GR Engineering Services Limited

Engineering Consultants and Contractors

ABN 12 121 542 738

2016 ANNUAL REPORT

CONTENTS

PJ HOOD Chairman

Dear Shareholder,

It is with pleasure that I present GR Engineering Services Limited's (GR Engineering or the Company) Annual Report for the year ended 30 June 2016 (FY16). This is the first Annual Report I present to you in my capacity as Non-Executive Chairman, being appointed to this position after serving on your Board as a Non-Executive Director since February 2011. I replace Joe Ricciardo who retired as Non-Executive Chairman in April 2016.

I take this opportunity to thank Joe Ricciardo for his outstanding contribution to the Company's success since its foundation. In so doing, I am prompted to restate the words written by our Managing Director, Geoff Jones, in the market release of 18 April 2016 announcing Joe Ricciardo's retirement:

"Many people will be aware that Joe Ricciardo is a founder of GR Engineering and was responsible for bringing together a team of people who remain active in the business and dedicated to ensuring its ongoing success. I and the Board cannot thank Joe enough for his contribution to the success of GR Engineering and for his guidance and counsel over the years, initially as Managing Director, then as Executive Chairman and more recently as Non-Executive Chairman."

I reiterate our best wishes to Joe and his family.

GR Engineering entered FY16 with a solid order book with projects underway both domestically and abroad. In Australia these projects included the $114 million engineering, procurement and construction (EPC) contract for the design and construction of the processing facility and paste fill plant for Independence Group NL's Nova Nickel Project which was awarded in March 2015. In July 2015, the Company was awarded an additional EPC contract to a value of $12 million for the design and construction of non-process infrastructure for this project. Practical Completion was achieved on this second parcel of work in April. Work on the construction of the processing facility continues and I am pleased to report is running on time and on budget.

Also in Australia and underway at the commencement of FY16, was the construction of the processing facilities for the $55 million Keysbrook Leucoxene Project for MZI Resources Limited. This facility was commissioned and operation of the plant was taken over by MZI Resources Limited in December 2015.

Overseas, construction of the Hemerdon tungsten/tin processing facility was approaching completion at the commencement of FY16 and commissioning of this £75 million plant was completed in September 2015 at which time operational control passed to the client, Wolf Minerals (UK) Limited (Wolf). Since that time Wolf and GR Engineering have been working collaboratively to ramp up and fine tune plant performance.

Elsewhere overseas, the Company continued work on the engineering, procurement and construction management (EPCM) contract for the Wetar Copper Project expansion for PT Batutua Tembaga Raya, a subsidiary of Finders Resources Limited. This circa $US9 million contract was awarded in November 2014 and GR continues to remain on site during the commissioning and ramp up phase.

Additional work secured in FY16 included the design and construction management of a 385Ktpa gold, lead and zinc concentrator associated with Phase II of the Olympias Project for Hellas Gold SA, a Greek subsidiary of Eldorado Gold Corporation of Canada. This $7 million contract was awarded in October 2015 and is expected to be completed in December 2016.

Also awarded in FY16 was the EPC contract for the design and construction of Doray Minerals Limited's Deflector Gold Project located in Western Australia. Work on this $51 million project commenced in August 2015 and the plant was commissioned in May 2016.

Study activity through the year remained strong. During FY16 29 studies were completed and as at 30 June a further 16 were underway. These studies relate to a wide range of precious and base metals and industrial commodities, including tungsten, tin, nickel, copper, gold, mineral sands, graphite and for the first time uranium for which the Company has specifically assembled an expert team.

Together with high levels of construction, this study activity has assisted the Company in achieving high levels of manpower utilisation and proportionately lower overheads. It also holds GR Engineering in good stead regarding future design and construction opportunities.

Our involvement in oil and gas through the Company's oil and gas subsidiary, Upstream Production Solutions (Upstream PS) further widens our commodity spread and not only reflects the broad range of the Company's expertise but importantly, it serves to protect the Company's revenue against the fall in price of any particular commodity.

It is pleasing to note the contribution made to FY16 results by (Upstream PS). Despite difficult trading conditions for the oil and gas industry, Upstream PS's management team was successful in not only preserving revenue but also securing growth opportunities for the future. In September 2015 Upstream PS secured a two year contract with Empire Oil Company (WA) Limited for the provision of operations and maintenance services to its Red Gully processing gas condensate facility in Western Australia.

In May 2016 Northern Oil and Gas Australia awarded Upstream PS a three year contract for the operation and maintenance of its Northern Endeavour floating production, storage and offloading facility located in the Laminaria-Corallina oil field in the Timor Sea. This was an important milestone in Upstream PS's history not only for the sizable step change to its revenue profile but also as it clearly demonstrated its capacity to meet the rigorous regulatory requirements and processes to qualify as the Registered Operator of significant production assets.

Also in May 2016, Upstream PS was awarded a two year contract by Origin Energy, the upstream operator of Australia Pacific LNG, for the provision of wellsite, gas production and water treatment facility maintenance in the Surat Basin, Queensland. This was another important contract award helping to underpin Upstream PS's revenue for two years while at the same time further establishing its reputation as a leading participant in Queensland's gas oil and gas industry.

I am pleased to report that the Company's strong order book at the beginning of the year combined with additional work secured throughout the year resulted in another year of record revenue for GR Engineering. Revenue for the year was $255.3 million, an increase of $38.4 million or 17.7% over FY15 in which the previous record revenue was set. Profit Before Tax for the year ended 30 June 2016 was $25.4 million, an increase of $8.2 million or 47.7% over the previous year. EBITDA increased by $5.8 million or 28.6% over FY15, from $20.3 to $26.1 million.

As at 30 June 2016, the Company's working capital position remained strong. Cash on hand was $64.9 million; trade receivables stood at $29.9 million and trade payables $28.4 million. Having regard to the strength of the Company's Balance Sheet and its financial position generally, your directors have resolved to declare a final fully franked dividend of 5.0 cents per share, bringing the total dividend paid for FY16 to 10.0 cents per share, fully franked. This represents an increase of 5.3% over dividends paid in relation to FY15.

