 745,047 rights forfeited (2018: 173,626).

Directors’ meetings

As at the date of this report, the Company had a Human Resources, Remuneration and Nomination Committee ('HRRNC') of the Board of Directors. The members of the HRRNC(1) are Mr. A. Macpherson (Chairman) and Mr L. Bloch. The Managing Director and Chief Executive Officer attends each HRRNC by invitation.

The Company’s Audit and Risk Management Committee (ARMC) was composed of the following members during the year ended 31 December 2019: Mr. S Martin (Chair)(2), Ms. N. Sparks, AM(2) and Mr. A. Macpherson.

The below table shows the numbers of meetings of Directors held during 2019. The table also shows the number of meetings attended by each Director and the number of meetings each committee member was eligible to attend.

	Directors' Meetings		**Meetings of Committees**			
			ARMC		**HRRNC**	
No. of meetings held in 2019(3)	19		7		4	
	Eligible	**Attended**	**Eligible**	**Attended**	**Eligible**	**Attended**
Mr Andrew Reitzer	19	18	-	-	-	-
Mr Larry Bloch	19	19	-	-	4	4
Mr Andrew Macpherson(4)	19	14	7	5	4	4
Mr Simon Martin	19	19	7	7	4	4
Mr Martin Mercer	12	12	-	-	-	-
Ms Naseema Sparks, AM	19	17	7	6	4	3
Mr Karl Siegling(5)	9	9	-	-	-	-

(1) Mr S. Martin and Ms. N. Sparks, AM were also members of the HRRNC until their retirement on 27 February 2020.

(2) Until 27 February 2020.

(3) Excluded from this table is attendance numbers where the Director is not a member of a committee during the year but has attended a committee meeting as a guest or observer.

(4) Due to personal issues, Mr Andrew Macpherson was not able to attend all his eligible Board and Committee meetings during the year.

(5) Mr Karl Siegling was appointed as a director in August 2019.

Rounding

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where applicable) under the option available to the Company under ASIC Corporations (Rounding in Financial / Directors’ Report) Instrument 2016/191 (Instrument 2016/191). The Company is an entity to which the Class Order applies.

Corporate governance

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Arq Group Limited support and have adhered to the principles of corporate governance.

The Company's Corporate Governance Statement is available on the Company's website www.arq.group.

Employees

The consolidated entity employed 623 full time equivalent ('FTE') employees as at 31 December 2019 (2018: 689 FTE).

Auditor independence and non-audit services

The Directors have received an independence declaration from the auditor of Arq Group Limited, as shown on page 114.

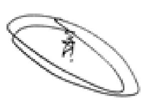
Non-audit services

The following non audit services were provided by the Group's auditor, Ernst & Young (EY). The Directors are satisfied that the provision of non-audit services is compatible with general standards of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

EY received or are due to receive the following amounts for the provision of non-audit services:

	2019 **$**
Taxation compliance and due diligence services	28,709
Digital advisory and implementation	129,986
Total	**158,695**

Signed in accordance with a resolution of the Directors.



Mr. Andrew
Reitzer Chair
Melbourne
30 March 2020

Directors’ Declaration

In accordance with a resolution of the Directors of Arq Group Limited, I state that:

1. In the opinion of the Directors:
   a. the consolidated financial statements and notes of Arq Group Limited for the financial year ended 31 December 2019 are in accordance with the *Corporations Act 2001*, including
      i. giving a true and fair view of the consolidated entity’s financial position as at 31 December 2019 and of its performance for the year ended on that date;
      ii. complying with Accounting Standards and the *Corporations Regulations (2001);*
   b. the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Notes to the Financial Statements.
   c. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 31 December 2019.
3. In the opinion of the Directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group, as identified in note E9, as parties to a Deed of Cross Guarantee, will be able to meet any obligations or liabilities to which they are, or may become subject to, under the deed as described in note E9.

On behalf of the Board

Mr. Andrew Reitzer
Chair
Melbourne
30 March 2020

The information provided in the Remuneration Report has been audited as required by section 308(3C) of the Corporations Act (2001).

Remuneration Report

HRRNC Chair's Letter

Dear Shareholder,

On behalf of the Board of Arq Group, we present the 2019 Remuneration Report.

Remuneration and incentive – 2019

2019 was a challenging year for Arq Group; although the continuing operations of the Group met management expectations, we did not achieve our operational targets for the Enterprise business and subsequently restructured the business to improve market alignment, operational efficiencies and to reduce cost.

At the beginning of 2019, we undertook work with an external remuneration consultant to simplify the KMP remuneration scheme and these changes were implemented early in 2019. However, by mid-2019, it became clear that the gateway criteria for variable compensation would not be achieved. The focus of the Human Resources Remuneration Nomination Committee (HRRNC) turned towards retention of key management personnel (KMP) and Senior Leaders whilst the organisation restructured.

The Remuneration Report discusses in more detail the 2019 Remuneration Scheme and the actual results achieved.

This Remuneration Report

Consistent with our 2018 Remuneration Report, we continue to adopt 'plain English' throughout the report and provide transparency around rewards and performance data for remuneration outcomes. Additionally, we have more clearly displayed remuneration information using tables and diagrams.

Andrew Macpherson
Chair, HRRNC

1. KMP information

This Remuneration Report outlines the remuneration arrangements in place during 2019 and the outcomes achieved by Arq Group’s key management personnel (KMP) during that period.

Arq Group’s KMP are those people who have a meaningful capacity to shape and influence the Group’s strategic direction and performance through their actions, either collectively (in the case of the Board) or as individuals acting under delegated authorities (in the case of the CEO and his direct reports).

The names and positions of individuals who were KMP during 2019 either as Executives or as Non-Executive Directors are below.

1(a) Executives

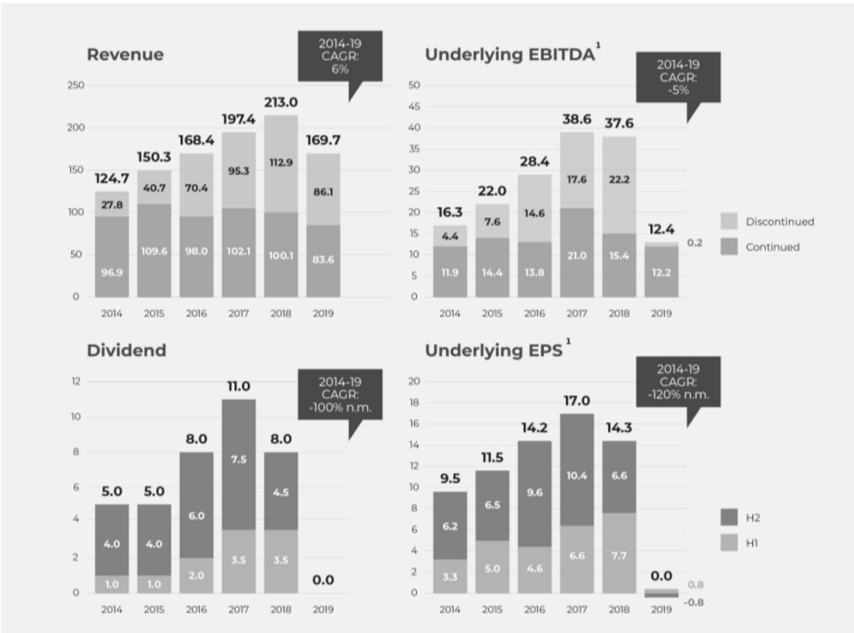
* Brett Fenton was originally the Chief Technology Officer. From 8 July 2019 onwards, he was appointed as the Managing Director, Mass & Middle Markets until 11 February 2020 when he replaced Tristan Sternson as Interim Chief Executive Officer. For clarity, during the entire years ended 31 December 2019 and 31 December 2018, Brett is and remains a KMP.

1(b) Non-Executive Directors

2. Five-year performance summary

As the sale of the Enterprise business was highly probable at 31 December 2019, the results of the Enterprise business have been classified as discontinued operations for the year ended 31 December 2019. The Enterprise business was sold with the transaction completed on 2 March 2020.

The charts and table below highlight Arq Group’s performance against key metrics for the past five years. For comparability, we have also separated the results attributable to the discontinued operations (Enterprise), as well as continuing operations (representing the remainder of the Group’s business).



(1) The Group applies, for the first time, AASB 16: *Leases* for the financial year 2019. The nature and effect of these changes are disclosed in the respective notes to the 2019 financial statements. To enable comparison with prior years on the same basis, these results for Underlying EBITDA and Underlying EPS are presented based on the previous lease accounting standard (AASB 117). Performance is measured based on pre-AASB 16 measures.

Table 1a: Five-year performance summary

Underlying financial information presented excludes one-off and non-recurring expenses/income and includes the pro forma impacts of acquisitions/divestments made in the financial period as if that acquisition/divestment had applied for the entire financial period.

	2015	2016	2017	2018	2019
Total Shareholder Return(1)	61%	-4%	90%	-41%	-78%
Market Capitalisation	198.90m	188.61m	424.86m	233.0m	46.4m
Share price at the end of year	$2.13	$1.86	$3.62	$1.96	$0.38
Staff Engagement	44%	33%	67%	67%	52%

(1) Total Shareholder Return has been measured based on a one-year period using a 20-trading day volume weighted average price before the end of the period.

Table 1b: Performance against key metrics

3. Executive KMP remuneration

3(a) Remuneration and incentive principles

The objectives of our remuneration philosophy are to attract and retain quality, motivated and skilled people; appropriately compensate team members; and motivate our people to deliver business outcomes. In line with this, the Company's remuneration strategy is structured to:

- Pay market competitive compensation which allows us to attract, retain and incentivise talent
- Target fixed compensation towards the third quartile of the external market;
- Deliver the variable reward as a mix of upfront cash and deferred equity;
- Reward eligible executives for performance with incentive payments commencing at 25% with exceptional performance offering a 100% uplift on the target award;
- Encourage retention, by granting deferred equity annually and vesting in year three; and
- To ensure alignment of shareholder and executive interests by:
    - awarding incentives only if the Company is profitable;
    - using Underlying Earnings Per Share (uEPS) as the award criteria to focus on business growth; and
    - aligning an individual's performance directly with the quantum of incentive.

Fixed remuneration

The HRRNC reviews Total Fixed Remuneration (TFR) annually. The process includes a review of company-wide, business unit and individual performance, relevant comparative remuneration in the market and internally, and where appropriate, external advice on policies and practices. The HRRNC has access to external advice independent of management.

Executives receive their fixed (primary) remuneration in cash. The details of the fixed remuneration component received by executives in 2019 is included in tables 2 and 3 in section 3(d) of this report.

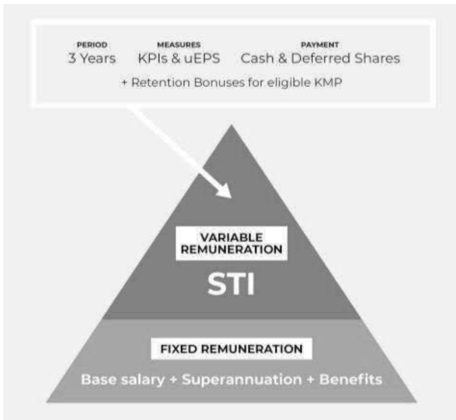


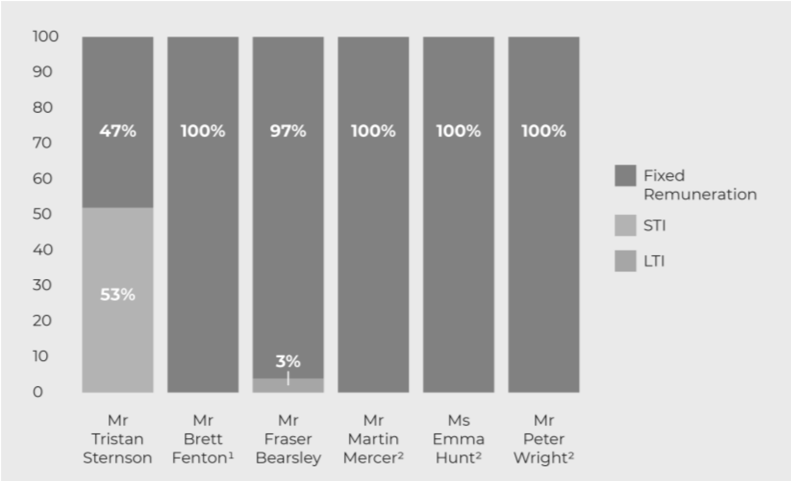
Figure 2: 2019 Remuneration Framework

Variable remuneration

For 2019, the Company implemented a combined variable reward which is a combination of a cash award and deferred equity.

The HRRNC reviews variable remuneration annually. The process for the Variable Reward Plan includes the setting and reviewing of annual KPIs aligned with business plans and, for the Deferred Equity Plan, the adoption of the underlying EPS which is set and reviewed by the HRRNC and the Board.

The actual remuneration mix for FY19 for KMPs during the year ended 31 December 2019 is shown below:



Note: LTIs relate to the amounts expensed for current LTI plans in accordance with accounting standards requirements, based on actual remuneration.

(1) Mr Brett Fenton did not earn any amounts related to LTIs due to performance criteria not met.

(2) The figures for Mr Martin Mercer, Ms Emma Hunt and Mr Peter Wright reflect their actual remuneration mix for the period that they were KMP during 31 December 2019. These do not include any amounts related to LTIs due to performance and service criteria not met.

Figure 3: Performance against key metrics

Retention bonuses

During the year ended 31 December 2019, the Board approved retention bonus arrangements for Mr Tristan Sternson, Mr Brett Fenton and Mr Fraser Bearsley (as the remaining KMPs at 31 December 2019) to ensure continuity of business as a result of the ongoing Strategic Review and any other changes to the business. The terms of these retention bonus arrangements are set out below:

	Tristan Sternson	Brett Fenton	Fraser Bearsley[1]
Service period	6 months	N/A – not service related	4-7 months
Service effective date	1 Oct 2019	1 Jan 2020	1 Dec 2019
Service end date	31 Mar 2020	N/A – not service related	Payment 1: 31 Mar 2020 Payment 2: 30 June 2020
Amount payable	$50,000	Payment 1: $155,000 Payment 2: $155,000	Payment 1: $152,500 Payment 2: $76,250
Other conditions	Payable if the sale of Enterprise is completed before service condition is met.	Payment 1: Payable if the potential sale of SMB is completed. Payment 2: In addition to Payment 1's condition, payable if specified financial performance hurdles also met for Jan-Apr 2020 period.	Payable if role is made redundant prior to the service end date.

(1) Following Mr Fraser Bearsley's termination as KMP on 23 March 2020, his retention bonuses would not be payable as he has not met the required service conditions.

Termination payments

During 2019, the Board has exercised its discretion to provide Mr Martin Mercer, Mr Peter Wright and Ms Emma Hunt the following termination payment arrangements:

- **Mr Martin Mercer:** Following his resignation as KMP on the 24 September 2019, Mr Martin Mercer is serving his notice period of 12 months as per his employment contract, effective 24 September 2019. During this period, he will be paid his fixed remuneration each month until the end of his notice period.
- **Mr Peter Wright and Ms Emma Hunt:** Both these employees were made redundant on 5 and 8 July 2019 respectively. Their termination payments comprised of their individual contractual notice period, statutory redundancy payments and individual ex-gratia amounts.

The total value of their termination payments has been reflected in the statutory remuneration tables in section 3(d).

3(b) How performance is linked to short-term variable reward outcomes

Objective

The 2019 Variable Reward Plan aims to link the achievement of the Group's short-term operational and financial targets with the remuneration received by the executives charged with meeting those targets. The total potential variable reward amount available provides an incentive to the executives and senior leaders to achieve the targets, while also being a reasonable cost to the Group.

Note that the 2019 Variable Reward Plan did not apply to Mr Tristan Sternson, who was only appointed as KMP from 24 September 2019. Mr Tristan Sternson's STI plan, which was separately approved by the HRRNC, is dependent on either the achievement of FY19 performance targets, or the completion of the sale of the Enterprise business (irrespective of the agreed sales price).

Structure

The percentage of total remuneration that constitutes an executive's short-term variable reward varies depending on the size of the role and its impact on the attainment of the Group's short-term targets.

A reward is granted based on achieving two KPI targets: underlying EPS[1] and high individual performance. These targets represent the key performance indicators for the short-term success of the business and provide a framework for delivering long-term value.

Reward payments are made if the relevant targets are achieved. If the targets are not achieved, then any reward payment is discretionary and will only be made if the executive has demonstrated exceptional performance in meeting other objectives. The total reward payment amount is determined by reference to an executive's performance against Group and individual targets ('performance targets'). These targets represent the key performance indicators for the short-term success of the business and provide a framework for delivering long-term value. Achievement against the performance targets is assessed

[1] Includes both underlying EPS attributed to both continued and discontinued operations.

annually, within three months of the end of financial year, and all payments are both reviewed and approved by the HRRNC.

Rewards awarded range from nil to 150% of the total potential variable reward for the Group measures, and nil to 100% for the individual performance measures.

Short-term variable reward grants are awarded annually. 50% of the award will be in cash, paid after the end of the grant year. The remaining 50% of the grant will be in deferred equity in the form of rights which vests two years after the grant date, and can then be exercised into shares.

Variable reward performance targets

The Group and divisional performance target consist solely of Underlying EPS. This is a 'hard' target used to set reward payments. In addition, there are two gateway criteria: 90% of Group Underlying EPS target and an acceptable Individual Performance rating must both be achieved; if it is not achieved then no reward is payable irrespective of the achievement against any other KPIs.

KPI Measure	Threshold	Target	Exceeds	Stretch
uEPS	90% of budget	100% of budget	110% of budget	120% of budget
% of TFR	Threshold	Target	Exceeds	Stretch
CEO	25%	50%	100%	150%
Rest of KMPs	16.7%	33.3%	66.7%	100%

Outcomes

For the 2019 financial year, the HRRNC determined that no variable rewards would be awarded to KMPs as the gateway target (90% of uEPS) was not achieved.

For Mr Tristan Sternson, the Board exercised its discretion and his STI will be awarded as the sale of the Enterprise business was highly probable by the end of FY19 and performance hurdles were met.

3(c) How performance is linked to LTI outcomes

Objective

In 2019, the Company changed the Remuneration Scheme to replace the LTI grants with medium term deferred equity awards, which have been discussed above. However, there are legacy LTI Plans still underway which are discussed below.

Structure

LTI grants to executive KMPs were delivered in the form of performance rights. These were annual grants and vesting occurs at the end of year three, subject to performance hurdles being achieved. There are two legacy LTI Plans underway: for 2017 and 2018.

Performance rights issued under the LTI Plan for 2017 have two performance conditions: 50% of the performance rights will vest based on the increase in Underlying Earnings Per Share (‘EPS’) as reported in the annual Financial Report and 50% will vest based on relative total shareholder return ('TSR') in comparison to a peer group from the S&P/ ASX Small Ordinaries Index (excluding energy, mining and property trust companies).

Performance rights issued under the LTI Plan for 2018 has one performance condition, being that 100% will vest based on relative Total Shareholder Return ('TSR') in comparison to a peer group from the S&P/ ASX Small Ordinaries Index (excluding energy, mining and property trust stocks).

There were no performance rights issued for 2019.

Under the 2017 and 2018 LTI Plans, the performance rights were granted with a zero-exercise price. The proportion of rights that vest under each performance condition is based on a sliding scale with a floor, pro-rata range and a ceiling. If the Company’s actual performance does not exceed the floor criteria, no vesting occurs; if the Company’s actual performance exceeds the floor criteria, vesting is on a pro-rata basis; if the Company’s actual performance exceeds the ceiling, 100% of the grant vests. The performance period is measured over the 36-month period from 1 January of the respective grant year.

The vesting date is the date at which the Board determines the extent to which the performance conditions are satisfied and the performance rights vest, which occurs in March following the performance period. The performance rights will be settled in the equivalent number of ordinary shares of Arq Group.

The TSR performance condition is a relative measure and vesting depends on the comparative performance with an appropriate peer group of companies (made up of the ASX Small Ordinaries Index excluding energy, mining and property trust stocks). The relative TSR performance hurdle is independently tested once at the end of the performance period by a specialist consultant and is based on the 60-trading day average share price before the start and end of the performance period.

The EPS performance condition is an absolute measure. The HRRNC adopts a three-step process in setting the Underlying EPS performance condition:

1. Management prepares a three-year forecast, including a three-year underlying EPS forecast
2. The HRRNC reviews this forecast and makes any adjustments that it considers appropriate, and
3. The growth in EPS that is required to achieve the resulting Underlying EPS target is then calculated (the starting point Underlying EPS figure for calculating the hurdle growth rate is the Underlying EPS figure for the immediately preceding year).

Performance rights vesting rules illustrative example – 2015-2017 LTI Plans

	Floor	Range	Ceiling
Relative TSR achievement	Below than 50th percentile	between 50-75th percentile	Above the 75th percentile
Relative TSR vesting	no vesting	pro-rata vesting	100%vesting
EPS achievement	less than x% p.a.	between x-y% p.a.	above y% p.a.
EPS vesting	no vesting	pro-rata vesting	100% vesting

Performance rights vesting rules illustrative example – 2018 LTI Plan

	Floor	Range	Ceiling
Relative TSR achievement	Below than 50th percentile	between 50-75th percentile	Above the 75th percentile
Relative TSR vesting	no vesting	pro-rata vesting	100% vesting

Following the end of the performance period, the Arq Group Board reviews the achievement against the performance conditions. The Board has discretion to adjust the performance conditions or the number of rights that vest in order to ensure that eligible employees are not unfairly advantaged or disadvantaged.

LTI performance targets

The tables below set out the relevant relative TSR and Underlying EPS targets for the two most recent grants.

