



**GR ENGINEERING SERVICES**  
ENGINEERING CONSULTANTS AND CONTRACTORS

# **GR ENGINEERING SERVICES LIMITED**

## **ANNUAL FINANCIAL REPORT**

**30 June 2019**

ABN 12 121 542 738

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## CALENDAR

Final Dividend:	
Ex-dividend Date	10 October 2019
Record Date	11 October 2019
Payment Date	23 October 2019
Annual General Meeting	28 November 2019



## CORPORATE DIRECTORY

### **GR ENGINEERING SERVICES LIMITED**

ACN 121 542 738

ABN 12 121 542 738

### **DIRECTORS**

Phillip Lockyer (Non-Executive Chairman)

Geoff Jones (Managing Director)

Tony Patrizi (Executive Director)

Barry Patterson (Non-Executive Director)

Peter Hood (Non-Executive Director)

Joe Totaro (Non-Executive Director)

### **COMPANY SECRETARY & CHIEF FINANCIAL OFFICER**

Omesh Motiwalla

### **REGISTERED OFFICE**

71 Daly Street

ASCOT WA 6104

### **PRINCIPAL PLACE OF BUSINESS**

71 Daly Street

ASCOT WA 6104

Telephone: (61 8) 6272 6000

Facsimile: (61 8) 6272 6001

Email: gres@gres.com.au

Website: www.gres.com.au

### **ASX CODE**

GNG

### **AUDITOR**

Deloitte Touche Tohmatsu

Tower 2, Brookfield Place, 123 St Georges Terrace

PERTH WA 6000

### **SOLICITORS TO THE COMPANY**

Zafra Legal

Level 10, 105 St Georges Terrace

PERTH WA 6000

### **SHARE REGISTRY**

Computershare Investor Services Pty Limited

Level 11, 172 St Georges Terrace

PERTH WA 6000



## DIRECTORS' REPORT

Your Directors present their report together with the financial statements of GR Engineering Services Limited ("GR Engineering" or "consolidated entity") for the financial year 1 July 2018 to 30 June 2019 and the independent auditor's report thereon.

The names of the consolidated entity's Directors in office during the financial year ended 30 June 2019 and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

### DIRECTORS

Phillip (Phil) LOCKYER (Non-Executive Chairman)  
Geoffrey (Geoff) Michael JONES (Managing Director)  
Tony Marco PATRIZI (Executive Director)  
Barry Sydney PATTERSON (Non-Executive Director)  
Terrence John STRAPP (Non-Executive Director) (resigned 6 November 2018)  
Peter John HOOD (Non-Executive Director)  
Giuseppe (Joe) TOTARO (Non-Executive Director) (appointed 1 July 2019)

### COMPANY SECRETARY

Omesh MOTIWALLA (BCom, FCA) (appointed 16 April 2019)

Omesh is a Fellow of Chartered Accountants Australia and New Zealand with over 20 years' experience in the Big 4 accounting firms and commerce. Omesh was previously a Corporate Finance Partner at Deloitte Touche Tohmatsu in Australia until December 2017. Deloitte Touche Tohmatsu are the auditors of the consolidated entity, and Omesh was a partner of the firm when previous audits have been undertaken. Omesh's experience includes corporate advisory services having consulted on, and managed, numerous corporate transactions involving private and publicly listed companies in the mining, oil and gas and related services sectors.

Giuseppe (Joe) TOTARO (B.Comm, CPA, CTA) (resigned 16 April 2019)

### PRINCIPAL ACTIVITIES

During the financial period the consolidated entity's activities have been the provision of high quality process and detailed engineering design, procurement and construction services to the mining and mineral processing industry and the provision of operations, maintenance, projects and advisory services to the oil and gas sector.

### DIVIDENDS PAID DURING THE YEAR

- Unfranked dividend of 5.00 cents per share paid on 24 October 2018.
- Fully franked dividend of 4.00 cents per share paid on 4 April 2019.
- Subsequent to 30 June 2019, an unfranked dividend of 2.00 cents per share was recommended by the Directors to be paid on 23 October 2019.



## DIRECTORS' REPORT

### REVIEW OF OPERATIONS

The year under review saw the commencement of several important engineering, procurement and construction (EPC) projects. An additional feature of FY19 was the significant contribution made to the consolidated entity's financial performance by Upstream Production Solutions (Upstream PS) which generated revenue of \$88.4 million (FY18: \$81.2 million) and EBITDA of \$5.9 million (FY18: \$2.1 million).

Notwithstanding this, the financial results were impacted by delays, largely beyond GR Engineering's control, in the commencement of the Thunderbird Mineral Sands Project, with work in FY19 limited to early engineering design and procurement activities. In addition, the FY19 results were impacted by delays in the commencement of other projects that the Company had anticipated would start during FY19.

It is pleasing to report that, despite the decline in revenue and profitability in FY19 compared to the previous year, at 30 June 2019, the consolidated entity significantly increased its cash balance to \$31.4m (30 June 2018: \$21.8m) and had minimal debt of \$0.5m (representing finance leases).

#### Mineral Processing

During the year ended 30 June 2019, the Company was successful in securing and commencing four EPC contracts. These included:

- **Carosue Dam Operations Paste Plant Project** - \$17.9 million EPC contract – for the design and construction of a paste fill plant for Saracen Gold Mines Pty Ltd located approximately 120km north east of Kalgoorlie, Western Australia. This facility is designed to be capable of producing 110 to 120 cubic metres of paste per hour. This project achieved practical completion in April 2019.
- **Fosterville Paste Plant Project** - \$23.9 million EPC contract - with Kirkland Lake Gold Limited for the design and construction of a paste production facility for its Fosterville gold operation located 25km north-east of Bendigo, Victoria. Work on this project commenced in December 2018.
- **Northern Wellfield Water Supply System** - \$21.2 million EPC contract - with OZ Minerals Carrapateena Pty Ltd for the design and construction of the Northern Wellfield for the Carrapateena Project located approximately 160km north of Port Augusta, South Australia. Work on this project is in two stages and includes the design, survey, supply, transportation, construction, testing and commissioning for the pipeline and transfer pumping stations associated with 8 wells to enable water to be supplied to the Carrapateena mineral processing plant, which is currently under construction.
- **Sandy Ridge Project** - \$46 million EPC contract - with Tellus Holdings Limited for the design and construction of a fully integrated facility for the long term storage and permanent isolation of hazardous and intractable waste and an associated kaolin mining operation located approximately 75km north east of Koolyanobbing, Western Australia. First stage, initial engineering design and long lead time item procurement for this project commenced during the year. The majority of the work will be performed in FY20, based on anticipated project timing.

In addition, GR Engineering is working with Ok Tedi Mining Limited on an \$11 million EPCM contract in relation to engineering services, procurement support, detailed design and construction work in Papua New Guinea. The project includes the installation of a new crusher and screening building to achieve 24 Mtpa plant throughput. The gyratory crusher being installed is one of the largest machines of this type currently being manufactured in the world.



## DIRECTORS' REPORT

In addition, GR Engineering announced the following additional projects in FY19:

- **Thunderbird Mineral Sands Project** – conditional EPC agreement – with Sheffield for the design and construction of a processing facility located on the Dampier Peninsula in Western Australia. GR Engineering provided Sheffield with an updated capital cost estimate of \$293 million for the process plant and infrastructure as part of Sheffield's bankable feasibility study update announced on 31 July 2019. The Company continues to work with Sheffield for the purposes of delivering the Thunderbird Mineral Sands Project on an EPC basis and in accordance with the revised budget.
- **Fungoni Mineral Sands Project** – conditional US\$17.9 million EPC contract – with Strandline Resources Limited (Strandline) for the design and construction of a 2 Mtpa mineral processing plant and associated facilities. Commencement of work remains subject to a number of conditions precedent and which relate primarily to Strandline obtaining requisite approvals and project funding.

In addition, GR Engineering continues to hold its status as a preferred tenderer for the design and construction of Capricorn Metals Limited's carbon in leach processing plant and associated infrastructure for its Karlawinda Gold Project located near Newman in Western Australia.

### ***Studies and consulting***

GR Engineering has been engaged on several engineering and consultancy assignments on a range of domestic and international assignments with scopes extending to early engineering studies, process design, procurement support and site supervision services associated with new and existing operations.

During FY19, GR Engineering completed 39 studies and as at 30 June 2019, was engaged on a further 40 studies across a broad range of commodities for projects both in Australia and abroad. This level of study activity continues to underpin a solid pipeline of design and construct opportunities into FY20 and beyond.

### **Oil and Gas**

GR Engineering's oil and gas services business, Upstream PS achieved sustained revenue contributions primarily from the provision of coal seam gas services in Queensland, and offshore and onshore operations and maintenance services in Western Australia.

In Queensland, Upstream PS manage and execute maintenance services on over 3,500 coal seam gas (CSG) wells in the Surat and Southern Bowen Basins and have recently played a leading part in the safe completion of Origin APLNG's four yearly scheduled gas production facilities turnaround events (15 trains in total). In Western Australia, Upstream PS continued to undertake operations and maintenance works on a number of oil and gas production assets in the Perth Basin for Mitsui (Waitsia Field, Xyris and the Dongara processing facilities) and Triangle Energy (Arrowsmith stabilisation plant and Cliff Head offshore platform).

Upstream PS continued to provide operations and maintenance services to the Northern Endeavour Floating Production, Storage and Offloading (FPSO) vessel located offshore in the Timor Sea. The FPSO is owned by Northern Oil and Gas Australia (NOGA) and Upstream PS is the operator of this vessel. On 10 July 2019, the National Offshore Petroleum Safety and Environmental Management Authority (NOPSEMA) issued a prohibition notice in relation to the FPSO requiring the FPSO to halt all production and cease all operations immediately due to structural corrosion concerns. NOGA and Upstream PS are working together to resolve the issues identified in order to recommence production on the FPSO as soon as possible, subject to NOPSEMA approval.

Work also continued under the three year maintenance services contract awarded in 2017 with Eni Australia for the provision of maintenance services on the Blacktip gas field production facilities in the Timor Sea. Upstream PS' scope of services under this contract includes the administration and execution of maintenance activities, logistics, procurement, engineering and operations support in relation to the unmanned Blacktip wellhead platform and associated Yelcherr gas plant.



## DIRECTORS' REPORT

### **Safety**

The GR Engineering group's Total Reportable Injury Frequency Rate (TRIFR) for FY19 was 4.99, comparing favourably to the FY18 result of 8.62. The Company pursues continuous improvement in its commitment to safety, with its primary objective being the achievement of a zero harm workplace environment on all jobs and at all locations.

### **FY20 Update and Outlook**

Work has commenced on the \$46 million contract announced by GR Engineering on 21 January 2019 for the engineering, procurement and construction of the Sandy Ridge infrastructure project owned by Tellus Holdings Ltd. The majority of the work will be performed in FY20, based on anticipated project timing.

GR Engineering intends to provide FY20 guidance ahead of its 2019 Annual General Meeting, to be held on 28 November 2019, when it is likely to have more certainty in relation to the timing of key projects. In the interim, it notes that FY20 financial performance is likely to be weighted to the second half.

### **FINANCIAL POSITION**

The consolidated entity generated revenue of \$182.3 million, profit before tax of \$8.8 million and underlying earnings before interest, tax, depreciation and amortisation (EBITDA) of \$11.2 million. Underlying EBITDA takes into account an impairment of \$1.0 million against trade receivables relating to Eastern Goldfields Limited, which was announced in the financial statements for the half year ended 31 December 2018, and a provision for doubtful debtors of \$0.3 million relating to other trade receivables.

As at 30 June 2019, the consolidated entity had significantly improved its cash position to \$31.4 million (30 June 2018: \$21.8 million) and had minimal debt of \$0.5m (representing finance leases).

### **DIVIDENDS**

The Board has resolved to declare a final FY19 dividend of 2.0 cents per share, unfranked. The ex-dividend date for this dividend will be 10 October 2019, the Record Date is 11 October 2019 and the Payment Date will be 23 October 2019.

### **SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**

*Ora Banda Mining Limited (Ora Banda) (previously Eastern Goldfields Limited)*

As announced on 14 February 2019, the Company advised that it had agreed the terms and conditions of a Deed of Company Arrangement (DOCA) that contemplated GR Engineering receiving cash and scrip consideration for a proportion of its admitted claim. GR Engineering had recognised an impairment of \$1.1 million against its trade receivables at 31 December 2018.

The DOCA was completed on 28 May 2019 after Ora Banda successfully raised \$30 million and recapitalised the company. Under the terms of the DOCA, GR Engineering was paid \$1.5 million in cash and was allotted 30.8 million shares in Ora Banda in June 2019 as settlement of all outstanding debts owed. Ora Banda relisted on ASX at 28 June 2019. As a result of Ora Banda's successful relisting, no further impairment was required at 30 June 2019. GR Engineering's holding in Ora Banda was \$6.5 million based on Ora Banda's share price at 23 August 2019. This represents a \$1.8 million unrealised gain on the value of the shares allotted to GR Engineering at the date of Ora Banda's re-listing. This unrealised gain is higher than the impairment charge to trade receivables relating to Eastern Goldfields Limited (currently Ora Banda) of \$1.0 million recorded at 31 December 2018.

### **FUTURE DEVELOPMENTS**

Information regarding likely developments in the operations of the consolidated entity in future financial years is referred to in the Review of Operations in above sections of this Directors' Report.

### **EVENTS AFTER BALANCE SHEET DATE**

On 21 August 2019, the Directors declared an unfranked dividend of 2.0 cents per share, an aggregate of \$3,072,464. The Record Date of the dividend is 11 October 2019 and the proposed payment date is 23 October 2019.



## DIRECTORS' REPORT

### BOARD OF DIRECTORS

**Phillip (Phil) LOCKYER** - Non-Executive Chairman  
Dip Met, Assoc Min Eng, M.Min Econs

Phil Lockyer is a Mining Engineer and metallurgist who has over 50 year's experience in the mineral industry, with a focus on gold and nickel in both underground and open pit operations. He was employed by WMC Resources Limited for 20 years and as General Manager for Western Australia was responsible for WMC's nickel division and gold operations. Mr Lockyer also held the position of Director Operations for Dominion Mining Limited and Resolute Limited. He holds a Diploma of Metallurgy from the Ballarat School of Mines, an Associateship of Mining Engineering from the Western Australian School of Mines and a Masters of Mineral Economics from Curtin University.

Phil Lockyer has formerly served on the Boards of Perilya Limited, Focus Minerals Limited and CGA Mining Limited. He is currently a Non-Executive Director of Swick Mining Services Limited and RTG Mining Inc.

- Interests in ordinary shares in GR Engineering - 50,000
- Interests in other securities in GR Engineering - None
- Special Responsibilities:
  - Non-Executive Chairman
  - Member of the Audit and Risk Committee
  - Chairman of the Remuneration and Nominations Committee
- Directorships in other listed entities in the last 3 years:
  - Swick Mining Services Limited (ASX:SWK) 2008 - Present
  - RTG Mining Inc. (ASX:RTG) 2013 - Present

**Geoffrey (Geoff) Michael JONES** – Managing Director  
BE (Civil), FIEAust, CPEng

Geoff is a Civil Engineer with over 30 years' experience in construction, engineering, minerals processing and project development in Australia and overseas. Geoff previously worked for Baulderstone Hornibrook, John Holland, Minproc Engineers and Signet Engineering before serving over six years as Group Project Engineer for Resolute Mining Limited.

Prior to joining GR Engineering Services Limited in 2011, Geoff was the General Manager of Sedgman Limited's metals engineering business and also responsible for the strategic development of the metals engineering division internationally.

Geoff is currently a Non-Executive Director of Marindi Metals Limited (previously Brumby Resources Limited), and Ausgold Limited.

- Interests in ordinary shares in GR Engineering – 772,134
- Interests in other securities in GR Engineering :
  - Share Appreciation Rights - 500,000
- Special Responsibilities:
  - Managing Director
- Directorships in other listed entities in the last 3 years:
  - Marindi Metals Limited (ASX:MZN) 2006 – Present
  - Azumah Resources Limited (ASX:AZM) 2009 – July 2018
  - Energy Metals Limited (ASX:EME) 2008 – February 2017
  - Ausgold Limited (ASX:AUC) July 2016 – Present
  - Blackham Resources Limited (ASX:BLK) - August 2018 - December 2018



## DIRECTORS' REPORT

**Tony Marco PATRIZI** – Executive Director  
BE (Mech Eng)

Tony co-founded GR Engineering. Tony is a Mechanical Engineer with over 30 years' experience in the mining and minerals processing industries as a company director, operations manager, project manager and maintenance engineer. Tony was previously the operations manager of JR Engineering which had over 300 personnel and provided workshop, maintenance, engineering and construction services to mining and mineral processing projects in Western Australia and interstate.

- Interests in ordinary shares in GR Engineering – 9,795,000
- Interests in other securities in GR Engineering - None
- Directorships in other listed entities in the last 3 years:
  - Primary Gold Limited (ASX:PGO) from March 2016 - June 2018

**Barry Sydney PATTERSON** – Non-Executive Director  
ASMM, MIMM, FAICD

Barry is a Mining Engineer with over 50 years' experience in the mining industry and is a co-founder of GR Engineering. He co-founded contract mining companies Eltin, Australian Mine Management and National Mine Management. Barry was also a co-founder of JR Engineering.

Barry has served as a director of a number of public companies across a range of industries. He was formerly a non-executive chairman of Sonic Healthcare Limited and Silex Systems Limited and is currently a Non-Executive Director of Dacian Gold Limited.

- Interests in ordinary shares in GR Engineering – 7,500,000
- Interests in other securities in GR Engineering - None
- Special Responsibilities:
  - Member of the Remuneration and Nominations Committee
  - Member of the Audit and Risk Committee
- Directorships in other listed entities in the last 3 years:
  - Dacian Gold Limited (ASX:DCN) 2012 - Present



## DIRECTORS' REPORT

**Peter John HOOD** – Non-Executive Director  
BE(Chem), MAusIMM, FIChemE, FAICD

Peter is a Chemical Engineer and has 48 years' experience in the resource and energy sectors.

Peter was formerly the Chief Executive Officer of Coogee Chemicals and Coogee Resources. He was Chairman of the International Chamber of Commerce National Committee of Australia. Peter is a Past President of the Australian Chamber of Commerce and Industry and the Chamber of Commerce and Industry Western Australia. Peter is currently Chairman of Matrix Composites and Engineering Limited, Lead Independent Director of Cue Energy Resources Limited and a Non-Executive Director of De Grey Mining Limited.