Given that the Company's primary responsibility is to ensure that it provides a safe work environment for its personnel, strong financial performance carries little weight if it cannot be achieved together with a good safety record. In this regard GR Engineering strives to ensure that safe and sound work practices permeate through all levels of the organisation and every task undertaken at the individual level. In FY16, GR Engineering recorded a Total Reportable Injury Frequency Rate (TRIFR) of 5.89 and a Lost Time Injury Frequency rate of 0.42. While this compares favourably to industry averages, the Company remains committed to a zero harm work environment and is continually improving its health and safety related work practices, policies and procedures to achieve this outcome.

Looking ahead, the Company enters FY17 focused on delivering successful outcomes under contracts on hand and converting past and present study activity into near term design and construction opportunities. I am pleased to report that subsequent to year's end, in July 2016, these efforts were rewarded with the award of the EPC contract for the design and construction of completion works at Auctus Resources Pty Ltd's Mungana concentrator facility in Queensland which contributes to approximately $115 million in contracted revenue for FY17. While it is pleasing to have this level of revenue visibility, it is well below the Company's operational capacity and management remains focused on securing additional opportunities to fully utilise the human and financial resources of the business.

I would like to take this opportunity to thank our clients for their business and support throughout the year and to all staff for helping to deliver solid financial and operational outcomes in FY16. My gratitude also goes to my fellow Board members for their ongoing counsel and assistance.

PJ HOOD

Chairman

REVENUE

↑ **17.7%**

FY16

$255.3m

PROFIT BEFORE TAX

↑ **47.7%**

FY16

$25.4m

EBITDA

↑ **28.6%**

FY16

$26.1m

DIVIDENDS PAID

↑ **5.3%**

FY16

10.0 cents per share

BASIC EARNINGS PER SHARE

↑ **47.7%**

FY16

12.7 cents

NET PROFIT AFTER TAX

↑ **49.6%**

FY16

$19.3m

> “Looking ahead, the Company enters FY17 focused on delivering successful outcomes under contracts on hand and converting past and present study activity into near term design and construction opportunities.”

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 2015 to 30 June 2016 and the independent auditor's report thereon.

The names of the consolidated entity's Directors in office during the financial year ended 30 June 2016 and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

DIRECTORS

Geoffrey (Geoff) Michael JONES	(Managing Director)
Joseph (Joe) Mario Paul RICCIARDO	(Non-Executive Chairman) **Retired 18 April 2016**
Peter John HOOD	(Non-Executive Chairman) **Appointed 18 April 2016**
Tony Marco PATRIZI	(Executive Director)
Barry Sydney PATTERSON	(Non-Executive Director)
Terrence John STRAPP	(Non-Executive Director)

COMPANY SECRETARY

Giuseppe (Joe) TOTARO

(B.Comm, CPA, CTA)

Joe is a co-founder of GR Engineering and has been Company Secretary since 4 September 2006. He was appointed Chief Financial Officer on 19 April 2011. Joe is a certified practicing accountant (CPA) with over 30 years' experience in commercial and public practice specialising in mining and mining services. He was formerly company secretary of and business consultant to JR Engineering. Joe's experience includes corporate advisory services having consulted on and managed numerous corporate transactions involving private and publicly listed companies.

PRINCIPAL ACTIVITIES

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

DIVIDENDS PAID DURING THE YEAR

- Fully franked dividend of 5.00 cents per share paid on 25 September 2015
- Fully franked dividend of 5.00 cents per share paid on 30 March 2016
- Subsequent to 30 June 2016, a fully franked dividend of 5.00 cents per share was recommended by the Directors to be paid on 28 September 2016.

REVIEW OF OPERATIONS

Operationally, the financial year ended 30 June 2016 (FY16) was characterised by heightened design and construction activity with work underway on contracts awarded in FY15 and additional contracts awarded in FY16 resulting in a second successive year of record revenue.

The Company began the year with a solid order book. Projects underway at the commencement of the year included the $114 million engineering, procurement and construction (EPC) contract for the design and construction of the processing facility and paste fill plant for Independence Group NL's Nova Nickel Project. In July 2015, the Company was awarded an additional EPC contract to the value of $12 million for the design and construction of non-process infrastructure for the project. Practical completion on this second parcel of work was completed on schedule, in April 2016.

Work on the Nova Nickel Project processing facility and paste plant is progressing on time and on budget and is scheduled for completion in December 2016.

Also in Australia and underway at the commencement of FY16, was the construction of the processing facilities for the $55 million Keysbrook Leucoxene Project for MZI Resources Limited. Work on this project was carried out at two locations, Keysbrook and Picton, separated by a distance of approximately 120 Kms. At Keysbrook, GR Engineering constructed the wet concentrator facility to produce a heavy mineral product. Work at the Picton site involved an expansion and upgrade of the existing plant, including the installation of additional mechanical equipment to process the material received from Keysbrook. Being a brownfields project within an operating plant, this element of the project brought with it additional challenges including the requirement to carry out the works with minimum impact on existing operations. Notwithstanding these challenges this project was completed on time and on budget and was commissioned in December 2015.

During the year GR Engineering was awarded the EPC contract for the design and construction of Doray Minerals Limited's Deflector Gold Project located near Gullewa in Western Australia. This plant was successfully commissioned with the first gold poured from the gravity circuit and first copper-gold concentrate produced in May 2016. The design and construction of the Deflector Gold Project was the second project successfully delivered for Doray Minerals and provides another example of the Company's capacity to win repeat work based on our track record of providing high quality processing solutions on time and on budget.

Subsequent to year end, the Company was awarded the $36 million EPC contract for the design and construction of completion works for the 500,000 tonne per annum Mungana zinc, lead, copper and gold concentrator facility located at Chillagoe, Northern Queensland by Auctus Resources Pty Ltd (Auctus). Work on this project, which is being carried out primarily through the Company's Brisbane office, is expected to be completed in April 2017.

Overseas, construction of the Hemerdon tungsten/tin processing facility was approaching completion at the commencement of FY16 and commissioning of this £75 million plant was completed in September 2015 at which time operational control passed to the client, Wolf Minerals (UK) Limited (Wolf). Since that time Wolf and GR Engineering have been working collaboratively to develop and implement operating practices to enable ramp up and fine tuning of the facility.

Elsewhere overseas, the Company continued work on the engineering, procurement and construction management (EPCM) contract for the Wetar Copper Project for PT Batutua Tembaga Raya, a subsidiary of Finders Resources Limited. This contract was awarded in November 2014 and by 30 June 2016, Solvent Extraction and Electrowinning works had been completed.