2017 LTI Plan (March 2020 vesting date)

Target	Floor	Range	Ceiling	Granted	Vested	Forfeited[2]	Target	Actual
Relative TSR	< 50th%	50-75th %	>75th%	269,699	-	183,116	75th percentile	< 50th percentile
Underlying EPS CAGR	<9%	9-14%	>14%	269,699	-	183,116	21.07 cents[1]	0.00 cents

2018 LTI Plan (March 2021 vesting date)

Target	Floor	Range	Ceiling	Granted	Vested	Forfeited[2]	Target	Actual
Relative TSR	< 50th%	50-75th %	>75th%	295,375	N/A	233,025	75th percentile	N/A

(1) This is the forecast Underlying EPS target that was approved by the HRRNC and from which the hurdle rate is calculated.

(2) This amount represents the total cumulative performance rights forfeited between the grant date to 31 December 2019 for all participants, including those classified as Executive KMP in 2019 and rights cancelled following the resignation of rights holders. For the movement of performance rights specifically related to Executive KMP during the year ended 31 December 2019, refer to table 4 'Performance rights awarded, vested and lapsed during the year'.

Outcomes

2018 LTI Plan

On 22 May 2018, 295,375 performance rights were granted to all eligible participants, including the CEO's grant of 137,782 rights. Shareholders at the Annual General Meeting on 22 May 2018 approved the grant to the CEO. During the year ended 31 December 2019, 233,025 performance rights were forfeited as a result of KMP resignations during the year.

2017 LTI Plan

On 29 May 2017, 539,398 performance rights were granted to all eligible participants, including the CEO's grant of 247,382 rights. Shareholders at the Annual General Meeting on 29 May 2017 approved the grant to the CEO. During the year ended 31 December 2019, 366,232 performance rights were forfeited as a result of KMP resignations during the year.

As at 31 December 2019, 55,497 rights are expected to be forfeited based on non-achievement of the 2017 LTI Plan performance targets. The Board exercised its discretion to accelerate vesting of Ms Amy Rixon's 51,309 rights associated with the 2017 LTI Plan. These are expected to be vested in March 2020.

3(d) Executive KMP Remuneration

Statutory remuneration details

Details of the nature and amount of each element of the total remuneration of each member of the KMP for the years ended 31 December 2018 and 2019 are set out in the following table.

		Short term benefits				Post Employment benefits	Long term benefits	Share based payments	Other		
Executives		Salary & fees	STI[1]	Annual leave[3]	Other[2]	Super contribution	Long service leave[3]	Amortisation expense[4]	Termination pay[10]	Total	Performance related[5]
		$	$	$	$	$	$	$	$	$	%
Mr Tristan Sternson[6]	**2019**	**93,349**	**126,667**	**7,877**	**4,558**	**8,868**	**3,754**	**-**	**-**	**245,073**	**52%**
	2018	-	-	-	-	-	-	-	-	-	-
Mr Fraser Bearsley	**2019**	**306,304**	**-**	**15,186**	**9,171**	**23,287**	**4,091**	**11,747**	**-**	**369,786**	**3%**
	2018	258,448	-	(3,804)	1,639	24,552	2,980	11,747	-	295,561	4%
Mr Brett Fenton	**2019**	**315,947**	**-**	**11,901**	**21,851**	**24,053**	**17,044**	**(6,801)**	**-**	**383,995**	**(2%)**
	2018	254,795	-	11,556	10,134	24,205	7,182	57,562	-	365,434	16%
Former Key Management Personnel											
Mr Martin Mercer[7]	**2019**	**487,061**	**-**	**31,113**	**23,307**	**14,603**	**15,106**	**(378,872)**	**668,925**	**861,243**	**(44%)**
	2018	634,040	-	(17,647)	15,384	24,960	9,619	259,111	-	925,468	28%
Mr Peter Wright[8]	**2019**	**194,389**	**-**	**27,470**	**11,054**	**38,377**	**46,025**	**(42,932)**	**266,531**	**540,915**	**(8%)**
	2018	325,114	-	3,325	11,052	30,324	4,572	63,997	-	438,385	15%
Ms Amy Rixon[9]	**2019**	**16,376**	**-**	**6,003**	**886**	**1,565**	**-**	**(27,799)**	**-**	**(2,969)**	**936%**
	2018	237,900	-	3,465	9,886	22,600	3,788	40,175	-	317,813	13%
Ms Emma Hunt[8]	**2019**	**67,652**	**-**	**74,097**	**7,253**	**13,159**	**-**	**(50,284)**	**163,373**	**275,250**	**(18%)**
	2018	309,540	-	5,732	11,223	24,960	3,694	50,284	-	405,433	12%
Total 2019		**1,481,078**	**126,667**	**173,647**	**78,080**	**123,912**	**86,020**	**(494,940)**	**1,098,829**	**2,673,293**	
Total 2018		**2,019,837**	**-**	**2,627**	**59,318**	**151,601**	**31,835**	**482,876**	**-**	**2,748,094**	

(1) Represent STIs accrued in relation to 2019 and 2018 financial year, including retention bonuses as described in section 3(a). As described on page 31, except for Mr Tristan Sternson’s STI and those KMPs eligible to receive retention bonuses, no STIs were accrued in 2019 and 2018 as the STI payment gateway for 2019 and 2018 was not met.

(2) Includes the cost to the business of any non-cash business benefits provided inclusive of fringe benefits tax (FBT).

(3) Comprises Annual Leave and Long Service Leave accrued during the year, except for Mr Peter Wright and Ms Emma Hunt, where their amounts represent their annual leave and long service leave cashed out upon their termination (refer to footnotes 8 and 10).

(4) Relates to the amortisation booked during the year in relation to the fair value of the 2017 and 2018 Performance Rights. For most KMPs, this is a credit amount during the year in accordance with accounting standards, either due to LTI vesting criteria not met during the year, or the KMP resigned during the year (and therefore the service condition associated with the LTI plans was not met).

(5) Calculated as STI plus Amortisation of Performance Rights, as a proportion of total remuneration. These two elements represent the at-risk and discretionary amount payable which will vary depending on the financial performance of the Company. They are in addition to the fixed remuneration.

(6) Mr Tristan Sternson became a KMP on 24 September 2019. He is classified as KMP for 2019 and his information has been included in the above table representing the period from 24 September 2019 to 31 December 2019.

(7) Mr Martin Mercer is no longer a KMP from 24 September 2019. His information has been included from 1 January 2019 up to the date that he is no longer KMP.

(8) Mr Peter Wright and Ms Emma Hunt roles were made redundant on 5 and 8 July 2019 respectively and are no longer KMPs from that date onwards. Their information has been included from 1 January 2019 up to the date that they are no longer KMP.

(9) Ms Amy Rixon resigned on 24 January 2019 and is no longer a KMP from that date onwards. Her information has been included from 1 January 2019 up to the date that she is no longer KMP. The Board exercised its discretion to accelerate vesting of her rights associated with the 2017 LTI Plan. These will be vested in line with other 2017 LTI grants. However, her rights associated with the 2018 LTI Plan have been forfeited as she did not meet the required service conditions for the awards to vest.

(10) Termination payments were granted to Mr Martin Mercer, Mr Peter Wright and Ms Emma Hunt at the discretion of the Board, the details of which are described in section 3(a).

Table 2: Executive KMP statutory remuneration 2018-2019.

Actual remuneration received

The table below represents the 'actual' remuneration outcomes for executive key management personnel in the financial year ended 31 December 2019. Statutory remuneration disclosures prepared in accordance with the Corporations Act (2001) and Australian Accounting Standards differ from the numbers presented below, as they include (among other benefits) expensing for rights grants that are yet to vest and may never vest. The statutory remuneration table in respect of the executive KMP is presented in the table on the previous page.

Executives	Fixed remuneration[1]	STI[2]	LTI vested[3]	Termination pay[8]	Total
	$	$	$	$	$
Mr Tristan Sternson[4]	106,776	-	-	-	106,776
Mr Fraser Bearsley	338,762	-	-	-	338,762
Mr Brett Fenton	361,851	-	60,254	-	422,105
Former Key Management Personnel					
Mr Martin Mercer[5]	524,971	-	285,122	668,925	1,479,018
Mr Peter Wright[6]	317,317	-	70,534	266,531	654,382
Mrs Amy Rixon[7]	18,827	-	40,412	-	59,239
Ms Emma Hunt[6]	162,161	-	-	163,373	325,534
Total 2019	**1,830,665**	**-**	**456,322**	**1,098,829**	**3,385,816**

(1) Fixed remuneration represents base salary, superannuation and non-monetary benefits such as motor vehicle, travel and mobile phone allowances. Fixed remuneration excludes accruals for annual and long service leave.

(2) STI paid during the financial year. For example, the amount disclosed for 2019 year reflects the 2018 STI paid in April 2019 following the release of the 2017 Group results. No STIs were paid during the current financial year as the STI payment gateway for the 2018 STI was not met. No retention bonuses were paid during 2019 as the applicable service criteria has not been met yet.

(3) Relates to the intrinsic value that vested during the financial year. Intrinsic value is the difference between the share price of the shares to which the KMP has the right to subscribe or which the KMP has the right to receive, and the price the KMP is required to pay for those shares. Performance rights are a zero-price option and are issued for nil consideration. Hence, the intrinsic value for the LTI in the table above equates to the fair value at vesting date.

(4) Mr Tristan Sternson became a KMP on 24 September 2019. He is classified as KMP for 2019 and his information has been included in the above table representing the period from 24 September 2019 to 31 December 2019.

(5) Mr Martin Mercer is no longer a KMP from 24 September 2019. His information has been included from 1 January 2019 up to the date that he is no longer KMP.

(6) Mr Peter Wright and Ms Emma Hunt roles were made redundant on 5 and 8 July 2019 respectively and are no longer a KMP from that date onwards. Their information has been included from 1 January 2019 up to the date that they are no longer KMP.

(7) Ms Amy Rixon resigned on 24 January 2019 and is no longer a KMP from that date onwards. Her information has been included from 1 January 2019 up to the date of her resignation.

(8) Termination payments were granted to Mr Martin Mercer, Mr Peter Wright and Ms Emma Hunt at the discretion of the Board as described in section 3(a).

Table 3: KMP actual remuneration.

Short-term incentives

KPI targets were not achieved so no STI payments were made in 2018 and, with the exception of Tristan Sternson’s STI, no variable reward payments were made in 2019.

Performance rights awarded, vested and forfeited during the year

The performance rights, issued for nil consideration, are issued in accordance with performance guidelines established by the Directors of Arq Group Limited. Each performance right carries an entitlement to one fully paid ordinary share in Arq Group Limited.

The following table discloses the number of performance rights granted, vested, exercised or forfeited as remuneration:

	Financial Year	Rights awarded	Award Date	Fair value of right at award date $	Volume weighted average price[(1)]	Vesting / Expiry date	Total Vested	Total Forfeited[(2)]	Fair Value of rights granted during the year $	Fair Value of rights vested during the year $	Grant of rights forfeited during the year %
Mr Martin Mercer[3]	2018	137,782	28 May 2018	1.12	3.55	31 March 2021	-	137,782	-	-	100%
	2017	247,382	29 May 2017	1.99	1.91	31 March 2020	-	247,382	-	-	100%
	2016	219,219	27 May 2016	1.29	2.08	31 March 2019	142,561	76,658	-	183,904	35%
Mr Peter Wright[4]	2018	32,990	28 May 2018	1.12	3.55	31 March 2021	-	32,990	-	-	100%
	2017	61,662	29 May 2017	1.99	1.91	31 March 2020	-	61,662	-	-	100%
	2016	54,231	27 May 2016	1.29	2.08	31 March 2019	35,267	18,964	-	45,494	35%
Mr Brett Fenton	2018	30,924	28 May 2018	1.12	3.55	31 March 2021	-	-	-	-	-
	2017	55,497	29 May 2017	1.99	1.91	31 March 2020	-	-	-	-	-
	2016	46,327	27 May 2016	1.29	2.08	31 March 2019	30,127	16,200	-	38,864	35%
Mrs Amy Rixon[5]	2018	28,958	28 May 2018	1.12	3.55	31 March 2021	-	28,958	-	-	100%
	2017	51,309	29 May 2017	1.99	1.91	31 March 2020	-	-	-	-	-
	2016	31,071	27 May 2016	1.29	2.08	31 March 2019	20,206	10,865	-	26,066	35%
Ms Emma Hunt[4]	2018	33,295	28 May 2018	1.12	3.55	31 March 2021	-	33,295	-	-	100%
	2017	57,187	29 May 2017	1.99	1.91	31 March 2020	-	57,187	-	-	100%
Mr Fraser Bearsley	2018	31,426	28 May 2018	1.12	3.55	31 March 2021	-	-	-	-	-
		1,119,260					**228,161**	**721,943**	**-**	**294,328**	

(1) The volume weighted average price (VWAP) for 20 trading days preceding the start of the performance period (i.e. 1 January) is used to determine the number of rights that are issued to a participant in the LTI plan. The number of rights is simply the nominal dollar value of the entitlement of a participant per their remuneration package divided by the VWAP.

(2) Rights are forfeited based on actual achievement of LTI plan performance targets or failure to satisfy service conditions of the plan. This is approved by the HRRNC.

(3) Mr Martin Mercer is no longer a KMP from 24 September 2019. His information has been included from 1 January 2019 up to the date that he is no longer KMP. The Board has determined that any of his outstanding performance rights awarded will not be able to vest.

(4) Mr Peter Wright and Ms Emma Hunt roles were made redundant on 5 and 8 July 2019 respectively and are no longer a KMP from that date onwards. Their unvested rights have been forfeited as they did not meet the required service conditions for the awards to vest.

(5) Ms Amy Rixon resigned on 24 January 2019 and is no longer a KMP from that date onwards. The Board exercised its discretion to accelerate vesting of her rights associated with the 2017 LTI Plan. These will be vested in line with other 2017 LTI grants. However, her rights associated with the 2018 LTI Plan have been forfeited as she did not meet the required service conditions for the awards to vest.

Table 4: Performance rights awarded, vested and lapsed during the year.

Rights holdings of key management personnel as at 31 December 2019

The following table discloses a summary of performance rights granted under the LTI plans.

	Opening balance 1 January 2019	Rights granted as remuneration	Rights vested and exercised	Rights forfeited	Closing balance 31 December 2019	Vested and exercisable at 31 December 2019	Vested and not exercisable at 31 December 2019
Mr Martin Mercer	604,383	-	(142,561)	(461,822)	-	-	-
Mr Peter Wright	148,883	-	(35,267)	(113,616)	-	-	-
Mr Brett Fenton	132,748	-	(30,127)	(16,200)	86,421	-	-
Ms Amy Rixon	111,338	-	(20,206)	(39,823)	51,309	-	-
Ms Emma Hunt	90,482	-	-	(90,482)	-	-	-
Mr Fraser Bearsley(1)	31,426	-	-	-	31,426	-	-
	1,119,260	**-**	**(228,161)**	**(721,943)**	**169,156**	**-**	**-**

(1) Following Mr Fraser Bearsley's employment with the Company ceased on 23 March 2020, his performance rights would be forfeited as he has not met the required performance and service conditions associated with the 2018 LTI Plan.

Table 5: Performance rights granted during the year.

Shares issued on vesting of rights

During the year ended 31 December 2019, 228,161 shares were issued to the KMP (2018: 466,045) upon the vesting of 228,161 performance rights related to the 2016 LTI Plan. The following table presents the number of shares issued on the vesting of rights related to the 2016 LTI Plan:

31 December 2019	Number of shares issued	Paid per share cents
Mr Martin Mercer	142,561	-
Mr Peter Wright	35,267	-
Mr Brett Fenton	30,127	-
Ms Amy Rixon	20,206	-
	228,161	**-**

Table 6: Shares issued on the vesting of rights, 2016 LTI plan.

Shareholdings of key management personnel as at 31 December 2019

The number of ordinary shares in Arq Group Limited held during the financial year by each KMP, including details of shares granted as remuneration during the current financial year and ordinary shares provided as the result of the vesting of rights during the current financial year, are included in the table below.

	Opening balance 1 January 2019	Number of shares issued from vesting of rights	Net change other(1)	Closing balance 31 December 2019
Executives				
Mr Tristan Sternson[3]	1,269,687	-	-	1,269,687
Mr Martin Mercer[2]	366,264	142,561	(190,609)	318,216
Mr Fraser Bearsley	17,107	-	14,712	31,819
Mr Peter Wright[2]	123,906	35,267	83	159,256
Mr Brett Fenton	100,000	30,127	73,616	203,743
Ms Amy Rixon[2]	44,706	20,206	47	64,959
Ms Emma Hunt[2]	3,031	-	-	3,031
	1,924,701	**228,161**	**(102,151)**	**2,050,711**

(1) On market transactions.

(2) The closing balance of shareholdings is as at the date these employees ceased to be a KMP.

(3) The opening balance of shareholdings is at the date Mr Tristan Sternson became a KMP.

Table 7: KMP shareholdings.

Loans, other transactions and balances with key management personnel and their related parties

Mr Tristan Sternson (Interim CEO[2])

Mr Tristan Sternson was one of the previous owners of Infoready Pty Ltd (Infoready) before its acquisition by the Group. As part of the Share Purchase Agreement (SPA) with the previous owners of Infoready, three earn-out payments have been agreed. The first two earn-out payments have already been settled prior to Mr Tristan Sternson becoming KMP.

Instalments for the final earn-out payment were paid during the year ended 31 December 2019. Since the appointment of Mr Tristan Sternson as KMP on 24 September 2019, up until 31 December 2019, $1,000,000 of instalments was paid by the Group to the previous owners of Infoready, of which Mr Tristan Sternson is entitled to a share of the instalments. At 31 December 2019, the remaining balance of the Infoready final earn-out amount of $5,549,000 remains unpaid, inclusive of $676,000 of interest payable. This was settled on 2 March 2020 following the completion of the sale of the Enterprise business.

Further details relating to the Infoready earn-out payments are included in the notes to the Group's financial statements.

The Enterprise business was sold on 2 March 2020 to a consortium of buyers, in which Mr Tristan Sternson has a direct interest.

[2] Until 11 February 2020

Other KMPs

For the years ended 31 December 2019 and 31 December 2018, there have been no other loans or other transactions including purchases, sales or investments to KMP and their related parties. In relation to the exercise of performance rights upon vesting, shares were purchased on market.

3(e) What is the remuneration outlook for 2020?

Recruiting and retaining talent is a key challenge for all technology companies in order to drive growth in a highly competitive environment. We need a contemporary employee value proposition, a key part of which is a compelling model for remuneration and reward.

As one of the outcomes of the Strategic Review announced to the market on 24 September, we have completed the sale of the Enterprise business on 2 March 2020. The Strategic Review is still ongoing as the Group reviews the remainder of its business, whilst ensuring a smooth divestment process is carried out following the sale of the Enterprise business. Given these activities are a key focus for the Group in 2020, the Group intends to carry out a further review of its remuneration framework such that it is fit-for-purpose for the remainder of the Group's business operations.

In light of the potential for further review to the Group's executive compensation plans, the key elements of executive compensation as it currently stands in 2020 are noted as follows.

LTI

Currently, the Group does not have any plans to grant additional performance rights in 2020. Therefore, the 2018 LTI Plan that was granted to eligible KMPs in FY18 will continue for the remaining KMPs, subject to performance against vesting criteria.

Variable reward

Half the variable reward is received in cash, and half consists of "deferred" equity. This will continue in 2020. The deferred component is awarded in the form of rights which vest equally two years after the grant date (dependent on the achievement of a service condition - i.e. the recipient remains employed at the second and third anniversaries).

All variable reward payments continue to be based on the achievement of the annual KPIs.

On 20 December 2019, the Board approved Mr Brett Fenton's retention bonus arrangement. Effective 1 January 2020, Mr Brett Fenton is now entitled to a total opportunity of $310,000, subject to meeting the following criteria:

- Half the amount ($155,000) is payable contingent only on the completion of the potential sale of the SMB business;
- Half the amount ($155,000) is payable contingent on both the completion of the potential sale of the SMB business, as well as additionally meeting specified financial performance hurdles related to the SMB business for the year-to-date ended April 2020.

These amounts are payable in July 2020 subject to the satisfaction of the above performance criteria.

Other components

The HRRNC and the Board may exercise its discretion to award other incentive components to eligible KMP, depending on the outcome of the ongoing Strategic Review over the remainder of the Group business. This may include, but is not limited to, retention bonuses, termination payments and completion bonuses.

We believe that this remuneration structure optimally aligns the interests of our shareholders and management. We also see it as being an important factor in helping us to attract and retain key talent in these competitive times.

3(f) Executive KMPs' service arrangements

Before Mr Tristan Sternson's appointment as the Interim Chief Executive Officer (CEO) on 24 September 2019, he was on a standard employment contract. Following his appointment as Interim CEO on 24 September 2019, the terms of Mr Tristan Sternson's employment include:

- a fixed remuneration plus superannuation per year, reviewed annually;
- eligibility to receive a discretionary variable reward opportunity based on the performance of the Group's business and the successful completion of the sale of the Enterprise business;
- his appointment as the Interim CEO continues on a monthly basis until the earlier of the sale of the Enterprise business, or upon discretion by the Board;
- the option to resign from this position and thus terminate the contract by giving one month's notice.

All other executives are on standard contracts and are remunerated as stipulated in this report. For executives other than the CEO, termination of employment requires advanced written notice in accordance with the terms of their employment contract.

Upon termination, the provisions for KMPs are as follows:

- Total fixed remuneration will be paid as usual, until the agreed last working day;
- Variable reward and legacy LTI plan arrangements are treated in accordance with the respective plan rules;
- Should termination for cause occur, fixed remuneration and accrued leave is paid until the final working day and any variable rewards or benefits are forfeited; and
- Company restraint periods post termination restrict KMPs from engaging in competitive business activity and solicitation of clients or staff.