Peter was initially appointed as a Non-Executive Director of the Company on 10 February 2011.

- Interests in ordinary shares in GR Engineering – 500,000
- Interests in other securities in GR Engineering - None
- Special Responsibilities:
  - Chairman of the Audit and Risk Committee
  - Member of the Remuneration and Nominations Committee
- Directorships in other listed entities in the last 3 years:
  - Matrix Composites & Engineering Limited (ASX:MCE) 2011 - Present
  - Cue Energy Resources Limited (ASX:CUE) February 2018 - Present
  - De Grey Mining Limited (ASX:DEG) November 2018 - Present

**Giuseppe (Joe) TOTARO** – Non-Executive Director (appointed 1 July 2019)  
B.Comm, CPA

Joe is a certified practicing accountant (CPA) with over 30 years' experience in commercial and public practice specialising in mining and mining services.

Joe is a co-founder of GR Engineering and was formerly the Chief Financial Officer and Company Secretary of GR Engineering.

Joe was appointed as a Non-Executive Director of the Company on 1 July 2019.

- Interests in ordinary shares in GR Engineering – 8,000,000
- Interests in other securities in GR Engineering - None
- Directorships in other listed entities in the last 3 years: none noted



## DIRECTORS' REPORT

### MEETINGS OF DIRECTORS

The number of Meetings of the Board of Directors held during the year ended 30 June 2019 and the number attended by each director are as follows:

	FULL MEETINGS OF DIRECTORS	
	Eligible	Attended
Phil Lockyer	12	11
Geoff Jones	12	12
Tony Patrizi	12	12
Barry Patterson	12	6
Terrence Strapp	4	4
Peter Hood	12	12

No separate meetings of the Audit & Risk Committee and Remuneration & Nomination Committee were held during the year with the Board electing to address matters for its consideration within the context of meetings of the full Board of Directors.

### OPTIONS

As at the date of this report, there were no unissued ordinary shares of GR Engineering under option.

### SHARE APPRECIATION RIGHTS

As at the date of this report, Share Appreciation Rights granted are as follows:

Grant Date	Vesting & Exercise Date	Exercise price	Quantity
15 November 2016	30 June 2020	Nil	500,000

For full particulars of the Share Appreciation Rights issued to Directors as remuneration, refer to the Remuneration Report.

### PERFORMANCE RIGHTS

As at the date of this report, the unissued ordinary shares of GR Engineering which are the subject of unvested Performance Rights are as follows:

Vesting Date	No. Performance Rights	Expiry Date	Exercise price
15 June 2020	30,000	15 June 2020	-
20 August 2020	1,685,000	20 August 2020	-
21 August 2020	110,000	21 August 2020	-
1 November 2020	35,000	1 November 2020	-
14 June 2021	60,000	14 June 2021	-
16 July 2022	50,000	16 July 2022	-

The Performance Rights holders do not have any right to participate in any issues of shares or other interests in the consolidated entity or any other entity.

During the financial year ended 30 June 2019, 177,500 ordinary shares were issued due to the vesting of Performance Rights.



## DIRECTORS' REPORT

### INDEMNIFYING OFFICERS OR AUDITORS

During the financial year, the consolidated entity paid insurance premiums relating to contracts insuring the directors and company secretary against liability which may arise in connection with them acting as Director or Company Secretary, to the extent permitted under the Corporations Act. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

### LEGAL PROCEEDINGS

No person has applied for leave of court to bring proceedings on behalf of the consolidated entity or intervene in any proceedings to which the consolidated entity is a party for the purpose of taking responsibility on behalf of the consolidated entity for all or any part of those proceedings.

### NON AUDIT SERVICES

The Board of Directors is satisfied that the provision of non-audit services during the year is consistent with the general standard of independence imposed by the Corporations Act 2001.

Non-audit services were reviewed by the Board to ensure they do not compromise the objectivity of the Auditor and to ensure the nature of services provided is not inconsistent with the principals of auditor independence. Set out in APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

During the year ended 30 June 2019, fees amounting to \$33,859 were paid to Deloitte Touche Tohmatsu for non-audit services including taxation and corporate finance advice.

### AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration for the year ended 30 June 2019 has been reviewed and can be found at page 22 of the annual financial report.

### ENVIRONMENTAL ISSUES

In conducting its business, the consolidated entity is required to obtain permits and licences from relevant state environment protection authorities. It is of paramount importance to management and the Board of Directors that as well as operating within its own Environmental Policies, the consolidated entity observes all relevant licences in good standing. The consolidated entity has not been made aware of any areas of non-compliance in this regard.



## DIRECTORS' REPORT

### REMUNERATION REPORT – AUDITED

The remuneration report details the amount and nature of the remuneration for the consolidated entity's key management personnel.

#### Directors

- Geoff Jones (Managing Director)
- Phil Lockyer (Non-Executive Chairman)
- Tony Patrizi (Executive Director)
- Barry Patterson (Non-Executive Director)
- Terrence Strapp (Non-Executive Director) - Resigned 6 November 2018
- Peter Hood (Non-Executive Director)
- Giuseppe Totaro (Non-Executive Director) - Appointed 1 July 2019

#### Executives

- David Sala Tenna (Manager - Projects)
- Joe Totaro (Chief Financial Officer & Company Secretary) - Resigned 16 April 2019
- Omesh Motiwalla (Chief Financial Officer & Company Secretary) - Appointed 16 April 2019
- Rodney Schier (Engineering Manager)
- Stephen Kendrick (Manager - Projects)
- Thomas Marshall (Manager - Eastern Region & Americas)

Unless otherwise stated the named persons held their current position for the whole financial year and since the end of the financial year. At the consolidated entity's 2018 Annual General Meeting, 97.0% of eligible shareholders voted in favour of the remuneration report. No specific comments were made regarding the remuneration report at the meeting.

### REMUNERATION POLICY

The consolidated entity's remuneration policy has been designed to attract and retain high calibre key employees whose personal interests are aligned with success and growth of the consolidated entity and therefore shareholders. This will be achieved by:

- Staying abreast of labour market forces thereby ensuring remuneration offered by the consolidated entity is competitive and remains so through a process of annual review.
- Devising performance based remuneration programmes.
- Utilising the consolidated entity's Equity Incentive Plan and / or Employee Share Option Plan.

### NON-EXECUTIVE DIRECTORS

The consolidated entity's policy is to remunerate non-executive directors according to market rates and to reflect the time dedicated to their position and special responsibilities involved.

GR Engineering's Constitution provides that the Directors shall be paid out of the funds of the consolidated entity by way of remuneration for services such sums as may from time to time be determined by the consolidated entity in General Meeting, to be divided among the Directors in such proportions as they shall from time to time agree or in default of agreement, equally.

Directors are encouraged to hold shares in the consolidated entity to align their personal objectives with the growth and profitability of the consolidated entity.



## DIRECTORS' REPORT

### EXECUTIVE DIRECTORS

Executive Directors' pay and reward is comprised of a competitive base salary. To the extent that executive directors are shareholders in the consolidated entity, their personal objectives are aligned with the performance of the consolidated entity.

### SENIOR EXECUTIVES

Executives' remuneration is comprised of a competitive base salary, performance bonuses and share based incentive payments (at the discretion of the board). The Managing Director, Geoff Jones is also incentivised through the issue of performance based Share Appreciation Rights and is eligible to participate in the GR Engineering Services Limited Equity Incentive Plan.

All executive remuneration packages are reviewed annually to ensure they remain competitive and reflect performance. Remuneration paid to directors and executives is valued at cost to the consolidated entity. Options, Performance Rights and Share Appreciation Rights are valued using the Black Scholes and Monte Carlo methods.

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## DIRECTORS' REPORT

### EMPLOYMENT DETAILS OF MEMBERS OF KEY MANAGEMENT PERSONNEL

Name	Title	Contract Details	Non Salary Cash Incentives	Shares/ Units	Options/ Rights	Fixed Salary	Total
<b>Phillip Lockyer</b>	Non-Executive Chairman	By rotation and re-election	-	-	-	100%	100%
<b>Geoff Jones</b>	Managing Director	Termination: 6 months notice by the consolidated entity and 3 months notice by the employee	-	-	11.3%	88.7%	100%
<b>Tony Patrizi</b>	Executive Director	Termination: 3 months notice by the consolidated entity or employee	-	-	-	100%	100%
<b>Barry Patterson</b>	Non-Executive Director	By rotation and re-election	-	-	-	100%	100%
<b>Terrence Strapp</b> - Resigned 6 November 2018	Non-Executive Director	By rotation and re-election	-	-	-	100%	100%
<b>Peter Hood</b>	Non-Executive Director	By rotation and re-election	-	-	-	100%	100%
<b>David Sala Tenna</b>	Manager - Projects	Termination: 3 months notice by the consolidated entity or employee	-	-	-	100%	100%
<b>Stephen Kendrick</b>	Manager - Projects	Termination: 3 months notice by the consolidated entity or employee	-	-	-	100%	100%
<b>Joe Totaro</b> - Resigned 16 April 2019	Company Secretary / Chief Financial Officer	Termination: 3 months notice by the consolidated entity or employee	-	-	-	100%	100%
<b>Omesh Motiwalla</b> - Appointed 16 April 2019	Company Secretary / Chief Financial Officer	Termination: 3 months notice by the consolidated entity or employee	-	-	-	100%	100%
<b>Rodney Schier</b>	Engineering Manager	Termination: 3 months notice by the consolidated entity or employee	-	-	-	100%	100%
<b>Thomas Marshall</b>	Manager - Eastern Region & Americas	Termination: 4 weeks notice by the consolidated entity or employee	-	-	6.0%	94.0%	100%

The terms and conditions upon which key employees are employed are set out in contracts of employment. These contracts provide for minimum notice periods prior to termination and, in some cases restrictive covenants upon termination.

The consolidated entity can terminate the contract at any time in the case of serious misconduct and termination payments may be paid in lieu of notice period.



## DIRECTORS' REPORT

### REMUNERATION DETAILS FOR THE YEAR ENDED 30 JUNE 2019 - BOARD OF DIRECTORS

	Short Term Benefits			Sub Total	Post Employment Benefits	Equity Based Payments		Total	% Performance Based
	Cash Salary & Fees	Non Cash Payments *	Other **		Super-annuation	Equity	Options		
	\$	\$	\$	\$	\$	\$	\$	\$	
<b>NON-EXECUTIVE CHAIRMAN</b>									
<b>Phillip Lockyer</b>									
2019	78,058	-	-	78,058	7,415	-	-	85,473	0.0%
2018	76,190	-	-	76,190	7,237	-	-	83,427	0.0%
<b>EXECUTIVE DIRECTORS</b>									
<b>Geoff Jones</b>									
2019	579,468	32,968	-	612,436	20,531	80,366	-	713,333	11.3%
2018	579,951	29,537	32,000	641,488	20,048	235,296	-	896,832	29.8%
<b>Tony Patrizi</b>									
2019	303,596	14,195	-	317,791	28,841	-	-	346,632	0.0%
2018	296,331	15,620	-	311,951	28,151	-	-	340,102	0.0%
<b>NON-EXECUTIVE DIRECTORS</b>									
<b>Barry Patterson</b>									
2019	58,397	-	-	58,397	5,547	-	-	63,944	0.0%
2018	57,000	-	-	57,000	5,415	-	-	62,415	0.0%
<b>Terrence Strapp ***</b>									
2019	22,315	-	-	22,315	1,927	-	-	24,242	0.0%
2018	62,700	-	-	62,700	5,415	-	-	68,115	0.0%
<b>Peter Hood</b>									
2019	58,397	-	-	58,397	5,547	-	-	63,944	0.0%
2018	57,000	-	-	57,000	5,415	-	-	62,415	0.0%
<b>TOTAL DIRECTORS</b>									
2019	1,100,231	47,163	-	1,147,394	69,808	80,366	-	1,297,568	6.2%
2018	1,129,172	45,157	32,000	1,206,329	71,681	235,296	-	1,513,306	17.7%

\* "Non-Cash payments" refer to reportable fringe benefits (fuel for personal vehicles and novated leases)

\*\* "Other" amounts relate to performance based bonus payments, as approved by the board

\*\*\* Paid to SDG Nominees Pty Ltd, an entity controlled by Terrence Strapp, who resigned 6 November 2018



## DIRECTORS' REPORT

### REMUNERATION DETAILS FOR THE YEAR ENDED 30 JUNE 2019 - EXECUTIVES

	Short Term Benefits			Sub Total	Post Employment Benefits	Equity Based Payments		Total	% Performance Based
	Cash Salary & Fees	Non Cash Payments *	Other **		Super-annuation	Equity	Options		
	\$	\$	\$	\$	\$	\$	\$	\$	
<b>SENIOR EXECUTIVES</b>									
<b>David Sala Tenna - Manager - Projects</b>									
2019	344,792	5,337	-	350,129	32,755	-	-	382,884	0.0%
2018	331,193	-	5,479	336,672	31,463	-	-	368,135	1.5%
<b>Joe Totaro – Company Secretary &amp; Chief Financial Officer</b>									
2019	297,600	8,499	-	306,099	22,491	-	-	328,590	0.0%
2018	260,869	7,872	5,479	274,220	24,872	-	-	299,092	1.8%
<b>Omesh Motiwalla – Company Secretary &amp; Chief Financial Officer</b>									
2019	53,354	-	-	53,354	5,068	-	-	58,422	0.0%
2018	-	-	-	-	-	-	-	-	0.0%
<b>Rodney Schier – Engineering Manager</b>									
2019	273,357	4,563	-	277,920	25,968	-	-	303,888	0.0%
2018	261,468	5,748	5,479	272,695	24,839	-	-	297,534	1.8%
<b>Stephen Kendrick - Manager - Projects</b>									
2019	273,357	5,335	-	278,692	25,968	-	-	304,660	0.0%
2018	261,468	4,649	5,479	271,596	24,839	-	-	296,435	1.8%
<b>Thomas Marshall - Manager - Eastern Region &amp; Americas</b>									
2019	309,531	-	-	309,531	29,545	21,701	-	360,777	0.0%
2018	260,791	-	3,653	264,444	25,389	50,634	-	340,467	1.1%
<b>Paul Newling – General Manager EPCM</b>									
2019	-	-	-	-	-	-	-	-	0.0%
2018	299,720	-	-	299,720	14,126	-	-	313,846	0.0%
<b>TOTAL SENIOR EXECUTIVES</b>									
2019	1,551,991	23,734	-	1,575,725	141,795	21,701	-	1,739,221	0.0%
2018	1,675,509	18,269	25,569	1,719,347	145,528	50,634	-	1,915,509	1.3%
<b>GRAND TOTAL</b>									
2019	2,652,222	70,897	-	2,723,119	211,603	102,067	-	3,036,789	3.4%
2018	2,804,681	63,426	57,569	2,925,676	217,209	285,930	-	3,428,815	8.5%

\* "Non-Cash payments" refer to reportable fringe benefits (fuel for personal vehicles and novated leases)

\*\* "Other" amounts relate to performance based bonus payments, as approved by the board



## DIRECTORS' REPORT

### LONG TERM INCENTIVES

#### *Equity Incentive Plan*

The GR Engineering Services Limited 2015 Equity Incentive Plan (**Plan**) was adopted by the Board on 8 October 2015. In accordance with the Listing Rules of the Australian Securities Exchange (ASX), shareholder approval of the Plan was obtained at the consolidated entity's Annual General Meeting held on 10 November 2015. Under the ASX Listing Rules and Corporations Act 2001 (Cth), the issue of securities under the Plan to directors will be subject to separate shareholder approval. Eligible participants in the Plan include those defined in ASIC Class Order 14/1000 (**CO**) or as determined by the Board to be eligible to participate in the Plan from time to time.

The Plan is designed to align the interests of executives and employees with the interests of shareholders by providing an opportunity to receive an equity interest in the consolidated entity and therefore direct participation in the benefits of future consolidated entity performance over the medium to long term.

This is achieved by awarding both or either:

- Performance Rights (PR), with each PR being a right to acquire one fully paid ordinary share of the consolidated entity and vesting upon the satisfaction of certain performance conditions; and
- Share Appreciation Rights (SARs), being rights to receive a future payment in shares, based on to the amount of increase in market value of one share in the consolidated entity in a specified period between the grant of the SAR and exercise of that SAR.

Securities issued under the Plan will be subject to vesting criteria as determined by the Board and have a term of 3 years (or such term as otherwise agreed by the Board).

During the year ended 30 June 2019, no Performance Rights were issued in accordance with the terms and conditions of the Plan. A total of 1,920,000 Performance Rights were on issue as at 30 June 2019.

Grant Date	Vesting Date	Expiry Date	Exercise Price	Number	Fair Value
13 Jul 2017	15 Jun 2020	15 Jun 2020	Nil	30,000	\$1.065
21 Aug 2017	20 Aug 2020	20 Aug 2020	Nil	1,685,000	\$1.035
21 Aug 2017	2 Aug 2020	2 Aug 2020	Nil	60,000	\$1.041
28 Aug 2017	21 Aug 2020	21 Aug 2020	Nil	50,000	\$0.951
1 Nov 2017	1 Nov 2020	1 Nov 2020	Nil	35,000	\$0.978
14 Jun 2018	14 Jun 2021	14 Jun 2021	Nil	60,000	\$1.010

Performance Rights which lapsed during the financial year do not relate to key management personnel.

A total of 500,000 Share Appreciation Rights are on issue pursuant to the Plan, with 1,272,134 vesting prior to 30 June 2018 and nil vesting during the year ending 30 June 2019.