After a technical review conducted by GR Engineering in August 2015, work commenced on Phase II of Hellas Gold SA's (a subsidiary of Eldorado Gold Corporation of Canada) Olympias Project, located in Greece. This project involves managing the decommissioning and demolition of existing plant and the design of a refurbished and expanded gold, lead, zinc and silver processing facility and paste fill plant. This work is being undertaken under an EPCM contract and works are expected to be completed during the March quarter of 2017.

In addition to the above projects, the Company was engaged on a number of smaller but nevertheless important contracts including the EPC contract with Western Areas Limited for the Forrestania Mill Recovery Enhancement Project and the Goldroom Upgrade Project at Newcrest Mining Limited's Cadia Valley Operations in New South Wales.

Projects undertaken during FY16 relate to a broad range of base metals, precious metals and industrial minerals. This broad cross section of commodities continues to be reflected in the Company's study activity. During FY16 GR Engineering completed 29 studies and as at year end, was engaged on a further 16 relating to projects across a broad range of commodities and geographic locations.

During FY16 the Company engaged a team of personnel with strong process engineering experience in uranium. The introduction of this new expertise enabled GR Engineering to more credibly bid for work involving this commodity with the result that at year end, the Company was engaged on two uranium studies.

FY16 was a year in which Upstream Production Solutions (Upstream PS) forged new relationships with oil and gas producers and further cemented its credentials as a leading provider of operations and maintenance services to Australia's oil and gas industry.

In September 2015, Upstream PS was successful in securing a new two year contract with Empire Oil Company (WA) Limited for the operation and maintenance of the Red Gully processing facility in the Perth Basin, Western Australia. Upstream PS has been engaged on the Red Gully facility since it was commissioned in 2012. The award of the new contract is a testament to Upstream PS's ability to win repeat business based on its strong track record for safety and its ability to achieve successful operational outcomes.

In addition, Upstream PS's WA/NT Region continued to provide operations and maintenance services to its long term Perth Basin clients.

In May 2016, Upstream PS announced the award of a three year contract by Northern Oil and Gas Australia Pty Ltd (NOGA) for the operation and maintenance of its Northern Endeavour floating production, storage and offloading facility (FPSO) and associated infrastructure, located in the Laminaria-Corallina oil field in the Timor Sea.

At a steady state, this contract will involve approximately 50 personnel of which 39 will be based on the Northern Endeavour FPSO. It is anticipated that services provided under the contract will generate revenue of approximately $30 million per annum. This represents a significant step change to Upstream PS's revenue profile and provides it with an excellent opportunity to showcase its credentials and offshore operational capabilities as the Registered Operator of significant oil and gas production assets.

In May 2016, Upstream PS was awarded a two year contract for the provision of wellsite and balance of plant facility maintenance services and in the Surat Basin, south-west Queensland. Under this contract, Upstream PS is engaged to complete scheduled and unscheduled maintenance and associated services for a minimum of 1500 wells, seven gas processing facilities, nine water gathering systems, two water treatment facilities and one pre-treatment facility. Revenue under this contract is expected to be approximately $50 million over the term of the contract.

Upstream PS's presence in the Surat Basin was further increased by the award of additional parcels of work by another leading Australian oil and gas producer in April 2016.

Together with the award of the NOGA contract, work won with Origin Energy has assisted in underpinning Upstream PS's recurrent revenue through FY17 and FY18 and further establishes Upstream PS as a leading provider of operations and maintenance services in Australia's oil and gas industry.

GR Engineering's operational success can only be fully measured within the overarching context of safety performance and in particular the achievement of a zero harm objective. The consolidated entity achieved a Total Reportable Injury Frequency Rate (TRIFR) of 5.89 in FY16. While this compares favourably to industry averages, management continues to engender a culture and instil work practices to reflect the pre-eminence of safety in every task and on every worksite.

Looking ahead, GR Engineering enters FY17 with a solid order book dominated by Australian projects. As at the date of this report, contracted revenue for the consolidated entity stood at approximately $115 million and the Company is working diligently to more fully utilise its financial and operational capacity through the conversion of near term opportunities both in Australia and overseas.

FINANCIAL POSITION

The consolidated entity generated revenue of $255.3 million and net operating cash flow of $18.2 million for the year ended 30 June 2016. During FY16, the consolidated entity paid dividends totalling $15.2 million and as at 30 June, held cash totalling $64.9 million.

At the end of FY16, the consolidated entity held trade debtors of $29.9 million, trade creditors of $28.4 million and short and long term debt of $0.9 million.

GROWTH STRATEGY

The consolidated entity's growth strategy is based on the following key areas:

- Extend geographic reach;
- Seek to form strategic alliances and make strategic investments;
- Extend and diversify commodities to which processing solutions are provided;
- Develop and maintain strong client relationships;
- Focus on securing larger scale projects;
- Acquisition of complementary businesses;
- Extend services to include Build, Own, Operate (BOO) and Build, Own, Operate, Transfer (BOOT) project delivery and operations.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 8 July 2016, GR Engineering entered into a $36 million contract with Auctus Resources Pty Ltd for the design and construction of completion works associated with the 500,000 tonne per annum Mungana zinc, lead, copper and gold concentrator facility located at Chillagoe, Northern Queensland.

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 and Growth Strategy in above sections of this Directors' Report.

EVENTS AFTER BALANCE SHEET DATE

On 23 August 2016, the consolidated entity declared a fully franked dividend of 5.0 cents per share, an aggregate of $7,643,565. The Record Date of the dividend is 14 September 2016 and the proposed payment date is 28 September 2016.

BOARD OF DIRECTORS

Joseph (Joe) Mario Paul RICCIARDO – Non-Executive Chairman (Retired 18 April 2016).

BAppSc (Mech Eng)

Joe co-founded GR Engineering. He is a Mechanical Engineer with over 35 years' experience in feasibility studies, design, construction, maintenance and operation of mineral processing facilities.

In 1986 Joe lead the founding of JR Engineering. As Managing Director, Joe successfully grew JR Engineering into a leading engineering services provider before its sale to a major ASX listed Mining Services Group in 2001.

In 2006, Joe was instrumental in regrouping the former key executives from JR Engineering to establish GR Engineering.

Joe is a non-executive director of Mineral Resources Limited and has been on its Board since its public listing in 2006.