During the year, Mr Peter Wright and Ms Emma Hunt were made redundant and Mr Martin Mercer resigned and, in accordance with statutory requirements and individually agreed outcomes, termination payments were paid upon resignation. For Mr Peter Wright and Ms Emma Hunt, the key terms of their redundancy payments are as follows:

- Total fixed remuneration, outstanding leave balances and other statutory entitlements will be paid, with total fixed remuneration paid equivalent to their notice period in their employment contracts from the date they are made redundant;
- Additional minimum statutory redundancy payments are paid and determined in accordance with relevant state legislation;
- Amounts above minimum statutory redundancy payments as ex-gratia payments are individually negotiated with the KMP.

4. Non-Executive Directors' remuneration

Directors		Short Term Salary & fees $	Post Employment Superannuation Contribution $	Total $
Mr Andrew Reitzer	**2019**	**176,813**	**16,797**	**193,610**
	2018	73,672	6,999	80,671
Ms Naseema Sparks	**2019**	**83,542**	**7,936**	**91,478**
	2018	86,875	8,253	95,128
Mr Larry Bloch	**2019**	**76,875**	**7,303**	**84,178**
	2018	76,875	7,303	84,178
Mr Simon Martin	**2019**	**95,128**	**8,253**	**103,381**
	2018	82,708	7,857	90,565
Mr Andrew Macpherson	**2019**	**113,882**	**10,819**	**124,701**
	2018	76,875	7,303	84,178
Mr Karl Siegling (1)	**2019**	**25,625**	**2,434**	**28,059**
	2018	-	-	-
Ms Gail Pemberton (2)	**2019**	**-**	**-**	**-**
	2018	73,672	6,999	80,671
Mr John Armstrong (2)	**2019**	**-**	**-**	**-**
	2018	36,198	3,439	39,637
Total 2019		**571,865**	**53,542**	**625,407**
Total 2018		**506,875**	**48,153**	**555,028**

(1) Appointed as a Non-Executive Director on 23 August 2019. The amounts shown reflect his entitlement during the period from his appointment as KMP to 31 December 2019.

(2) Retired 29 May 2018. Their information has been included for comparative purposes only.

Table 8: Non-Executive Directors' remuneration.

4(a) Remuneration principles

Objective

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain directors of the highest calibre, while incurring a cost that is acceptable to shareholders.

Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined by a general meeting. The last such determination was at the AGM on 20 May 2008, when shareholders approved an aggregate remuneration of $1,000,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and how it is apportioned amongst Directors is reviewed periodically. The Board considers advice from external consultants, the fees paid to non-executive directors of comparable companies, as well as company performance when undertaking the annual review process.

Each Director receives a fee for being a director of the company and is expected to be a member of at least one committee (except for Non-Independent Directors who are invited guests to all committees). In recognition of the additional time commitment and responsibility required, an additional fee is paid for chairing a Board committee. The remuneration of Non-Executive Directors is reviewed annually. As it is considered good governance for directors to have a stake in a company on whose board they sit, non-executive directors are now required to hold shares in the company. This new shareholding policy was introduced in December 2017 and is discussed further below in section 4(b).

Details of the nature and amount of each element of the remuneration of each Non-Executive Director of Arq Group Limited Ltd for the past two financial years are shown in the table on page 42.

4(b) Minimum shareholding requirements

In December 2018, the Board approved a policy requiring all Non-Executive Directors to hold a minimum shareholding in the Company to the value of their annual fixed remuneration. This requirement needs to be met by December 2021 for all existing directors, and within three years of their appointment date for new directors.

As at 31 December 2019, Non-Executive Directors hold the value of shares in the Company as shown in the table in section 4(c) below.

4(c) Salary sacrifice scheme

To encourage and assist Non-Executive Directors to acquire and retain shares in the Company, Directors are allowed to sacrifice up to 50% of their annual fees to purchase company shares. These shares are purchased on-market by a third-party agency.

Shareholdings of Non-Executive Directors as at 31 December 2019

	Opening balance 1 January 2019	Net change other(1)	Closing balance 31 December 2019
Non-Executive Directors			
Mr Andrew Reitzer	-	122,500	122,500
Ms Naseema Sparks	19,128	23,432	42,560
Mr Larry Bloch	8,558,363	(1,850,000)	6,708,363
Mr Simon Martin	41,899	173,454	215,353
Mr Andrew Macpherson	38,000	133,340	171,340
Mr Karl Siegling[2]	22,573,712	300,000	22,873,712
	31,231,102	**(1,097,274)**	**30,133,828**

(1) On market transactions

(2) The opening balance of shareholdings is at the date Mr Karl Siegling was appointed as a KMP. He was appointed as Non-Executive Director effective 23 August 2019. Included in his shareholding is 21,230,532 of shares attributed to Cadence Asset Management Pty Ltd ATF Cadence Capital Fund and Cadence Capital Limited, in which Mr Karl Siegling has an indirect relevant interest.

Table 9: Non-Executive Directors’ shareholding.

5. Governance

5(a) Human Resources, Remuneration and Nomination Committee (HRRNC)

The HRRNC of the Board of Directors of Arq Group determines and reviews compensation policy and arrangements for Directors and executives. The HRRNC periodically assesses the appropriateness of the nature and amount of remuneration of Directors and executives by reference to relevant employment market conditions and the overall objective of ensuring maximum stakeholder benefit from the retention of a high-quality, high-performing Directors and executive team.

5(b) Independent advice

To support Arq Group's review of the executive and non-executive remuneration framework during the 2019 financial year, the HRRNC sought independent information, observations and advice from Egan Associates in relation to remuneration strategy, structure and market practice. Potential conflicts of interest were considered by the HRRNC, and both the HRRNC and the Board are satisfied that the advice provided by Egan Associates was free from undue influence. Any advice provided by Egan Associates was used as a guide only and was not a substitute for detailed consideration of all the relevant issues by the HRRNC. No remuneration recommendations, as defined by the *Corporations Act 2001*, were provided during the year.

5(c) Securities trading policy

The Company has approved a Share Trading Policy aimed at ensuring that no Director or employee of the Company makes use of his or her position or information acquired by being a Director or employee to gain (directly or indirectly) an advantage for any person or to cause detriment to the Company.

The policy provides guidance on what share trading activities by Directors or employees are deemed acceptable and those which are not. Such guidance includes identifying conduct that may constitute insider trading, how an employee or Director can minimise the risk of insider trading, and the closed periods during which Directors, officers and KMP (and parties related to them) are not permitted to trade in Arq Group shares.

The policy also details the steps for Directors and employees to take when buying or selling shares in Arq Group which includes requiring any Director or KMP buying or selling Arq Group's shares, or exercising any options, to first obtain approval from the Chair of the Board (for Directors) or from the Chief Executive Officer (for KMP).

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	2019 $'000	2018 $'000
Cash and cash equivalents	E1	8,949	8,279
Trade and other receivables	B1	13,910	26,403
Prepayments of domain name registry charges		7,810	7,327
Lease receivable	B4	2,064	-
Current tax refund		375	-
Other assets	B2	2,928	6,634
		36,036	**48,643**
Assets held for sale	D2	38,674	32,698
Total Current Assets		**74,710**	**81,341**
Plant and equipment	B3	8,198	13,899
Right-of-use asset	B4	16,554	-
Intangible assets	B5	77,804	225,239
Prepayments of domain name registry charges		678	2,508
Lease receivable	B4	1,830	-
Deferred tax assets	A3	7,323	6,775
Financial assets	B6	1,375	1,870
Other assets		560	696
Total Non-Current Assets		**114,322**	**250,987**
TOTAL ASSETS		**189,032**	**332,328**
Trade and other payables	B7	8,692	17,138
Income received in advance		22,792	28,632
Current tax liability		-	1,909
Provisions	B8	1,585	3,406
Derivative financial instruments	C6	510	80
Interest bearing loans and borrowings	C4	61,929	-
Other financial liabilities	C5	5,549	12,971
Current lease liabilities	B4	6,160	-
		107,217	**64,136**
Liabilities directly associated with assets held for sale	D2	15,931	11,292
Total Current Liabilities		**123,148**	**75,428**
Income received in advance		11,297	9,563
Provisions	B8	3,187	3,530
Deferred tax liabilities	A3	7,549	5,469
Interest bearing loans and borrowings	C4	-	74,992
Non-current lease liabilities	B4	12,970	850
Total Non-Current Liabilities		**35,003**	**94,404**
TOTAL LIABILITIES		**158,151**	**169,832**
NET ASSETS		**30,881**	**162,496**
Contributed equity	C2	91,179	85,724
Foreign currency translation reserve	C3	(533)	(552)
Share based payments reserve	C3	193	1,136
Other reserves	C3	(278)	9
Retained earnings		(59,806)	76,053
Equity attributable to members of the parent		**30,755**	**162,370**
Non-controlling interests		126	126
TOTAL EQUITY		**30,881**	**162,496**

The above consolidated statement of financial position should be read in conjunction with the accompanying notes. Comparative figures as at 31 December 2018 have not been restated for the effect of AASB 16 and therefore may not be directly comparable.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	Notes	2019 $'000	2018 (Re-presented) $'000
Continuing operations			
Revenue from contracts with customers	A1	83,615	100,094
Cost of sales		(27,672)	(34,981)
Gross profit		**55,943**	**65,113**
Other income	A7	1,315	68
Gain/(loss) on reassessment of contingent consideration liability		98	(9,702)
Salaries and employee benefits expenses	A2	(30,576)	(35,685)
Depreciation expenses	A2	(7,026)	(4,376)
Amortisation of intangible assets	A2	(3,511)	(9,004)
Other expenses	A2	(12,953)	(18,878)
Finance costs	A2	(5,810)	(4,287)
Transaction costs		(2,259)	(892)
Restructuring costs		(365)	-
Impairment of goodwill	B5	(41,123)	-
Gain on disposal of assets	D2	554	-
Loss before tax		**(45,713)**	**(17,643)**
Income tax (expense) / credit	A3	(238)	2,216
Loss after tax from continuing operations		**(45,951)**	**(15,427)**
Discontinued operation			
(Loss) / profit from discontinued operation, net of tax	D2	(85,272)	13,101
Loss after tax for the year		**(131,223)**	**(2,326)**
Other comprehensive income			
Items that may be reclassified to the profit or loss in subsequent periods (net of tax):			
Currency translation differences		19	(5)
Changes in fair value of cash flow hedges, net of tax	C6	(297)	-
Items that will not be reclassified to profit or loss in subsequent periods (net of tax):			
Net gains on equity instruments designated at fair value through other comprehensive income		10	152
Other comprehensive (loss) / income for the period, net of tax		**(268)**	**147**
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		**(131,491)**	**(2,179)**
Loss for the year attributable to:			
Members of the parent		(131,303)	(2,457)
Non-controlling interests		80	131
		(131,223)	(2,326)
Total comprehensive loss attributable to:			
Members of the parent		(131,571)	(2,310)
Non-controlling interests		80	131
		(131,491)	(2,179)

Earnings per share	**Notes**	**2019** **Cents**	**2018** **Cents**
From continuing operations			
Basic loss per share	A5	(38.01)	(0.13)
Diluted loss per share	A5	(38.01)	(0.13)
Attributable to members of the parent			
Basic loss per share	A5	(108.62)	(2.08)
Diluted loss per share	A5	(108.62)	(2.08)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes. Prior year comparatives have been re-presented due to the classification of the Enterprise business as discontinued operations (refer to Note D2). Comparative figures as at 31 December 2018 have not been restated for the effect of AASB 16 and therefore may not be directly comparable.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Foreign currency reserve $'000	Share based payments reserve $'000	Other reserves $'000	Contributed equity $'000	Treasury shares $'000	Retained earnings $'000	Total $'000	Non-controlling interest $'000	Total equity $'000
As at 1 January 2019	(552)	1,136	9	85,724	-	76,053	162,370	126	162,496
Impact of change in accounting policy	-	-	-	-	-	911	911	-	911
As at 1 January 2019 (restated)	**(552)**	**1,136**	**9**	**85,724**	**-**	**76,964**	**163,281**	**126**	**163,407**
Profit/(loss) for the period	-	-	-	-	-	(131,303)	(131,303)	80	(131,223)
Other comprehensive income	19	-	(287)	-	-	-	(268)	-	(268)
Total comprehensive income for the period	**19**	**-**	**(287)**	**-**	**-**	**(131,303)**	**(131,571)**	**80**	**(131,491)**
Transactions with owners in their capacity as owners:									
Share based payment/(writeback)	-	(471)	-	-	-	-	(471)	-	(471)
Issue of shares for long term incentive plan	-	(472)	-	472	-	-	-	-	-
Issue of shares for Infoready earn out liability settlement	-	-	-	4,000	-	-	4,000	-	4,000
Dividend reinvestment plan	-	-	-	983	-	-	983	-	983
Dividend associated with InfoReady earn out	-	-	-	-	-	(110)	(110)	-	(110)
Equity dividends	-	-	-	-	-	(5,357)	(5,357)	(80)	(5,437)
As at 31 December 2019	**(533)**	**193**	**(278)**	**91,179**	**-**	**(59,806)**	**30,755**	**126**	**30,881**
As at 1 January 2018	(547)	2,331	(211)	83,507	(1,884)	91,503	174,699	100	174,799
Profit/(loss) for the period	-	-	-	-	-	(2,457)	(2,457)	131	(2,326)
Other comprehensive income	(5)	-	152	-	-	-	147	-	147
Total comprehensive income for the period	**(5)**	**-**	**152**	**-**	**-**	**(2,457)**	**(2,310)**	**131**	**(2,179)**
Transactions with owners in their capacity as owners:									
Share based payment	-	490	-	-	-	-	490	-	490
Issue of shares for long term incentive plan	-	(685)	-	685	-	-	-	-	-
Issue of shares for Outware accelerated purchase settlement	-	(1,000)	-	1,000	-	-	-	-	-
Dividend reinvestment plan	-	-	-	2,633	-	-	2,633	-	2,633
Capital raising (net transaction costs)	-	-	-	(217)	-	-	(217)	-	(217)
Equity dividends	-	-	-	-	-	(12,993)	(12,993)	(105)	(13,098)
Transfer from/(to) contributed equity	-	-	-	(1,884)	1,884		-	-	-
Transfer from/(to) financial liabilities	-	-	68	-	-	-	68	-	68
As at 31 December 2018	**(552)**	**1,136**	**9**	**85,724**	**-**	**76,053**	**162,370**	**126**	**162,496**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes. Comparative figures as at 31 December 2018 have not been restated for the effect of AASB 16 and therefore may not be directly comparable.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Notes	2019 $’000	2018 $’000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipt of service revenue and recoveries		187,353	228,893
Payments to suppliers and employees		(168,489)	(200,828)
Interest received		202	68
Interest paid		(3,390)	(2,687)
Bank charges and credit card merchant fees paid		(1,135)	(1,530)
Income tax refunds		-	1,121
Income tax paid		(3,269)	(6,770)
NET CASH FLOWS FROM OPERATING ACTIVITIES	E1	**11,272**	**18,267**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of plant and equipment and intangible assets		(3,423)	(13,894)
Proceeds from subleases		1,869	-
Payment of financial liability for InfoReady earn out (incl. dividends)		(4,110)	(5,668)
Return of capital from Tiger Pistol		505	-
Transaction costs		(2,394)	(85)
Sale of the TPPW Reseller business		21,268	-
NET CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES		**13,715**	**(19,647)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	C4	7,375	-
Repayment of borrowings	C4	(21,292)	-
Payment of dividend on ordinary shares, net of dividend reinvestment		(4,378)	(10,361)
Payment of dividend to non-controlling interests		(80)	(105)
Payment of lease liabilities		(5,961)	(120)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		**(24,336)**	**(10,586)**
NET DECREASE IN CASH AND CASH EQUIVALENTS		**651**	**(11,966)**
Net foreign exchange differences		19	(5)
Cash and cash equivalents at beginning of period		8,279	20,250
CASH AND CASH EQUIVALENTS AT END OF PERIOD	E1	**8,949**	**8,279**

The above statement of cash flows should be read in conjunction with the accompanying notes and includes cash flows from both continuing and discontinued operations. Refer to Note D2(b) for the cash flows relating to discontinued operations. Comparative figures as at 31 December 2018 have not been restated for the effect of AASB 16 and therefore may not be directly comparable.

Notes to the Financial Statements

Section A: Financial performance

Section B: Operating assets and liabilities

Section C: Capital and financial risk management

Section D: Group structure

Section E: Other information

About this report

This is the financial report of Arq Group Limited ('the Company' or ‘Arq Group') (formerly Melbourne IT Ltd) and of its controlled entities (collectively 'the Group') for the year ended 31 December 2019. The financial report was authorised for issue in accordance with a resolution of the Directors on 30 March 2020.

It is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act (2001)*, Australian Accounting Standards, and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board.

Arq Group Limited is a company limited by shares, incorporated and domiciled in Australia, whose shares are publicly traded on the Australian Stock Exchange. The company is a for-profit entity. The nature of the operations and principal activities of the Group are described in the Directors’ Report.

Basis of preparation

The financial report has been prepared on a historical cost basis, except for derivative financial instruments and contingent consideration which have been measured at fair value, and investments designated at fair value through other comprehensive income.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($’000), unless otherwise stated, under the option available to the company under ASIC Corporations (Rounding in Financial/Directors' Report) Instrument 2016/191 (Instrument 2016/191). The Company is an entity to which Instrument 2016/191 applies.

On 11 February 2020, as part of the outcomes arising from the Strategic Review described in the Directors Report, the Group entered into an agreement to divest the Enterprise business unit to a consortium consisting of Quadrant Private Equity and members of management for $35,000,000 in cash. The transaction was completed on 2 March 2020. As the intention to divest the Enterprise business was highly probable considering the progress of the Group’s strategic review at 31 December 2019, the Enterprise disposal group has been separately presented as held for sale in accordance with AASB 5: Non-current Assets Held for Sale and Discontinued Operations as at 31 December 2019. Given the significance of the Enterprise business to the Group’s operations, the Enterprise business unit has also been determined to be a discontinued operation. The financial information in this report (including the restatement of the prior year comparative) has therefore been presented in accordance with AASB 5.

The assets and liabilities of the Enterprise disposal group have been written down to their fair value less costs of disposal, resulting in the Group incurring a $81,258,000 revaluation loss against the value of non-monetary assets allocated to the Enterprise disposal group.

Accordingly, the remainder of the Group’s business has been defined as “continuing operations” in accordance with Australian accounting standards. This consists of the SMB segment, which includes both the SMB Direct business as well as the remainder of the SMB Indirect business following the sale of the TPP Wholesale Reseller business, and associated corporate costs that continue to be incurred by the Group.

Going concern

The Company has sought and received waivers for financial covenant breaches for the quarter ended 30 September 2019 and quarter ended 31 December 2019. As a condition of those waivers, a Review Event in January 2020 was included in the facility terms, allowing the Company’s financiers discretion to withdraw the facilities by providing 60 days’ advance written notice. The Group is working with its lenders to manage the debt facilities, including an agreed repayment of debt from the net proceeds of sale of the Enterprise business. No action has yet been taken by the Company’s financiers in respect of the January 2020 Review Event.

Proceeds from the sale of Enterprise of $22,108,000 have been allocated against the outstanding drawn-down debt balance, resulting in $39,092,000 remaining in drawn-down debt. The Company has received an extension on repayments of $2,500,000 due on 31 March 2020 until 31 August 2020 and is in the process of requesting further short-term support.

In the absence of any additional refinancing of facilities, the Company expects to breach its financial covenants during 2020, such that the financiers have the discretion to withdraw the facilities by providing 60 days’ advance written notice, and may also require additional short-term funding whilst it continues to execute actions from the Strategic Review, including the potential sale of the SMB business and implementation of the planned cost reduction program. Therefore, the Company requires the ongoing support of its lenders to continue to provide the existing facilities and any required additional facilities to be able to continue as a going concern.

The identification of the COVID-19 coronavirus as a post-balance date event is described in Note E7. Given the rapid spread of the virus post-balance date, future revenues may be negatively impacted. However, in forecasting future cash flows, the Company is currently unable to reliably estimate the potential future impact of the virus. The Company has identified further cost reduction and cash preservation strategies in the event that revenues are materially negatively impacted. The impacts of the COVID-19 coronavirus on financial markets may also impact the Company’s ability to execute elements of its Strategic Review, including the potential sale of the SMB business or the price at which a sale may occur.

Whilst reliance on the ongoing support of its lenders and the potential impact of COVID-19 on forecast cashflows represent a material uncertainty, the Company is continuing to work with its financiers, and based on current financier interactions as well as current forecast cash flows and potential opportunities arising from the Strategic Review, the Directors are satisfied there are reasonable grounds to conclude the Company can continue as a going concern.

Should the Company sell the SMB business within the short term, the Company will need to further consider whether it can continue as a going concern from that time.

The financial statements and notes have been prepared on a going concern basis at 31 December 2019 and does not include adjustments, if any, relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company not continue as a going concern.

Significant accounting policies

Accounting policies are selected and applied in a manner that ensures that the resulting financial information satisfies the concept of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The below describes significant accounting policies applicable to the Group’s financial statements. Other specific significant accounting policies are described in respective notes to the financial statements.

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of Arq Group Limited and its subsidiaries (the Group) as at 31 December each year. The Group controls a subsidiary if and only if the Group has:

- power over the subsidiary (i.e. existing rights that give it the current ability to direct the relevant activities of the subsidiary)
- exposure or rights to variable returns from its involvement with the subsidiary
- the ability to use its power over the subsidiary to affect its returns.

The financial statements of subsidiaries are prepared for the same reporting period as for the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full.
Subsidiaries are fully consolidated from the date on which control is transferred to Arq Group Limited, and cease to be consolidated from the date on which control is transferred out of Arq Group Limited.