## DIRECTORS' REPORT

The following share-based payment compensation relates to Share Appreciation Rights issued to directors and senior management:

Name	Grant Date	Vesting Date	Date Exercised	Number of Shares Issued on Vesting Date	Exercise Price \$	Quantity	Fair Value \$	% of Compensation for the Year Consisting of Share Appreciation Rights
<b>Geoff</b>	15 Nov 2016	30 Jun 2019	N/A	Nil	Nil	650,000	\$0.5969	-
<b>Jones</b>	15 Nov 2016	30 Jun 2020			Nil	500,000	\$0.5826	11.3%

The following share-based payment compensation relates to Performance Rights issued to directors and senior management:

Name	Grant Date	Vesting Date	Number of Shares Issued on Vesting Date	Exercise Price \$	Quantity	Fair Value \$	% of Compensation for the Year Consisting of Performance Rights
<b>Thomas</b>	21 Aug 2017	2 Aug 2018	30,000	Nil	30,000	\$1.2970	6.0%
<b>Marshall</b>	21 Aug 2017	2 Aug 2020		Nil	60,000	\$1.0410	

### RELATIONSHIP BETWEEN COMPANY PERFORMANCE AND REMUNERATION POLICY

The table below sets out summary information about the consolidated entity's earnings and movements in shareholder wealth for the 5 years to 30 June 2019:

	2015	2016	2017	2018	2019
<b>Revenue (\$000's)</b>	216,893	255,292	238,691	283,603	182,256
<b>Net profit before tax (\$000's)</b>	17,196	25,406	16,287	16,202	8,761
<b>Net profit after tax (\$000's)</b>	12,938	19,340	12,865	11,641	6,530
<b>Share price at year end</b>	\$0.90	\$0.99	\$1.47	\$1.39	\$0.80
<b>Dividend (\$000's)</b>	12,785	15,158	15,287	9,195	13,815
<b>EPS (cents)</b>	8.60	12.71	8.41	7.60	4.25
<b>Diluted EPS (cents)</b>	8.42	12.64	8.35	7.45	4.19

Tony Patrizi, an Executive Director, three senior executives and a key employee hold significant shareholdings in the consolidated entity. As a result the performance of the consolidated entity and the personal and financial interest of its executive and management team are aligned.

The consolidated entity has issued Share Appreciation Rights to its Managing Director Geoff Jones which are designed to incentivise the Managing Director and align his interests with those of all shareholders.

The Plan has been adopted by the consolidated entity and will be implemented as the Nomination and Remuneration Committee identify the need to remunerate either existing or future employees, key employees, executives or executive directors on a performance basis.



## DIRECTORS' REPORT

### SHAREHOLDING

The number of shares in the parent entity held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

2019	Balance at the start of the year	Received as part of remuneration	Additions / other	Disposals / other	Balance at the end of the year
<i>Ordinary shares</i>					
Phillip Lockyer	50,000	-	-	-	50,000
Geoff Jones	772,134	-	-	-	772,134
Tony Patrizi	9,795,000	-	-	-	9,795,000
Barry Patterson	7,500,000	-	-	-	7,500,000
Terry Strapp *	380,000	-	-	(380,000)	-
Peter Hood	500,000	-	-	-	500,000
David Sala Tenna	12,325,000	-	-	-	12,325,000
Joe Totaro	8,000,000	-	-	-	8,000,000
Omesh Motiwalla	-	-	-	-	-
Rodney Schier	8,100,000	-	-	-	8,100,000
Stephen Kendrick	4,875,000	-	-	-	4,875,000
Thomas Marshall	-	30,000	-	-	30,000
	52,297,134	30,000	-	(380,000)	51,947,134

2018	Balance at the start of the year	Received as part of remuneration	Additions / other	Disposals / other	Balance at the end of the year
<i>Ordinary shares</i>					
Phillip Lockyer	26,500	-	23,500	-	50,000
Geoff Jones	635,705	136,429	-	-	772,134
Tony Patrizi	9,795,000	-	-	-	9,795,000
Barry Patterson	7,500,000	-	-	-	7,500,000
Terry Strapp *	380,000	-	-	-	380,000
Peter Hood	500,000	-	-	-	500,000
David Sala Tenna	12,325,000	-	-	-	12,325,000
Joe Totaro	8,000,000	-	-	-	8,000,000
Rodney Schier	8,100,000	-	-	-	8,100,000
Stephen Kendrick	4,875,000	-	-	-	4,875,000
Thomas Marshall	-	-	-	-	-
	52,137,205	136,429	23,500	-	52,297,134

\* Terrence Strapp resigned on 6 November 2018

### OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

During the year ended 30 June 2019, the consolidated entity leased office space at 71 Daly Street, Ascot WA from Ashguard Pty Ltd. Directors of the consolidated entity, Tony Patrizi and Barry Patterson, each have a non-controlling interest in Ashguard Pty Ltd. The total amount invoiced by Ashguard Pty Ltd in the year ended 30 June 2019 amounted to \$675,181 including GST (2018: \$639,775). The balance payable at 30 June 2019 is \$112,780 (2018: \$108,617). In previous years the consolidated entity procured items for Ashguard Pty Ltd. The total amount invoiced to Ashguard Pty Ltd in the year ended 30 June 2019 was nil (2018: \$10,995). The balance outstanding at 30 June 2019 is nil (2018: nil).

The terms and conditions of the transactions and the associated agreements to which they relate (where applicable) that have been set out above are at arms length and on normal commercial terms.

This marks the end of the remuneration report.



## DIRECTORS' REPORT

### CORPORATE GOVERNANCE

The Directors of the consolidated entity are committed to the highest standards of corporate governance in all elements of the business of the consolidated entity including internal control, ethics, risk functions, policies and internal and external audit.

The consolidated entity's Board of Directors has adopted a comprehensive corporate governance policy and manual based on ASX guidelines. The Board continually seeks to review and develop additional structures to be implemented as the consolidated entity's activities develop in size, nature and scope.

Please refer to the Corporate Governance Statement contained in this report.

This directors' report is signed in accordance with a resolution of directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors

A handwritten signature in black ink, appearing to read 'G. Jones', is written over a large, stylized, hand-drawn oval shape that serves as a signature line or stamp.

**Geoff Jones**  
Managing Director

Date : 26 August 2019

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## AUDITOR'S INDEPENDENCE DECLARATION

**Deloitte.**

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The Board of Directors  
GR Engineering Services Limited  
71 Daly Street  
ASCOT WA 6104

26 August 2019

Dear Board Members,

GR Engineering Services Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of GR Engineering Services Limited.

As lead audit partner for the audit of the financial statements of GR Engineering Services Limited for the year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

DELOITTE TOUCHE TOHMATSU

Nicole Menezes  
Partner  
Chartered Accountants

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# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2019

	Notes	Consolidated	
		2019 \$	2018 \$
<b>Revenue</b>	5	182,256,105	283,602,634
Other income	6	871,964	950,156
<b>Expenses</b>			
Employee benefits expense	7	(67,591,603)	(87,569,885)
Superannuation expense	7	(5,978,979)	(7,024,520)
Depreciation and amortisation expense		(1,441,578)	(1,369,289)
Workers compensation expense		(934,937)	(654,695)
Equity based payments		(619,415)	(774,750)
Finance costs	7	(57,503)	(62,894)
Direct materials and subcontractor costs		(88,799,705)	(155,278,257)
Accountancy & audit fees		(484,818)	(469,214)
Marketing		(230,397)	(65,088)
Bad and doubtful debts	10	(1,284,076)	(7,034,243)
Occupancy		(1,675,080)	(2,143,979)
Impairment of financial assets		-	(810,321)
Administration		(5,268,718)	(5,093,766)
<b>Profit before income tax expense</b>		<u>8,761,260</u>	<u>16,201,889</u>
Income tax expense	8	(2,231,447)	(4,560,896)
<b>Profit after income tax expense for the year attributable to the owners of GR Engineering Services Limited</b>	20	<u>6,529,813</u>	<u>11,640,993</u>
<b>Other comprehensive income for the year, net of income tax</b>			
Items that may be reclassified subsequently to profit or loss :			
Fair value gain/(loss) on financial assets		591,493	(789,563)
Exchange differences on translating foreign operations		18,346	366,843
Other comprehensive income for the year, net of income tax		<u>609,839</u>	<u>(422,720)</u>
<b>Total comprehensive income for the year attributable to the owners of GR Engineering Services Limited</b>		<u>7,139,652</u>	<u>11,218,273</u>
<b>Profit attributable to owners of the parent</b>		<u>6,529,813</u>	<u>11,640,993</u>
<b>Total comprehensive income attributable to the owners of the parent</b>		<u>7,139,652</u>	<u>11,218,273</u>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	30	4.25	7.60
Diluted earnings per share	30	4.19	7.45



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

	Notes	Consolidated	
		2019 \$	2018 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	9	31,432,874	21,751,300
Trade and other receivables	10	35,480,709	45,648,672
Inventories	11	293,800	6,884,447
Prepayments		1,083,294	614,173
Current tax assets	8	1,589,793	-
Total current assets		<u>69,880,470</u>	<u>74,898,592</u>
<b>Non-current assets</b>			
Property, plant and equipment	12	3,381,287	3,878,743
Financial assets	13	7,879,585	2,621,911
Deferred tax	8	449,795	3,203,273
Total non-current assets		<u>11,710,667</u>	<u>9,703,927</u>
<b>Total assets</b>		<u>81,591,137</u>	<u>84,602,519</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	14	24,765,901	15,235,581
Borrowings	15	500,706	336,110
Income tax	8	-	390,072
Provisions	16	7,034,205	11,651,145
Contract liabilities	17	1,524,265	1,831,981
Total current liabilities		<u>33,825,077</u>	<u>29,444,889</u>
<b>Non-current liabilities</b>			
Borrowings	15	49,536	128,932
Provisions	16	1,300,989	2,557,618
Total non-current liabilities		<u>1,350,525</u>	<u>2,686,550</u>
<b>Total liabilities</b>		<u>35,175,602</u>	<u>32,131,439</u>
<b>Net assets</b>		<u>46,415,535</u>	<u>52,471,080</u>
<b>Equity</b>			
Issued capital	18	30,562,886	30,445,356
Reserves	19	853,844	566,641
Retained profits	20	14,998,805	21,459,083
<b>Total equity</b>		<u>46,415,535</u>	<u>52,471,080</u>



# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2019

	Notes	Consolidated	
		2019	2018
		\$	\$
<b>Cash flows from operating activities</b>			
Receipts from customers		200,051,882	343,066,602
Payments to suppliers and employees		(174,241,710)	(341,128,499)
Income tax paid		(1,502,152)	(3,358,024)
Interest received		372,002	532,544
<b>Net cash flows (used in)/provided by operating activities</b>	9	<u>24,680,022</u>	<u>(887,377)</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(991,093)	(2,654,972)
Investment in financial assets		-	(250,000)
<b>Net cash flows used in investing activities</b>		<u>(991,093)</u>	<u>(2,904,972)</u>
<b>Cash flows from financing activities</b>			
Payment of finance lease liabilities		(314,735)	(695,866)
Dividends paid		(13,814,612)	(9,195,256)
<b>Net cash flows used in financing activities</b>	9	<u>(14,129,347)</u>	<u>(9,891,122)</u>
Net (decrease)/increase in cash and cash equivalents		9,559,582	(13,683,471)
Cash and cash equivalents at beginning of period		21,751,300	34,868,758
Effects of exchange rate changes of balances of cash held in foreign currencies		121,992	566,013
<b>Cash and cash equivalents at end of period</b>	9	<u>31,432,874</u>	<u>21,751,300</u>



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2019

	Issued capital	Share Option Reserve	Performance Rights Reserve	Share Appreciation Rights Reserve	Foreign Currency Translation Reserve	Investment Revaluation Reserve	Retained Earnings	Total
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Balance as at 30 June 2017</b>	30,388,000	584,497	93,345	167,233	(1,095,504)	(287,926)	19,013,345	48,862,990
Profit for the period	-	-	-	-	-	-	11,640,993	11,640,993
Other comprehensive income for the period	-	-	-	-	366,843	20,758	-	387,601
Total comprehensive income for the period	-	-	-	-	366,843	20,758	11,640,993	12,028,594
Dividends	-	-	-	-	-	-	(9,195,255)	(9,195,255)
Issue of shares	57,356	-	(25,190)	(32,166)	-	-	-	-
Share based payments	-	-	539,455	235,296	-	-	-	774,751
<b>Balance as at 30 June 2018</b>	30,445,356	584,497	607,610	370,363	(728,661)	(267,168)	21,459,083	52,471,080
Profit for the period	-	-	-	-	-	-	6,529,813	6,529,813
Other comprehensive income for the period	-	-	-	-	18,346	591,493	-	609,839
Total comprehensive income for the period	-	-	-	-	18,346	591,493	6,529,813	7,139,652
Dividends	-	-	-	-	-	-	(13,814,612)	(13,814,612)
Issue of shares	117,530	-	(117,530)	-	-	-	-	-
Share based payments	-	-	539,048	80,367	-	-	-	619,415
Lapsed options/share appreciation rights transferred to retained earnings	-	(584,497)	-	(240,024)	-	-	824,521	-
<b>Balance as at 30 June 2019</b>	30,562,886	-	1,029,128	210,706	(710,315)	324,325	14,998,805	46,415,535

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# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## Note 1. General information

The financial report covers GR Engineering Services Limited as a consolidated entity consisting of GR Engineering Services Limited and the entities it controlled during the year. The financial report is presented in Australian dollars, which is GR Engineering Services Limited's functional and presentation currency.

The financial report consists of the financial statements, notes to the financial statements and the directors' declaration.

GR Engineering Services Limited is a listed public company limited by shares, incorporated and domiciled in Australia. The registered office and principal place of business of GR Engineering Services Limited is located at 71 Daly Street, Ascot, Western Australia.

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial report.

The financial report was authorised for issue, in accordance with a resolution of directors, on 21 August 2019. The directors have the power to amend and reissue the financial report.

## Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the year presented, unless otherwise stated.

### New, revised or amending Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") that are relevant to its operations and effective for the current annual reporting period beginning 1 July 2018.

The following new and revised Standards and Interpretations effective for the current reporting period that are relevant to the consolidated entity include:

- AASB 9 *Financial Instruments*, and relevant amending standards
- AASB 15 *Revenue from Contracts with Customers*, and relevant amending standards
- AASB 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions*
- AASB Interpretation 22 *Foreign Currency Transactions and Advance Consideration*

### Impact on Application

The adoption of the above standards have not had a quantitatively material impact on the financial statements of the consolidated entity as at 30 June 2019. A more detailed discussion on the impact of the adoption of AASB 9 and AASB 15 is included below.

### AASB 15: Revenue from Contracts with Customers

AASB 15 establishes a comprehensive five-step framework for determining the timing and quantum of revenue recognised. It has replaced the existing guidance, including AASB 118 *Revenue* and AASB 111 *Construction Contracts*. The core principle of AASB 15 is that an entity shall recognise revenue as control of a good or service transfers to a customer. The consolidated entity has adopted the modified transition approach.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## Note 2. Significant accounting policies (continued)

The consolidated entity's revenue streams have been determined to be the Mineral Processing and Oil and Gas sectors, consistent with the segments identified in note 4.

It is the consolidated entity's policy that all future significant contracts will be assessed individually under AASB 15 to ensure the appropriate application of the standard and recognition of revenue.

The new AASB 15 has been applied for the entire year since 1 July 2018. The initial adoption of this standard did not have a material impact on the consolidated entity's results on initial application date. The only change due to the introduction of the new standards has been an update to the accounting policies for revenue. Refer to the accounting policy for "Revenue Recognition" in Note 2 for the updated policy.

### **AASB 9: Financial Instruments**

The consolidated entity has adopted AASB 9 from 1 July 2018 which has resulted in changes to its accounting policies and the analysis for possible adjustments to amounts recognised. In accordance with the transitional provisions in AASB 9, the reclassifications and adjustments are not reflected in the balance sheet as at 30 June 2018 but recognised in the opening balance sheet as at 1 July 2018. As per the new impairment model introduced by AASB 9, the consolidated entity has not recognised a loss allowance on trade and other receivables.

#### *Classification and Measurement*

On 1 July 2018, the consolidated entity has assessed which business models apply to the financial instruments held by the consolidated entity and have classified them into the appropriate AASB 9 categories. The main effects resulting from this reclassification are shown in the table below.

On adoption of AASB 9, the consolidated entity classified financial assets and liabilities as subsequently measured at either amortised cost or fair value, depending on the business model for those assets and on the asset's contractual cash flow characteristics. There were no changes in the measurement of the consolidated entity's financial instruments.

There was no impact on the statement of comprehensive income or the statement of changes in equity on adoption of AASB 9 in relation to classification and measurement of financial assets and liabilities.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

**Note 2. Significant accounting policies (continued)**

The following table summarises the impact on the classification and measurement of the consolidated entity's financial instruments at 1 July 2018:

Financial Assets	AASB 139 Classification	AASB 9 Classification	AASB 139 Carrying Amount	AASB 9 Carrying Amount
Cash and cash equivalents	Held to term maturity	Amortised cost	No change	No change
Trade and other receivables	Loans and receivables	Amortised cost	No change	No change
Financial assets *	Available-for-sale financial asset	Fair value through Other Comprehensive Income ("FVTOCI")	No change	No change
Trade and other payables	Amortised cost	Amortised cost	No change	No change
Finance lease liabilities	Amortised cost	Amortised cost	No change	No change

\* These investments in other listed securities were classified as Available-for-Sale under AASB 139. The consolidated entity chose to make the irrevocable election on transition to classify these investments as Equity FVTOCI as permitted by AASB 9 as these shares are not held for trading purposes.

The consolidated entity does not currently enter into any hedge accounting and therefore there is no impact to the consolidated entity's Financial Report.

**Impairment**

AASB 9 introduces a new expected credit loss ("ECL") impairment model that requires the consolidated entity to adopt an ECL position across the consolidated entity's financial assets at 1 July 2018. The consolidated entity's trade and other receivables balance typically comprises of trade receivables from customers. While cash and cash equivalents are also subject to the impairment requirements of AASB 9, an impairment loss would be considered immaterial.

The loss allowances for financial assets are based on the assumptions about risk of default and expected loss rates. The consolidated entity uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the consolidated entity's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Given the consolidated entity's trade receivables are from reputable customers, the consolidated entity has assessed that the risk of default is minimal (except in certain situations). No loss allowance was made on 1 July 2018.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## Note 2. Significant accounting policies (continued)

### New Accounting Standards and Interpretations not yet mandatory or early adopted

The Australian Accounting Standards and Interpretations that have been issued or amended but are not yet effective and have not been adopted by the consolidated entity for the year ended 30 June 2019 are detailed below. Only those that may have an impact on the consolidated entity have been listed.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
<ul style="list-style-type: none"> <li>AASB 16 'Leases'</li> </ul>	1 January 2019	30 June 2020
<ul style="list-style-type: none"> <li>AASB 2017-6 'Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation'</li> </ul>	1 January 2019	30 June 2020
<ul style="list-style-type: none"> <li>AASB 2018-1 'Amendments to Australian Accounting Standards – Annual Improvements 2015–2017 Cycle'</li> </ul>	1 January 2019	30 June 2020
<ul style="list-style-type: none"> <li>Interpretation 23 Uncertainty over Income Tax</li> </ul>	1 January 2019	30 June 2020
<ul style="list-style-type: none"> <li>AASB 2018-6 'Amendments to Australian Accounting Standards - Definition of a Business'</li> </ul>	1 January 2020	30 June 2021
<ul style="list-style-type: none"> <li>AASB 2018-7 'Amendments to Australian Accounting Standards – Definition of Material'</li> </ul>	1 January 2020	30 June 2021
<ul style="list-style-type: none"> <li>AASB 2019-1 'Amendments to Australian Accounting Standards – References to the Conceptual Framework'</li> </ul>	1 January 2020	30 June 2021

### AASB 16: Leases

AASB 16 Leases will replace existing accounting requirements for leases under AASB 117 Leases. Under current requirements, leases are classified based on their nature as either finance leases which are recognised on the Statement of Financial Position, or operating leases, which are not recognised on the Statement of Financial Position.