- Interests in ordinary shares in GR Engineering – 9,798,578
- Interests in other securities in GR Engineering – None
- Special Responsibilities:
  - Non-Executive Chairman
- Directorships in other listed entities in the last 3 years:
  - Mineral Resources Limited (ASX:MIN) 2006 – 2016

Peter John HOOD – Non-Executive Chairman (Appointed 18 April 2016)

BE(Chem), MAusIMM, FIChemE, FAICD

Peter is a Chemical Engineer and has over 40 years' experience in the resource and energy sectors.

He was formerly the chief executive officer of Coogee Chemicals and then oil and gas operator, Coogee Resources. Prior to that he served in senior management and project development roles for WMC Ltd in nickel and gold production.

Peter has considerable board experience and is currently Chairman of Matrix Composites and Engineering Ltd, Immediate Past President of the Australian Chamber of Commerce and Industry, Past President of the Chamber of Commerce and Industry of Western Australia and former Chairman of Apollo Gas Ltd.

Peter was appointed as a Non-Executive Director of the Company on 10 February 2016 and Non-Executive Chairman on 18 April 2016.

- Interests in ordinary shares in GR Engineering – 500,000
- Interests in other securities in GR Engineering - None
- Special Responsibilities:
  - Non-Executive Chairman
  - Member 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

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.

- Interests in ordinary shares in GR Engineering – 940,253
- Interests in other securities in GR Engineering :
  - Share Appreciation Rights - 509,631
- 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 – Present
  - Energy Metals Limited (ASX:EME) 2008 – Present
  - Ausgold Limited (ASX:AUC) 29 July 2016 – Present

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, and 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 8 March 2016 - present

BOARD OF DIRECTORS (continued)

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 Services Pty Ltd.

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 – 10,500,000
- Interests in other securities in GR Engineering – None
- Special Responsibilities:
  - Chairman 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

Terrence (Terry) John STRAPP – Non-Executive Director

CPA, FFin., MAICD

Terry has extensive experience in banking, finance and corporate risk management and has over 30 years' experience in the mining and resource industry. He was formerly a non-executive director of The Mac Services Group Limited (resigned 2010).

Terry is a non-executive director of Ausdrill Limited.

- Interests in ordinary shares in GR Engineering – 380,000
- 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:
  - Ausdrill Limited (ASX:ASL) 2005 – Present

MEETINGS OF DIRECTORS

The number of Meetings of the Board of Directors held during the year ended 30 June 2016 and the number attended by each director are as follows:

FULL MEETINGS OF DIRECTORS	Eligible	Attended
Barry Patterson	10	3
Joe Ricciardo	8	5
Geoff Jones	10	10
Tony Patrizi	10	8
Terrence Strapp	10	10
Peter Hood	10	10

No formal meetings of the Audit and Risk Committee or the Remuneration and Nominations Committee were held during the year ended 30 June 2016 as its members elected to address matters for 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
12 November 2013	30 June 2017	Nil	296,297
12 November 2013	30 June 2018	Nil	213,334

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
31 March 2017	187,500	31 March 2017	-
31 March 2018	127,500	31 March 2018	-
31 March 2019	127,500	31 March 2019	-

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 2016 1,871,055 ordinary shares were issued due to the vesting of Performance Rights.

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 2016 fees amounting to $22,575 were paid to Deloitte Touche Tohmatsu for non-audit services including taxation advice.

AUDITOR’S INDEPENDENCE DECLARATION

The Auditor’s Independence Declaration for the year ended 30 June 2016 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.

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)
- Joe Ricciardo (Non-Executive Chairman) - Retired 18 April 2016
- Peter Hood (Non-Executive Chairman) - Appointed 18 April 2016
- Tony Patrizi (Executive Director)
- Barry Patterson (Non-Executive Director)
- Terrence Strapp (Non-Executive Director)

Executives

- David Sala Tenna (General Manager – EPC)
- Joe Totaro (Chief Financial Officer & Company Secretary)
- Rodney Schier (Engineering Manager)
- Paul Newling (General Manager – EPCM)

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 2015 Annual General Meeting, 99% 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.

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.

EMPLOYMENT DETAILS OF MEMBERS OF KEY MANAGEMENT PERSONNEL

Name	Title	Contract Details	Non Salary Cash Incentives	Shares/ Units	Options/ Rights	Fixed Salary	Total
Joe Ricciardo - Retired 19 April 2016.	Non-Executive Chairman	Termination: 3 months notice by the consolidated entity or employee	–	–	–	100%	100%
Tony Patrizi	Executive Director	Termination: 3 months notice by the consolidated entity or employee	–	–	–	100%	100%
Barry Patterson	Non-Executive Director	By rotation and re-election	–	–	–	100%	100%
Terrence Strapp	Non-Executive Director	By rotation and re-election	–	–	–	100%	100%
Peter Hood	Non-Executive Chairman since 18 April 2016	By rotation and re-election	–	–	–	100%	100%
Geoff Jones	Managing Director	Fixed term to 30 June 2018. Termination: 6 months notice by the consolidated entity and 3 months notice by the employee	–	–	8.2%	91.8%	100%
David Sala Tenna	General Manager – EPC	Termination: 3 months notice by the consolidated entity or employee	–	–	–	100%	100%
Joe Totaro	Company Secretary / Chief Financial Officer	Termination: 3 months notice by the consolidated entity or employee	–	–	–	100%	100%
Rodney Schier	Engineering Manager	Termination: 3 months notice by the consolidated entity or employee	–	–	–	100%	100%
Paul Newling	General Manager - EPCM	Termination: 3 months notice by the consolidated entity or employee	–	–	3.9%	96.1%	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.