Investments in subsidiaries held by Arq Group Limited are accounted for at cost in the separate financial statements of the parent entity less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the separate income statement of the parent entity, and do not impact the recorded cost of the investment. Upon receipt of dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. The identifiable assets acquired, and the liabilities assumed, are measured at their acquisition date fair values. The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash-generating units (CGUs) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquirer are assigned to those units. Where goodwill forms part of a CGU, and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of, and the portion of the cash-generating unit retained.

Significant accounting policies (cont.)

Acquisitions of subsidiaries that include put options to acquire non-controlling interests in the future are accounted for in accordance with AASB 10: *Consolidated Financial Statements* (AASB 10).

Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which Arq Group Limited has control. A change in the ownership interest of a subsidiary that does not result in a loss of control is accounted for as an equity transaction.

On the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the subsidiary, and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss.

(b) Foreign currency transactions

Both the functional and presentation currency of Arq Group Limited and its Australian subsidiaries is Australian dollars (AUD).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

The functional currency of each overseas subsidiary is as follows:

Investment in New Zealand subsidiaries	- NZD (New Zealand Dollar)
Investment in USA subsidiaries	- USD (US Dollar)

The assets and liabilities of these overseas subsidiaries are translated into the presentation currency of Arq Group Limited at the rate of exchange ruling at the reporting date, and the statement of comprehensive income is translated at the weighted average exchange rates for the period.

The exchange differences arising on retranslation are taken directly to other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in other comprehensive income relating to that particular foreign operation is recognised in the determination of profit and loss for the year.

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

(c) Financial assets

(i) Recognition and measurement

Financial assets are classified at initial recognition as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

Significant accounting policies (cont.)

The classification of financial assets at initial recognition depends on the financial asset’s contractual cash flow characteristics and the Group’s business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are ‘solely payments of principal and interest (SPPI)’ on the principal amount outstanding on specified dates. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group’s business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method, and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group’s financial assets at amortised cost include trade receivables (note B1).

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under AASB 132: *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group elected to classify irrevocably its non-listed equity investments (note B5) under this category.

Significant accounting policies (cont.)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value, with net changes in fair value recognised in the statement of profit or loss.

The Group has not designated any financial asset as at fair value through profit or loss.

(ii) Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group’s consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired, or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘’pass-through” arrangement, and either
- the Group has transferred substantially all the risks and rewards of the asset, or
  the Group has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

(iii) Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

Significant accounting policies (cont.)

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

(d) Financial liabilities

(i) Recognition and measurement

Financial liabilities are classified at initial recognition as financial liabilities at fair value through profit or loss, loans and borrowings, or payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value, and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings, derivative financial instruments and contingent consideration.

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition, and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings (note C4).

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading, and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by AASB 9. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in AASB 9 are satisfied.

The Group has measured the financial liability in relation to the InfoReady earn-out at fair value through profit or loss. Refer to note C5 for further information.

Significant accounting policies (cont.)

(ii) Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

(iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts, and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

(e) Prepayment of domain name registry charges

Domain name registry charges are deferred in the statement of financial position and are recognised in the statement of comprehensive income using the same principles as revenue from the sale of domain names, as explained in accounting policy in note A1.

Changes in accounting policies

The Group applies, for the first time, AASB 16: *Leases* (AASB 16). The Group adopted AASB 16 using the modified retrospective method of adoption with the date of initial application being 1 January 2019. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening statement of financial position on 1 January 2019. As the Group adopted the modified retrospective method, there was no restatement of previous financial statements. The right-of-use assets were measured on adoption as if AASB 16 had always applied. The nature and effect of these changes are disclosed in the respective notes to the financial statements.

Significant accounting estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenues and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which forms the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Information on significant estimates and judgements considered when applying the accounting policies can be found in the following notes:

Accounting estimates and judgments	Notes
Revenue	A1
Taxation	A3
Trade and other receivables	B1
Leases	B4
Intangibles and useful lives	B5
Impairment of goodwill	B5
Other financial liabilities	C5
Share-based payment transactions	E4

Section A: Financial performance

A1. Revenue from contracts with customers

(a) Disaggregation of revenue from contracts with customers

Set out below is the disaggregation of the Group's revenue from contracts with customers:

Continuing operations	For the year ended 31 December 2019 $'000
Types of goods or services	
Registration revenue	30,289
Solutions, hosting & services	53,326
Total revenue from contracts with customers	**83,615**
Timing of revenue recognition	
Services/goods transferred at a point in time	291
Services transferred over time	83,324
Total revenue from contracts with customers	**83,615**

Continuing operations	For the year ended 31 December 2018 $'000
Types of goods or services	
Registration revenue	35,004
Solutions, hosting & services	65,090
Total revenue from contracts with customers	**100,094**
Timing of revenue recognition	
Services/goods transferred at a point in time	867
Services transferred over time	99,227
Total revenue from contracts with customers	**100,094**

(b) Contract balances

Set out below is the amount of revenue from contracts with customers recognised from:

Continuing operations	2019 $'000	2018 $'000
Amounts included in contract liabilities at the beginning of the year	32,853	37,114

Set out below is the amount of cost of sales recognised from:

Continuing operations	2019 $'000	2018 $'000
Amounts included in prepaid costs to fulfil contract at the beginning of the year	7,925	13,098

A1. Revenue from contracts with customers (cont.)

Prepayments of domain name registry charges are considered costs to fulfil a contract and is deferred as an asset, and income received in advance is considered a contract liability. The amounts included in contract liabilities reflect a significant portion of the aggregate amount of performance obligations not yet satisfied at the end of the reporting period. For any remaining contracts, the Group has applied the practical expedient available under AASB 15.121 whereby the performance obligations are not disclosed as they have an original expected duration of one year or less. See further details on contract assets in note B2.

(c) Accounting policy

(i) Rendering of services – domain name registration

Domains revenue primarily consists of domain registrations and renewals, as well as aftermarket sales. Domain registrations are assessed as a distinct service that provides a customer with the exclusive use of the domain name over the contracted period, including the provision of Domain Name System services.

Consideration is recorded as income received in advance when it is received, which is typically at the time of sale and revenue, with the exception of aftermarket sales, is recognised evenly over the contract period as performance obligation is satisfied. As the customer simultaneously receives and consumes the benefits of the domain services provided, this revenue is recognised evenly over the contract period.

Aftermarket sales are recognised as revenue when ownership of the domain has been transferred.

Prepayments of domain name registry charges are direct costs to fulfil a contract. See Key judgement and estimates section for further information.

(ii) Rendering of services – hosting (email and web)

Hosting revenue primarily derives from website and email hosting services provided over a contracted period of time. Where consideration is received in advance of performance, it is initially recorded as income received in advance. Revenue is recognised as the performance obligations are satisfied, which is considered to be evenly over the contracted term that the hosting services are provided.

(iii) Rendering of services – online marketing

Online marketing revenue consists of search engine optimisation (SEO), pay-per-click (PPC) advertising, and social media advertising. Where consideration is received in advance of performance, it is initially recorded as income received in advance. Revenue is recognised as the performance obligations are satisfied, which is considered to be evenly over time in line with the contracted term as the customer simultaneously receives and consumes the benefits of online marketing services.

A1. Revenue from contracts with customers (cont.)

(iv) Rendering of services – website build

Website build revenues consist of fees charged for the creation of websites for customers. Where the Group has an enforceable right to payment for performance completed to date, and no alternative use for the asset, it recognises revenue over the period of the build based on time incurred, because there is a direct relationship between the Group’s effort and the transfer of service to the customer. In the absence of such a right, the Group recognises revenue at a point in time being transfer of the website to the customer.

Revenue from the build of websites are recognised over an average build period of three months.

Contract fulfilment costs incurred in advance of revenue recognition are capitalised when they are directly attributable to the contract, generate the resources to satisfy the performance obligations, and will be recovered. These costs are expensed over the period when revenue is recognised.

(v) Transaction prices

The Group’s customer contracts may include multiple performance obligations. In these cases, the Group allocates the transaction price to each performance obligation based on the relative stand-alone selling prices of each distinct service. Stand-alone selling prices are determined based on prices charged to customers for individual products and services, taking into consideration the size and length of contracts, service rate cards, and the Group's overall go-to-market strategy.

(vi) Principal versus agent considerations

The Group sells products and services both directly to customers, and in some instances, through resellers. The Group assesses each arrangement to determine whether the Group acts as principal or agent, based on whether the Group controls the product or service before transferring it to the end customer. Where the Group acts as principal, revenue is recorded on a gross basis versus on a net basis where the Group acts as agent.

Key judgement and estimates

Prepayments of domain name registry charges are direct costs to fulfil a contract. The Group defers these costs as an asset and amortises the asset over the contract period, consistent with the satisfaction of performance obligations and the recognition of revenue. The Group re-assesses costs to fulfil contracts on a periodic basis to reflect significant changes in the expected timing of satisfying performance obligations to which the asset relates, and when there is a significant change in the carrying amount of the asset.

A2. Expenses

Continuing operations	2019 $'000	2018 $'000
(a) Salaries and employee benefits		
Included in cost of sales:		
Salaries and employee benefits expenses	2,133	2,766
Superannuation expense	181	240
Included in Salaries and employee benefits expenses:		
Salaries and employee benefits expenses	24,325	27,659
Superannuation expense	2,096	2,261
Expensing of share-based payments(1)	(438)	382
(b) Depreciation of non-current assets		
Right-of-use assets	2,996	-
Plant and equipment	1,752	2,137
Leasehold improvements	1,748	1,572
Furniture	526	308
Leasehold make-good	4	359
Total depreciation of non-current assets	**7,026**	**4,376**
(c) Amortisation of identifiable intangible assets		
Capitalised software	2,117	1,910
Customer contracts	1,394	1,748
Marketing related intangibles	-	5,346
Total amortisation of identifiable intangible assets	**3,511**	**9,004**
(d) Other Expenses		
Included in other expenses:		
Marketing	3,357	3,749
Software licences	2,275	2,247
Consulting fees	2,569	4,126
Expected credit losses arising on trade receivables	1,290	1,584
Foreign exchange gains	(298)	(318)
Foreign exchange losses	212	319
(e) Finance costs		
Interest expense on debt and borrowings	2,488	2,689
Interest expense on lease liabilities	492	-
Interest expense on Infoready financial liability	676	-
Loss on modification of debt facility	968	-
Bank charges and credit card merchant fees	1,131	1,505
Unwinding of discount on other financial liabilities	55	93
Total finance costs	**5,810**	**4,287**

(1) Included in this amount for 31 December 2019 are writebacks associated with LTIs and short-term deferred share rewards for both key management personnel (KMP), as well as non-KMP eligible to receive short-term deferred share rewards. The amounts disclosed here only relate to writebacks associated with continuing operations only. Refer to the Remuneration Report and Notes E3 and E4 for amounts related to KMP.

On 31 October 2017, Arq Group Limited approved the retirement of the WebCentral brand in line with a group-wide brand review. The Group anticipated the retirement of the WebCentral brand being completed within 12 months, and as a result, the useful life of the related brand intangible asset was revised to 12 months ended 31 October 2018. As a result, $5,346,000 of accelerated amortisation expense has been recognised in the statement of comprehensive income in the prior year.

In accordance with the requirements AASB 9: *Financial Instruments*, a $968,000 loss was recognised in profit & loss owing to the changed terms and conditions in the Group's revised debt facility arrangements with its financiers as described in Note C4, which was determined to be a modification to the financial liability.

A3. Income tax

The major components of income tax expense are:

(a) Statement of comprehensive income

	2019 $'000	2018 $'000
Current income tax		
Current income tax charge	638	4,689
Adjustments in respect of current income tax of previous periods	(486)	9
Deferred income tax		
Relating to origination and reversal of temporary differences	(2,350)	(1,280)
Derecognition of deferred tax asset	2,666	-
Income tax expense reported in the statement of comprehensive income	**468**	**3,418**

(b) Statement of changes in equity

	2019 $'000	2018 $'000
Deferred income tax related to items charged or credited directly to equity		
Net gain on revaluation of cash flow hedges	(129)	(24)
Deferred tax asset recognised on equity raise costs	145	145
Income tax expense reported in equity	**16**	**121**

(c) A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group’s applicable income tax rate is as follows:

	2019 $'000	2018 $'000
Loss before income tax from continuing operations	(45,713)	(17,643)
(Loss) / profit before income tax from discontinued operations	(85,042)	18,735
(Loss) / profit before income tax	**(130,755)**	**1,092**
At the Group's statutory income tax rate of 30% (2018: 30%)	(39,227)	328
Adjustments in respect of current income tax of previous years	(486)	9
Non-assessable income	(107)	-
Non-deductible loss on revaluation of disposal group held for sale	24,375	-
Non-deductible goodwill impairment charge	12,337	-
Other non-deductible expenses	372	273
Reassessment of contingent consideration	(30)	2,911
Adjustment for sale of TPPW Reseller business	(166)	-
Unwinding of discount on other financial liabilities	16	28
Adjustments in deferred tax balances	(77)	-
Derecognition of deferred tax asset	2,666	-
Estimated R&D tax incentive claims	-	(67)
Unrecognised tax loss for the year	868	-
Other	(73)	(64)
Income tax expense at the effective income tax rate	**468**	**3,418**
Income tax expense / (credit) reported in the statement of comprehensive income:		
- From continuing operations	238	(2,216)
- From discontinued operations	230	5,634
Income tax expense at the effective income tax rate	**468**	**3,418**

A3. Income tax (cont.)

The Group derecognised $2,666,000 in deferred tax assets on the basis the Group cannot conclude that it is probable it can realise its gross deferred tax assets in excess of its deferred tax liabilities at 31 December 2019. This has been allocated to individual line items in table d) below, to the extent they will not be recoverable by offsetting deferred tax liabilities.

As at 31 December 2019, the Group has unrecognised income tax losses of $868,000 tax-effected at 30% (2018: none), and capital losses of $499,000 arising from the sale of the TPP Wholesale Reseller business (2018: none).

(d) Deferred tax assets and liabilities

	2019 $'000	2018 $'000
Deferred tax assets at 31 December relate to the following:		
Unrealised foreign exchange gains	134	2,121
Employee benefits	845	1,781
Lease liabilities	5,740	697
Income received in advance	-	585
Blackhole expenditure	-	548
Expected credit loss provision	-	395
Interest expense	-	-
Accruals	-	300
Other non-current liabilities	-	255
Derivative financial instruments	-	24
Intangible assets	604	11
Other	-	58
	7,323	**6,775**

	2019 $'000	2018 $'000
Deferred tax liabilities at 31 December relate to the following:		
Intangible assets	1,285	2,807
Lease assets (incl. make-good)	6,134	494
Unrealised foreign exchange losses	65	1,958
Other	65	210
	7,549	**5,469**

Current taxes

Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation, and establishes provisions where appropriate.

Deferred taxes

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

A3. Income tax (cont.)

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Income taxes relating to items recognised directly in equity are recognised in equity and not in the statement of comprehensive income.

Tax consolidation

The Group and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 January 2006. Members of the tax consolidated group have entered into a tax-funding agreement. Each entity is responsible for remitting its share of the current tax payable (receivable) assumed by the head entity.

In accordance with UIG 1052 and Group accounting policy, the Group has applied the ‘separate taxpayer within group approach’, in which the head entity, Arq Group Limited, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts.

In addition to its own current and deferred tax amounts, the Group also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax credits assumed from controlled entities in the tax consolidated group. The allocation of taxes to the head entity is recognised as an increase/decrease in the controlled entity’s inter-company accounts with the tax consolidated Group head entity.

A3. Income tax (cont.)

Members of the Group have entered into a tax-sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement, on the grounds that the possibility is remote.

Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable, and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, is classified as operating cash flows.

Key judgement and estimates

The Group's accounting policy for taxation requires management's judgement in assessing whether deferred tax assets and certain deferred tax liabilities are recognised in the statement of financial position. Deferred tax assets are recognised only when it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

A4. Dividends

Equity dividends on ordinary shares

(a) Dividends declared and paid during the year on ordinary shares

	2019 $'000	2018 $'000
(i) Final franked dividend for the financial year ended 31 December 2018: 4.5 cents per share (2017: 7.5 cents per share)	5,357	8,846
(ii) Dividend for the Infoready earn out year ended 31 December 2019:	109	-
Total dividends paid during the year	**5,466**	**8,846**

(b) Dividends proposed and not recognized as a liability

Final franked dividend for the year ended 31 December 2019: 0.0 cents per share (2018: 4.5 cents per share)	-	5,349

(c) Franking credit balance

The amount of franking credits available for the subsequent financial year are: - franking account balance as at the end of the financial year at 30% (2018: 30%)	3,134	2,320

A5. Earnings/(loss) per share

	2019 Cents	2018 Cents
From continuing operations		
Basic loss per share	(38.01)	(0.13)
Diluted loss per share	(38.01)	(0.13)
Attributable to members of the parent		
Basic loss per share	(108.62)	(2.08)
Diluted loss per share	(108.62)	(2.08)

The following reflects the income and share data used in the calculations of basic and diluted earnings per share:

Loss for the year from continuing operations	(45,951)	(15,427)
(Loss) / profit for the year from discontinued operations	(85,272)	13,101
Less profit attributed to non-controlling interests	(80)	(131)
Loss for the year attributable to members of the parent	**(131,303)**	**(2,457)**

	Number of shares	
Weighted average number of ordinary shares used in the calculation of basic earnings per share	120,887,297	118,876,222
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	120,887,297	118,876,222

Basic earnings/(loss) per share is calculated as profit/(loss) for the year attributable to members of the parent, divided by the weighted average number of ordinary shares.

Diluted earnings/(loss) per share is calculated as profit/(loss) for the year attributable to members of the parent, divided by the weighted average number of ordinary shares and the dilutive potential ordinary shares.

Performance rights granted to employees are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent that they are dilutive. Where an operating loss is incurred, performance rights are not dilutive. These performance rights have not been included in the determination of basic earnings per share.

There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

A6. Segment reporting

Identification of operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Operating segments have been identified based on the information provided to the chief operating decision makers. being the CEO.

As described in the Basis of Presentation, following the presentation of the Enterprise business as a disposal group held for sale and as a discontinued operation during the year ended 31 December 2019, the Group’s continuing operations as presented in the Statement of Comprehensive Income represent only one operating segment, being the SMB business.

A7. Other income

	2019 $’000	2018 $’000
Dividend income	125	-
Interest income	202	68
Management fees - TPPW Reseller	587	-
Sundry income	401	-
Total other income	**1,315**	**68**

Under the terms of the Transitional Services Agreement for the sale of the TPP Wholesale Reseller business, the Group is entitled to receive ongoing management fees associated with the separation of the business. This agreement will continue over the next two years.

Section B: Operating assets and liabilities

B1. Trade and other receivables

(a) Disaggregation of trade and other receivables

	2019 $'000	2018 $'000
Trade receivables	14,840	27,179
Allowance for expected credit losses (ECLs)	(1,840)	(1,370)
Other receivables	910	594
Total trade and other receivables	**13,910**	**26,403**

Set out below is the movement in the allowance for ECLs of trade receivables:

	2019 $'000	2018 $'000
Opening balance	1,370	1,030
Additional provision for ECLs taken to the P&L	1,290	1,359
Amount written off	(821)	(1,019)
Closing balance	**1,840**	**1,370**

At 31 December, the ageing analysis of trade receivables is as follows:

		2019			2018	
	ECL Rate	Gross $'000	ECL $'000	ECL Rate	Gross $'000	ECL $'000
Continuing Operations						
Current	13.25%	1,025	(136)	1.08%	9,936	(107)
0-90 days past due	5.52%	2,017	(111)	4.51%	8,529	(385)
91 days + past due	13.50%	11,797	(1,593)	10.08%	8,714	(878)
Closing balance		**14,840**	**(1,840)**		**27,179**	**(1,370)**

Compared to the prior year, the ECL rate is higher as the receivables balances at 31 December 2019 solely reflects receivables associated with the SMB business, which typically has a greater credit risk exposure as the majority of SMB's customers are small/medium businesses and individuals. Information about credit exposures are disclosed in note C1.

(b) Accounting policies

A description of accounting policies applicable to the Group for Trade and other receivables can be found in the Financial assets section of the 'Significant accounting policies'.

Key judgement and estimates

In prior periods, a customer disputed the calculation of amounts being charged in relation to a contract for services, which is still ongoing. At balance date an amount recorded in trade receivables of $10,006,000 (31 December 2018: $5,445,000) is subject to this dispute. Based on the Group's interpretation of the contract applied over a number of years and supporting legal advice the Group is confident that the amount will be fully recovered.

B2. Other current assets

	2019 $’000	2018 $’000
Accrued revenue	75	4,363
Prepayments	2,853	2,168
Lease incentive receivable	-	103
Total other assets (current)	**2,928**	**6,634**

Accrued revenue is defined as a contract asset under AASB 15.