Under AASB 16 Leases, the consolidated entity's accounting for operating leases as a lessee will result in the recognition of a right-of-use (ROU) asset and an associated lease liability on the Statement of Financial Position. The lease liability represents the present value of future lease payments, with the exception of short-term and low value leases. An interest expense will be recognised on the lease liabilities and a depreciation charge will be recognised for the ROU assets. There will also be additional disclosure requirements under the new standard.

#### *Transition*

The consolidated entity will initially apply AASB 16 on 1 July 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting AASB 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 July 2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under AASB 117, the consolidated entity can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The consolidated entity is assessing the potential impact of using these practical expedients.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## Note 2. Significant accounting policies (continued)

Based on the current assessment and conditions of the consolidated entity, it is expected that the adoption of AASB 16 will have a material impact on the financial statements of the consolidated entity. The actual impact of applying AASB 16 on the financial statements in the period of initial application will depend however on future economic conditions, including the consolidated entity's borrowing rate, the composition of the consolidated entity's lease portfolio at that time, the extent to which the consolidated entity elects to use practical expedients and recognition exemptions, and the new accounting policies, which are subject to change until the consolidated entity presents its first financial statements that include the date of initial application.

The impact on the consolidated entity will be that on initial recognition, the operating leases will be brought to account on the statement of financial position. As at 30 June 2019, the consolidated entity has non-cancellable operating lease commitments of \$3,974,154 as disclosed in Note 26. Other than those exemptions available, these amounts will be brought to account from 1 July 2019.

### Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and comply with other requirements of the law.

The financial statements comprise the consolidated financial statements of the consolidated entity. For the purposes of preparing the consolidated financial statements, the consolidated entity is a for-profit entity.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the company and the consolidated entity comply with International Financial Reporting Standards ('IFRS').

### Basis of preparation

#### *Historical cost convention*

The consolidated financial statements have been prepared on the basis of historical cost, except for certain non-current assets and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the consolidated entity takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of AASB 2, leasing transactions that are within the scope of AASB 117, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 2 or value in use in AASB 136.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## Note 2. Significant accounting policies (continued)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

### *Critical accounting estimates*

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

### **Principles of consolidation**

The consolidated financial statements incorporate the financial statements of the consolidated entity and entities (including structured entities) controlled by the consolidated entity and its subsidiaries. Control is achieved when the consolidated entity:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The consolidated entity reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the consolidated entity has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The consolidated entity considers all relevant facts and circumstances in assessing whether or not the consolidated entity's voting rights in an investee are sufficient to give it power, including:

- the size of the consolidated entity's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the consolidated entity, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the consolidated entity has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the consolidated entity obtains control over the subsidiary and ceases when the consolidated entity loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the consolidated entity gains control until the date when the consolidated entity ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the consolidated entity and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the consolidated entity and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## Note 2. Significant accounting policies (continued)

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the consolidated entity's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the consolidated entity are eliminated in full on consolidation.

### Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Managing Director of the consolidated entity.

### Foreign currency translation

The financial report is presented in Australian dollars, which is GR Engineering Services Limited's functional and presentation currency.

#### *Foreign currency transactions*

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

#### *Foreign operations*

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The functional currency of GR Engineering Services (UK) Limited is Great British pounds. The functional currency of GR Engineering Services (Greece) is Euro. The functional currency of GR Engineering Services Turkey is Turkish Lira. The functional currency of other foreign subsidiaries of the consolidated entity is United States dollars.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## Note 2. Significant accounting policies (continued)

### Revenue recognition

Revenue is recognised for the two segments: Mineral Processing and Oil & Gas.

#### *Mineral Processing*

The Mineral Processing segment includes Engineering, Procurement & Construction (EPC) contracts and Engineering, Procurement, Construction & Management (EPCM) Contracts.

In these contracts, the consolidated entity provides services comprising design and construction of minerals processing facilities and associated infrastructure for complete greenfields or brownfields projects including plant modifications, upgrades and expansions, plant evaluation and condition reports, plant operations and maintenance support and optimisation, plant relocation, refurbishment and recommissioning, and provision of owners representatives and teams for project management and delivery. Project management services also include project studies (concept through to bankable feasibility), engineering and procurement, construction and commissioning, asset management plans and system development, operations and technical support (audits, reviews and consulting), and infrastructure development.

EPC and EPCM contracts generally contain a single performance obligation because the activities are highly integrated with each other to represent the combined output for which the customer has contracted, and therefore are not distinct from one another. Additionally, whilst some of the services could be provided to the customer individually, this is not the business practice as customers engage the consolidated entity to provide a start to end service.

The consolidated entity enters into lump sum contracts or guaranteed maximum price contracts. In some cases, variable consideration is present in the contract in the form of, for example, bonus payments or penalties based on performance, or variations. Where variable consideration is present in a contract, the constraint of estimates of variable consideration is applied as necessary by assessing the historical performance of the consolidated entity on similar contracts and consideration of factors that are outside the consolidated entity's influence. Revenue for EPC and EPCM contracts is recognised over time because the performance creates and enhances an asset controlled by the customer as the work is performed. The asset is specific to the customer as it cannot be sold elsewhere or have another use, and the consolidated entity is entitled to payment for work performed. In recognising revenue over time, the consolidated entity measures the satisfaction of progress using cost as an input as cost faithfully depicts the transfer of value to the customer.

#### *Oil & Gas*

Oil and Gas contracts comprise the delivery of operations and maintenance, wellsites, engineering and production assurance services to the customer base. Under these contracts, the services provided is the provision of labour as well as the procurement of equipment for the customer on an as needs basis. These arrangements can be long or short term and are generally structured as an overarching master agreement, with individual work orders made by the customer. Each work order will specify the services to be performed. The combination of the master agreement and each work order forms the contract.

Each work order is deemed to be a contract and each work order is generally considered to be one performance obligation. These contracts do not have a fixed fee and the customer is charged based on the number of labour hours incurred, multiplied by agreed rates contained in the master agreement. Equipment may also be provided to customers which is charged on a recoverable basis as and when the equipment is procured and provided to the customer.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## Note 2. Significant accounting policies (continued)

Revenue for contracts in this segment is recognised over time as the customer simultaneously receives and consumes the benefits of the services being provided as they are performed. The consolidated entity will bill the client on a monthly basis based on hours incurred multiplied by the agreed rates or on a cost plus basis. This will also include any recoverable expenditure incurred for equipment provided in respect of that period. Therefore, the consolidated entity has a right to consideration from its customers in an amount that corresponds directly with the value to the customer of the consolidated entity's performance completed to date and hence the consolidated entity has decided to adopt the practical expedient of recognising revenue on a billings basis.

### *Tender costs*

Tender costs are expensed as they are not incremental costs to obtaining the contract.

### *Interest*

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

### *Contract fulfilment costs*

Significant costs incurred prior to the commencement of a contract may arise for example due to mobilisation / site setup costs and tender costs. These activities are costs incurred to fulfil a contract. Where these costs are expected to be recovered, they are capitalised and amortised over the course of the contract consistent with the transfer of a service to the customer. Where the costs, or a portion of these costs, are reimbursed by the customer, the amount received is recognised as deferred revenue and allocated to the performance obligations within the contract and recognised as revenue over the course of the contract.

### *Loss making contracts*

When it is probable that total contract costs for a project will exceed total contract revenue, the expected loss is recognised as an expense immediately.

### *Contract assets and liabilities*

AASB 15 uses the terms 'contract asset' and 'contract liability' to describe what is commonly known as 'accrued revenue' and 'deferred revenue'. Contract receivables represent receivables in respect of which the consolidated entity's right to consideration is unconditional subject only to the passage of time. Contract receivables are non-derivative financial assets accounted for in accordance with the consolidated entity's accounting policy for financial assets set out in Note 22. Contract assets represent the consolidated entity's right to consideration for services provided to customers for which the consolidated entity's right remains conditional on something other than the passage of time. Contract liabilities arise where payment is received prior to work being performed. Contract assets and contract liabilities are recognised and measured in accordance with this accounting policy.

## **Income tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The consolidated entity's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## Note 2. Significant accounting policies (continued)

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 differences 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.

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 profit or loss and other comprehensive income.

### Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### Financial instruments

Financial assets and financial liabilities are recognised in the consolidated entity's statement of financial position when the consolidated entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## Note 2. Significant accounting policies (continued)

### Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

#### *Classification of financial assets*

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- 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.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- 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.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the consolidated entity may make the following irrevocable election/designation at initial recognition of a financial asset:

- the consolidated entity may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and
- the consolidated entity may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

#### *(i) Amortised cost and effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## Note 2. Significant accounting policies (continued)

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognised in profit or loss and is included in the "Other income" line item (note 6).

### (ii) *Equity instruments designated as at fair value through other comprehensive income (FVOTCI)*

On initial recognition, the consolidated entity may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the consolidated entity manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve. The cumulative gain or loss is not be reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss in accordance with AASB 9, unless the dividends clearly represent a recovery of part of the cost of the investment.

The consolidated entity has designated all investments in equity instruments that are not held for trading as at FVTOCI on initial application of AASB 9 (see note 13).



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## Note 2. Significant accounting policies (continued)

### (iii) Financial assets at fair value through profit or loss (FVTPL)

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the consolidated entity designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition.
- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called 'accounting mismatch') that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The consolidated entity has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in 'Other income' (note 6).

### Impairment of financial assets

The consolidated entity recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, trade receivables and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

Financial assets other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## Note 2. Significant accounting policies (continued)

For financial instruments, the consolidated entity recognises lifetime expected credit loss (ECL) when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the consolidated entity measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

### *Derecognition of financial assets*

The consolidated entity derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the consolidated entity neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the consolidated entity recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the consolidated entity retains substantially all the risks and rewards of ownership of a transferred financial asset, the consolidated entity continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the consolidated entity has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

### *Financial liabilities and equity*

#### Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

#### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the consolidated entity are recognised at the proceeds received, net of direct issue costs.

Repurchase of the consolidated entity's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the consolidated entity's own equity instruments.

#### **Financial liabilities**

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## Note 2. Significant accounting policies (continued)

### *Financial liabilities at fair value through profit or loss (FVTPL)*

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the consolidated entity manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the consolidated entity's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in 'Other income' (note 6) in profit or loss.

However, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

### *Financial liabilities measured subsequently at amortised cost*

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## Note 2. Significant accounting policies (continued)

### *Derecognition of financial liabilities*

The consolidated entity derecognises financial liabilities when, and only when, the consolidated entity's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the consolidated entity exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the consolidated entity accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognised in profit or loss as the modification gain or loss within other gains and losses.

### **Inventories**

Inventories are valued at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

### **Property, plant and equipment**

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

- Property, plant and equipment - over 2.5 to 20 years

The carrying values of plant and equipment 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 cash-generating unit to which the asset belongs. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognised in the profit or loss in the cost of sales line item.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued used of the asset.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

### Note 2. Significant accounting policies (continued)

Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of profit or loss in the period the item is derecognised.

#### Leases

Finance leases, which transfer to the consolidated entity substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as the lease income.

Operating lease payments are recognised as an expense in the statement of profit or loss on a straight-line basis over the lease term.

#### Impairment of non-financial assets

At each reporting date, the consolidated entity assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the consolidated entity 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.

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 cash-generating unit 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.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## Note 2. Significant accounting policies (continued)

### Provisions

Provisions are recognised when the consolidated entity 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.

Where the consolidated entity expects some or all of a provision to be reimbursed the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

### Employee benefits

#### *Wages and salaries, annual leave and sick leave*

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered.

Liabilities recognised in respect of short-term employee benefits, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of long term employee benefits are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to reporting date.

#### *Defined contribution superannuation expense*

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

#### *Share-based payments*

Share based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the share based payments is expensed on a straight-line basis over the vesting period, based on the consolidated entity's estimate of equity instruments that will eventually vest. At the end of each reporting period, the consolidated entity revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Share based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## Note 2. Significant accounting policies (continued)

### Dividends

Dividends are recognised when declared during the financial year and no longer at the discretion of the company.

### Earnings per share

#### *Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to the owners of GR Engineering Services Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

#### *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

### Goods and Services Tax ('GST') and other similar 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.

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 are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

## Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## Note 3. Critical accounting judgements, estimates and assumptions (continued)

Where the outcome of a mineral processing contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer. Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable.

Contract costs are recognised as expenses in the period in which they are incurred. Where construction contracts are still in the completion stage, they are included as contract assets.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Because the consolidated entity predominantly undertakes projects on an Engineering, Procurement & Construction turnkey design and construction contract basis, all the risk associated with cost, time, plant performance and plant warranty (defects period) rests with the consolidated entity. As such the consolidated entity is responsible for the total "make-good" of any defects of underperformance.

The consolidated entity includes a project completion and close out provision (liability) in design and construction project cost forecast reports of 3% of the project costs, or such other amount as assessed by management having regard to specific project requirements.

### Trade and other receivables and contract assets

As disclosed in the accounting policies in Note 2, an estimate of expected credit losses in respect of trade and other receivables is regularly made. Bad debts are written off when identified. The allowance for expected credit losses requires significant estimation and judgement. The Directors and management utilise the most recent available information available to them such as the aging of the receivable, historical experience with the customer, historical collection rates and specific knowledge of the individual debtor situations to make their estimation of the recoverability of trade receivables and contract assets. Included in past due but not impaired balances, are situations whereby the consolidated entity will from time to time enter into payment plans with customers for commercial reasons. These payment plans entered into will normally extend the credit terms provided to the customer. In such situations, management exercise their judgement to determine their estimated recovery and whether any loss allowance is required to be recognised in respect of the individual debtor and any associated contract asset.

At year end, the consolidated entity has \$10.9 million included in Note 10 in trade receivables and contract assets relating to a specific customer. The Directors consider these amounts recoverable based on their judgement, which includes their historical experience with the customer concerned, historical collection rates, current negotiations with the customer and their financiers to recover the full debt amounts.

When the assessment is made that there is an expected credit loss to be incurred, a loss allowance will be raised against a debtor and any contract asset to account for this expected loss. Where the estimation is different to actual results, carrying amounts are adjusted in the next financial period.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## Note 4. Operating segments

Operating segments have been identified on the basis of internal reports of the consolidated entity that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. The chief operating decision maker has been identified as the Managing Director. On a regular basis, the board receives financial information on a company basis similar to the financial statements presented in the financial report, to manage and allocate their resources.

The Managing Director has chosen to classify the operations of the consolidated entity by reference to presence in an industry. The segments identified on this basis are "mineral processing" and "oil and gas".

### Segment revenues and results

The following table shows the revenue and results of the consolidated entity summarised under these segments.

#### Segment revenue

	2019	2018
	\$	\$
Mineral processing	93,825,782	202,381,222
Oil and gas	88,430,323	81,221,412
Total revenue	<u>182,256,105</u>	<u>283,602,634</u>

#### Segment profit before tax

	2019	2018
	\$	\$
Mineral processing	3,637,830	15,725,717
Oil and gas	5,123,430	1,286,493
Corporate	-	(810,321)
Total profit before tax	<u>8,761,260</u>	<u>16,201,889</u>

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current year (2018: nil).

### Segment assets and liabilities

#### Segment assets

	2019	2018
	\$	\$
Mineral processing	41,875,991	56,658,123
Oil and gas	31,835,561	25,322,485
Corporate	7,879,585	2,621,911
Total assets	<u>81,591,137</u>	<u>84,602,519</u>

#### Depreciation and amortisation

	2019	2018
	\$	\$
Mineral processing	600,806	470,644
Oil and gas	840,772	898,645
Total depreciation and amortisation	<u>1,441,578</u>	<u>1,369,289</u>

#### Segment liabilities

	2019	2018
	\$	\$
Mineral processing	22,650,914	21,377,067
Oil and gas	12,524,688	10,754,372
Total liabilities	<u>35,175,602</u>	<u>32,131,439</u>



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

### Note 4. Operating segments (continued)

#### Geographical information

The following table shows the revenue from external customers of the consolidated entity summarised by location.

Revenue	2019	2018
	\$	\$
Australia	168,251,657	272,839,270
Overseas	14,004,448	10,763,364
Total revenue	<u>182,256,105</u>	<u>283,602,634</u>

#### Non-current assets

All non-current assets of the consolidated entity are held in Australia.

#### Information about major customers

During the financial year, four customers individually provided more than 10% of total revenue each for the consolidated entity (2018: 3 customers).