REMUNERATION DETAILS FOR THE YEAR ENDED 30 JUNE 2016 - BOARD OF DIRECTORS

	Short Term Benefits				Post Employment Benefits	Equity Based Payments			
	Cash Salary & Fees	Non Cash Payments*	Other**	Sub Total	Super-annuation	Equity	Options	Total	Performance Based
	$	$	$	$	$	$	$	$	%
EXECUTIVE DIRECTORS									
Tony Patrizi									
2016	296,331	19,308	–	315,639	28,151	–	–	343,790	0.0
2015	287,213	13,809	–	301,022	27,285	–	–	328,307	0.0
Geoff Jones									
2016	507,476	23,055	–	530,531	19,307	49,197	–	599,035	8.2
2015	457,303	30,117	–	487,420	18,783	130,588	38,997	675,788	25.1
NON-EXECUTIVE DIRECTORS									
Joe Ricciardo ***									
2016	50,148	5,418	–	55,566	4,764	–	–	60,330	0.0
2015	59,266	7,352	–	66,618	5,630	–	–	72,248	0.0
Barry Patterson									
2016	57,000	–	–	57,000	5,415	–	–	62,415	0.0
2015	57,000	–	–	57,000	5,415	–	–	62,415	0.0
Terrence Strapp ****									
2016	62,700	–	–	62,700	5,415	–	–	68,115	0.0
2015	62,700	–	–	62,700	5,415	–	–	68,115	0.0
Peter Hood									
2016	57,000	–	–	57,000	5,415	–	–	62,415	0.0
2015	57,000	–	–	57,000	5,415	–	–	62,415	0.0
TOTAL DIRECTORS									
2016	1,030,655	47,781	-	1,078,436	68,467	49,197	-	1,196,100	4.1
2015	980,482	51,278	-	1,031,760	67,943	130,588	38,997	1,269,288	13.4

* "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

*** Reduction in benefits due to change in role to Non- Executive Chairman

**** Paid to SDG Nominees Pty Ltd, an entity controlled by Terrence Strapp

REMUNERATION DETAILS FOR THE YEAR ENDED 30 JUNE 2016 – EXECUTIVES

	Short Term Benefits				Post Employment Benefits	Equity Based Payments			
	Cash Salary & Fees $	Non Cash Payments* $	Other** $	Sub Total $	Super-annuation $	Equity $	Options $	Total $	Performance Based %
SENIOR EXECUTIVES									
David Sala Tenna – General Manager – EPC									
2016	331,193	5,037	5,479	341,709	31,984	–	–	373,693	1.5
2015	331,193	5,211	–	336,404	31,463	–	–	367,867	0.0
Joe Totaro – Company Secretary & Chief Financial Officer									
2016	260,869	8,571	5,479	274,919	25,303	–	–	300,222	1.8
2015	260,869	9,459	–	270,328	24,782	–	–	295,110	0.0
Rodney Schier – Engineering Manager									
2016	261,468	5,439	5,479	272,386	25,359	–	–	297,745	1.8
2015	261,468	5,121	–	266,589	24,839	–	–	291,428	0.0
Paul Newling – General Manager EPCM									
2016	419,697	–	11,416	431,113	20,391	6,408	–	457,912	3.9
2015	420,222	3,853	–	424,075	18,783	6,497	–	449,355	1.4
TOTAL SENIOR EXECUTIVES									
2016	1,273,227	19,047	27,853	1,320,127	103,037	6,408	–	1,429,572	2.4
2015	1,273,752	23,644	–	1,297,396	99,867	6,497	–	1,403,760	0.5
TOTAL DIRECTORS									
2016	2,303,882	66,828	27,853	2,398,563	171,504	55,605	–	2,625,672	3.2
2015	2,254,234	74,922	–	2,329,156	167,810	137,085	38,997	2,673,048	6.6

* "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

LONG TERM INCENTIVES

Employee Share Option Plan

The consolidated entity has established an employee share option plan (ESOP). The consolidated entity may offer options to subscribe for shares in the consolidated entity to eligible persons subject to the ESOP rules. Options offered under the ESOP are to be offered on such terms as the board determines and the offer must set out specified information including the number of options, the period of the offer, calculation of the exercise price and any exercise conditions.

The exercise price is to be determined by the Board in its absolute discretion and set out in the offer provided that the exercise price is not less than the average market price on ASX on the five trading days prior to the day the Directors resolve to grant the option(s).

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).

The GR Engineering Services Limited Equity Incentive Plan adopted in 2012 **(2012 Plan)** was superseded by the Plan, but remains in place for the same purposes and on similar terms and conditions to the Plan to govern the unvested securities issued under the 2012 Plan.

During the year ended 30 June 2016 60,000 Performance Rights were issued in accordance with the terms and conditions of the Plan. The consolidated entity also has 382,500 Performance Rights on issue pursuant to the 2012 Plan. A total of 442,500 Performance Rights were on issue as at 30 June 2016.

Grant Date	Vesting Date	Expiry Date	Exercise Price	Number	Fair Value
30 Apr 2014	31 Mar 2017	31 Mar 2017	Nil	127,500	$0.511
30 Apr 2014	31 Mar 2018	31 Mar 2018	Nil	127,500	$0.458
30 Apr 2014	31 Mar 2019	31 Mar 2019	Nil	127,500	$0.410
31 Mar 2016	31 Mar 2017	31 Mar 2017	Nil	60,000	$0.824

The Performance Rights issued or lapsed in the current financial year do not relate to key management personnel.

A total of 509,631 Share Appreciation Rights are on issue pursuant to the 2012 Plan.

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
Geoff Jones	12 Nov 2013	30 Jun 2014	30 Jun 2014	407,949	Nil	1,600,000	$0.1774	38.0
	12 Nov 2013	30 Jun 2015	30 Jun 2015	324,582	Nil	727,273	$0.1827	19.3
	12 Nov 2013	30 Jun 2016	30 Jun 2016	207,722	Nil	432,433	$0.1761	8.2
	12 Nov 2013	30 Jun 2017			Nil	296,297	$0.1619	
	12 Nov 2013	30 Jun 2018			Nil	213,334	$0.1508	

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 2016:

	2012	2013	2014	2015	2016
Revenue ($000's)	152,838	114,695	114,183	216,893	255,292
Net profit before tax ($000's)	19,858	11,476	16,787	17,196	25,406
Net profit after tax ($000's)	13,115	7,539	14,164	12,938	19,340
Share price at year end ($)	$0.90	$0.46	$0.70	$0.90	$0.99
Dividend ($000's)	12,000	9,000	9,000	12,785	15,158
EPS (cents)	8.74	5.03	9.44	8.60	12.71
Diluted EPS (cents)	8.74	4.97	9.26	8.42	12.64

Tony Patrizi, a Non-Executive Director, two senior executives and four key employees 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 ESOP and Plan have 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.