B3. Plant and equipment

	Leasehold improvements $’000	Plant and equipment $’000	Furniture and fittings $’000	Make-good assets $’000	Capital work in progress $’000	Total $’000
At cost						
At 1 January 2018	1,969	19,246	379	-	347	21,941
Additions	6,532	2,349	2,026	2,006	79	12,992
Transfers	266	(28)	-	-	(266)	(28)
Disposals	(695)	(430)	(35)	-	-	(1,160)
At 31 December 2018	8,072	21,137	2,370	2,006	160	33,745
Additions	194	697	24	-	-	915
Transfers	151	9	-	-	(160)	-
Disposals	(34)	(123)	-	-	-	(157)
Adjustments on application of new accounting standards	-	-	-	(2,006)	-	(2,006)
Transfers to disposal group held for sale	-	(1,180)	-	-	-	(1,180)
At 31 December 2019	8,383	20,540	2,394	-	-	31,317
Accumulated depreciation and impairment						
At 1 January 2018	1,158	14,532	234	-	-	15,924
Depreciation charge for the year	1,572	2,677	308	359	-	4,916
Transfers	-	(59)	58	-	-	(1)
Disposals	(528)	(429)	(36)	-	-	(993)
At 31 December 2018	2,202	16,721	564	359	-	19,846
Depreciation charge for the year	1,748	1,752	526	4	-	4,031
Transfers	-	(10)	17	(7)	-	-
Disposals	(34)	(123)	-	-	-	(157)
Adjustments on application of new accounting standards	-	-	-	(359)	-	(359)
Transfers to disposal group held for sale	-	(244)	-	3	-	(242)
At 31 December 2019	3,916	18,096	1,107	-	-	23,119
Net book value						
At 31 December 2018	5,870	4,416	1,806	1,647	160	13,899
At 31 December 2019	4,467	2,444	1,287	-	-	8,198

Plant and equipment are stated at cost less accumulated depreciation and any impairment in value.

B3. Plant and equipment (cont.)

Depreciation is provided on a straight-line or diminishing value basis on all plant and equipment. Major depreciation periods are:

	2019	2018
Leasehold improvements	The lease term	The lease term
Plant and equipment	2 to 4 years	2 to 4 years
Furniture and fittings	2 to 5 years	2 to 5 years

An item of plant and equipment is derecognised upon disposal, or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from the derecognition of the asset (calculated as the difference between net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income upon derecognition. The residual values, useful lives, and methods of depreciation of plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

B4. Leases

	Right-of-use assets			Lease liabilities
	Premises	Other equipment	Total	
	$'000	$'000	$'000	$'000
As at 31 December 2018	**-**	**-**	**-**	**-**
Additions on transition	16,058	283	16,341	19,564
Additions during the year	5,500	-	5,500	5,527
Depreciation expense	(5,068)	(219)	(5,287)	-
Interest expense	-	-	-	796
Payments	-	-	-	(6,757)
As at 31 December 2019	**16,490**	**64**	**16,554**	**19,130**

Set out below are the amounts recognised in profit and loss during the period:

	2019 $'000
Depreciation expense of right-of-use assets[1]	5,287
Interest expense on lease liabilities	796
Rent expense - short-term leases	48
Rent expense - leases of low-value assets[2]	32
Rent expense - variable lease payments[3]	1,958
Total amount recognised in profit or loss	**8,121**

1. Included in this amount is depreciation of right-of-use assets associated with discontinued operations of $2,302,000 for the year ended 31 December 2019.
2. Leases of low-value assets excludes short-term leases of low value.
3. Included in this amount is rent expense related to variable lease payments associated with discontinued operations of $956,000 for the year ended 31 December 2019, which has already been included in the discontinued operations result.

B4. Leases (cont.)

Set out below is a maturity analysis of lease liabilities:

Maturity analysis - contractual undiscounted cash flows	31-Dec-19 $'000 Leases committed to but not yet commenced	Leases in effect during year ended	Total
Less than one year	-	6,782	6,782
One to five years	-	13,611	13,611
More than five years	-	91	91
Total undiscounted lease liabilities at 31 Dec	**-**	**20,484**	**20,484**

Lease liabilities included in the Statement of Financial Position at 31 Dec	**19,130**
Current	6,160
Non-current	12,970

Set out below are amounts related to finance leases where the Group is a lessor:

	2019 $'000
Finance income on the net investment in the lease	174
Total amount recognised in profit or loss	**174**

Set out below is a maturity analysis of lease receivables for finance leases where the Group is a lessor:

	2019 $'000
Maturity analysis - contractual undiscounted cash flows	
Less than one year	2,170
One to two years	1,298
Two to three years	580
More than three years	-
Total undiscounted lease receivable at 31 Dec	**4,048**
Unearned finance income	(154)
Net investment in lease	**3,894**

Set out below is a reconciliation of lease receivables for finance leases where the Group is a lessor:

	2019 $'000
At 31 December 2018	-
Additions on transition	5,343
Additions on entering into sublease during the year	421
Interest income	174
Receipts from lessees	(2,044)
Lease receivables as at 31 December 2019	**3,894**

B4. Leases (cont.)

(a) Adoption of AASB 16: *Leases* (‘AASB 16’)

AASB 16 supersedes AASB 117: *Leases* ('AASB 117'), AASB Interpretation 4: *Determining whether an Arrangement contains a Lease*, Interpretation 115: *Operating Leases-Incentives* and Interpretation 127: *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model. Lessor accounting under AASB 16 is substantially unchanged from AASB 117. Lessors will continue to classify leases as either operating or finance leases using similar principles as in AASB 117. However, on adoption of AASB 16 there was a change in the classification of sub-leases as a net investment in the sublease by reference to the head lease.

Impact on transition

The Group has lease contracts for office premises as both a lessor (in relation to sub-leases) and lessee and for IT equipment as a lessee. Before the adoption of AASB 16, the Group classified each of its leases at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease.

Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalised, and the lease payments were recognised as rent expense in the statement of profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under other assets and other liabilities, respectively.

Upon adoption of AASB 16, the Group applied a single on balance sheet approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The Group recognised lease liabilities to make lease payments and ROU assets representing the right to use the underlying assets.

The Group adopted AASB 16 using the modified retrospective method of adoption with the date of initial application being 1 January 2019. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening statement of financial position on 1 January 2019. As the Group adopted the modified retrospective method, there was no restatement of previous financial statements. The right-of-use assets were measured on adoption as if AASB 16 had always applied.

B4. Leases (cont.)

The effect of adopting AASB 16 is as follows:

Impact on the statement of financial position (increase/(decrease)) as at 1 January 2019:

	1-Jan-19 $'000
Right-of-use assets	16,341
Lease receivable	5,343
Plant and equipment	(1,647)
Other assets	(101)
Deferred tax assets	5,578
Total Assets	**25,514**
Lease liabilities	19,566
Provisions	(124)
Other liabilities	(850)
Deferred tax liabilities	6,011
Total Liabilities	**24,603**
Retained earnings	911
Total Equity	**911**

There is no impact on the statement of comprehensive income, basic and diluted EPS or the statement of cash flows for the prior period as the Group has elected to adopt the modified retrospective approach.

Set out below is a reconciliation to the opening balance for lease liabilities as at 1 January 2019, based on the operating lease commitments as at 31 December 2018:

	$'000
Operating lease obligations at 31 December 2018	**31,792**
Change in lease term	(959)
Lease-type obligations (service components)	92
Items not previously considered as lease	79
Future commitments(1)	(10,117)
Gross lease liabilities at 1 January 2019	**20,887**
Weighted average incremental borrowing rate as at 1 January 2019	3.86%
Discounting	(1,321)
Lease liabilities at 1 January 2019	**19,566**

1. Future commitments represent leases that have been committed to as at 31 December 2018 and have a commencement date during the year ended 31 December 2019.

(b) Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of AASB 16:

(i) Right-of-use assets

The Group recognises right-of-use ('ROU') assets at the commencement of a lease. Subsequently, ROU assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

B4. Leases (cont.)

The cost of ROU assets includes:

- the amount of lease liabilities recognised;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs incurred by the lessee; and
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset.

Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised ROU assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. ROU assets are subject to impairment.

(ii) Lease liabilities

At the commencement date of a lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

The variable lease payments that do not depend on an index or a rate are recognised as expense in the period in which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the date of initial application if the interest rate implicit in the lease is not readily determinable. After the date of initial application, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, which is not accounted for as a separate lease, a change in the lease term, a change in the in-substance fixed lease payments, a change in future lease payments resulting from a change in an index or a rate used to determine those payments, or a change in the assessment to purchase the underlying asset.

(iii) Lease receivable

The Group is an intermediate lessor of some subleases, which were previously classified as operating leases under AASB 117. The Group accounts for a head lease and sublease as two separate contracts, applying both lessee and lessor accounting requirements respectively. On the date of initial application, the Group reassessed its existing operating subleases to determine whether the sublease is classified as an operating or finance lease under AASB 16. The reassessment is based on the remaining contractual terms of the head lease and sublease with reference to the right-of-use assets associated with the head lease and not the underlying asset.

B4. Leases (cont.)

On identifying finance subleases that were previously classified as operating subleases, the Group derecognises the ROU asset relating to the head lease that is transferred to the sublessee and recognises the net investment in the sublease equal to the present value of lease receivables. Where the interest rate implicit in the sublease cannot be readily determined, the Group utilises the incremental borrowing rate from the head lease (adjusted for any initial direct costs associated with the sublease) to discount the lease receivable to its present value.

The Group is required to calculate an expected credit loss for the lease receivable in accordance with AASB 9 and elected to apply the simplified approach to recognise the lifetime expected credit losses of the lease receivable. The Group considered both historical information and a forward outlook in determining the lifetime expected credit loss on lease receivables.

(iv) Short-term leases and leases of low-value assets exemptions

The Group applies the short-term lease recognition exemption made by class of underlying assets to the right-of-use asset related to its short-term leases (i.e. those leases that have a lease term at the commencement date of 12 months or less from the date of initial application and do not contain a purchase option).

The Group applies the lease of low-value assets recognition exemption to leases that are considered of low value (i.e., below $7,000 AUD). This amount has been determined with reference to the threshold example set by the International Accounting Standards Board in the Basis for Conclusion on IFRS 16 Leases BC of $5,000 USD. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Key judgement and estimates

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its premises leases to lease the assets for additional terms of five years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. The Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy). The Group excluded the renewal period as part of the lease term for leases of rental premises as the Group is not reasonably certain to exercise the renewals.

Significant judgement in determining the incremental borrowing rate

The Group has applied judgement to determine the incremental borrowing rate, which significantly affects the amount of lease liabilities or ROU assets recognised. The Group applies the incremental borrowing rate on a lease by lease basis based on the remaining lease term from the initial date of application. The Group reassesses the incremental borrowing rate for any leases with commencement dates after the initial date of application.

B5. Intangible assets

	2019 $’000	2018 $’000
Goodwill	70,923	211,671
Market-related intangibles	1,494	9,053
Accumulated amortisation	-	(7,164)
	1,494	1,889
Customer contracts	9,224	10,520
Accumulated amortisation	(8,702)	(7,309)
	522	3,211
Capitalised software	16,632	18,503
Accumulated amortisation	(11,767)	(10,035)
	4,865	8,468
Total intangible assets	**77,804**	**225,239**

Reconciliation of carrying amounts at the beginning and end of the period

	Capitalised Software $’000	Customer Contracts $’000	Market-related Intangibles $’000	Goodwill $’000	Total $’000
Net balance at 1 January 2018	**8,604**	**5,756**	**7,236**	**237,500**	**259,096**
Transfer to assets held for sale	-	-	-	(25,829)	**(25,829)**
Additions	2,764	-	-	-	**2,764**
Amortisation	(2,900)	(2,545)	(5,347)	-	**(10,792)**
Net balance at 31 December 2018	**8,468**	**3,211**	**1,889**	**211,671**	**225,239**
Transfer to assets held for sale	(3,588)	(1,296)	-	(101,727)	**(106,611)**
Adjustments to assets previously classified as held for sale	-	-	(395)	2,103	**1,708**
Additions	2,102	-	-	-	**2,102**
Amortisation (continuing operations)	(2,117)	(1,394)	-	-	**(3,511)**
Impairment of goodwill	-	-	-	(41,123)	**(41,123)**
Net balance at 31 December 2019	**4,865**	**521**	**1,494**	**70,924**	**77,804**

Adjustments to assets previously classified as held for sale relate to the disposal of the goodwill associated with the sale of the TPP Wholesale Reseller business. The carrying amount of goodwill disposed has been calculated based on its estimated recoverable amount relative to the estimated recoverable amount of the SMB CGU. Due to an improvement in the forecast cash flows, and therefore the recoverable amount, of the wider, ongoing operations of the SMB CGU during the year, the proportion of goodwill disposed decreased from $25,829,000 at 31 December 2018 to $23,726,000 upon disposal.

B5. Intangible assets (cont.)

(a) Goodwill

Goodwill on acquisition is initially measured at cost, being the excess of the cost of the business combination over the acquirer’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units (CGUs) expected to benefit from the combination’s synergies. Goodwill has been allocated for impairment purposes to CGUs that are significant individually or in aggregate, taking into consideration the nature of services, resource allocation, how operations are monitored, and where independent cash flows are identifiable.

As at 31 December 2019, $101,727,000 of goodwill associated with the Enterprise business has been reclassified to disposal group held for sale and, as part of the disposal group held for sale, subsequently written down to its fair value less costs of disposal. Further detail is described within note D1.

(b) Marketing-related intangibles

Marketing-related intangibles represent brand names of past acquisitions. They have been assessed as having indefinite useful lives as they are expected to contribute to future economic benefits indefinitely as Arq Group Limited continues to sell its products under these brand names indefinitely, and therefore invests in these brands through its marketing activities. An annual impairment assessment is required for intangible assets with an indefinite useful life.

(c) Customer contracts

Customer contracts are amortised over the period of 3-5 years based on the historical attrition rate.

(d) Capitalised software

Included in capitalised software is $853,254 of capitalised labour and other directly attributable costs. The capitalised labour in progress which has not started amortisation relates to product and service customer platform enhancements. The remaining balance of capitalised software relates to legacy software and cloud platforms from acquired entities, as well as newly developed software platforms eligible to begin amortisation during the year.

Intangible assets acquired both separately and from a business combination

Intangible assets acquired separately are capitalised at cost, and from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets. Where amortisation is charged on assets with finite lives, this expense is taken to profit and loss through the ‘amortisation of identifiable intangible assets’ line item.

B5. Intangible assets (cont.)

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in the profit and loss when the asset is derecognised.

Internally generated intangible assets

Costs relating to the research phase of the project are expensed while costs relating to the development phase are capitalised as Capitalised Software when the project meets the definition of an asset; and is identifiable. The costs capitalised are being amortised over a useful life of four to six years.

A summary of the policies applied to the Group’s intangible assets is as follows:

Customer contracts	
Useful lives	Finite
Amortisation	Amortised over the estimated churn of the customer base
Impairment testing	When indicators exist
Market-related Intangibles	
Useful lives	Indefinite
Amortisation	No amortisation
Impairment testing	Annually and more frequently when indicators exist
Capitalised software projects	
Useful lives	4-6 years
Impairment testing	Amortisation method reviewed annually and when indicators exist

The carrying value of any intangible assets denominated in foreign currencies is revalued at the year-end spot rate of each reporting period, leading to changes in the carrying value of the intangible assets in reporting currency. Any revaluation amounts are recognised directly in the foreign currency translation reserve.

Impairment of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

The carrying values of assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. If any such indication exists, and where the carrying values exceed the estimated recoverable amount, the assets or CGUs are written down to their recoverable amount.

B5. Intangible assets (cont.)

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell, and it does not generate cash inflows that are largely independent of those from other assets, or groups of assets; in which case, the recoverable amount is determined for the CGU to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Goodwill and other intangible assets impairment testing

The Group has performed its annual impairment testing over the carrying value of goodwill. The entire balance of goodwill not held for sale (i.e. $112,047,000) has been allocated to the SMB CGU at 31 December 2019.

Under the impairment testing, the carrying amount of the SMB CGU is compared to its recoverable amount. The recoverable amount of the SMB CGU was determined based on a fair value less costs of disposal method.

Key assumptions used in fair value less costs of disposal (‘FVLCD’) calculations

Fair values were obtained based on preliminary information of indicative transaction prices for the SMB business provided by potential interested parties as part of the ongoing due diligence process as part of the Group’s Strategic Review. These indicative transaction prices were based on anticipated future earnings of the SMB business after adjustments to the cost base. The costs of disposal were estimated based on anticipated advisor costs as well as anticipated costs to achieve the planned adjustment to the cost base. As such, these fair value measurements would be categorised within the Level 3 fair value hierarchy.

Results of impairment test

Based on current indicative transaction prices for the SMB business, the Group recognised an impairment charge of $41,123,000, recognised in profit and loss. As the Strategic Review process is ongoing, the Group has not disclosed these indicative transaction prices due to their commercial sensitivities as at balance date. Disclosure of these prices would likely prejudice the outcome of the Strategic Review for current and potential interested parties.

Sensitivity to changes in assumptions

Following the impairment loss recognised in the SMB CGU, the recoverable amount was equal to the carrying amount. Therefore, any adverse change in a key assumption will result in further impairment.

B5. Intangible assets (cont.)

Key judgement and estimates

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the CGU, using fair value less costs of disposal (FVLCD), to which the goodwill and intangibles with indefinite useful lives are allocated. The Group considers that the indicative transaction prices received from potential interested parties approximates fair value as it represents an indicative agreeable price between willing market participants under current market conditions.

The identification of the COVID-19 coronavirus outbreak as a post-balance date non-adjusting event is described in Note E7 and notes that fair values as used in the determination of the recoverable amount may have materially changed since balance date as a consequence of the COVID-19 coronavirus outbreak. The impairment assessment at 31 December 2019 reflects conditions known at that date and do not factor in any potential future impact of COVID-19.

B6. Non-current financial assets

	2019 $'000	2018 $'000
Investment in Tiger Pistol - ordinary shares	1,375	1,870
	1,375	**1,870**

The Group holds 603,205 shares in Tiger Pistol. These shares have been accounted for as a financial asset and valued by reference to the most recent arm's length transaction of Tiger Pistol shares.

Reconciliation of fair value measurement of non-current financial assets

	2019 $'000	2018 $'000
As at 1 January	**1,870**	**2,085**
Foreign exchange gain on revaluation of the Investment in Tiger Pistol	10	175
Bank guarantee receivable	-	(390)
Return of capital	(505)	-
As at 31 December	**1,375**	**1,870**

B7. Trade and other payables

	2019 $'000	2018 $'000
Trade creditors	1,574	2,682
Sundry creditors	4,325	5,408
Deposits received in advance	477	829
Accrued expenses	2,316	8,219
Total trade and other payables	**8,692**	**17,138**

B7. Trade and other payables (cont.)

Terms and conditions relating to trade and sundry creditors:

- Trade creditors are non-interest bearing and are normally settled within agreed trading terms.
- Sundry creditors are non-interest bearing and are normally settled within agreed trading terms.

The carrying amount of trade and other payables is a reasonable approximation of fair value.

B8. Provisions

	2019 $'000	2018 $'000
Current		
Employee benefits	1,585	3,406
	1,585	3,406
Non-current		
Employee benefits	528	1,207
Other	2,659	2,323
	3,187	3,530
Total provisions	**4,772**	**6,936**

	2019 $'000	2018 $'000
The aggregate employee benefit liability comprises:		
Provisions (current)	1,585	3,406
Provisions (non-current)	528	1,207
	2,113	4,613

Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, and long service leave.

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date, are measured at their nominal amounts based on remuneration rates, which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on corporate bonds is used, which has terms to maturity approximating the terms of the related liability.

Employee benefit expenses arise in respect of the following categories:

- Wages and salaries, non-monetary benefits, annual leave, long service leave and other entitlements;
- Other types of employee entitlements are recognised against profits on a net basis in their respective categories.

B8. Provisions (cont.)

Other provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event. It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Other non-current provisions include leasehold make-good provisions of $2,659,000. Properties occupied by the Group are subject to make-good costs when vacated at the termination of the lease. A make-good provision is recognised at the present value of the provision as at 31 December 2019, with the asset capitalised as part of the right-of-use lease asset. Movements in the liability, as the time to make-good payment advances one period, are recognised as a finance expense. Any difference between the provision and the amount paid in the final settlement is recognised as a make-good expense or gain in the statement of comprehensive income.

A reconciliation of other provisions is shown below:

	2019 $'000	**2018 $'000**
Opening balance at 1 January	2,323	-
Reversal of surplus lease provision on adoption of AASB 16	(124)	-
Additions to make-good provision	407	2,176
Additions to surplus lease provision	-	124
Unwinding of the discount	53	23
Closing balance at 31 December	**2,659**	**2,323**

Section C: Capital and financial risk management

C1. Financial risk management objectives and policies

The Group's principal financial instruments comprise of receivables, payables, interest-bearing loans, cash, short-term deposits, derivatives, non-current financial assets and other financial liabilities. The Group manages its exposure to key financial risks in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets, whilst protecting financial security.

The purpose is to manage the financial risks arising from the Group's operations. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, liquidity risk and credit risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to foreign exchange risk and interest rate risk, assessments of market forecasts for foreign exchange and interest rates. Liquidity risk is monitored through the development of rolling cash flow forecasts.

The Board reviews and agrees policies for managing each of these risks as summarised below. Primary responsibility for identification and control of financial risks rests with management under the supervision of the Audit and Risk Management Committee and under the authority of the Board. The Board reviews and agrees policies for managing each of the risks identified below, including the setting of limits for trading in derivatives, hedging cover of foreign currency and interest rate risk, credit allowances and cash flow forecast projections.

Capital management

For the purpose of the Group's capital management, capital includes issued capital, all other equity reserves attributable to the equity holders of the parent and debt capital, principally raised from the Group's banking partners, but inclusive of other debt-like instruments, such as earn-outs due. As a result of the ongoing Strategic Review of the Group's businesses, the Board's current primary objective is to maximise the value of the Group's operations to its shareholders. This may involve the sale of one or more of its operations, restructuring its cost base, all whilst maintaining sufficient liquidity for ongoing operations for the short to medium term as well as returning surplus cash flows (or, in the event of a sale of assets, proceeds from sales) to shareholders and debt providers.

The Group manages its capital structure and financing facilities and makes adjustments in light of changes in economic and market conditions, requirements of the business operations and requirements of its financial covenants. To maintain or adjust the capital structure, the Group may raise or repay debt, adjust the dividend payment to shareholders, return capital to shareholders, issue new shares, or sell assets to fund these activities.