### Note 5. Revenue

	Consolidated	
	2019	2018
	\$	\$
Rendering of services - mineral processing - over time	93,825,782	202,381,222
Rendering of services - oil & gas - at a point in time	88,430,323	81,221,412
Total revenue	<u>182,256,105</u>	<u>283,602,634</u>

### Note 6. Other income

	Consolidated	
	2019	2018
	\$	\$
Net foreign exchange gain/(loss)	129,241	382,153
Net gain/(loss) on disposal of property, plant and equipment	(46,972)	26,515
Subsidies and grants	20,213	76,080
Interest revenue	372,002	532,544
Other revenue	397,480	(67,136)
Total other income	<u>871,964</u>	<u>950,156</u>



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

### Note 7. Expenses

	Consolidated	
	2019	2018
	\$	\$
Profit before income tax includes the following specific expenses:		
<i>Finance costs</i>		
Interest and leasing charges on finance leases	57,503	62,894
<i>Employee benefits</i>		
Employee benefits expense excluding superannuation	67,591,603	87,569,885
Defined contribution superannuation expense	5,978,979	7,024,520
Total employee benefits	<u>73,570,582</u>	<u>94,594,405</u>
<i>Administration costs</i>		
Net loss on disposal of inventories	-	150,000

### Note 8. Income tax expense

Major components of income tax expense for the years ended 30 June 2018 and 2019 are:

#### Income tax recognised in the Consolidated statement of profit or loss

	Consolidated	
	2019	2018
	\$	\$
<i>Current income tax</i>		
Current income tax charge	442,125	7,220,465
Other current income tax charges	529,196	-
Adjustments in respect of current income tax of previous years	(1,405,056)	(463,122)
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	2,502,382	(2,063,423)
Adjustments in respect of previous deferred income tax	162,800	(133,024)
Income tax expense reported in statement of profit or loss	<u>2,231,447</u>	<u>4,560,896</u>

#### Income tax recognised in statement of changes in equity

<i>Deferred income tax</i>		
Revaluation of shares	44,318	18,612
Income tax expense reported in equity	<u>44,318</u>	<u>18,612</u>

A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the consolidated entity's effective income tax rate for the years ended 30 June 2018 and 2019 is as follows:

Accounting profit before income tax	8,761,260	16,201,889
At the statutory income tax rate of 30% (2018: 30%)	2,628,378	4,860,567
Add:		
Non-deductible expenses	314,990	297,686
Adjustments in respect of previous year current income tax	(1,405,056)	(596,146)
Adjustments in respect of previous year deferred income tax	162,800	-
Other current income tax charges	529,196	-
Impact to tax expense arising from foreign tax rate differential	1,139	(1,211)
Other	-	-
At effective income tax rate of 26.0% (2018: 29.1%)	<u>2,231,447</u>	<u>4,560,896</u>
Income tax expense reported in statement of profit or loss	<u>2,231,447</u>	<u>4,560,896</u>

**NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 JUNE 2019

**Note 8. Income tax expense (continued)**

	Consolidated	
	2019	2018
	\$	\$
<b>Deferred income tax</b>		
Deferred income tax at 30 June relates to the following:		
<i>Deferred income tax assets</i>		
Accrued employee entitlements	63,027	63,810
Accrued superannuation	17,405	17,536
Accrued audit fees	18,000	18,000
Leasing	(49,846)	(54,962)
Provision for long service leave	105,478	102,598
Provision for warranty	442,312	1,720,707
Provisions - other	170,624	468,734
Payables - Upstream Production Solutions subsidiary	94,806	94,806
Accrued employee entitlements - Upstream Production Solutions subsidiary	1,230,463	1,179,112
Shares in listed entity	149,103	347,881
Plant and equipment	37,631	37,376
Accrued bonus	129,096	296,182
Bad debts not immediately deductible	-	635,645
	<u>2,408,099</u>	<u>4,927,425</u>
<i>Deferred income tax liabilities</i>		
Prepayments		-
Other accrued income	(1,182)	-
Unrealised foreign exchange gain	(24,741)	(21,298)
Prepayments - Upstream Production Solutions subsidiary	(40,956)	(135)
Plant and equipment - Upstream Production Solutions subsidiary		-
Work in progress	(1,891,425)	(1,702,719)
	<u>(1,958,304)</u>	<u>(1,724,152)</u>
Net deferred tax asset	<u>449,795</u>	<u>3,203,273</u>
<b>Current tax assets and liabilities</b>		
<i>Current tax (assets)/liabilities</i>		
Income tax receivable/payable	<u>(1,589,793)</u>	<u>390,072</u>



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

**Note 9. Current assets - cash and cash equivalents**

	Consolidated	
	2019	2018
	\$	\$
Cash on hand	56,236	53,457
Cash at bank	28,376,638	21,697,843
Cash on deposit	3,000,000	-
	<u>31,432,874</u>	<u>21,751,300</u>

The fair value of cash and cash equivalents is \$31,432,874 (2018: \$21,751,300).

Cash at bank and in hand earns interest at floating rates based on daily bank rates.

Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the consolidated entity, and earn interest at the respective short-term deposit rates.

**Reconciliation of cash**

For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise the following at 30 June:

	Consolidated	
	2019	2018
	\$	\$
Cash at bank and on hand	28,432,874	21,751,300
Cash on deposit	3,000,000	-
	<u>31,432,874</u>	<u>21,751,300</u>

**Reconciliation from the net profit after tax to the net cash flow from operating activities**

	Consolidated	
	2019	2018
	\$	\$
Net profit after tax	6,529,813	11,640,993
<i>Adjustments for:</i>		
Depreciation and amortisation	1,441,578	1,369,289
(Profit)/loss on sale of asset	46,972	123,485
Expected credit loss expense	257,339	-
Share based employee payments	619,415	774,750
Net foreign exchange (gain)/loss	(103,647)	(199,171)
Interest expense on finance leases	54,937	62,894
Acquisition of shares as consideration for services	(4,621,864)	-
<i>Changes in assets and liabilities</i>		
(Increase)/decrease in trade and other receivables	15,482,112	22,128,833
(Increase)/decrease in inventories	(629,020)	1,561,627
(Increase)/decrease in deferred tax asset	2,709,161	(1,399,866)
(Decrease)/increase in trade and other payables	10,834,988	(48,298,379)
(Decrease)/increase in provisions	(5,880,514)	2,712,316
(Decrease)/increase in tax liabilities	(1,979,866)	2,602,738
(Decrease)/increase in contract liabilities	(81,382)	6,033,114
Net cash from operating activities	<u>24,680,022</u>	<u>(887,377)</u>

**Non-cash transactions**

During the year ended 30 June 2019 and year ended 30 June 2018, the following non-cash investing and financing activities occurred, which are not reflected in the consolidated statement of cash flows:

- during the year ended 30 June 2019 the consolidated entity acquired equipment under finance lease of \$52,984 (2018: \$267,043)



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

**Note 9. Current assets - cash and cash equivalents (continued)****Reconciliation of liabilities arising from cash flows from financing activities**

	Consolidated	
	2019	2018
	\$	\$
Borrowings - Finance leases		
Opening balance	465,042	685,015
Repayments of principal	(175,996)	(632,972)
Interest paid	(57,503)	(62,894)
New non-cash hire purchase assets	318,699	475,893
Closing Balance	<u>550,242</u>	<u>465,042</u>

**Note 10. Trade and other receivables****Current assets – trade and other receivables**

	Consolidated	
	2019	2018
	\$	\$
Trade receivables	28,285,361	40,906,582
Less: Loss allowance	(257,339)	-
	<u>28,028,022</u>	<u>40,906,582</u>
Contract assets - oil and maintenance contracts	6,304,751	5,675,731
Contract assets - mineral processing contracts	688,582	914,916
	<u>6,993,333</u>	<u>6,590,647</u>
Other receivables	354,227	375,987
GST receivable	-	1,297,724
Accrued revenue	105,127	3,068,379
	<u>35,480,709</u>	<u>52,239,319</u>

Trade receivables are non-interest bearing and are normally settled on 30 to 90 day terms.

The net of GST payable and GST receivable is remitted to the appropriate tax body on a monthly basis.

Contract assets are balances owing from customer contracts. For mineral processing contracts this arises if the revenue recognised exceeds the milestone payments. For information on contracts in progress, refer to note 17.

*Expected credit losses of receivables*

Movements in the loss allowance of receivables are as follows:

	Consolidated	
	2019	2018
	\$	\$
Opening balance	-	-
Transfer to credit impaired	257,339	-
Amounts written off	-	-
Amounts recovered	-	-
Closing balance	<u>257,339</u>	<u>-</u>

There is no loss allowance recognised for contract assets. The consolidated entity always measures the loss allowance for trade receivables and contract assets at an amount equal to lifetime expected credit loss. The consolidated entity recognises a loss allowance of 100% against all receivables over 120 days past due because historical experience has indicated that these receivables are generally not recoverable. In certain circumstances, arrangements are agreed to with customers for commercial reasons, which would extend this time period. An allowance for expected credit losses requires significant judgement and estimation on behalf of the directors and management, as described in Note 3.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

### Note 10. Trade and other receivables (continued)

The consolidated entity provides for a trade receivable and contract assets when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier.

Bad debts written off during the year as uncollectable amount to \$1,026,737 (2018: \$7,034,203).

#### *Past due but not impaired*

Customers with balances past due but without allowance for losses of receivables amount to \$11,338,721 as at 30 June 2019 (\$18,341,993 as at 30 June 2018).

The ageing of the past due but not impaired receivables are as follows:

	Consolidated	
	2019	2018
	\$	\$
0 to 3 months overdue	9,877,321	4,525,687
3 to 6 months overdue	1,292,280	1,330,736
Over 6 months overdue	169,120	12,485,570
	<u>11,338,721</u>	<u>18,341,993</u>

There are no overdue balances for contract assets.

In determining the recoverability of a trade receivable, the consolidated entity considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period.

### Note 11. Current assets - inventories

	Consolidated	
	2019	2018
	\$	\$
Consumables - at cost	293,800	293,800
	<u>293,800</u>	<u>293,800</u>



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

### Note 12. Non-current assets - property, plant and equipment

	Consolidated	
	2019 \$	2018 \$
Plant and equipment - at cost	13,263,030	10,029,619
Less: Accumulated depreciation	(10,098,551)	(6,885,543)
	<u>3,164,479</u>	<u>3,144,076</u>
Plant and equipment under lease	320,027	3,003,855
Less: Accumulated depreciation	(103,219)	(2,269,188)
	<u>216,808</u>	<u>734,667</u>
	<u><u>3,381,287</u></u>	<u><u>3,878,743</u></u>

#### Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Plant & Equipment Under Lease \$	Plant & Equipment \$	Total \$
Balance at 30 June 2017	900,645	1,815,900	2,716,545
Additions	267,042	2,273,354	2,540,396
Disposals, Write off of assets	-	(8,909)	(8,909)
Transfers in/(out)	(173,882)	173,882	-
Depreciation expense	(259,138)	(1,110,151)	(1,369,289)
Balance at 30 June 2018	<u>734,667</u>	<u>3,144,076</u>	<u>3,878,743</u>
Additions	52,984	1,009,116	1,062,100
Disposals, Write off of assets	-	(117,978)	(117,978)
Transfers in/(out)	(401,973)	401,973	-
Depreciation expense	(168,870)	(1,272,708)	(1,441,578)
Balance at 30 June 2019	<u>216,808</u>	<u>3,164,479</u>	<u>3,381,287</u>

### Note 13. Financial assets

#### Financial assets held at fair value through other comprehensive income

	Consolidated	
	2019 \$	2018 \$
Shares in listed entities	<u>7,879,585</u>	<u>2,621,911</u>

Shares and options in listed entities are measured at fair value at the end of the reporting period, using quoted market share prices. Refer to note 22 for movement during the year.

These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes. Accordingly, the directors of the consolidated entity have elected to designate these investments in equity instruments as at fair value through other comprehensive income as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the consolidated entity's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

**NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 JUNE 2019

**Note 14. Current liabilities - trade and other payables**

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Trade payables	18,331,250	9,261,816
Accrued expenses	3,662,147	2,525,906
GST payable	111,656	-
Prepaid revenue	271,665	502,428
Other payables	2,389,183	2,945,431
	<u>24,765,901</u>	<u>15,235,581</u>

Refer to note 22 for further information on financial instruments.

Trade payables are non-interest bearing and are normally settled on 30 day terms.  
The net of GST payable and GST receivable is remitted to the appropriate tax body on a monthly basis.

**Note 15. Borrowings****Current liabilities - borrowings**

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Lease liability	<u>500,706</u>	<u>336,110</u>

**Non-current liabilities - borrowings**

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Lease liability	<u>49,536</u>	<u>128,932</u>

Refer to note 22 for further information on financial instruments.

*Total secured liabilities*

The total secured liabilities (current and non-current) are as follows:

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Lease liability	<u>550,242</u>	<u>465,042</u>

*Assets pledged as security*

The lease liabilities are effectively secured as the rights to the leased assets, recognised in the statement of financial position, revert to the lessor in the event of default.

**NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 JUNE 2019

**Note 16. Provisions****Current liabilities - provisions**

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Annual leave	4,038,384	4,404,077
Long service leave	1,254,747	-
Warranties	1,474,374	5,735,691
Project returns	266,700	1,511,377
	<u>7,034,205</u>	<u>11,651,145</u>

**Movement in provisions**

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
<i>Provision for annual leave</i>		
Balance at beginning of year	4,404,077	4,035,862
Additional provisions recognised	2,744,084	3,521,404
Amounts used	<u>(3,109,777)</u>	<u>(3,153,189)</u>
Balance at end of year	<u>4,038,384</u>	<u>4,404,077</u>

*Provision for warranty and defects liability*

Balance at beginning of year	5,735,691	4,798,685
Additional provisions/(reduction in provisions) recognised	(2,321,135)	1,621,477
Amounts used	<u>(1,940,182)</u>	<u>(684,471)</u>
Balance at end of year	<u>1,474,374</u>	<u>5,735,691</u>

*Provision for project returns*

Balance at beginning of year	1,511,377	-
Additional provisions/(reduction in provisions) recognised	(1,244,677)	1,511,377
Amounts used	-	-
Balance at end of year	<u>266,700</u>	<u>1,511,377</u>

**Non-current liabilities - provisions**

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Long service leave	<u>1,300,989</u>	<u>2,557,618</u>

**Movement in provisions**

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
<i>Provision for long service leave</i>		
Balance at beginning of year	2,557,618	2,681,091
Additional provisions recognised	536,068	237,437
Amounts used	<u>(537,950)</u>	<u>(360,910)</u>
Balance at end of year	<u>2,555,736</u>	<u>2,557,618</u>

*Provision for long service leave - reconciled as follows :*

Long service leave - current	1,254,747	-
Long service leave - non-current	<u>1,300,989</u>	<u>2,557,618</u>
	<u>2,555,736</u>	<u>2,557,618</u>



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

### Note 17. Contract liabilities

	Consolidated	
	2019	2018
	\$	\$
Contract liabilities - current liabilities	<u>1,524,265</u>	<u>1,831,981</u>

### Contracts in progress

	Consolidated	
	2019	2018
	\$	\$
Progress billings - mineral processing	350,558,575	358,163,468
Construction costs to date plus recognised profits - mineral processing	<u>(349,722,892)</u>	<u>(357,246,403)</u>
	<u>835,683</u>	<u>917,065</u>

Contract liabilities relating to construction contracts are balances due to customers under construction contracts. These arise if a particular milestone payment exceeds the revenue recognised to date under the cost-to-cost method.

### Note 18. Equity - issued capital

	Consolidated		Consolidated	
	2019	2018	2019	2018
	Shares	Shares	\$	\$
<i>Ordinary shares - fully paid</i>				
Opening balance	153,445,689	153,254,260	30,445,356	30,388,000
Additional shares issued :				
Exercise of performance rights	177,500	55,000	117,530	25,190
Exercise of share appreciation rights	-	136,429	-	32,166
Ordinary shares - fully paid	<u>153,623,189</u>	<u>153,445,689</u>	<u>30,562,886</u>	<u>30,445,356</u>

#### *Ordinary shares*

Fully paid ordinary shares carry one vote per share and carry a right to dividends.

#### *Share appreciation rights*

As at 30 June 2019, the consolidated entity had on issue a total of 500,000 share appreciation rights to Geoff Jones, Managing Director, as part of the consolidated entity's equity incentive plan (as at 30 June 2018: 1,150,000).

Number of shares under share appreciation rights	Grant date	Vesting date	Exercise price	Performance condition share price target
500,000	15/11/2016	30/06/2020	\$0.89	\$1.50

#### *Performance rights*

As at 30 June 2019, the consolidated entity had on issue a total of 1,920,000 performance rights (as at 30 June 2018: 2,282,500):

Number of performance rights	Grant date	Expiry date	Exercise price
30,000	13/07/2017	15/06/2020	Nil
1,685,000	21/08/2017	20/08/2020	Nil
60,000	21/08/2017	02/08/2020	Nil
50,000	28/08/2017	21/08/2020	Nil
35,000	01/11/2017	01/11/2020	Nil
60,000	14/06/2018	14/06/2021	Nil



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

**Note 19. Equity - reserves**

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Foreign currency reserve	(710,315)	(728,661)
Performance rights reserve	1,029,128	607,610
Share options reserve	-	584,497
Share appreciation rights reserve	210,706	370,363
Investment revaluation reserve	324,325	(267,168)
	<u>853,844</u>	<u>566,641</u>

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
<i>Foreign currency reserve</i>		
Balance at beginning of year	(728,661)	(1,095,504)
Additional amounts recognised	18,346	366,843
Balance at end of year	<u>(710,315)</u>	<u>(728,661)</u>

The above foreign currency reserve represents foreign exchange differences resulting from translation of foreign currency amounts held in subsidiaries of the consolidated entity.

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
<i>Performance rights reserve</i>		
Balance at beginning of year	607,610	93,345
Additional amounts recognised	539,048	539,455
Amount exercised	(117,530)	(25,190)
Balance at end of year	<u>1,029,128</u>	<u>607,610</u>

The above performance rights reserve relates to performance rights granted and vested by the consolidated entity to its employees under its equity incentive plan.

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
<i>Share options reserve</i>		
Balance at beginning of year	584,497	584,497
Lapsed and transferred to retained earnings	(584,497)	-
Balance at end of year	<u>-</u>	<u>584,497</u>

The above share options reserve relates to share options granted and vested by the consolidated entity to its employees under its employee share option plan.

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
<i>Share appreciation rights reserve</i>		
Balance at beginning of year	370,363	167,233
Additional amounts recognised	80,367	235,296
Amount exercised	-	(32,166)
Lapsed and transferred to retained earnings	(240,024)	-
Balance at end of year	<u>210,706</u>	<u>370,363</u>

The above share appreciation rights reserve relates to share appreciation rights granted and vested by the consolidated entity to its employees under its equity incentive plan.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

**Note 19. Equity - reserves (continued)**

	Consolidated	
	2019	2018
	\$	\$
<i>Investment revaluation reserve</i>		
Balance at beginning of year	(267,168)	(287,926)
Movement in fair value	635,810	(868,006)
Amount taken to profit or loss	-	810,321
Tax effect of movement in fair value	(44,317)	78,443
Balance at end of year	<u>324,325</u>	<u>(267,168)</u>

The above investment revaluation reserve relates to the revaluation of shares held in listed entities to fair value at the end of the reporting period. The fair value is determined using the quoted share price at 30 June 2019.