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:

2016	Balance at the start of the year	Received as part of remuneration	Additions/ other	Disposals/ other	Balance at the end of the year
Ordinary shares					
Joe Ricciardo*	9,798,578	–	–	–	9,798,578
Tony Patrizi	9,795,000	–	–	–	9,795,000
Barry Patterson	10,500,000	–	–	–	10,500,000
Terry Strapp	380,000	–	–	–	380,000
Peter Hood	500,000	–	–	–	500,000
Geoff Jones	1,182,531	207,722	–	(450,000)	940,253
David Sala Tenna	13,825,000	–	–	–	13,825,000
Joe Totaro	9,500,000	–	–	–	9,500,000
Rodney Schier	8,100,000	–	–	–	8,100,000
Paul Newling	–	–	–	–	–
	63,581,109	207,722	-	(450,000)	63,338,831

* Number of shares at date of retirement

2015	Balance at the start of the year	Received as part of remuneration	Additions/ other	Disposals/ other	Balance at the end of the year
Ordinary shares					
Joe Ricciardo	9,798,578	–	–	–	9,798,578
Tony Patrizi	9,795,000	–	–	–	9,795,000
Barry Patterson	10,500,000	–	–	–	10,500,000
Terry Strapp	380,000	–	–	–	380,000
Peter Hood	500,000	–	–	–	500,000
Geoff Jones	857,949	324,582	–	–	1,182,531
David Sala Tenna	13,825,000	–	–	–	13,825,000
Joe Totaro	9,500,000	–	–	–	9,500,000
Rodney Schier	8,100,000	–	–	–	8,100,000
Paul Newling	–	–	–	–	–
	63,256,527	324,582	–	–	63,581,109

OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

During the year ended 30 June 2016 the consolidated entity leased office space at 71-73 Daly Street from Ashguard Pty Ltd. Directors of the consolidated entity, namely Joe Ricciardo, 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 2016 amounted to $314,019 including GST (2015: $314,263). The balance payable at 30 June 2016 is $46,860 (2015: $46,054). During the year ended 30 June 2016 the consolidated entity procured items for Ashguard Pty Ltd. The total amount invoiced to Ashguard Pty Ltd in the year ended 30 June 2016 was $1,225 including GST (2015: $10,998). The balance outstanding at 30 June 2016 is nil (2015: nil).

During the year ended 30 June 2016 the consolidated entity procured items and hired equipment from PIHA Pty Ltd, a subsidiary of Mineral Resources Limited, a company in which Joe Ricciardo was a non-executive director until his retirement on 18 April 2016. The total amount invoiced by PIHA Pty Ltd in the year ended 30 June 2016 amounted to $849,728 including GST (2015: $240,664). The balance payable at 30 June 2016 is $89,756 (2015: $237,936). In previous years the consolidated entity provided engineering services and procurement of materials for PIHA Pty Ltd. The total amount invoiced to PIHA Pty Ltd in the year ended 30 June 2016 was nil (2015: $41,083). The balance outstanding at 30 June 2016 is nil (2015: nil).

In previous years the consolidated entity provided engineering services and procurement of materials for Crushing Services International Pty Ltd (a subsidiary of Mineral Resources Limited), a company in which Joe Ricciardo was a non-executive director until his retirement on 18 April 2016. The total amount invoiced to Crushing Services International Pty Ltd in the year ended 30 June 2016 was nil (2015: $151,580). The balance outstanding at 30 June 2016 is nil (2015: nil).

During the year ended 30 June 2016 the consolidated entity provided engineering services and procurement of materials for Azumah Resources Limited, a company in which Geoff Jones is a non-executive director. The total amount invoiced to Azumah Resources Limited in the year ended 30 June 2016 was $29,760 including GST (2015: $204,886). The balance outstanding at 30 June 2016 is nil (2015: nil).

During the year ended 30 June 2016 the consolidated entity was provided engineering services by Optiro Pty Ltd, a company in which Joe Ricciardo and Tony Patrizi each hold non-controlling interests. The total amount invoiced by Optiro Pty Ltd in the year ended 30 June 2016 was $11,253 including GST (2015: nil). The balance payable at 30 June 2016 is nil (2015: nil). In previous years the consolidated entity provided engineering services and procurement of materials for Optiro Pty Ltd. The total amount invoiced to Optiro Pty Ltd in the year ended 30 June 2016 was nil (2015: $9,680). The balance outstanding at 30 June 2016 is nil (2015: $9,680).

In previous years the consolidated entity provided engineering services and procurement of materials for Marindi Metals Limited (previously Brumby Resources Limited), a company in which Geoff Jones is a non-executive director. The total amount invoiced to Marindi Metals Limited in the year ended 30 June 2016 was nil (2015: $56,562). The balance outstanding at 30 June 2016 is nil (2015: nil).

During the year ended 30 June 2016 the consolidated entity provided engineering services and procurement of materials for Dacian Gold Limited, a company in which Barry Patterson is a non-executive director. The total amount invoiced to Dacian Gold Limited in the year ended 30 June 2016 was $418,372 including GST (2015: $7,420). The balance outstanding at 30 June 2016 is $302,581 (2015: 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.

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

Geoff Jones
Managing Director

Date: 23 August 2016

AUDITOR'S INDEPENDENCE DECLARATION

Deloitte.

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24 August 2016

The Board of Directors
GR Engineering Services Limited
179 Great Eastern Highway
BELMONT WA 6104

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 2016, 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

A T Richards
Partner
Chartered Accountants

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2016

	Notes	Consolidated 2016 $	Consolidated 2015 $
REVENUE	5	255,291,729	216,892,554
Other income	6	3,791,701	1,586,113
EXPENSES			
Employee benefits expense	7	(69,120,391)	(46,482,886)
Superannuation expense	7	(5,413,273)	(4,218,975)
Depreciation and amortisation expense		(1,789,325)	(4,169,359)
Workers compensation expense		(459,201)	(324,568)
Equity based payments		(394,651)	(564,101)
Finance costs	7	(131,566)	(58,869)
Direct materials and subcontractor costs		(149,311,065)	(137,893,008)
Accountancy & audit fees		(317,935)	(286,932)
Marketing		(52,454)	(34,930)
Bad debts	10	(9,900)	(13,745)
Occupancy		(2,480,489)	(2,309,003)
Administration		(4,197,463)	(4,926,384)
Profit before income tax expense		25,405,717	17,195,907
Income tax expense	8	(6,065,734)	(4,258,256)
Profit after income tax expense for the year attributable to the owners of GR Engineering Services Limited	21	19,339,983	12,937,651
Other comprehensive income for the year, net of income tax			
Items that may be reclassified subsequently to profit or loss:			
Fair value gain/(loss) on available for sale financial assets		662,567	346,848
Exchange differences on translating foreign operations		(1,970,215)	1,103,967
Other comprehensive income for the year, net of income tax		(1,307,648)	1,450,815
Total comprehensive income for the year attributable to the owners of GR Engineering Services Limited		18,032,335	14,388,466
Profit attributable to owners of the parent		19,339,983	12,937,651
Total comprehensive income attributable to the owners of the parent		18,032,335	14,388,466
		Cents	**Cents**
Basic earnings per share	31	12.71	8.60
Diluted earnings per share	31	12.64	8.42