During 2019, the Group paid dividends to members of the parent Company of $5,357,000 (2018: $12,993,000) at 4.5 cents per share (2018: 11.0 cents per share).
The Group's exposure to market interest rates is related primarily to the Group's short-term deposits held and drawdowns on available financing facilities. Refer to note C4 for details of available financing facilities.

C1. Financial risk management objectives and policies (cont.)

Risk exposures and responses

Interest rate risk

At balance date, the Group had the following mix of financial assets and liabilities exposed to variable interest rate risk.

	2019 $'000	2018 $'000
Financial assets		
Cash and cash equivalents	8,949	8,279
Financial liabilities		
Bank loan[1]	61,929	74,992

1. Of the financial assets and liabilities that are exposed to variable interest rates, $22,500,000 of bank loans drawn are covered by interest rate swap agreements. Refer to note C6 for further detail.

The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date.

At 31 December 2019 and 2018, 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:

	Net profit Higher / (Lower)		Equity Higher / (Lower)	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Assets + 0.25% (25 basis points), liabilities + 0.25% (25 basis points)	(132)	(64)	(132)	(64)
Assets - 0.25% (25 basis points), liabilities - 0.25% (25 basis points)	132	64	132	64

The sensitivities have been calculated based on average holdings of interest-bearing assets and liabilities, offset by the impact of interest rate swaps (refer to Note C6 for details about the Group's interest rate swaps). Interest-bearing assets are predominantly sensitive to movements in Australian interest rates.

Credit risk

Credit risk arises from the financial assets of the Group, which comprise of cash and cash equivalents, trade and other receivables and derivative instruments. The Group's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note.

The Group provides credit only with recognised, creditworthy third parties and as such collateral is not required, nor is it the Group's policy to securitise its trade and other receivables.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures, which may include an assessment of their financial position, past experience and industry reputation, depending on the amount of credit to be granted.

C1. Financial risk management objectives and policies (cont.)

Outstanding customer receivables are regularly monitored. Receivables are written off when the Group determines that there is no reasonable expectation of recovering the trade receivable in full. Indicators that there is no reasonable expectation of recovery include, amongst others, the referral of a debtor to an external debt collection agency. The Group considers that there is a correlation between credit risk and the contractual payments past due, which is reflected in the ECL provision matrix. Historical evidence indicates trade receivables remain collectable more than 90 days past due.

Foreign currency risk

The Group conducts some of its business in US dollars ('USD') and is therefore exposed to movements in the AUD/USD dollar exchange rate. The Group actively manages the gross margin risk by its foreign currency risk management strategy. Please refer to Note C6 for further details.

Both the functional and presentation currency of Arq Group Limited is in Australian dollars (AUD). The consolidated Group contains functional currencies in USD and NZD. Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

The exchange differences arising on the retranslation are taken directly to other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in other comprehensive income relating to that particular foreign operation is recognised in the determination of profit and loss for the year.

At 31 December 2019, the Group had the following exposures to USD denominated assets and liabilities, where the functional currency is not USD. The Group's exposure to foreign currency changes for all other currencies is not material. Assets and liabilities that are designated in cash flow hedges are not included:

	2019 $'000	2018 $'000
Financial assets		
Cash and cash equivalents	533	68
Trade and other receivables	24	107
	557	**175**
Financial liabilities		
Trade and other payables	(1,814)	(1,640)
Net exposure	**(1,257)**	**(1,465)**

The following sensitivity is based on foreign currency risk exposures in existence at the reporting date. At 31 December 2019, had the AUD moved as illustrated in the table below with all other variables held constant, post-tax profit and equity would have been affected as follows:

	Net profit Higher / (Lower)		Equity Higher / (Lower)	
	2019 $'000	**2018 $'000**	**2019 $'000**	**2018 $'000**
Consolidated				
- AUD/USD +10%	113	133	113	133
- AUD/USD -10%	(139)	(162)	(139)	(162)

C1. Financial risk management objectives and policies (cont.)

The Group also has exposures to foreign exchange when retranslating foreign currency subsidiaries into AUD. The sensitivity range has been determined using an expected range of 0.635 to 0.776 USD/AUD for the retranslation of USD denominated balances for the forthcoming year. The Group has determined that the sensitivity for the Group's exposure to the NZD is not material.

Liquidity risk

Liquidity risk is managed via the regular review of forecasted cash inflows and outflows, with any surplus funds being placed in short term deposits to maximise interest revenue.

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows. Trade payables and other financial liabilities mainly originate from the financing of assets used in ongoing operations such as plant, equipment and investments in working capital (e.g. trade receivables). These assets are considered in the Group's overall liquidity risk. To monitor existing financial assets and liabilities, as well as to enable an effective controlling of future risks, the Group has established comprehensive risk reporting covering its business units that reflects expectations of settlement of financial assets and liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows including interest.

	< 6 months $'000	6 to 12 months $'000	1 to 5 years $'000	> 5 years $'000	Total $'000
31 December 2019					
Financial assets					
Cash and cash equivalents	8,949	-	-	-	**8,949**
Trade and other receivables	13,910	-	-	-	**13,910**
Other financial assets	-	-	1,375	-	**1,375**
	22,859	-	1,375	-	**24,234**
Financial liabilities					
Trade and other payables	(8,692)	-	-	-	**(8,692)**
Borrowings	(62,870	-	-	-	**(62,870)**
Other financial liabilities	(5,549)	-	-	-	**(5,549)**
Derivative liability (interest rate swap)	-	-	(510)	-	**(510)**
	(77,111)	-	(510)	-	**(77,621)**
Net inflow/(outflow)	**(54,252)**	**-**	**865**	**-**	**(53,387)**
	< 6 months $'000	**6 to 12 months $'000**	**1 to 5 years $'000**	**> 5 years $'000**	**Total $'000**
31 December 2018					
Financial assets					
Cash and cash equivalents	8,279	-	-	-	**8,279**
Trade and other receivables	26,403	-	-	-	**26,403**
Other financial assets	-	-	1,870	-	**1,870**
	34,682	-	1,870	-	**36,552**
Financial liabilities					
Trade and other payables	(17,138)	-	-	-	**(17,138)**
Borrowings	(1,339)	(1,339)	(79,008)	-	**(81,686)**
Current tax liabilities	(1,909)	-	-	-	**(1,909)**
Other financial liabilities	(12,971)	-	-	-	**(12,971)**
Derivative liability (foreign exchange contract)	(80)	-	-	-	**(80)**
	(33,437)	(1,339)	(79,008)	-	**(113,784)**
Net inflow/(outflow)	**1,245**	**(1,339)**	**(77,138)**	**-**	**(77,232)**

C2. Contributed equity

Ordinary shares

	2019 $'000	2018 $'000
Issued and paid-up capital		
Ordinary shares each fully paid	91,179	85,724

Movements in ordinary shares on issue

	2019 Number of shares	2019 $'000	2018 Number of shares	2018 $'000
Beginning of the financial year	118,876,222	85,724	117,368,988	83,507
Issued during the year:				
- Capital raising	271,100	472	-	-
- Performance rights vested	544,778	983	584,054	685
- Dividend reinvestment plan	2,439,024	4,000	923,180	2,633
- Outware accelerated purchase settlement	-	-	-	1,000
- Transfer from treasury shares	-	-	-	(1,884)
- Transaction costs for capital raising and share repurchase, net of tax	-	-	-	(217)
End of the financial year	**122,131,124**	**91,179**	**118,876,222**	**85,724**

C3. Reserves

	2019 $'000	2018 $'000
Share-based payments reserve	193	1,136
Foreign currency translation reserve	(533)	(552)
Fair value reserve - financial assets at FVOCI	79	70
Hedging reserve	(357)	(60)
	(618)	**593**

Share-based payments reserve

The share-based payments reserve is used to recognise the value of equity-settled share-based payment transactions provided to employees, including KMP, as part of their remuneration. Refer to note E4 for further details of these plans.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

C3. Reserves (cont.)

Other reserves

Other reserves represent the hedging reserve and fair value reserve (for equity investments at fair value through equity). The hedging reserve contains the effective portion of the hedge relationships incurred as at the reporting date. The fair value reserve of financial assets at FVOCI is used to record changes to the fair value of non-current financial asset as disclosed in note B5 to the financial statements.

C4. Interest bearing loans and borrowings

	2019 $’000	2018 $’000
Current		
Interest-bearing loan	61,929	-
	61,929	-
Non-current		
Interest-bearing loan	-	74,992
	-	74,992

Interest-bearing loans and borrowings

A description of accounting policies applicable to the Group for interest-bearing loans and borrowings can be found in the financial liabilities section under ‘Significant accounting policies’.

Fees paid on the establishment of loan facilities are included as part of the carrying amount of the loans and borrowings. Borrowings are classified as current liabilities, unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Borrowing costs are recognised as an expense when incurred in the Statement of Comprehensive Income. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Interest rate is based on the relevant period BBSY rate.

On 12 November 2019, the Group and its financiers revised the terms of the existing finance facility with ANZ Bank and National Australia Bank. The facility provides committed funding of $61,200,000 and an additional $7,500,000 of uncommitted working capital funding tranches. The facility is secured against the Group’s assets and replaced the Company’s existing debt facilities of $142,000,000. This agreement was executed on 23 December 2019. The facility is contractually due for repayment on 2 July 2021.

The Group was subject to a review event on 31 January 2020 allowing the financiers the discretion to withdraw the facilities. No action has yet been taken by the financiers in respect of the January 2020 review event. Therefore, the Group has classified the entire amount of the bank loan as current at 31 December 2019. As described in the Basis of Preparation and Going Concern section of the Financial Statements, the Company has subsequently paid down $22,108,000 of the drawn-down debt from proceeds received from the sale of the Enterprise business, and it has also received an extension on repayments of $2,500,000 due on the 31 March 2020 until 31 August 2020, and is in the process of requesting further short-term support.

C4. Interest bearing loans and borrowings (cont.)

In the absence of any additional refinancing of facilities, the Company expects to breach financial covenants during 2020, such that the financiers have the discretion to withdraw the facilities upon providing the Company 60 days’ advance written notice. Therefore, the Company requires the ongoing support of its lenders to continue to provide the existing facilities and any required additional facilities to be able to continue as a going concern.

Included in the balance of the bank loan at 31 December 2019 is a $969,000 loss on modification of the loan agreement as described in Note A2 to the financial statements.

During the year ended 31 December 2019, the Group repaid $21,292,000 of drawn-down debt.

Financing facilities available

At reporting date, the following financing facilities had been negotiated and were available:

	Total facilities		Facilities used at reporting date	
	2019 $’000	2018 $’000	2019 $’000	2018 $’000
Business lending - cash advance facility (committed)	61,200	90,000	61,075	74,992
Business lending - cash advance facility (uncommitted)	7,500	-	-	-
Business lending - bank guarantees	4,485	7,480	4,369	5,610
Standby letters of credit	1,130	2,135	1,130	1,124
Asset finance - leasing	-	10,000	-	-
Commercial cards	2,000	2,000	64	51
Uncommitted acquisition facility	-	30,000	-	-
Performance guarantees	385	385	-	-
	76,700	142,000	66,636	81,777

The face value of financial guarantees issued by the Group are presented below:

- Bank guarantees of AUD $4,369,000 have been issued in favour of various parties in accordance with the Group’s property commitments.
- The company has standby letters of credit totalling USD $770,000 (equivalent to AUD $1,130,000) in accordance with various registry licence agreements.

Changes in liabilities arising from financing activities

	2019 $’000	2018 $’000
Opening balance - 1 January	74,992	74,992
Cash flows from financing activities		
Net repayment of borrowings	(13,917)	-
Net repayment of lease liabilities	(5,961)	
Non-cash changes		
Adoption of new lease accounting standard	19,564	-
Additions to lease liabilities	5,527	-
Loss on modification to financial liability	968	-
Adjustment to interest on modification of financial liability	(114)	-
	81,059	**74,992**

C5. Other financial liabilities

	2019 $’000	2018 $’000
Current		
Contingent consideration liability	-	12,971
Financial liability	5,549	-
	5,549	**12,971**

Reconciliation of fair value measurement of other financial liabilities

	2019 $’000	2018 $’000
As at 1 January	**12,971**	**11,627**
Payment of consideration liability for InfoReady - cash	(4,000)	(5,668)
Payment of consideration liability for InfoReady - equity issue	(4,000)	-
Settlement of Outware remuneration liability	-	(2,683)
(Gain) / Loss on reassessment of consideration liability recognised in profit and loss	(98)	9,702
Interest on consideration liability for Infoready	676	-
Other	-	(7)
As at 31 December	**5,549**	**12,971**

Other financial liabilities comprise the financial liabilities in relation to acquisition of InfoReady Pty Ltd.

As part of the Share Purchase Agreement ('SPA') with the previous owners of InfoReady, three earn out payments have been agreed. The earn out payments are calculated based on the excess of the EBITDA performance during the earn out periods over the EBITDA threshold amount specified in the SPA for each of the earn out periods multiplied by three. The earn out periods start from 1 April to 31 March the following year with the final earn out period ending 31 March 2019. If the EBITDA threshold amount is not achieved during any of the earn out periods, then no contingent consideration will be payable. The maximum amount payable is dependent upon the excess of the of the EBITDA performance during the earn out period over the EBITDA threshold amount specified in the SPA for each of the earn out period multiplied by three.

As at the acquisition date, the fair value of the contingent consideration was estimated to be $9,337,000 representing the total of the three earn out amounts. Key input assumptions used in the determination of the contingent consideration include forecast EBITDA performance for the first earn out period (1 April 2016 to 31 March 2017), and revenue and EBITDA growth rates for the second and third earn out periods from the end of the first earn out period. The fair value is determined using the discounted cash flow method. The final earn-out amount of $12,872,000 was agreed between Arq Group and InfoReady vendors.

On revaluation of the financial liability based on the final earn-out amount, a gain of $98,000 was recognised in profit and loss. In March 2019, Arq Group has entered into a Deed of Variation in relation to the payment arrangement of the earn- out amount. The default payment option was enacted which resulted in an initial instalment of $1,500,000 plus a share placement representing a value of $4,000,000, followed by six monthly instalments with a final balloon payment in December with interest calculated at 14% on the third earn-out amount less $5,000,000. The issue of ordinary shares also resulted in a $109,000 dividend paid based on 4.5 cents for each ordinary share issued.

At 31 December 2019, the remaining balance of $5,549,000 remains unpaid. Arq Group and Infoready have agreed to defer the final balloon payment on completion of the sale of the Enterprise business (refer to Notes D2 and E7).

C5. Other financial liabilities (cont.)

Key judgement and estimates

The contingent consideration liability was calculated based on the excess of the EBITDA performance during the earn-out periods over the EBITDA threshold amount specified in the Sales and Purchase Agreement, relating to the acquisition of InfoReady, for each of the earn-out period multiplied by three.

C6. Derivative financial liabilities and assets

(a) Disaggregation of derivative financial liabilities

	2019 $'000	2018 $'000
Foreign exchange contracts (i)	-	(80)
Interest rate swap (ii)	(510)	-
	(510)	**(80)**

(i) Foreign exchange contracts

At 31 December 2019, the Group held no (2018: six) foreign exchange contracts designated as cash flow hedges of expected net USD cash payments for which the company has firm commitments. The terms of these foreign exchange contracts were negotiated to match the terms of the commitments. The exchange contracts were used to reduce the exposure of foreign exchange risk.

(ii) Interest rate swap

At 31 December 2019, the Group held one (2018: nil) interest rate swap contracts designated as cash flow hedges designed to hedge the variable interest rate exposure relating to the interest-bearing bank loan. The terms of the interest rate swap were negotiated to match the principal amount of the bank loan.

As at 31 December 2019, an unrealised loss of $297,000 (2018: $68,000 gain) was included in other comprehensive income in respect of these contracts. In line with the maturity date of the interest-bearing bank loan, the interest rate swap expires on 30 June 2021.

(b) Accounting policy

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risks and interest rate risks respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. For the purpose of hedge accounting, hedges are classified as:

- fair-value hedges, when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment
- cash-flow hedges, when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment
- hedges of a net investment in a foreign operation.

C6. Derivative assets/(liabilities) (cont.)

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined).

A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is ‘an economic relationship’ between the hedged item and the hedging instrument
- The effect of credit risk does not ‘dominate the value changes’ that result from that economic relationship
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

For the purposes of hedge accounting, the Group has classified the hedges applicable to the year ending 31 December 2019 as cash-flow hedges. Hedges that meet all the qualifying criteria for hedge accounting are accounted for as described in the following.

Cash-flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash-flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash-flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The Group uses forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions and firm commitments. The ineffective portion relating to foreign currency contracts is recognised as other expense.

The Group designates the entire forward contract as a hedging instrument. The amounts accumulated in OCI are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in OCI for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment for which cash flow hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss. If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

C6. Derivative assets/(liabilities) (cont.)

There is an economic relationship between the hedged items and the hedging instruments as the terms of the foreign exchange and interest rates match the terms of the hedged item (i.e., notional amount and expected payment date). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the foreign exchange and interest rates are identical to the hedged risk components. To test the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks.

The hedge ineffectiveness can arise from:

- differences in the timing of the cash flows of the hedged items and the hedging instruments
- different indexes (and accordingly different curves) linked to the hedged risk of the hedged items and hedging instruments
- the counterparties' credit risk differently impacting the fair value movements of the hedging instruments and hedged items.
- Changes to the forecasted amount of cash flows of hedged items and hedging instruments

(c) Impact of hedging on financial statement items

The impact of the hedging instrument on the statement of financial position is as follows:

Derivative	Notional amount	Carrying amount	Line item in the statement of financial position	Change in the value of the hedging instrument used for measuring hedge ineffectiveness for the period:
	$'000	$'000		$'000
Interest rate swap	22,500	510	Derivative financial instruments	297

The impact of the hedged item on the statement of financial position is as follows:

Hedged item	Carrying amount	Accumulated fair value adjustments	Line item in the statement of financial position	Change in the value of the hedged item used for measuring hedge ineffectiveness for the period:
	$'000	$'000		$'000
Fixed-rate borrowing	22,500	510	Interest-bearing loans and borrowings	297

The entire change in the value of the hedging instrument was taken to OCI. Because the terms of the hedged item and the hedging relationship continue to perfectly match, and the effect of credit risk is neither material nor dominant in the economic relationship, the hedge was highly effective during the year.

C7. Fair value measurement

The Group measures financial instruments such as derivatives at fair value at each reporting date. Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The fair-value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that the market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within their fair-value hierarchy, described as follows, based on the lowest level of input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities.
Fair value measurement hierarchy for assets as at 31 December 2019:

			Fair value measurement using		
	Date of valuation	Total $'000	Quoted prices in active markets (Level 1) $'000	Significant observable inputs (Level 2) $'000	Significant unobservable inputs (Level 3) $'000
Assets/ (liabilities) measured at fair value:					
Derivative financial instruments					
Interest rate swap[1]	31 December 2019	(510)	-	(510)	-
Financial assets					
Investment in Tiger Pistol shares[2]	31 December 2019	1,375	-	-	1,375
Other financial liabilities					
Financial liablity[3]	31 December 2019	(5,548)	-	-	(5,548)
Interest-bearing loan[4]	31 December 2019	(61,929)	-	(61,929)	-

C7. Fair value measurement (cont.)

Fair value measurement hierarchy for assets as at 31 December 2018:

			Fair value measurement using		
	Date of valuation	Total $'000	Quoted prices in active markets (Level 1) $'000	Significant observable inputs (Level 2) $'000	Significant unobservable inputs (Level 3) $'000
Assets/ (liabilities) measured at fair value:					
Derivative financial instruments					
Foreign exchange contracts[1]	31 December 2018	(80)	-	(80)	-
Interest rate swap[1]	31 December 2018	(80)	-	(80)	-
Financial assets					
Investment in Tiger Pistol shares[2]	31 December 2018	1,870	-	-	1,870
Other financial liabilities					
Financial liablity[3]	31 December 2018	(12,971)	-	-	(12,971)
Interest-bearing loan[4]	31 December 2018	(74,992)	-	(74,992)	-

1. Reflects the fair value of interest rate swaps contracts (31 December 2018: foreign exchange rate contracts), which have been designated as cash-flow hedges.
2. Reflects the fair value by reference to the most recent arms-length transaction basis of Tiger Pistol shares and subsequent Tiger Pistol's financial performance of the investee compared with budget.
3. The fair value of the financial liability (representing the Infoready earn-out) was estimated based on the excess of the EBITDA performance during the earn out periods over the EBITDA threshold amount specified in the Share Purchase Agreement (SPA) for each of the earn out period multiplied by three. The earn out periods start from 1 April to 31 March the following year until 31 March 2019. Significant unobservable inputs used in the determination of the financial liability include forecast EBITDA performance for the first earn out period (1 April 2017 to 31 March 2018) and revenue and EBITDA growth rates for the second and third earn out periods from the first earn out period. The fair value is determined using the discounted cash flow method. Refer to other details as disclosed in notes C5 to the financial statements.
4. The carrying value of the interest-bearing loan approximates its fair value.

There have been no transfers between Level 1, 2 and 3 during the period.

Section D: Group structure

D1. Controlled entities

Investments in controlled entities are initially recognised at cost, being the fair value of the consideration given. Following initial recognition, investments are measured at cost less any accumulated impairment losses.