**Note 20. Equity - retained profits**

	Consolidated	
	2019	2018
	\$	\$
Retained profits at the beginning of the financial year	21,459,083	19,013,345
Transfers from reserves	824,521	-
Profit after income tax expense for the year	6,529,813	11,640,993
Payment of dividends	<u>(13,814,612)</u>	<u>(9,195,255)</u>
Retained profits at the end of the financial year	<u>14,998,805</u>	<u>21,459,083</u>

**Note 21. Equity - dividends**

	Consolidated	
	2019	2018
	\$	\$
<i>Dividends</i>		
<b>Year ended 30 June 2018</b>		
Dividend paid 28 March 2018 (fully franked at 30% tax rate):		
6 cents per ordinary share		9,195,255
<b>Year ended 30 June 2019</b>		
Dividend paid 24 October 2018 (unfranked):	7,674,784	
5 cents per ordinary share		
Dividend paid 4 April 2019 (fully franked at 30% tax rate):	6,139,828	
4 cents per ordinary share		
	<u>13,814,612</u>	<u>9,195,255</u>

On 21 August 2019, the consolidated entity declared an unfranked dividend of 2.0 cents per share, an aggregate of \$3,072,464. The Record Date of the dividend is 11 October 2019 and the proposed payment date is 23 October 2019.

*Franking credits*

	Consolidated	
	2019	2018
	\$	\$
Franking (debits)/credits available for subsequent financial years based on a tax rate of 30%	<u>(2,223,015)</u>	<u>(448,346)</u>



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## Note 22. Financial instruments

### Financial risk management objectives

The consolidated entity is exposed to risks in relation to its financial instruments. These risks include market risk (consisting of foreign currency risk and interest rate risk), credit risk, liquidity risk and equity risk.

A summary of the consolidated entity's financial instruments are as follows:

	Consolidated	
	2019	2018
	\$	\$
<b>Financial assets</b>		
Cash and cash equivalents - amortised cost	31,432,874	21,751,300
Trade and other receivables - amortised cost	35,480,709	45,648,672
Equity instruments - fair value through other comprehensive income	7,879,585	2,621,911
Total financial assets	<u>74,793,168</u>	<u>70,021,883</u>
<b>Financial liabilities</b>		
Trade and other payables - amortised cost	24,765,901	15,235,581
Finance lease liabilities - amortised cost	550,242	465,042
Total financial liabilities	<u>25,316,143</u>	<u>15,700,623</u>

### Capital risk management

The consolidated entity manages its capital to ensure the ability to continue as a going concern while maximising the return to stakeholders. The capital structure of the consolidated entity consists of equity in the form of issued capital, reserves and retained earnings. There is no requirement for borrowings at this stage, as there are sufficient reserves of cash balances.

### Market risk

#### Foreign currency risk

The consolidated entity and the parent entity undertakes certain transactions denominated in foreign currency and are exposed to foreign currency risk through foreign exchange rate fluctuations.

The carrying amounts in Australian dollars (AUD) of the consolidated entity's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows.

	Assets		Liabilities	
	2019	2018	2019	2018
	AUD \$	AUD \$	AUD \$	AUD \$
United States Dollars	2,284,597	1,189,205	(175,813)	(53,274)
Great British Pounds	83,206	21,754	(126,150)	(159,821)
Euro	12,771	103,008	(9,886)	(3,589)
	<u>2,380,574</u>	<u>1,313,967</u>	<u>(311,849)</u>	<u>(216,684)</u>

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

The consolidated entity holds balances in United States dollars, these balances are translated into Australian dollars at the prevailing exchange rate at 30 June 2019 of AUD \$1 = USD \$0.70 (2018: AUD \$1 = USD \$0.74).

The consolidated entity holds balances in Great British pounds, these balances are translated into Australian dollars at the prevailing exchange rate at 30 June 2019 of AUD \$1 = GBP £0.55 (2018: AUD \$1 = GBP £0.56).

The consolidated entity holds balances in Euro, these balances are translated into Australian dollars at the prevailing exchange rate at 30 June 2019 of AUD \$1 = EUR €0.62 (2018: AUD \$1 = EUR €0.63).



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

### Note 22. Financial instruments (continued)

The following table details the consolidated entity's sensitivity to a 10% increase and decrease in the value of the Australian dollar against the currencies in which monetary assets are held:

	Effect of 10% increase in exchange rate		Effect of 10% decrease in exchange rate	
	Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
	\$	\$	\$	\$
<b>Consolidated - 2019</b>				
United States Dollars	(188,479)	(188,479)	238,255	238,255
Great British Pounds	4,127	4,127	(4,498)	(4,498)
Euro	(279)	(279)	300	300
	<u>(184,631)</u>	<u>(184,631)</u>	<u>234,057</u>	<u>234,057</u>
	Effect of 10% increase in exchange rate		Effect of 10% decrease in exchange rate	
	Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
	\$	\$	\$	\$
<b>Consolidated - 2018</b>				
United States Dollars	(102,996)	(102,996)	126,545	126,545
Great British Pounds	12,556	12,556	(15,336)	(15,336)
Euro	(9,026)	(9,026)	11,062	11,062
	<u>(99,466)</u>	<u>(99,466)</u>	<u>122,271</u>	<u>122,271</u>

#### Interest rate risk

The board has considered the consolidated entity's exposure to interest rate risk by analysing the effect on profit and equity of an interest rate increase or decrease of one percentage point in the following table:

	Effect of 1% increase in interest rate		Effect of 1% decrease in interest rate	
	Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
	\$	\$	\$	\$
<b>Consolidated - 2019</b>				
Interest revenue	214,998	214,998	(214,998)	(214,998)
	<u>214,998</u>	<u>214,998</u>	<u>(214,998)</u>	<u>(214,998)</u>
	Effect of 1% increase in interest rate		Effect of 1% decrease in interest rate	
	Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
	\$	\$	\$	\$
<b>Consolidated - 2018</b>				
Interest revenue	294,251	294,251	(294,251)	(294,251)
	<u>294,251</u>	<u>294,251</u>	<u>(294,251)</u>	<u>(294,251)</u>



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

### Note 22. Financial instruments (continued)

#### **Equity price risk**

The consolidated entity is exposed to equity price risks arising from equity investments.

The sensitivity analysis below has been determined based on the exposure of the consolidated entity to a 5% increase or decrease in equity prices at the end of the reporting period.

- other comprehensive income for the year ended 30 June 2019 would increase by \$393,979 (2018: \$131,096) as a result of an increase of 5% in equity prices, and decrease by \$393,979 (2018: \$131,096) as a result of a decrease of 5% in equity prices.

#### **Credit risk management**

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the consolidated entity. The consolidated entity has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The consolidated entity uses independent rating agencies, publicly available financial information and other trading records to rate its major customers. Legally binding contracts are entered into to determine payment terms in relation to major projects.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The consolidated entity does not have significant credit risk exposure to any single counterparty or group of counterparties.

#### **Liquidity risk management**

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the consolidated entity's short-, medium- and long-term funding and liquidity management requirements. The consolidated entity manages liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

### Note 22. Financial instruments (continued)

#### Liquidity and interest rate risk tables

The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Consolidated - 2019	Weighted average interest rate %	Remaining contractual maturities			Total \$
		Less than 6 months \$	6 to 12 months \$	Over 12 months \$	
<b>Non-derivatives</b>					
<i>Non-interest bearing</i>					
Trade payables	-	24,765,901	-	-	24,765,901
<i>Interest-bearing - fixed rate</i>					
Lease liability	3.61%	445,134	55,572	49,536	550,242
Total non-derivatives		<u>25,211,035</u>	<u>55,572</u>	<u>49,536</u>	<u>25,316,143</u>

Consolidated - 2018	Weighted average interest rate %	Remaining contractual maturities			Total \$
		Less than 6 months \$	6 to 12 months \$	Over 12 months \$	
<b>Non-derivatives</b>					
<i>Non-interest bearing</i>					
Trade payables	-	15,235,581	-	-	15,235,581
<i>Interest-bearing - fixed rate</i>					
Lease liability	3.94%	198,859	137,251	128,932	465,042
Total non-derivatives		<u>15,434,440</u>	<u>137,251</u>	<u>128,932</u>	<u>15,700,623</u>

#### Fair value of financial instruments

The fair values of financial assets and liabilities, together with their carrying amounts in the statement of financial position, for the consolidated entity are as follows:

Consolidated	2019		2018	
	Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
<b>Assets</b>				
Cash at bank	28,432,874	28,432,874	21,751,300	21,751,300
Cash on deposit	3,000,000	3,000,000	-	-
Trade receivables	35,480,709	35,480,709	45,648,672	45,648,672
Equity instruments	7,879,585	7,879,585	2,621,911	2,621,911
	<u>74,793,168</u>	<u>74,793,168</u>	<u>70,021,883</u>	<u>70,021,883</u>
<b>Liabilities</b>				
Trade payables	24,765,901	24,765,901	15,235,581	15,235,581
Lease liability	550,242	550,242	465,042	465,042
	<u>25,316,143</u>	<u>25,316,143</u>	<u>15,700,623</u>	<u>15,700,623</u>



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

**Note 22. Financial instruments (continued)**

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The financial assets and liabilities of the consolidated entity are classified into these categories below:

**Fair value hierarchy - 2019**

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<i>Financial assets</i>				
Trade receivables	-	35,480,709	-	35,480,709
Equity instruments	7,879,585	-	-	7,879,585
	<u>7,879,585</u>	<u>35,480,709</u>	<u>-</u>	<u>43,360,294</u>
<i>Financial liabilities</i>				
Trade payables	-	24,765,901	-	24,765,901
Lease liability	-	550,242	-	550,242
	<u>-</u>	<u>25,316,143</u>	<u>-</u>	<u>25,316,143</u>

**Fair value hierarchy - 2018**

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<i>Financial assets</i>				
Trade receivables	-	45,648,672	-	45,648,672
Equity instruments	2,621,911	-	-	2,621,911
	<u>2,621,911</u>	<u>45,648,672</u>	<u>-</u>	<u>48,270,583</u>
<i>Financial liabilities</i>				
Trade payables	-	15,235,581	-	15,235,581
Lease liability	-	465,042	-	465,042
	<u>-</u>	<u>15,700,623</u>	<u>-</u>	<u>15,700,623</u>

The fair values of the financial assets and financial liabilities included in the level 2 and level 3 categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

Reconciliation of Level 1 fair value measurements:

	Consolidated	
	2019 \$	2018 \$
<i>Equity instruments</i>		
Opening balance	2,621,911	3,129,121
Additions	4,621,864	250,000
Disposals	-	-
Net revaluations in other comprehensive income	635,810	(757,210)
Closing balance	<u>7,879,585</u>	<u>2,621,911</u>



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

**Note 23. Key management personnel disclosures***Directors*

The following persons were directors of GR Engineering Services Limited during the financial year:

**Executive directors**

Geoff Jones	Managing Director
Tony Patrizi	Executive Director

**Non-executive directors**

Phil Lockyer	Non-Executive Chairman
Peter Hood	Non-Executive Director
Barry Patterson	Non-Executive Director
Terry Strapp	Non-Executive Director (Resigned 6 November 2018)

*Other key management personnel*

The following persons also had the authority and responsibility for planning, directing and controlling the major activities of the consolidated entity, directly or indirectly, during the financial year:

**Executives**

David Sala Tenna	Manager - Projects
Joe Totaro	Chief Financial Officer and Company Secretary (Resigned 16 April 2019)
Omesh Motiwalla	Chief Financial Officer and Company Secretary (Appointed 16 April 2019)
Rodney Schier	Engineering Manager
Stephen Kendrick	Manager - Projects
Thomas Marshall	Manager - Eastern Region & Americas

**Remuneration of key management personnel**

Information on remuneration of key management personnel is set out in the Remuneration Report in the Directors Report.

The aggregate compensation made to key management personnel of the consolidated entity is set out below:

	Consolidated	
	2019	2018
	\$	\$
Short term benefits	2,723,119	2,868,107
Post employment benefits	211,603	217,209
Share based payments	102,067	285,930
Other	-	57,569
	<u>3,036,789</u>	<u>3,428,815</u>

**Note 24. Remuneration of auditors**

During the financial year the following fees were paid or payable for services provided by Deloitte Touche Tohmatsu, the auditor of the company, and its network firms:

	Consolidated	
	2019	2018
	\$	\$
<i>Audit services - Deloitte Touche Tohmatsu</i>		
Audit or review of the financial statements - Deloitte Touche Tohmatsu Australia	145,521	135,473
Audit or review of the financial statements - Deloitte Touche Tohmatsu UK	13,700	13,276
<i>Other services - Deloitte Touche Tohmatsu</i>		
Tax compliance - Deloitte Touche Tohmatsu Australia	33,859	27,300
	<u>193,080</u>	<u>176,049</u>



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## Note 25. Contingent liabilities

The consolidated entity has bank guarantees in place as at 30 June 2019 of \$8,082,149 (2018: \$13,093,965).

The consolidated entity's standby multi-option facility has a limit of \$70,000,000. The facilities are secured by a fixed and floating charge over all the assets of the consolidated entity. The consolidated entity provides bank guarantees under this facility to support project performance in favour of certain clients. The amount of these bank guarantees at 30 June 2019 is \$7,614,228 (30 June 2018: \$12,744,809). The consolidated entity has a bank guarantee facility with National Australia Bank to provide guarantees for the security of rental properties to the value of \$467,921 (30 June 2018: \$349,156). The amount of bank guarantees issued under this facility at 30 June 2019 is \$467,921 (30 June 2018: \$349,156).

The consolidated entity has a \$40 million insurance bond facility with Tokio Marine & Nichido Fire Insurance Co., Ltd. and an additional \$20 million insurance bond facility with Allianz Australia Insurance Limited. These facilities are utilised to provide retention and off site materials bonds in connection with certain projects. The amount of insurance bonds issued under the Allianz Australia Insurance Limited facility at 30 June 2019 is \$895,749 (2018: nil). No bonds were on issue under the Tokio Marine & Nichido Fire Insurance Co., Ltd. facility as at 30 June 2019 (2018: nil).

GR Engineering Services Limited, the parent company, has provided guarantees and indemnities in relation to certain contracts entered into by its subsidiaries. Liability under these guarantees and indemnities is limited to the relevant subsidiaries' contracted limits of liability under the contracts.

## Note 26. Commitments

The consolidated entity has leased certain items of its equipment under finance leases. The average lease term is 3 years (2018: 4 years). The consolidated entity has options to purchase the equipment for a nominal amount at the end of the lease terms. The consolidated entity's obligations under finance leases are secured by the lessors' title to the leased assets.

### Finance Leases

	Consolidated	
	2019	2018
	\$	\$
Not longer than 1 year	509,831	349,379
Longer than 1 year and not longer than 5 years	50,617	132,608
Longer than 5 years	-	-
Minimum lease payments	560,448	481,987
Less: future finance charges	(10,206)	(16,946)
Present value of minimum lease payments	<u>550,242</u>	<u>465,041</u>

The consolidated entity has operating leases that relate to leases of office buildings with lease terms of between 1 and 5 years. All operating lease contracts contain clauses for market rental reviews.

### Non-Cancellable Operating Lease Commitments

	Consolidated	
	2019	2018
	\$	\$
Not longer than 1 year	1,387,657	1,316,431
Longer than 1 year and not longer than 5 years	2,586,497	2,174,595
Longer than 5 years	-	-
Total lease payments	<u>3,974,154</u>	<u>3,491,026</u>



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

**Note 27. Related party transactions**

During the year ended 30 June 2019, the consolidated entity leased office space at 71 Daly Street, Ascot WA from Ashguard Pty Ltd. Directors of the consolidated entity, Tony Patrizi and Barry Patterson, each have a non-controlling interest in Ashguard Pty Ltd. The total amount invoiced by Ashguard Pty Ltd in the year ended 30 June 2019 amounted to \$675,181 including GST (2018: \$639,775). The balance payable at 30 June 2019 is \$112,780 (2018: \$108,617). In previous years the consolidated entity procured items for Ashguard Pty Ltd. The total amount invoiced to Ashguard Pty Ltd in the year ended 30 June 2019 was nil (2018: \$10,995). The balance outstanding at 30 June 2019 is nil (2018: nil).

The terms of these arrangements are at arms length and at normal commercial terms.

Other than transactions with parties related to key management personnel mentioned above and in the remuneration report, there have been no other transactions with parties related to the consolidated entity in the financial year ending 30 June 2019.

**Note 28. Parent entity information**

The accounting policies of the parent entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements.

Set out below is the supplementary information about the parent entity.

*Statement of profit or loss and other comprehensive income*

	Parent	
	2019 \$	2018 \$
Profit after income tax	<u>3,161,667</u>	<u>10,816,275</u>
Total comprehensive income	<u>3,753,160</u>	<u>10,026,712</u>

*Statement of financial position*

	Parent	
	2019 \$	2018 \$
Total current assets	<u>41,692,231</u>	<u>53,911,296</u>
Total assets	<u>52,397,714</u>	<u>61,990,997</u>
Total current liabilities	<u>21,614,990</u>	<u>20,048,783</u>
Total liabilities	<u>21,614,990</u>	<u>21,812,327</u>
Equity		
Issued capital	30,562,886	30,445,356
Performance rights reserve	1,029,128	607,610
Share options reserve	-	584,497
Share appreciation rights reserve	210,706	370,363
Investment revaluation reserve	324,325	(313,259)
Retained profits	<u>(1,344,321)</u>	<u>8,484,103</u>
Total equity	<u>30,782,724</u>	<u>40,178,670</u>

The contingent liabilities and commitments of the parent entity are the same as those of the consolidated entity, as set out in notes 25 and 26.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

### Note 29. Events after the reporting period

On 21 August 2019, the consolidated entity declared an unfranked dividend of 2.0 cents per share, an aggregate of \$3,072,464. The Record Date of the dividend is 11 October 2019 and the proposed payment date is 23 October 2019.

On 10 July 2019, the National Offshore Petroleum Safety and Environmental Management Authority (NOPSEMA) issued a prohibition notice requiring the Northern Endeavour Floating Production Storage and Offloading (FPSO) vessel to halt all production and cease all operations immediately due to structural corrosion concerns. The FPSO is owned by Northern Oil & Gas Australia (NOGA) and Upstream PS is the operator of this vessel. NOGA and Upstream PS are working together to resolve the issues identified in order for the FPSO to recommence production as soon as possible, subject to NOPSEMA approval.