The accompanying notes form part of these Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

	Notes	Consolidated 2016 $	2015 $
ASSETS			
Current assets			
Cash and cash equivalents	9	64,923,175	64,582,994
Trade and other receivables	10	29,909,363	26,038,936
Inventories	11	4,409,364	2,821,512
Prepayments		503,561	652,458
Total current assets		99,745,463	94,095,900
Non-current assets			
Property, plant and equipment	12	3,613,480	3,514,591
Financial assets	13	3,712,539	2,347,202
Intangible assets	14	34,765	552,656
Deferred tax	8	3,028,018	2,256,138
Total non-current assets		10,388,802	8,670,587
Total assets		110,134,265	102,766,487
LIABILITIES			
Current liabilities			
Trade and other payables	15	28,356,507	35,392,357
Borrowings	16	401,450	397,912
Income tax	8	643,876	2,055,333
Provisions	17	10,891,708	7,962,338
Unearned revenue	18	15,034,068	5,416,190
Total current liabilities		55,327,609	51,224,130
Non-current liabilities			
Borrowings	16	522,418	706,432
Provisions	17	2,290,471	2,111,213
Total non-current liabilities		2,812,889	2,817,645
Total liabilities		58,140,498	54,041,775
Net assets		51,993,767	48,724,712
EQUITY			
Issued capital	19	30,225,436	28,918,256
Reserves	20	332,768	2,552,945
Retained profits	21	21,435,563	17,253,511
Total equity		51,993,767	48,724,712

The accompanying notes form part of these Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2016

		Consolidated	
	Notes	2016 $	2015 $
Cash flows from operating activities			
Receipts from customers		278,863,188	231,649,234
Payments to suppliers and employees		(253,635,286)	(184,485,238)
Income tax paid		(8,249,071)	(5,802,192)
Interest received		1,199,099	1,117,263
Net cash flows from operating activities	9	18,177,930	42,479,067
Cash flows from investing activities			
Purchase of property, plant and equipment		(944,184)	(1,797,266)
(Investment)/divestment in term deposits for project security		–	5,239,431
Net cash outflow on acquisition of business		(1,248,595)	(1,398,649)
Investment in financial assets		1,964,235	–
Net cash flows used in investing activities		(228,544)	2,043,516
Cash flows from financing activities			
Payment of finance lease liabilities		(606,614)	(168,525)
Dividends paid		(15,157,931)	(12,784,676)
Net cash flows used in financing activities		(15,764,545)	(12,953,201)
Net increase in cash and cash equivalents		2,184,841	31,569,382
Cash and cash equivalents at beginning of period		64,582,994	32,193,955
Effects of exchange rate changes of balances of cash held in foreign currencies		(1,844,660)	819,657
Cash and cash equivalents at end of period	9	64,923,175	64,582,994

The accompanying notes form part of these Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2016

	Issued capital $	Share Option Reserve $	Performance Rights Reserve $	Share Appreciation Rights Reserve $	Foreign Currency Translation Reserve $	Investment Revaluation Reserve $	Retained Earnings $	Total $
Balance as at 30 June 2014	28,785,355	545,500	590,246	82,291	(404,255)	(142,852)	17,100,536	46,556,821
Profit for the period	–	–	–	–	–	–	12,937,651	12,937,651
Other comprehensive income for the period	–	–	–	–	1,103,967	346,848	–	1,450,815
Total comprehensive income for the period	–	–	–	–	1,103,967	346,848	12,937,651	14,388,466
Dividends	–	–	–	–	–	–	(12,784,676)	(12,784,676)
Issue of shares	132,901	–	–	(132,901)	–	–	–	–
Share based payments	–	38,997	394,516	130,588	–	–	–	564,101
Balance as at 30 June 2015	28,918,256	584,497	984,762	79,978	699,712	203,996	17,253,511	48,724,712
Profit for the period	–	–	–	–	–	–	19,339,983	19,339,983
Other comprehensive income for the period	–	–	–	–	(1,970,215)	662,567	–	(1,307,648)
Total comprehensive income for the period	–	–	–	–	(1,970,215)	662,567	19,339,983	18,032,335
Dividends	–	–	–	–	–	–	(15,157,931)	(15,157,931)
Issue of shares	1,307,180	–	(1,175,848)	(76,132)	–	–	–	55,200
Share based payments	–	–	290,257	49,194	–	–	–	339,451
Balance as at 30 June 2016	30,225,436	584,497	99,171	53,040	(1,270,503)	866,563	21,435,563	51,993,767

The accompanying notes form part of these Financial Statements.

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 of GR Engineering Services Limited is located at 179 Great Eastern Highway, Belmont, Western Australia. The principal place of business is located at 179 Great Eastern Highway, Belmont, 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 23 August 2016.

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 years presented, unless otherwise stated.

New, revised or amending Accounting Standards and Interpretations adopted

Adoption of new and revised Accounting Standards

The consolidated entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to their operations and are effective for the current financial reporting period, beginning 1 July 2015.