The consolidated financial statements include the financial statements of Arq Group Limited and the subsidiaries in the following table:

Name		Country of incorporation	Equity interest %	
			2019	2018
WebCentral Group Pty Ltd	(a)	Australia	100	100
WebCentral Pty Ltd	(a)	Australia	100	100
Netregistry Group Limited	(a),(c)	Australia	100	100
Netregistry Pty Ltd	(a)	Australia	100	100
TPP Wholesale Pty Ltd	(a)	Australia	100	100
Planet Domain Pty Ltd	(a)	Australia	100	100
TPP Domains Pty Ltd	(a)	Australia	100	100
NetAlliance Pty Ltd	(a)	Australia	50	50
Ziphosting Pty Ltd	(a)	Australia	100	100
Uber Global Pty Ltd	(a)	Australia	100	100
Uber Australia E1 Pty Ltd	(a)	Australia	100	100
Uber Business Pty Ltd	(a)	Australia	100	100
Uber Enterprise Pty Ltd	(a)	Australia	100	100
ubergeek.com.au Pty Ltd	(a)	Australia	100	100
Uber Reseller Network Pty Ltd	(a)	Australia	100	100
Uber Wholesale Pty Ltd	(a)	Australia	100	100
Outware Systems Pty Ltd	(a)	Australia	100	100
InfoReady Pty Ltd	(a)	Australia	100	100
Web Marketing Experts Pty Ltd	(a)	Australia	100	100
Nothing But Web Pty Ltd	(a)	Australia	100	100
Arq Group Enterprise Pty Ltd	(a)	Australia	100	100
Arq Group Operations Pty Ltd	(a)	Australia	100	100
Arq Group Services Pty Ltd	(a)	Australia	100	100
Results First Limited	(b)	New Zealand	100	100
Domainz Ltd	(b)	New Zealand	100	100
Internet Names Worldwide (US), Inc	(b)	USA	100	100
Melbourne IT GP Holdings Pty Ltd	(a)	Australia	100	100
Names By Request Pty Ltd	(a)	Australia	100	100
Advantate Pty Ltd	(a)	Australia	100	100

(a) Investments in controlled entities are initial capital investments and are eliminated in the consolidated financial statements.

(b) Investments in foreign entities are revalued to the year-end foreign exchange spot rates.

(c) Netregistry Group Limited has a 50% ownership in NetAlliance Pty Ltd.

D2. Disposal groups held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value, less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable, and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.
Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

(a) Sale of the TPP Wholesale Reseller business

On 5 December 2018, the Board of Directors approved the sale of the TPP Wholesale reseller (TPPW) business. The TPP Wholesale reseller business together with the Telecommunications reseller business form the SMB Indirect division. SMB Indirect together with SMB Direct form the SMB segment, which is one of the two operating segments of the Group. The other operating segment is Enterprise.

The sale of the TPP Wholesale reseller business was completed on 31 July 2019. It is not classified as a discontinued operation on the basis that the TPP Wholesale reseller business represents less than 10% of the Group’s revenue and is not considered a separate major line of business.

The net gain on disposal of the TPPW business was $554,000, presented in the Statement of Comprehensive Income.

The major classes of assets and liabilities of the TPP Wholesale Reseller business disposed as at 31 July 2019 are as follows:

	$’000
Prepayments of domain name registry charges	6,616
Intangible assets	24,121
Total assets disposed	**30,737**
Trade and other payables	(387)
Income received in advance	(10,378)
Liabilities directly associated with assets disposed	**(10,765)**
Net assets disposed	**19,972**

The remaining balance of intangible assets disposed relates to a brand-related intangible of $395,000 representing the value of the TPP Wholesale Reseller brand.

D2. Disposal groups held for sale and discontinued operations (cont.)

(b) Disposal group held for sale – Enterprise

On 24 September 2019, the Board of Directors initiated a Strategic Review of the Group's business. Due diligence advisers were appointed by the Group to investigate the potential sale of each of the SMB and Enterprise divisions.

The sale of the Enterprise business is considered highly probable at 31 December 2019 given the sufficiently advanced progress of the Strategic Review as at that date. Therefore, at 31 December 2019, the Enterprise segment was classified as a disposal group held for sale. Due to the significance of the operations, and financial contribution, of the Enterprise business to the Group, the Enterprise segment has also been presented as a discontinued operation.

Whilst the potential sale of the SMB business is being investigated as part of the continuing Strategic Review, the sale of the SMB business is not considered highly probable at 31 December 2019.

The associated net assets for the Enterprise disposal group has been revalued to its fair value less costs of disposal in accordance with accounting standards, resulting in the recognition of a revaluation loss of $81,258,000, which has been applied against the carrying value of goodwill allocated to the Enterprise business. The fair value has been calculated based on information available to the Group as at 31 December 2019, comprising: the indicative transaction price for the sale of the Enterprise disposal group, being $35,000,000, less transaction costs and adjustment for the Group's working capital estimate on completion date as agreed with the buyer.

The total fair value less costs of disposal is $22,743,000. This is classified as Level 3 under the fair value hierarchy due to the availability of an agreed transaction price between the purchaser and the Group, adjusted for working capital adjustments and transaction costs that are not observable.

Financial information relating to the discontinued operation is set out below at 31 December 2019:

	2019 $'000
Trade and other receivables	9,175
Prepayments	440
Other assets (accrued revenue)	4,190
Total Current Assets	**13,805**
Property, plant and equipment	492
Intangible assets	23,359
Deferred tax asset	1,018
Total Non-Current Assets	**24,869**
Total Assets Held for Sale	**38,674**
Trade and Other Payables	(10,904)
Income received in advance	(2,239)
Provisions	(2,180)
Total Current Liabilities	**(15,323)**
Provisions	(608)
Total Non-Current Liabilities	**(608)**
Total Liabilities directly associated with assets held for sale	**(15,931)**
Net assets directly associated with the disposal group	**22,743**

D2. Disposal groups held for sale and discontinued operations (cont.)

As at 31 December 2019, the net assets related to the disposal group identified in the previous page represents the Group's best estimate of the fair value of the disposal group at 31 December 2019.

The results of the discontinued operations during the year is presented below:

	2019 $'000	2018 $'000
Revenue from contracts with customers	86,167	112,918
Cost of sales	(51,822)	(58,414)
Gross profit	**34,345**	**54,504**
Other operating expenses	(33,083)	(33,441)
Loss on revaluation of disposal group net assets to fair value	(81,258)	-
(Loss) / earnings before interest, tax, depreciation and amortisation	**(79,996)**	**21,063**
Depreciation and amortisation expense	(4,742)	(2,328)
Interest expense	(304)	-
(Loss) / profit before tax from discontinued operations	**(85,042)**	**18,735**
Tax expense	(230)	(5,634)
(Loss) / profit for the year from discontinued operations	**(85,272)**	**13,101**

Included in the above amounts disclosed in Other Operating Expenses are allocations of shared services costs between continuing and discontinued operations during the current and prior financial years. These costs will continue to be incurred by the continuing operations until such time the cost base can be restructured.

The net cash flows from the discontinued operations are as follows:

	2019 $'000	2018 $'000
Net cash inflows from operating activities	9,166	27,228
Net cash outflows from investing activities	(450)	(1,465)
Net cash inflows	**8,716**	**25,763**

(1) No amounts of interest and income tax were allocated to the discontinued cash flows as these are attributed to the continuing operations.

The transaction to sell the Enterprise business was announced to the market on 11 February 2020 and was completed on 2 March 2020. Refer to Note E7 for further details.

Section E: Other information

E1. Cash Flow Statement information

Continuing and discontinued operations[1]	2019 $'000	2018 $'000
Reconciliation of the operating profit after tax to the net cash flow from operations:		
Loss for the year	(131,223)	(2,326)
Depreciation of non-current assets	9,774	4,916
Amortisation of non-current assets	5,505	10,791
Loss on revaluation of disposal group held for sale to fair value	81,258	-
Impairment of goodwill	41,123	-
(Credit writeback) / expense of share-based payments	(471)	490
Transaction costs	2,016	-
Derecognition of deferred tax asset	2,666	-
Infoready contingent consideration	577	9,702
Gain on disposal of TPP Wholesale Reseller business	(554)	-
Unwinding of discount on other financial liabilities	55	93
Deferred rent and incentives	-	196
Other income	(125)	-
Other expenses	24	-
Changes in assets and liabilities		
Decrease/(Increase) in trade debtors	3,318	(1,158)
Decrease in prepayments	1,538	1,142
Increase in current tax receivables / liabilities	(2,267)	(936)
Increase in provisions	639	(334)
Increase in deferred tax asset	1,577	1,035
Decrease in deferred tax liability	(3,931)	(2,122)
Increase/(decrease) in accounts payable	2,458	(2,561)
Decrease in income received in advance	(2,359)	(2,423)
(Increase)/decrease in other assets	(326)	1,762
Net cash flow from operating activities	**11,272**	**18,267**

(1) Included in net cash flow from operating activities are $9,166,000 (31 December 2018: $27,228,000) of net operating cash inflows related to discontinued operations. Refer to Note D2 for further information.

Reconciliation of cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash-at-bank and on-hand, and short-term deposits with an original maturity of three months or less.

For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise the following:

	2019 $'000	2018 $'000
Cash and cash equivalents on hand	8,949	8,279
Closing cash and cash equivalents balances	**8,949**	**8,279**

E2. Related party disclosures

Ultimate parent

The ultimate Australian parent entity in the wholly owned Group is Arq Group Limited. During the year various intercompany transactions were undertaken between companies in the wholly owned Group. These transactions were undertaken on a net-margin basis. The effects of these transactions are fully eliminated on consolidation. All intercompany balances, payable and receivable, are on an arm's length basis with standard terms and conditions.

Other related party transactions

Mr Tristan Sternson, the Group's Interim CEO (until 11 February 2020), was one of the previous owners of Infoready Pty Ltd (Infoready) before its acquisition by the Group. As part of the Share Purchase Agreement (SPA) with the previous owners of Infoready, three earn-out payments have been agreed. For further details, please refer to section 3(d) in the Remuneration Report and note C5 in the financial statements.

The Enterprise business was sold on 2 March 2020 to a consortium of buyers, of which Mr Tristan Sternson has a direct interest in.

There were no other transactions with related parties during the year ended 31 December 2019, or 2018, other than detailed within the annual report.

E3. Key management personnel (KMP) disclosures

For the purposes of this report, the KMP as at 31 December 2019 are:

- **Tristan Sternson** – Interim Chief Executive Officer (from 24 September 2019 until 11 February 2020);
- **Fraser Bearsley** – Chief Financial Officer (until 23 March 2020); and
- **Brett Fenton** – Managing Director, Mass and Middle Market (Chief Technology Officer until 8 July 2019, Interim Chief Executive Officer from 11 February 2020).

During the year ended 31 December 2019, the following personnel were also considered to be KMP:

- **Martin Mercer** – Chief Executive Officer (until 24 September 2019);
- **Peter Wright** – Managing Director, Enterprise (until 8 July 2019)
- **Emma Hunt** – Managing Director, SMB (until 8 July 2019)
- **Amy Rixon** – Chief Brand, People & Culture Officer (until 24 January 2019)

Remuneration of KMP

	2019 $'000	2018 $'000
Compensation of key management personnel		
Short-term benefits	2,353	2,589
Post-employment benefits	177	200
Termination payments	1,099	-
Long-term benefits	86	32
Share-based payments	(495)	483
	3,220	**3,304**

E3. Key management personnel (KMP) disclosures (cont.)

Other transactions and balances with key management personnel

Sales to KMP are made at arm's length at normal market prices, on normal commercial terms and are negligible.

E4. Performance rights

Executive LTI Plan

The Arq Group Long-Term Incentive Plan (LTI Plan) has been established where the Managing Director and selected employees of the company are issued with performance rights (zero-priced), over the ordinary shares in Arq Group Limited. The performance rights, issued for nil consideration, are subject to the terms of the LTI plan. The performance rights cannot be transferred and will not be quoted on the ASX. The Managing Director and some selected employees of the group, or any of its related body corporate, are eligible to participate in the LTI Plan.

Each performance right is to subscribe for one fully paid ordinary share. When issued, the ordinary share will rank equally with other ordinary shares. The performance rights are not transferrable except to the legal personal representative of a deceased or legally incapacitated option holder.

Performance rights issued under the LTI Plan for 2015-2017 have two performance conditions: 50% of the performance rights will vest based on the increase in Underlying Earnings Per Share (EPS) as reported in the annual financial report and 50% will vest based on relative Total Shareholder Return (TSR) in comparison to a peer group from the S&P/ ASX Small Ordinaries Index. The performance rights relating to the 31 December 2015 financial year vested in the financial year ended 31 December 2017 and ordinary shares were issued on 28 March 2018.

Performance rights issued under the LTI Plan for 2018 has one performance condition being 100% will vest based on TSR in comparison to a peer group from the S&P/ ASX Small Ordinaries Index.

There were no performance rights issued for 2019.

Performance rights vest on a sliding scale so that the amount of performance rights vesting to the individual depends on the performance level achieved. The performance period is measured over the 36-month period from 1 January of the respective grant year. The vesting date is the date on which the Board determines the extent to which the performance conditions are satisfied and the performance rights vest, which occurs in March following the performance period. The performance rights will be settled in the equivalent number of ordinary shares of Arq Group Limited.

The fair value was determined by an external valuer using a Monte Carlo Simulation Model. In valuing equity-settled transactions, no account was taken of any performance conditions other than conditions linked to the price of the shares of Arq Group Limited (market conditions).

The cost of equity-settled transactions will be recognised together with a corresponding increase in equity over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees became fully entitled to the award (vesting date).

E4. Performance rights (cont.)

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflected: (i) the extent to which the vesting period had expired and (ii) the number of awards that, in the opinion of the directors of Arq Group Limited, would ultimately vest. This opinion was formed based on the best available information at the reporting date.

No expense was recognised for awards that do not ultimately vest, except for awards where vesting was conditional upon a market condition. Where the terms of an equity-settled award were modified, as a minimum an expense, was recognised as if the terms had not been modified. In addition, an expense was recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

The dilutive effect, if any, of outstanding performance rights was reflected as additional share dilution in the computation of earnings per share.

The Board has adopted certain policies concerning the terms of the performance rights to be granted under the LTI Plan. The Board has the absolute discretion to change these policies at any time, although any change in its policies will have an effect only on performance rights that are issued at or after the time of the change.

There were no performance rights granted during the year ended 31 December 2019.

Performance rights relating to the year ended 31 December 2018 financial year (hereafter referred to as 2018 Grant) were issued on 28 May 2018 in respect to the performance rights granted to the Chief Executive Officer (CEO) and other eligible employees. The 2018 Grant and the performance rights granted to the CEO were approved by shareholders in the Annual General Meeting on 28 May 2018.

The expected volatility reflects the assumptions that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

Executive STI plan

Under the Executive Short-Term Incentive Plan (STI Plan) introduced in 2018 and continuing for 2019, a portion of the STI is deferred to performance rights. The number of performance rights granted is calculated by dividing the value of deferred STI by an allocation price. The allocation price in respect of the performance rights is calculated as the volume weighted average price of the Group’s shares over the 20 trading days immediately preceding the commencement of the performance period. The performance rights vest in two equal tranches and are subject to a two- and three-year service period.

For the years ended 31 December 2019 and 31 December 2018, except for the Interim CEO (until 11 February 2020), there was no expense recognised for the deferred STI as the gateway annual KPI was not achieved.

For the Interim CEO’s STI, his STI is payable upon either the completion of the sale of the Enterprise business, or satisfaction of annual KPIs. Since the sale of Enterprise was highly probable at 31 December 2019, the full amount of his STI payable was expensed during the year ended 31 December 2019.

During the year ended 31 December 2019, the Board approved retention bonus arrangements for certain KMPs to ensure continuity of business as a result of the ongoing Strategic Review and any other changes to the business. Details of these retention bonuses are outlined in the Remuneration Report.

E4. Performance rights (cont.)

(a) Rights held at the beginning of the reporting period

There were 1,185,503 rights held as at 1 January 2019 in relation to 2017, 2016 and 2015 LTI Plan.
As at 1 January 2019, no performance rights were exercisable as the vesting date for performance rights under the 2016 LTI Plan vested on 28 March 2019.

(b) Movement of rights during the reporting period

The following table summarises the movement in performance rights issued during the year:

	2019 Number	2018 Number
Outstanding at the beginning of the year	1,185,303	1,473,982
Granted during the year	-	295,375
Vested during the year	(271,100)	(584,054)
Lapsed/forfeited during the year	(745,047)	-
Outstanding at year end	**169,156**	**1,185,303**

(c) Rights vested during the reporting period

During the year ended 31 December 2019, 271,100 rights were vested (2018: 584,054 rights).

(d) Rights forfeited during the reporting period

745,047 rights lapsed or were forfeited (2018: Nil) with a weighted average exercise price of Nil (2018: Nil) by employees during the year.

(e) Rights held at the end of the reporting period

The following table summarises information about performance rights held by Directors and employees as at 31 December 2019:

LTI Plan	Number of rights	Grant date	Vesting date	Expiry date	Weighted average exercise price
2017 LTI Plan[1]	106,806	29/05/17	31/03/20	31/03/20	-
2018 LTI Plan[2]	62,350	30/05/18	31/03/21	31/03/21	-
	169,156				

1. The 2017 LTI Plan includes rights granted of 539,398, less rights forfeited of 432,592
2. The 2018 LTI Plan includes rights granted of 295,375, less rights forfeited of 233,025

(f) Pricing model: LTI grants

The fair values of the equity-settled share-based payments granted under the 2016, 2017 and 2018 LTI grants are estimated as at the date of grant using an adjusted forma combination of the Black-Scholes Option Pricing Model (BSM) that includes, a Monte Carlo Simulation Model to value the TSR Rights. For market-based conditions, the Monte Carlo Model simulation methodology has been modified to incorporate an estimate of the probability of achieving the TSR hurdle and the number of associated rights. For non-market-based vesting conditions, the BSM has been utilised to value the EPS growth rights approach.

E4. Performance rights (cont.)

The following table lists the inputs to the models used for the LTI Grants:

	2018 LTI grant	2017 LTI grant	2016 LTI grant
Share price	$3.35	$2.58	$1.77
Dividend yield	3.5%	4.5%	2.7%
Expected volatility	30.0%	30.0%	31.0%
Risk-free interest rate	2.00%	1.66%	1.6%

The dividend yield is based on historical and future yield estimates. The expected volatility was determined using the group's average three-year share price. The risk-free rate is derived from the yield on Australian Government Bonds of an appropriate term. The weighted average fair value of the performance rights granted during the year was nil as no rights were granted during the year (2018: $1.12).

Key judgement and estimates

The fair value is determined by an external valuer using a binomial model and/or Monte Carlo simulation model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Arq Group Limited.

E5. Auditors' remuneration

	2019 $	2018 $
Amounts received or due and receivable by the auditors of Arq Group Limited (Ernst & Young) for:		
Audit or review of the statutory financial report of Arq Group Limited and its controlled subsidiaries	522,000	429,000
Assurance services required by legislation to be provided by the auditors of Arq Group Limited	-	-
Other assurance and agreed-upon procedures services under other legislation or contractual arrangements	-	-
Other services in relation to Arq Group Limited and its controlled subsidiaries:		
- Taxation compliance and due diligence services	28,709	121,310
- Debt refinancing advisory	-	24,767
- Digital advisory and implementation	129,986	-
	680,695	**575,077**

E6. Contingent assets and liabilities

The Group is not aware of the existence of any contingent assets at balance date.

The Group is subject to claims from time to time in the ordinary course of business. There are currently no claims of individual significance against the Group.

E7. Events subsequent to reporting date

COVID-19 coronavirus outbreak

Subsequent to the end of the financial year, the COVID-19 coronavirus outbreak was declared a pandemic by the World Health Organisation on 11 March 2020.

The Group has not seen a significant impact on its business to date. The outbreak and the response of governments in dealing with the pandemic is interfering with general activity levels within the community, the economy and the operations of the Group's business. The scale and duration of these developments remain uncertain as at the date of this report however they will likely have an impact on the Group's earnings, cash flows and financial condition.

It is not possible to estimate the impact of the outbreak's near-term and longer effects or governments' varying efforts to combat the outbreak and support businesses. This being the case, the Group does not consider it practicable to provide a quantitative or qualitative estimate of the potential impact of this outbreak on the Group at this time. The Group notes that the value of certain assets and liabilities recorded in the Statement of Financial Position determined by reference to fair or market values at 31 December 2019 may have materially changed by the date of this report. These include the recoverable amount of intangible assets and the valuation of financial assets.

The financial statements have been prepared based upon conditions existing at 31 December 2019 and, considering those events occurring subsequent to that date, that provide evidence of conditions that existed at the end of the reporting period. As the outbreak of the COVID-19 coronavirus occurred after 31 December 2019, its impact is considered an event that is indicative of conditions that arose after the reporting period and, accordingly, no adjustments have been made to financial statements as at 31 December 2019 for the impacts of the COVID-19 coronavirus.

Other subsequent events

On 11 February 2020, the Group entered into a binding sale agreement with a consortium consisting of Quadrant Private Equity and members of management for the sale of the Enterprise business for $35,000,000 in cash consideration, less transaction costs and working capital adjustments. The transaction was completed on 2 March 2020.

The consideration was used to partially settle the Group's existing debt (and the balance of the Infoready earn-out settlement (refer to Note C5), with the remainder to fund the Group's working capital requirements. Refer to Note D2 for the discontinued operation relating to, and assets and liabilities associated with, the Enterprise business that has been presented as a disposal group held for sale.

On 23 March 2020, Mr Fraser Bearsley (Chief Financial Officer's) employment with the Group ceased. Mr Brendan White was appointed as Interim Chief Financial Officer from that date.

Other than the above, there has not been any other matter or circumstance in the interval between the end of the year and the date of this report that has materially affected or may materially affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial periods.