No other matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

### Note 30. Earnings per share

	Consolidated	
	2019	2018
	\$	\$
Profit after income tax attributable to the owners of GR Engineering Services Limited	<u>6,529,813</u>	<u>11,640,993</u>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	153,524,538	153,268,497
Adjustments for calculation of diluted earnings per share:		
Weighted average number of employee performance rights and share appreciation rights issued	<u>2,420,000</u>	<u>3,080,048</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>155,944,538</u>	<u>156,348,545</u>
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	4.25	7.60
Diluted earnings per share	4.19	7.45

There is no impact on basic and diluted earnings per share from the adoption of AASB 9 and AASB 15.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

**Note 31. Share-based payments**

An Equity Incentive Plan was adopted by the consolidated entity on 28 March 2012, and was updated on 8 October 2015. At the discretion of the Board, all eligible employees of the consolidated entity or eligible consultants may participate in the Plan. Non-executive directors are not eligible to participate in the Plan.

The Plan is designed to align the interests of executives and employees with the interests of shareholders by providing an opportunity to receive an equity interest in the consolidated entity and therefore direct participation in the benefits of future consolidated entity performance over the medium to long term.

The consolidated entity has issued a total of 5,200,000 performance rights to employees and long term contractors under the Plan. Each right entitles the employee to acquire one fully paid share in the consolidated entity for nil consideration, subject to the employees meeting a service term of three years from the date of grant. During the financial year ending 30 June 2019 no performance rights were issued under the Plan (2018: 2,155,000).

During the financial year a total of 177,500 performance rights vested (2018: 55,000). A total of 988,945 performance rights have lapsed due to resignations and redundancies of entitled employees since the date of issue of the first tranche of rights. Of this total 185,000 have lapsed in the financial year ending 30 June 2019 (2018: 232,500).

A summary of performance rights on issue at 30 June 2019 follows:

	<b>Tranche 12</b>	<b>Tranche 13</b>	<b>Tranche 15</b>
Number issued	30,000	1,685,000	60,000
Number lapsed	-	-	-
Grant date	13 Jul 2017	21 Aug 2017	21 Aug 2017
Exercise price	Nil	Nil	Nil
Vesting date	15 Jun 2020	20 Aug 2020	2 Aug 2020
Expiry date	15 Jun 2020	20 Aug 2020	2 Aug 2020
Vesting period (years)	3	3	3
Vesting conditions	Nil	Nil	Nil
Fair value	\$1.065	\$1.035	\$1.041
	<b>Tranche 16</b>	<b>Tranche 17</b>	<b>Tranche 18</b>
Number issued	50,000	35,000	60,000
Number lapsed	-	-	-
Grant date	28 Aug 2017	1 Nov 2017	14 Jun 2018
Exercise price	Nil	Nil	Nil
Vesting date	21 Aug 2020	1 Nov 2020	14 Jun 2021
Expiry date	21 Aug 2020	1 Nov 2020	14 Jun 2021
Vesting period (years)	3	3	3
Vesting conditions	Nil	Nil	Nil
Fair value	\$0.951	\$0.978	\$1.010



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

### Note 31. Share-based payments (continued)

The fair value of performance rights granted during the year was calculated using a Black-Scholes pricing model applying inputs as follows:

	<b>Tranche 12</b>	<b>Tranche 13</b>	<b>Tranche 15</b>
Grant date share price	\$1.470	\$1.440	\$1.440
Exercise price	-	-	-
Expected volatility	50%	50%	50%
Term (years)	3	3	3
Dividend yield	11%	11%	11%
Risk free interest rate	1.94%	1.95%	1.95%

  

	<b>Tranche 16</b>	<b>Tranche 17</b>	<b>Tranche 18</b>
Grant date share price	\$1.320	\$1.360	\$1.410
Exercise price	-	-	-
Expected volatility	50%	50%	50%
Term (years)	3	3	3
Dividend yield	11%	11%	11%
Risk free interest rate	1.99%	1.99%	2.14%

### Movement in performance rights

<b>Consolidated</b>	<b>2019</b>		<b>2018</b>	
	<b>Number of performance rights</b>	<b>Weighted average exercise price</b>	<b>Number of performance rights</b>	<b>Weighted average exercise price</b>
Balance at beginning of year	2,282,500	-	415,000	-
Granted during the year	-	-	2,155,000	-
Vested during the year	(177,500)	-	(55,000)	-
Forfeited during the year	(185,000)	-	(232,500)	-
Balance at end of year	<u>1,920,000</u>	<u>-</u>	<u>2,282,500</u>	<u>-</u>

The weighted average fair value of performance rights granted at 30 June 2019 is \$1.03. The weighted average exercise price of these performance rights at 30 June 2019 is nil. The weighted average remaining contractual life of performance rights outstanding at 30 June 2019 is 426 days.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

### Note 31. Share-based payments (continued)

The consolidated entity has issued a total of 4,419,337 share appreciation rights to Geoff Jones, Managing Director, as part of the consolidated entity's equity incentive plan. During the financial year ending 30 June 2019, no share appreciation rights vested (2018: 213,334). The share appreciation rights are subject to vesting conditions, namely the participant being employed by the consolidated entity as Managing Director and the share price being equal to or greater than the exercise price at the vesting date.

Class	Number of share appreciation rights	Grant date	Vesting date	Exercise price	Performance condition share price targets	Fair value at grant date
A	1,600,000	12 Nov 2013	30 Jun 2014	\$0.50	\$0.60	\$0.18
B	727,273	12 Nov 2013	30 Jun 2015	\$0.50	\$0.72	\$0.18
C	432,433	12 Nov 2013	30 Jun 2016	\$0.50	\$0.86	\$0.18
D	296,297	12 Nov 2013	30 Jun 2017	\$0.50	\$1.04	\$0.16
E	213,334	12 Nov 2013	30 Jun 2018	\$0.50	\$1.24	\$0.15
F	650,000	15 Nov 2016	30 Jun 2019	\$0.89	\$1.36	\$0.60
G	500,000	15 Nov 2016	30 Jun 2020	\$0.89	\$1.50	\$0.58

The fair value of share appreciation rights still on issue was calculated using a Monte Carlo pricing model applying inputs as follows:

	Class G
Grant date share price	\$1.63
Exercise price	\$0.89
Expected volatility	50%
Vesting period (years)	3
Dividend yield	8%
Risk free interest rate	1.84%

### Movement in share appreciation rights

Consolidated	2019		2018	
	Number of share appreciation rights	Weighted average exercise price	Number of share appreciation rights	Weighted average exercise price
Balance at beginning of year	1,150,000	-	1,363,334	-
Granted during the year	-	-	-	-
Vested, exercised or lapsed during the year	(650,000)	-	(213,334)	-
Balance at end of year	<u>500,000</u>	<u>-</u>	<u>1,150,000</u>	<u>-</u>

The weighted average fair value of share appreciation rights granted at 30 June 2019 is \$0.58. The weighted average exercise price of these share appreciation rights at 30 June 2019 is \$0.89. The weighted average remaining contractual life of share appreciation rights outstanding at 30 June 2019 is 366 days.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

### Note 32. Subsidiaries

The consolidated financial statements incorporate the following subsidiaries at the end of the reporting period.

Name of subsidiary	Country of incorporation	Equity holding	
		2019	2018
GR Engineering Services (Indonesia) Pty Limited	Australia	100%	100%
GR Engineering Services (Argentina) Pty Limited	Australia	100%	100%
PT GR Engineering Services Indonesia *	Indonesia	100%	100%
GR Engineering Services (Africa)	Mauritius	100%	100%
GR Engineering Services (UK) Limited	United Kingdom	100%	100%
GR Engineering Services (Ghana) Limited **	Ghana	100%	100%
GR Engineering Services (Côte D'Ivoire) **	Côte D'Ivoire	100%	100%
GR Engineering Services (Mali) **	Mali	100%	100%
GR Engineering Services (Tengrela) ***	Côte D'Ivoire	100%	100%
GR Engineering Services Peru S.A.	Peru	100%	100%
GR Engineering Services (Greece) +	Greece	100%	100%
GR Engineering Services (Tanzania) Limited	Tanzania	100%	100%
GR Engineering Services Turkey Limited	Turkey	100%	100%
GR Engineering Services Americas Inc. **	USA	100%	-
Upstream Production Solutions Pty Ltd	Australia	100%	100%

\* PT GR Engineering Services Indonesia is 90% owned by GR Engineering Services Limited and 10% owned by GR Engineering Services (Indonesia) Pty Limited.

\*\* GR Engineering Services (Ghana) Limited, GR Engineering Services (Côte D'Ivoire) and GR Engineering Services (Mali) are 100% owned by GR Engineering Services (Africa).

\*\*\* GR Engineering Services (Tengrela) is dormant.

+ GR Engineering Services (Greece) is 100% owned by GR Engineering Services (UK) Limited.

\*\* GR Engineering Services Americas Inc. was incorporated on 23 October 2018.



## DIRECTORS' DECLARATION

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
- (b) in the directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 2 to the financial statements;
- (c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity; and
- (d) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors

A handwritten signature in black ink, appearing to read 'G Jones', written over a large, hand-drawn oval scribble.

Name: Geoff Jones  
Managing Director  
Date: 26 August 2019



## INDEPENDENT AUDITOR'S REPORT

**Deloitte.**

Deloitte Touche Tohmatsu  
ABN 74 490 121 060

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### Independent Auditor's Report to the members of GR Engineering Services Limited

#### *Qualified Opinion*

We have audited the financial report of GR Engineering Services Limited (the "Company") and its subsidiaries (the "Group"), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### *Basis for Qualified Opinion*

The Group has trade and other receivables of \$35,480,709 as at 30 June 2019. Included in this amount are outstanding trade receivables of \$8,941,332 and contract assets of \$2,014,429 in respect of which we have been unable to obtain sufficient appropriate audit evidence to determine whether these amounts will be recoverable by the Group. Accordingly, we have been unable to determine whether the recoverable amounts of these trade receivables and contract assets are at least equal to their carrying values. In the event that the carrying values of these trade receivables and contract assets exceed their recoverable amounts, it would be necessary for the carrying values to be written down to their recoverable amounts.

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.

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# INDEPENDENT AUDITOR'S REPORT



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

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

### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How the scope of our audit responded to the Key Audit Matter
<p><b>Recognition of revenue</b></p> <p>As disclosed in Note 5, revenue recognised for the year ended 30 June 2019 relating to both mineral processing and oil and gas contracts was \$182,256,105.</p> <p>As disclosed in Note 3, revenue and costs are recognised by reference to the stage of completion of the contract activity for mineral processing contracts.</p> <p>The recognition of revenue for mineral processing contracts requires significant management judgement including:</p> <ul style="list-style-type: none"> <li>• Determining the stage of completion;</li> <li>• Estimating total contract revenue and contract cost including the estimation of cost contingencies;</li> <li>• Determining contractual entitlement and assessing the probability of customer approval of variations and acceptance of claims; and</li> <li>• Estimating the project completion date.</li> </ul>	<p>Our procedures included, but were not limited to:</p> <p>Evaluating management's processes and controls in respect of the recognition of mineral processing revenue. As part of this process we tested key controls including:</p> <ul style="list-style-type: none"> <li>• The preparation, review and authorisation of monthly contract status report for all contracts;</li> <li>• The estimation, review and monitoring of costs to complete; and</li> <li>• The comprehensive project reviews that are undertaken by Group management on a monthly basis.</li> </ul> <p>Selecting a sample of contracts for testing based on a number of quantitative and qualitative factors which may indicate that a greater level of judgement is required in recognising revenue, including:</p> <ul style="list-style-type: none"> <li>• Contract history;</li> <li>• Significant unapproved claims and variations;</li> <li>• Delay risk;</li> <li>• High-value contracts; and</li> <li>• Loss-making contracts.</li> </ul>

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# INDEPENDENT AUDITOR'S REPORT



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Key audit matter	How the scope of our audit responded to the Key Audit Matter
	<p>For our sample of contracts selected for testing referred to above, we performed the following:</p> <ul style="list-style-type: none"> <li>• Obtained a detailed understanding of the contract terms and conditions to evaluate whether the individual characteristics of each contract were reflected in management's estimate of forecast costs and revenue;</li> <li>• Tested a sample of costs incurred to date and agreed these to supporting documentation;</li> <li>• Assessed the current programme status against the original budgeted programme;</li> <li>• Challenged the forecast costs to complete through discussion and challenge of project managers and finance personnel, as well as inspection of supporting documentation for contracted costs;</li> <li>• Tested contractual entitlement, variations and claims recognised within contract revenue through agreement to supporting documentation and by reference to the underlying contract;</li> <li>• Evaluated significant exposures to liquidated damages for late delivery of contract works; and</li> <li>• Evaluated contract performance in the period since year end to audit opinion date to reflect on year-end revenue recognition judgements.</li> </ul> <p>Assessing the appropriateness of the disclosures in Notes 3 and 5 to the financial statements.</p>
<p><b>Provision for warranty</b></p> <p>As disclosed in Note 16, the warranty provision as at 30 June 2018 was \$1,474,374.</p> <p>The assessment of the provision for warranty requires management to make an estimate of the likely future costs that may be incurred in relation to ongoing and completed contracts.</p>	<p>Our procedures included, but were not limited to:</p> <p>Obtaining an understanding of how management estimates their provision for warranty.</p> <p>Assessing the provision through:</p> <ul style="list-style-type: none"> <li>• Evaluating the contracts with applicable warranty obligations;</li> <li>• Reviewing historic claim outcomes and the accuracy of management's estimate; and</li> </ul>



# INDEPENDENT AUDITOR'S REPORT



Key audit matter	How the scope of our audit responded to the Key Audit Matter
	<ul style="list-style-type: none"> <li>Assessing the consistency of assumptions applied.</li> </ul> <p>Assessing the appropriateness of the disclosures in Note 3 and 16 to the financial statements.</p>

### Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report, Corporate Directory, Corporate Governance Statement and Additional ASX Information, which we obtained prior to the date of this auditor's report, and also includes the following information which will be included in the annual report (but does not include the financial report and our auditor's report thereon): Chairman's Letter, which is expected to be made available to us after that date.

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.

In connection with our audit of the financial report, our responsibility is to read the other information identified above 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 on the other information that we obtained prior to the date of this auditor's report, 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.

When we read the Chairman's Letter, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action.

### Responsibilities of the Directors for the Financial Report

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

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

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## INDEPENDENT AUDITOR'S REPORT

**Deloitte.**

### *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 judgement and maintain professional skepticism 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 director's 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's audit. We remain solely responsible for our audit opinion.

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## INDEPENDENT AUDITOR'S REPORT

**Deloitte.**

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 with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period 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 Remuneration Report

#### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 13 to 20 of the Directors' Report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of GR Engineering Services Limited, for the year ended 30 June 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.

*Deloitte Touche Tohmatsu*

DELOITTE TOUCHE TOHMATSU

Nicole Menezes  
Partner  
Chartered Accountants  
Perth, 26 August 2019

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# CORPORATE GOVERNANCE STATEMENT

## Approach to Corporate Governance

GR Engineering Services Ltd ABN 12 121 542 738 (**Company**) has established a corporate governance framework, the key features of which are set out in this statement. In establishing its corporate governance framework, the Company has referred to the recommendations set out in the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations 3rd Edition (**Principles & Recommendations**).

The Company has followed each recommendation where the Board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where the Company's corporate governance practices follow a recommendation, the Board has made appropriate statements reporting on the adoption of the recommendation. In compliance with the "if not, why not" reporting regime, where, after due consideration, the Company's corporate governance practices do not follow a recommendation, the Board has explained its reasons for not following the recommendation and disclosed what, if any, alternative practices the Company has adopted instead of those in the recommendation.

The following governance-related documents can be found on the Company's website at [www.gres.com.au](http://www.gres.com.au), under the section marked "Corporate Governance":

### Charters

Board  
Audit and Risk Committee  
Nomination and Remuneration Committee

### Policies and Procedures

Process for Performance Evaluations  
Policy and Procedure for the Selection and (Re)Appointment of Directors  
Induction Program  
Diversity Policy (summary)  
Code of Conduct (summary)  
Policy on Continuous Disclosure (summary)  
Compliance Procedures (summary)  
Shareholder Communication and Investor Relations Policy  
Securities Trading Policy  
Policy and Procedure for Directors  
Risk Management Policy  
Selection, Appointment and Rotation of External Auditors  
Equity Incentive Plan Rules

The Company reports below on whether it has followed each of the recommendations during the 2018/2019 financial year (**Reporting Period**). The information in this statement is current at 21 August 2019. This statement was approved by a resolution of the Board on 21 August 2019.

Cross-references to the Company's Annual Financial Report in this statement are references to the Company's Annual Financial Report for the year ended 30 June 2019, which is, or will be, disclosed on the Company's website [www.gres.com.au](http://www.gres.com.au), under the section marked "News".



# CORPORATE GOVERNANCE STATEMENT

## Principle 1 – Lay solid foundations for management and oversight

### Recommendation 1.1

The Company has established the respective roles and responsibilities of its Board and management, and those matters expressly reserved to the Board and those delegated to management and has documented this in its *Board Charter*.

### Recommendation 1.2

The Company undertakes appropriate checks before appointing a person or putting forward to shareholders a candidate for election as a director and provides shareholders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.

The checks which are undertaken, and the information provided to shareholders are set out in the Company's *Policy and Procedure for the Selection and (Re) Appointment of Directors*.

### Recommendation 1.3

The Company has a written agreement with each director and senior executive setting out the terms of their appointment. The material terms of any employment, service or consultancy agreement the Company, or any of its child entities, has entered into with its Managing Director, any of its directors, and any other person or entity who is related party of the Managing Director or any of its directors has been disclosed in accordance with ASX Listing Rule 3.16.4 (taking into consideration the exclusions from disclosure outlined in that rule).

### Recommendation 1.4

The Company Secretary is accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board as outlined in the Company's Board Charter.

### Recommendation 1.5

The Company has a Diversity Policy, which includes requirements for the Nomination and Remuneration Committee to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the Company's progress in achieving them. A summary of the Company's Diversity Policy is disclosed on the Company's website.

The following measurable objective for achieving gender diversity has been set by the Nomination and Remuneration Committee in accordance with the Diversity Policy:

*"Subject to the identification of suitable qualified candidates, to increase the percentage of professional and senior executive positions occupied by women to 15% by 30 June 2021."*

The Board continues to work towards meeting this objective and continues to foster a workplace environment and recruitment policies designed to achieve greater female participation in the Company's workforce.