E8. Information relating to Arq Group Limited (the Parent Entity)

	2019 $'000	2018 $'000
Current assets	11,879	6,108
Total assets	186,487	263,082
Current liabilities	175,517	84,061
Total liabilities	195,604	171,308
Contributed equity	91,179	85,724
Share-based payments reserve	1,067	2,003
Other reserves	(278)	9
Retained earnings	(101,085)	4,038
	(9,117)	**91,774**
Loss of the parent entity	(99,463)	(9,918)
Total comprehensive loss of the parent entity	(99,731)	(9,766)

Included in the loss of the parent entity result for 31 December 2019 is an impairment charge of $92,283,000 against the carrying value of the parent entity's investments in its subsidiaries, following the sale of the Enterprise business as well as the impairment charge against the SMB CGU (refer to Note B5 for further details). This impairment charge has no impact on the Group's results as the carrying value of its investments in subsidiaries are eliminated on consolidation.

E9. Closed group class order disclosures

Entities subject to class order relief

Pursuant to Class Order 98/1418, Arq Group Limited, WebCentral Group Pty Ltd, WebCentral Pty Ltd, Netregistry Group Limited and its controlled entities, Uber Global Pty Ltd and its controlled entities, InfoReady Pty Ltd, Outware Systems Pty Ltd, Web Marketing Experts Pty Ltd and Nothing But Web Pty Ltd have entered into a Deed of Cross Guarantee. The effect of the deed is that Arq Group Limited has guaranteed to pay any deficiency in the event of winding up of any controlled entity, or if they do not meet their obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. The controlled entities have also given a similar guarantee in the event that Arq Group Limited is wound up, or if it does not meet its obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. These entities form the Closed Group and are relieved from the *Corporations Act (2001)* requirements for the preparation, audit and lodgement of their financial reports.

During the year ended 31 December 2019, entities related to the WME Group (being Web Marketing Experts Pty Ltd and Nothing But Web Pty Ltd) entered into the Closed Group.

E9. Closed group class order disclosures (cont.)

The consolidated statement of comprehensive income of the entities that are members of the Closed Group are as follows:

	Closed Group	
	2019	**2018**
	$'000	**$'000**
Consolidated statement of comprehensive income		
Continuing operations		
Revenue from contracts with customers	80,959	79,436
Cost of sales	(27,209)	(30,072)
Gross profit	**53,750**	**49,364**
Other income	1,277	53
Gain/(loss) on reassessment of contingent consideration liability	98	(9,702)
Salaries and employee benefits expenses	(30,392)	(29,810)
Depreciation expenses	(7,026)	(4,286)
Amortisation of intangible assets	(3,511)	(7,737)
Other expenses	(12,458)	(14,597)
Finance costs	(5,804)	(4,425)
Transaction costs	(2,259)	(892)
Restructuring costs	(365)	-
Impairment of goodwill	(41,123)	-
Gain on disposal of assets	554	-
Loss before tax	**(47,259)**	**(22,032)**
Income tax expense	(238)	3,690
Net profit for the period	**(47,497)**	**(18,342)**
Loss from discontinued operation, net of tax	(85,272)	13,101
Net profit for the year	**(132,769)**	**(5,241)**
Retained earnings at the beginning of the period	73,252	96,942
Transfers into closed group	1,225	-
Adjustments on adoption of new accounting standards	911	(5,455)
Dividends provided for or paid	(5,466)	(12,994)
Retained earnings at the end of the period	**(62,847)**	**73,252**

E9. Closed group class order disclosures (cont.)

The consolidated statement of financial position of the entities that are members of the Closed Group are as follows:

	Closed Group	
	2019	**2018**
	$'000	**$'000**
ASSETS		
Current assets		
Cash and cash equivalents	8,663	7,731
Trade and other receivables	9,572	24,947
Prepayment of domain name registry charges	7,302	6,778
Lease receivable	2,064	-
Current tax receivables	942	-
Other assets	2,924	6,485
Assets held for sale	38,674	32,698
Total current assets	**70,141**	**78,639**
Non-current assets		
Investment in subsidiaries	-	40,502
Plant and equipment	8,198	13,693
Right-of-use asset	16,554	-
Intangible assets	77,804	188,269
Deferred tax assets	7,310	6,334
Lease receivable	1,830	-
Prepayment of domain name registry charges	678	2,220
Non-current financial assets	1,375	1,870
Other assets	561	596
Total non-current assets	**114,310**	**253,484**
TOTAL ASSETS	**184,451**	**332,123**
LIABILITIES		
Current liabilities		
Trade and other payables	8,688	16,521
Interest-bearing loans and borrowings	61,929	-
Provisions	1,585	3,233
Current tax liabilities	-	765
Derivative financial instruments	510	80
Other financial liabilities	5,549	12,971
Income received in advance	21,091	26,511
Current lease liabilities	6,160	-
Liabilities directly associated with assets held for sale	15,931	11,292
Total current liabilities	**121,443**	**71,373**
Non-current liabilities		
Interest-bearing loans and borrowings	-	65,992
Intercompany	-	831
Deferred tax liability	7,549	6,629
Provisions	3,187	801
Income received in advance	11,237	12,115
Other financial liabilities	-	6,593
Other liabilities	-	728
Non-current lease liabilities	12,972	-
Total non-current liabilities	**34,945**	**93,689**
TOTAL LIABILITIES	**156,388**	**165,062**
NET ASSETS	**28,063**	**167,061**
EQUITY		
Contributed equity	91,178	81,066
Treasury shares	-	(1,884)
Foreign currency translation reserve	(309)	-
Share-based payments reserve	193	2,331
Other reserves	(278)	(518)
Non-controlling interest	126	100
Retained earnings	(62,847)	90,578
TOTAL EQUITY	**28,063**	**171,673**

E10. New accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

(i) New and amended accounting standards adopted

The Group has adopted the following new and amended Australian Accounting Standards as of 1 January 2019.

- AASB 16: *Leases*
- 2018-1 Amendments to Australian Accounting Standards: *Annual Improvements 2015-2017 Cycle*
- AASB Interpretation 23: *Uncertainty over Income Tax Treatments*

The nature and effect of the adoption of AASB 16 is disclosed in note B5 to the financial statements.

The adoption of other standards/improvements had no material impact on the financial position or performance of the Group.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

(ii) Accounting standards and interpretations issued but not yet effective

Australian Accounting Standards that have recently been issued or amended but which are not yet effective and have not been adopted by the Group for the annual reporting period ended 31 December 2019 are outlined below:

AASB 2018-6 Amendments to Australian Accounting Standards: Definition of a Business

The Standard amends the definition of a business in AASB 3: *Business Combinations*. The amendments clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.

<u>Group's assessment performed to date</u>

The Group notes that it is not required to revisit business combinations that occurred in prior periods to determine whether these satisfy the new definition of a business. Accordingly, the Group does not believe that its impact will be material. The Group will first apply the revised definition of a business in AASB 3 on 1 January 2020.

Amendments to the Conceptual Framework for Financial Reporting

The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. AASB 2019-1 has also been issued, which sets out the amendments to other pronouncements for references to the revised Conceptual Framework. The changes to the Conceptual Framework may affect the application of accounting standards in situations where no standard applies to a particular transaction or event.

E10. New accounting policies (cont.)

Group’s assessment performed to date

The Group is currently assessing the impact of this amendment. However, the Group will apply the revised Conceptual Framework beginning 1 January 2020.

AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material

This Standard amends AASB 101 Presentation of Financial Statements and AAS 108 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of ‘material’ across the standards and to clarify certain aspects of the definition. The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

Group’s assessment performed to date

The Group is currently assessing the impact of this amendment. However, the Group will apply this amendment beginning 1 January 2020.

AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material

This Standard amends AASB 1054 by adding a disclosure requirement for an entity intending to comply with IFRS Standards to disclose the information specified in paragraphs 30 and 31 of AASB 108 on the potential effect of an IFRS Standard that has not yet been issued by the AASB so that such entity complying with Australian Accounting Standards can assert compliance with IFRS Standards.

Group’s assessment performed to date

The Group does not expect the impact on adoption of this amendment will be material. The Group will apply this amendment beginning 1 January 2020.

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Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

Auditor's Independence Declaration to the Directors of Arq Group Limited

As lead auditor for the audit of the financial report of Arq Group Limited for the financial year ended 31 December 2019, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

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

This declaration is in respect of Arq Group Limited and the entities it controlled during the financial year.

Ernst & Young

Ernst & Young

David Petersen
Partner
30 March 2020

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

Independent Auditor's Report to the Members of Arq Group Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Arq Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance for the year ended on that date; and

b) 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 auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Emphasis of Matter

Material Uncertainty Related to Going Concern

We draw attention to the Going Concern disclosure on page 51 which outlines the conditions which give rise to a material uncertainty regarding going concern, in particular the Group's reliance on the ongoing support of its financiers as well as the potential for future impacts on cashflows and strategic review actions arising from the COVID-19 coronavirus. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the entity not continue as a going concern. Our opinion is not modified in respect of this matter.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

Assets disposed and discontinued operations

Why significant	How our audit addressed the key audit matter
In September 2019, the Board of Directors initiated a Strategic Review of the Group, which included commencing processes to sell either one or both the SMB and Enterprise Services ("ES") businesses. As at 31 December 2019, the SMB sale process had not reached a state of being highly probable however, the ES sale process had progressed sufficiently to meet the requirements under AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*. This resulted in the fair value of the ES net assets being classified as held for sale and the results of ES being presented as a discontinued operation. As a result, the Group has recognised a revaluation loss of $81.3m on the net assets of ES. This has been outlined in Note D2 to the financial statements. We considered this a key audit matter as ES being a separate CGU and segment, is a material component of the Group. In addition, management is required to make judgements in applying AASB 5, particularly in determining whether the disposal is highly probable as at 31 December 2019 and further judgements and estimates were required in determining the fair value of net assets.	As part of our audit response we performed the following procedures: ▸ Assessed the accounting treatment of SMB and ES businesses against the requirements of AASB 5. We considered whether the ongoing sales process at year end met the 'highly probable' threshold; ▸ Agreed the carrying amount of assets and liabilities included in the ES disposal group to underlying accounting records; ▸ Assessed the fair value of the ES disposal group net assets by reference to the expected sale price less costs to sell; ▸ Checked the mathematical accuracy of the revaluation loss on the net assets of ES; ▸ Agreed the costs of disposal to underlying support; ▸ Agreed amounts presented as discontinued operations to accounting records for the ES business; ▸ Checked the mathematical accuracy of the net loss attributable to discontinued operations; and ▸ Assessed the adequacy of the disclosures in the Financial Statements.

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Recoverable value of goodwill and other intangibles assets

Why significant	How our audit addressed the key audit matter
At 31 December 2019 the Group's goodwill and other intangible assets balance is $77.8 million which represents 41% of total assets. The Group performs an impairment test of its goodwill and indefinite-lived intangible assets on at least an annual basis. Before estimating the recoverable amount of the assets, the Group first identifies cash generating units ('CGUs') and then allocates the goodwill and intangible assets to the identified CGUs. As outlined in Note B5 to the financial statements, the remaining balance of goodwill and indefinite-lived intangible assets have been allocated to the SMB CGU. The determination of recoverable amount, being the higher of value-in-use and fair value less costs to dispose, was considered a key audit matter as the assessment process requires judgement in valuing the SMB CGU. In performing the impairment assessment, the Group has determined the recoverable amount of the SMB CGU based on the fair value less cost to dispose which has been derived from indicative transaction prices from potential acquirers. As a result of this assessment, the Group has recorded an impairment charge of $41.1m. The Group has disclosed that the impacts of the COVID-19 virus post balance date may materially impact the recoverable amount however as this is considered a post balance date event no adjustment is reflected in the financial statements.	We assessed the appropriateness of the identification of the CGU and the allocation of assets. Involving our valuation specialists, we assessed the reasonableness of the fair value less cost of disposal in line with AASB 136 *Impairment of Assets*. In doing so, we: ▸ Tested the mathematical accuracy of the impairment calculation; ▸ Assessed the reasonableness of the fair value against evidence of indicative pricing from potential acquirers; ▸ Agreed the estimated costs of disposal to underlying support. ▸ Considered recent market transactions of comparable businesses as a valuation cross check to the Group's determination of recoverable amount; and We further assessed the adequacy of the Group's disclosures in Note B5 to the financial statements including the disclosure regarding potential impact of COVID-19 virus as a post balance date event.

Revenue recognition

Why significant	How our audit addressed the key audit matter
The Group offers many services to its customers that require different revenue recognition accounting policies based on the satisfaction of performance obligations as outlined in Note A1 to the financial statements. Revenue recognition was assessed as a key audit matter due to the judgments involved in determining appropriate revenue recognition for these various services. A significant trade receivable of $10.01m recorded at balance date is currently subject to dispute by the relevant customer. The Group is confident that the receivable will be fully recovered based on external legal advice.	Our audit procedures included considering the appropriateness of the Group's revenue recognition accounting policies in accordance with AASB 15 Revenue from Customer Contracts as well as the judgments applied in determining the period of which revenue is recognised for different services. We assessed the design and operating effectiveness of the Group's controls, including automated controls, over the recognition of transactions, the deferred revenue and related cost of sales calculations. We performed sample testing of transactions to determine that revenue was being recognised in accordance with revenue recognition policies. In relation to receivable balance subject to dispute, we considered amounts recognised for consistency with the Group's interpretation of the contractual provisions. We also considered management's rationale for recording revenue as well as the legal advice supporting their position.

Information Other than the Financial Statements and Auditor's Report

The directors are responsible for the other information. The other information comprises the information included in the Group's 2019 Annual Report other than the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and or related assurance opinion.

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 Group's ability to continue as a going concern, disclosing, as applicable, matters relating 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 have 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.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 25 to 44 of the Directors' Report for the year ended 31 December 2019.

In our opinion, the Remuneration Report of Arq Group Limited for the year ended 31 December 2019, 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.

Ernst & Young

Ernst & Young

David Petersen
Partner
Melbourne
30 March 2020

ASX Additional Information

Additional information required by the Australian Securities Exchange (ASX) Listing Rules and not shown elsewhere in this report is as follows. The following information was current as at 23 March 2020.

Distribution schedule of equity security holders

Full details of the directors' experience, expertise and directorships can be found on the Arq Group website at www.arq.group/investor-centre-home and this Annual Report.

The distribution schedule of the number of holders in each class of equity securities are as follows:

Range	Ordinary Share Holders	Performance Rights Holders
100,001 and over	100	1
10,001 to 100,000	1,053	2
5,001 to 10,000	876	-
1,001 to 5,000	2,443	-
1 to 1,000	1,879	-
Total number of equity security holders	6,351	3

As at the close of trading on 23 March 2020, the company's share price was 6.8 cents. Based on this closing price, there were 4,795 shareholders holding less than a marketable parcel of 7,353 ordinary shares.

Twenty largest shareholders

The names of the twenty largest holders of quoted equity securities, and the number of equity securities and percentage of capital each holds, are listed below:

Rank	Name of Registered Security Holder	Number of Ordinary Shares held	Percentage of Issued Ordinary Shares
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	31,132,004	25.49
2	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	12,202,056	9.99
3	CORPSAND PTY LTD <THE IMPULSE A/C>	5,558,363	4.55
4	CITICORP NOMINEES PTY LIMITED	4,203,085	3.44
5	MR NIKOLA SORMAZ	1,401,139	1.15
6	KTAP PTY LTD	1,328,807	1.09
7	SEAN FARMER GROUP PTY LTD	1,105,745	0.91
8	MR JUSTIN PARCELL <CELITO PROPERTY A/C>	996,999	0.82
9	MERSEY CORPORATION PTY LTD <MERSEY PROPERTY A/C>	945,780	0.77
10	MR GARETH JOHN RATCLIFFE	830,155	0.68
11	NEWECONOMY COM AU NOMINEES PTY LIMITED <900 ACCOUNT>	617,878	0.51
12	MOUNT IDA HOLDINGS PTY LTD <STEWART SUPER FUND A/C>	604,045	0.49
13	NATIONAL NOMINEES LIMITED <DB A/C>	557,290	0.46

Rank	Name of Registered Security Holder	Number of Ordinary Shares held	Percentage of Issued Ordinary Shares
14	NATIONAL NOMINEES LIMITED	545,539	0.45
15	CORPSAND PTY LTD <THE IMPULSE A/C>	500,000	0.41
16	MR XUAN JU	483,056	0.40
17	PACIFIC CUSTODIANS PTY LIMITED <MELBOURNE IT PLANS CTRL A/C>	454,835	0.37
18	RATCLIFFE SMSF PTY LTD <RATCLIFFE SUPERFUND A/C>	452,112	0.37
19	YORK INVESTMENTS LIMITED	407,236	0.33
20	MR PING WANG + MS LONG MEI SONG	400,000	0.33
Sub-Total		64,726,124	53.00
Balance of register		57,405,000	47.00
Total		**122,131,124**	**100.00**

Unquoted equity securities

As at 23 March 2020, there were 137,730 unlisted performance rights over unissued ordinary shares in the company, granted to two holders.

Voting rights

The voting rights attaching to each class of equity securities are as follows:

(a) **Ordinary shares** - All ordinary shares carry one vote per share without restriction.

(b) **Performance rights** - Performance rights do not carry any voting rights.

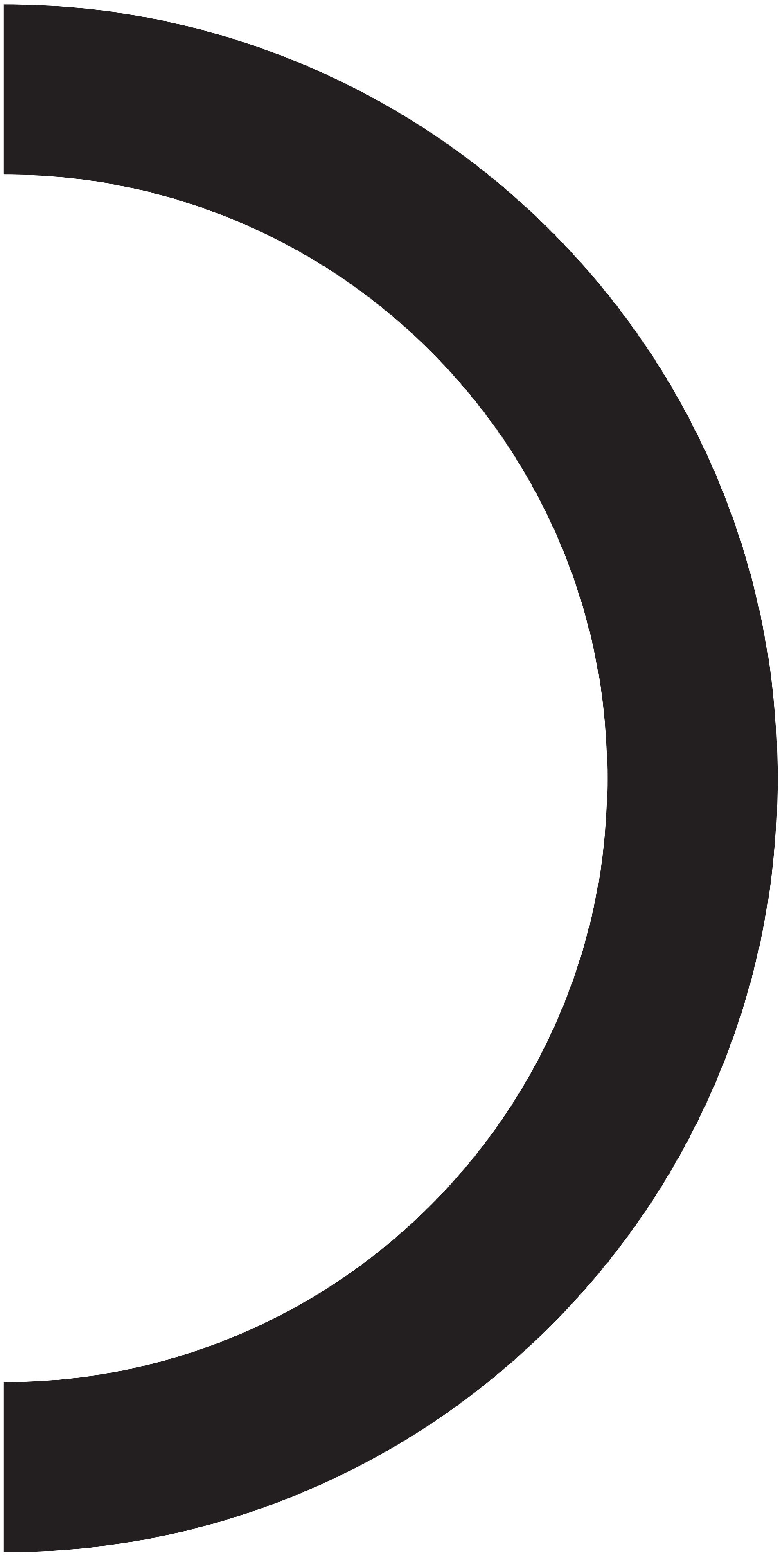
Substantial holders

The names of substantial holders in the company and the number of securities to which each substantial holder and their associates have a relevant interest are listed below. The following information is extracted from the substantial holder notices received by the company as at 23 March 2020:

Name	Number of Ordinary Shares held	Percentage of Issued Ordinary Shares
Cadence Asset Management Entities	21,220,323	17.39%
Investors Mutual Limited	10,800,000	8.84%
BlackRock Group	10,392,292	8.51%
Mr Larry Bloch	6,058,363	4.96%

On-market buyback

As at the date of this report, there is no on-market share buyback.



Our Locations

Sydney

Level 23, 680 George Street
Sydney, New South Wales 2000

T +61 2 9215 6300

Brisbane

Level 3, 192 Ann Street
Brisbane, Queensland 4000

T +61 7 3230 7373

Melbourne

Level 9, 505 Little Collins Street
Melbourne, Victoria 3000

T +61 3 8624 2300

Annual General Meeting

The Annual General Meeting (AGM) will be held:

Thursday, 28th May, 2020 at 11.00am

Details on our website.

All shareholders are invited to attend the AGM or to complete and return the proxy form that accompanies the Notice of Meeting