The respective proportions of men and women on the Board, in senior executive positions and across the whole organisation are set out in the following table. "Senior executive" for these purposes means a person who is a Key Management Employee, a General Manager or a member of Management:

	Proportion of women
Whole organisation	47 out of 415 (11%) (13% as at 30 June 2018)
Senior executive positions	5 out of 58 (9%) (15% as at 30 June 2018)
Board	0 out of 6 (0%) (0% as at 30 June 2018)



## CORPORATE GOVERNANCE STATEMENT

### Recommendation 1.6

The Chair is responsible for evaluation of the Board and, when deemed appropriate, Board committees and individual directors. The Chair is also responsible for evaluating the Managing Director.

The Chair evaluates the performance of the Managing Director and other Board members through a series of discussions held throughout the year. These discussions include an assessment of the Company's state of affairs, the risks facing the Company and its economic objectives. The Chair evaluates the extent to which each director has contributed to the efficient utilisation of resources, the identification of risk and the achievement of economic objectives. During these discussions the Chair also elicits confidential feedback from each Director on their view of the interpersonal dynamics between Board members and the quality of the Board's decision making.

During the Reporting Period the Chair evaluated the performance of all Directors, including the Managing Director, in accordance with the above process.

### Recommendation 1.7

The Managing Director is responsible for evaluating the performance of senior executives in accordance with the process disclosed in the Company's *Process for Performance Evaluations*.

During the Reporting Period the Managing Director conducted performance evaluations of Senior Executives. Where these evaluations resulted in the identification of areas where the Senior Executive's technical or interpersonal skills could be strengthened, appropriate training or remedial action was formulated and agreed.

## Principle 2 – Structure the board to add value

### Recommendation 2.1

The Board has established a Nomination and Remuneration Committee comprising Phillip Lockyer (Chair), Barry Patterson, and Peter Hood. All members of the Nomination and Remuneration Committee are non-executive directors and all members are independent directors. Accordingly, the Nomination and Remuneration Committee is structured in accordance with Recommendation 2.1.

The Board has adopted a Nomination and Remuneration Committee Charter which describes the role, composition, functions and responsibilities of the Nomination and Remuneration Committee and is disclosed on the Company's website.

### Recommendation 2.2

The Board is comprised of 5 qualified engineers and 1 qualified accountant. The matrix of skills held by the Board is weighted towards those skills which are required to identify, assess, quantify and manage those risks which are most relevant to and prevalent in the Company's business and the industry in which it operates.

The majority of the Company's directors hold, or have held, positions on the boards of other publicly listed companies and all have extensive experience in the management of organisations across a range of industries.

When necessary, the Board engages the services of external experts and consultants to augment its capacity to consider and assess matters which fall outside the domain of its collective expertise.



## CORPORATE GOVERNANCE STATEMENT

### Recommendation 2.3

The Board considers the independence of directors having regard to the relationships listed in Box 2.3 of the Principles & Recommendations. The independent directors of the Company are Messrs Lockyer, Patterson, Hood and Totaro.

Mr Patterson and Mr Totaro are substantial shareholders of the Company. Notwithstanding that they are substantial shareholders the Board considers Mr Patterson and Mr Totaro to be independent directors because they are not members of management and are otherwise free of any interest, position, association or relationship (including those listed in Box 2.3 of the Principles & Recommendations) that might influence in a material respect, their capacity to bring an independent judgement to bear on issues before the Board and to act in the best interests of the Company and its members generally. Further, Mr Patterson's and Mr Totaro's interests as substantial shareholders are considered by the Board to be in line with the interests of all other shareholders.

The length of service of each director is set out in the Directors' Report of the Company's Annual Financial Report.

### Recommendation 2.4

The Board has a majority of directors who are independent.

The Board is comprised of 6 directors, 4 of whom are or are deemed to be independent. The two non-independent directors are Tony Patrizi and Geoff Jones. Tony Patrizi is a founding shareholder of the Company and Geoff Jones has been employed by the Company since 2011, initially as Chief Operating Officer and since 1 July 2013, as Managing Director. Messrs Patrizi and Jones have thorough knowledge of the Company's business and extensive experience in managing the risks it faces. Their continued presence on the Board is therefore highly valued.

The Board is of a size commensurate with the size and nature of the Company. Should the number of Board members increase, it is the intention of the Company to appoint an additional independent director thereby preserving a majority of independent directors.

### Recommendation 2.5

The Chair of the Board is Phillip Lockyer. Mr Lockyer is an independent director and is not the Chief Executive Officer.

### Recommendation 2.6

The Company has an induction program for new directors and senior executives. The goal of the program is to assist new directors to participate fully and actively in Board decision-making at the earliest opportunity and to assist senior executives to participate fully and actively in management decision-making at the earliest opportunity. The Company's *Induction Program* is disclosed on the Company's website.

The Nomination and Remuneration Committee regularly reviews whether the directors as a group have the skills, knowledge and familiarity with the Company and its operating environment required to fulfil their role on the Board and the Board committees effectively using a Board skills matrix. Where any gaps are identified, the Nomination and Remuneration Committee considers what training or development should be undertaken to fill those gaps. In particular, the Nomination and Remuneration Committee ensures that any director who does not have specialist accounting skills or knowledge has a sufficient understanding of accounting matters to fulfil his or her responsibilities in relation to the Company's financial statements. Directors also receive ongoing briefings from the Company Secretary and Chief Financial Officer on developments in accounting standards.



## CORPORATE GOVERNANCE STATEMENT

### Principle 3 – Act ethically and responsibly

#### Recommendation 3.1

The Company has established a Code of Conduct for its directors, senior executives and employees, which is disclosed on the Company's website.

### Principle 4 – Safeguard integrity in corporate reporting

#### Recommendation 4.1

The Board has established an Audit and Risk Committee. The members of the Audit and Risk Committee are Messrs Hood (Chairman), Patterson and Lockyer. All members of the Audit and Risk Committee are independent non-executive directors and the Audit and Risk Committee is chaired by Mr Hood who is not also Chairman of the Board. Accordingly, the Audit and Risk Committee is structured in compliance with Recommendation 4.1.

Peter Hood (*BE (Chem), MAustIMM, FIChemE, FAICD*) is a Chemical Engineer and was formerly the Chief Executive Officer of Coogee Chemicals and Coogee Resources. He was Chairman of the International Chamber of Commerce National Committee of Australia. Peter is a Past President of the Australian Chamber of Commerce and Industry and the Chamber of Commerce and Industry Western Australia. Peter is currently Chairman of Matrix Composites and Engineering Limited, Lead Independent Director of Cue Energy Resources Limited and a Non-Executive Director of De Grey Mining Limited.

Barry Patterson (*ASMM, MIMM, FAICD*) is a mining engineer with over 50 years' experience in mining and mining services. He was formerly non-executive Chairman of Sonic Healthcare Limited and Silex Systems Limited and is a non-executive director of Dacian Gold Limited. His broad based commercial experience includes the interpretation of financial statements and information.

Phillip (Phil) Lockyer (*BAppSc (Mech Eng)*) is a Mining Engineer and metallurgist who has over 50 years experience in the mineral industry, with a focus on gold and nickel in both underground and open pit operations. He has formerly served on the Boards of Perilya Limited, Focus Minerals Limited and CGA Mining Limited. He is currently a Non-Executive Director of Swick Mining Services Limited and RTG Mining Inc.

The Board has adopted an Audit and Risk Committee Charter which describes the Audit and Risk Committee's role, composition, functions and responsibilities, which is disclosed on the Company's website.

#### Recommendation 4.2

Before the Board approved the Company financial statements for the half year ended 31 December 2018 and the full-year ended 30 June 2019, it received from the Managing Director and the Chief Financial Officer a declaration that, in their opinion, the financial records of the Company for the relevant financial period have been properly maintained and that the financial statements for the relevant financial period comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company and the consolidated entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.



## CORPORATE GOVERNANCE STATEMENT

### Recommendation 4.3

Under section 250RA of the Corporations Act, the Company's auditor is required to attend the Company's annual general meeting at which the audit report is considered, and to be represented by a person who is a suitably qualified member of the audit team that conducted the audit and is in a position to answer questions about the audit. Each year, the Company writes to the Company's auditor to inform them of the date of the Company's annual general meeting.

In accordance with section 250S of the Corporations Act, at the Company's annual general meeting where the Company's auditor or their representative is at the meeting, the Chair allows a reasonable opportunity for the members as a whole at the meeting to ask the auditor (or its representative) questions relevant to the conduct of the audit; the preparation and content of the auditor's report; the accounting policies adopted by the Company in relation to the preparation of the financial statements; and the independence of the auditor in relation to the conduct of the audit. The Chair also allows a reasonable opportunity for the auditor (or their representative) to answer written questions submitted to the auditor under section 250PA of the Corporations Act.

A representative of the Company's auditor, Deloitte Touche Tohmatsu attended the Company's annual general meeting held on 22 November 2018.

### Principle 5 – Make timely and balanced disclosure

#### Recommendation 5.1

The Company has established written policies and procedures for complying with its continuous disclosure obligations under the ASX Listing Rules. A summary of the Company's *Policy on Continuous Disclosure* and *Compliance Procedures* are disclosed on the Company's website at [www.gres.com.au](http://www.gres.com.au).

### Principle 6 – Respect the rights of security holders

#### Recommendation 6.1

The Company provides information about itself and its governance to investors via its website at [www.gres.com.au](http://www.gres.com.au) as set out in its *Shareholder Communication and Investor Relations Policy*.

#### Recommendation 6.2

The Company has designed and implemented an investor relations program to facilitate effective two-way communication with investors. The program is set out in the Company's *Shareholder Communication and Investor Relations Policy*.

#### Recommendation 6.3

The Company has in place a *Shareholder Communication and Investor Relations Policy* which outlines the policies and processes that it has in place to facilitate and encourage participation at meetings of shareholders.

#### Recommendation 6.4

Shareholders are given the option to receive communications from, and send communications to, the Company and its share registry electronically. This is facilitated through the Company's website which provides access to the Company's and its share registry's full range of contact details, including email address.



## CORPORATE GOVERNANCE STATEMENT

### Principle 7 – Recognise and manage risk

#### Recommendation 7.1

As noted above, the Board has established a combined Audit and Risk Committee. The Audit and Risk Committee is structured in accordance with Recommendation 7.1. Please refer to the disclosure above in relation to Recommendation 4.1 in relation to the Audit and Risk Committee.

#### Recommendation 7.2

The Audit and Risk Committee reviews the Company's risk management framework annually to satisfy itself that it continues to be sound, to determine whether there have been any changes in the material business risks the Company faces and to ensure that the Company is operating within the risk appetite set by the Board.

#### Recommendation 7.3

The Company does not have an internal audit function. To evaluate and continually improve the effectiveness of the Company's risk management and internal control processes, the Board relies on ongoing reporting and discussion of the management of material business risks as outlined in the Company's *Risk Management Policy*.

#### Recommendation 7.4

The Company provides engineering and construction services to the mining industry and operations and maintenance services to the oil and gas industry, including producers of coal seam gas. These activities expose the Company, directly and indirectly to environmental, social and economic sustainability risks, which may materially impact the Company's ability to create or preserve value for shareholders over the short, medium or long term.

In relation to the provision of goods and services, these risks are mitigated by virtue of the Company entering a project's life cycle at a stage where all environmental, social and economic requirements of the relevant jurisdiction have been met by the client. The Company does not provide goods and services in circumstances where this is not the case and to that extent, the Company is in a position to continue its business activities in an environmentally, socially and economically sustainable manner.

In relation to the Company's suppliers, the Company takes due care to ensure that the goods and services required for the conduct of its business are sourced from entities which act fairly and responsibly within the environments, societies and economies in which they operate thereby mitigating sustainability risks in relation to these factors.

The Company aims to operate in a socially sustainable way by engaging with the local communities and wherever possible providing employment and training opportunities to members of the local community. In doing so, the Company operates within the framework of local norms and customs and endeavours to ensure that its clients do likewise. The Company will not participate in any activity where it is likely to receive either directly or indirectly, economic benefit through the exploitation of others.



## CORPORATE GOVERNANCE STATEMENT

### Principle 8 – Remunerate fairly and responsibly

#### Recommendation 8.1

As noted above in relation to Recommendation 2.1, the Board has established a Nomination and Remuneration Committee. The Nomination and Remuneration Committee is structured in compliance with Recommendation 8.1. Please refer to the disclosure above in relation to Recommendation 2.1 in relation to the Nomination and Remuneration Committee.

#### Recommendation 8.2

Details of remuneration, including the Company's policy on remuneration, are contained in the "Remuneration Report" which forms part of the Directors' Report in the Company's Annual Financial Report. This disclosure includes a summary of the Company's policies regarding the deferral of performance-based remuneration and the reduction, cancellation or clawback of the performance-based remuneration in the event of serious misconduct or a material misstatement in the Company's financial statements.

Under the terms of the GR Engineering Services Limited Equity Incentive Plan (**Plan**), if in the opinion of the Board a participant acts fraudulently or dishonestly or wilfully breaches his or her duties to the Company, the Board may in its absolute discretion determine that all unvested or unexercised performance rights or share appreciation rights held by the participant will lapse.

In addition to the provisions under the Plan, the Board has adopted a clawback policy in relation to any cash bonuses or shares issued pursuant to the Plan. Under this policy the Board reserves the right to take action to reduce, recoup or otherwise adjust the employees performance based remuneration in circumstances where in the opinion of the Board, an employee has acted fraudulently or dishonestly or has wilfully breached his or her duties to the Company.

#### Recommendation 8.3

The Company's Remuneration Committee Charter includes a statement of the Company's policy on prohibiting participants in the Plan entering into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the Plan.



## ADDITIONAL ASX INFORMATION

The shareholder information set out below was applicable as at 22 August 2019:

- the twenty largest shareholders held 85.18% of the Ordinary Shares; and
- there were 1392 ordinary shareholders.

### Distribution of securities

Analysis of number of equity security holders by size of holding:

Range	Total	Units	% of shares issued
1 - 1,000	228	114,524	0.07%
1,001 - 5,000	457	1,321,995	0.86%
5,001 - 10,000	266	2,112,506	1.38%
10,001 - 100,000	390	11,724,903	7.63%
100,001 - 1,000,000	32	8,308,030	5.41%
1,000,001 - 9,999,999,999	19	130,041,231	84.65%
	<b>1,392</b>	<b>153,623,189</b>	<b>100.00%</b>

The number of shareholders holding less than a marketable parcel of ordinary shares is 100.

### Equity security holders

Top 20 Shareholders as at 22 August 2019

Name	Number of shares held	% of shares issued
1. Citicorp Nominees Pty Ltd	20,373,676	13.26%
2. Mr David Joseph Sala Tenna + Ms Jane Frances Sala Tenna	12,325,000	8.02%
3. Joley Pty Ltd	10,524,000	6.85%
4. Paksian Pty Ltd	9,798,578	6.38%
5. HSBC Custody Nominees (Australia) Limited	9,554,766	6.22%
6. Quintal Pty Ltd	9,500,000	6.18%
7. Kingarth Pty Ltd	9,025,000	5.87%
8. Ms Beverley June Schier	8,100,000	5.27%
9. Mr Giuseppe Totaro	8,000,000	5.21%
10. Polly Pty Ltd	7,500,000	4.88%
11. Ledgking Pty Ltd	6,000,000	3.91%
12. J P Morgan Nominees Australia Limited	4,686,359	3.05%
13. Ms Barbara Ann Woodhouse	3,500,000	2.28%
14. Mr Stephen Paul Kendrick	3,491,000	2.27%
15. National Nominees Limited	2,782,469	1.81%
16. Sistar Pty Ltd	1,486,000	0.97%
17. Kendrick Investments Pty Ltd	1,384,000	0.90%
18. Mr Cono Antonino Angelo Ricciardo	1,010,000	0.66%
19. BNP Paribas Noms Pty Ltd	1,001,578	0.65%
20. Mr Michael Gerald Woodhouse + Mrs Barbara Ann Woodhouse	813,950	0.53%
	<b>130,856,376</b>	<b>85.18%</b>

### Substantial shareholders

Name	Number of shares held	% of shares issued
1. Mitsubishi UFJ Financial Group, Inc.	17,319,000	11.27%
2. Spheria Asset Management Pty Limited	16,018,801	10.43%
3. Mr David Joseph Sala Tenna + Ms Jane Frances Sala Tenna	12,325,000	8.02%
4. Joley Pty Ltd	10,524,000	6.85%
5. Paksian Pty Ltd	9,798,578	6.38%
6. Quintal Pty Ltd	9,500,000	6.18%
7. Kingarth Pty Ltd	9,025,000	5.87%
8. Ms Beverley June Schier	8,100,000	5.27%
9. Mr Giuseppe Totaro	8,000,000	5.21%



## ADDITIONAL ASX INFORMATION

### Voting rights

The voting rights attached to ordinary shares are set out below:

#### Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

#### Options over ordinary shares

There are no voting rights attached to Options over the consolidated entity's shares.

#### Performance rights

There are no voting rights attached to Performance Rights over the consolidated entity's shares.

#### Share appreciation rights

There are no voting rights attached to Share Appreciation Rights over the consolidated entity's shares.

### Options on issue

There are nil options on issue at 30 June 2019.

### Performance rights

The following performance rights are on issue:

<i>Number</i>	<i>Vesting date</i>
30,000	15 Jun 2020
1,685,000	20 Aug 2020
60,000	2 Aug 2020
50,000	21 Aug 2020
35,000	1 Nov 2020
60,000	14 Jun 2021
50,000	16 Jul 2022

### Share appreciation rights

The following share appreciation rights are on issue:

<i>Number</i>	<i>Grant date</i>	<i>Expiry date</i>	<i>Exercise price</i>
500,000	15 Nov 2016	30 Jun 2020	\$0.89

### Company secretary

Mr Omesh Motiwalla

### Registered office

71 Daly Street  
ASCOT WA 6104

### Principal place of business

71 Daly Street  
ASCOT WA 6104  
Telephone: (61 8) 6272 6000      Facsimile: (61 8) 6272 6001

### Share registry

Computershare Investor Services Pty Limited  
Level 11, 172 St Georges Terrace  
PERTH WA 6000

### On-market buyback

The consolidated entity has no current on-market buy back scheme.

### Restricted securities

There are no securities subject to any voluntary escrow or any transfer restrictions.