New and revised Standards and amendments thereof and Interpretations effective for the current year that are relevant to the consolidated entity included:

- AASB 2015-3 'Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality'
- AASB 2015-4 'Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent'

The adoption of these standards and interpretations did not have a material impact on the consolidated entity.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Standards and Interpretations not yet mandatory or early adopted

The following Australian Accounting Standards and Interpretations have recently been issued or amended but are not yet effective and have not been adopted by the consolidated entity for the year ended 30 June 2016.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2018	30 June 2019
AASB 15 'Revenue from Contracts with Customers', AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15', AASB 2015-8 'Amendments to Australian Accounting Standards – Effective Date of AASB 15', and AASB 2016-3 'Amendments to Australian Accounting Standards – Clarifications to AASB 15'	1 January 2018	30 June 2019
AASB 16 'Leases'	1 January 2019	30 June 2020
AASB 1057 'Application of Australian Accounting Standards' and AASB 2015-9 'Amendments to Australian Accounting Standards – Scope and Application Paragraphs'	1 January 2016	30 June 2017
AASB 2014-3 'Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations'	1 January 2016	30 June 2017
AASB 2014-4 'Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation'	1 January 2016	30 June 2017
AASB 2014-9 'Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements'	1 January 2016	30 June 2017
AASB 2014-10 'Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture' and AASB 2015-10 'Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128'	1 January 2018	30 June 2019
AASB 2015-1 'Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle'	1 January 2016	30 June 2017
AASB 2015-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101'	1 January 2016	30 June 2017
AASB 2015-5 'Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception'	1 January 2016	30 June 2017
AASB 2016-1 'Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses'	1 January 2017	30 June 2018
AASB 2016-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107'	1 January 2017	30 June 2018

At the date of authorisation of the financial statements, the following IASB Standards and IFRIC Interpretations (for which Australian equivalent Standards and Interpretations have not yet been issued) were in issue but not yet effective.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
Classification and Measurement of Share-based Payment Transactions (Amendment to IFRS 2)	1 January 2018	30 June 2019

The impact of these recently issued or amended standards and interpretations have not been determined as yet by the consolidated entity.

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

ThThe 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.

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.

Accounting for construction contracts

Where the outcome of a construction 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 work in progress.

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group 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 Upstream Production Solutions Malaysia Sdn. Bhd. is Malaysian Ringgit. The functional currency of GR Engineering Services (Greece) is Euro. 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.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the consolidated entity and the revenue can be reliably measured.

Sales revenue

Revenue from the sale of goods is recognised when the consolidated entity has transferred to the buyer the significant risks and rewards of ownership of the goods.

Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion.

Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

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.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Unearned income

Unearned income classified as a current liability consists of customer advances for construction work in progress. The consolidated entity recognises a liability upon receipt of customer advances and then subsequently recognised as revenue when earned.

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.

Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

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.

Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. They are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted. The fair values of quoted investments are based on current bid prices. For unlisted investments, the consolidated entity establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the asset is derecognised or impaired.

Available for sale financial assets

Listed shares and listed redeemable notes held by the consolidated entity that are traded in an active market are classified as available for sale and are stated at fair value.

Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on available for sale equity instruments are recognised in profit or loss when the consolidated entity's right to receive the dividends is established.

Impairment of financial assets

The consolidated entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

When an available for sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

The amount of the impairment allowance for loans and receivables carried at amortised cost 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. If there is a reversal of impairment, the reversal cannot exceed the amortised cost that would have been recognised had the impairment not been made and is reversed to profit or loss.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the amortisation process.

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.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Issued capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, for example as the result of a share buy back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

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.

De-recognition of financial instruments

The de-recognition of a financial instrument takes place when the consolidated entity no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

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.

Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

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.

Where the outcome of a construction 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 work in progress.

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 ("EPC") 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.

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.

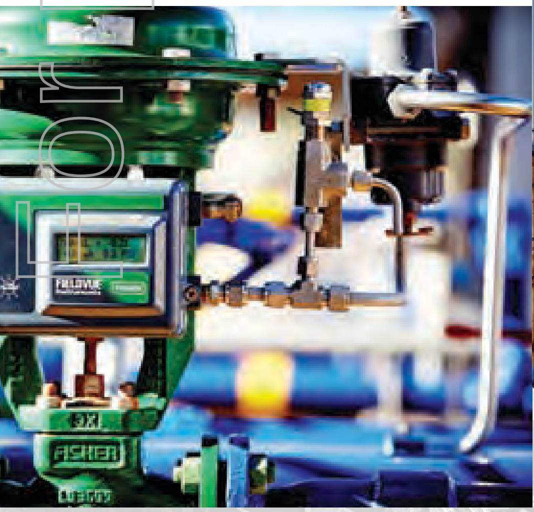
The Managing Director has chosen to classify the operations of the consolidated entity by reference to presence in an industry. The segments identified on this basis are "mineral processing" and "oil and gas".

Segment revenues and results

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

	2016 $	2015 $
Segment revenue		
Mineral processing	217,561,538	185,668,102
Oil and gas	37,730,191	31,224,452
Total revenue	255,291,729	216,892,554
Segment profit before tax		
Mineral processing	22,339,174	18,815,506
Oil and gas	2,022,724	(1,619,599)
Corporate - gain on sale of securities	1,043,819	–
Total profit before tax	25,405,717	17,195,907

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current year (2015: nil).



Segment assets and liabilities

Segment assets	2016 $	2015 $
Mineral processing	85,655,784	86,068,845
Oil and gas	20,765,942	14,350,441
Corporate - securities available for sale	3,712,539	2,347,202
Total assets	110,134,265	102,766,487
Depreciation and amortisation		
Mineral processing	474,874	701,436
Oil and gas	1,314,451	3,467,923
Total depreciation and amortisation	1,789,325	4,169,359
Segment liabilities		
Mineral processing	49,038,015	48,870,511
Oil and gas	9,102,483	5,171,264
Total liabilities	58,140,498	54,041,775

Geographical information

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

Revenue		
Australia	230,712,841	102,836,821
Overseas	24,578,888	114,055,733
Total revenue	255,291,729	216,892,554

Non-current assets

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

Information about major customers

During the financial year two customers individually provided more than 10% of total revenue each for the consolidated entity (2015: 2 customers).

NOTE 5. REVENUE

	Consolidated 2016 $	2015 $
Rendering of services – construction contracts	217,561,538	185,668,102
Rendering of services – operations and maintenance contracts	37,730,191	31,224,452
Total revenue	255,291,729	216,892,554

NOTE 6. OTHER INCOME

Net foreign exchange gain/(loss)	1,240,673	436,480
Net gain/(loss) on disposal of property, plant and equipment	–	13,284
Subsidies and grants	99,113	10,056
Interest revenue	1,199,099	1,117,263
Gain on sale of investment securities	1,043,819	–
Other revenue	208,997	9,030
Total other income	3,791,701	1,586,113

NOTE 7. EXPENSES

Profit before income tax includes the following specific expenses:		
Finance costs		
Interest and leasing charges on finance leases	131,566	58,869
Employee benefits		
Employee benefits expense excluding superannuation	69,120,391	46,482,886
Defined contribution superannuation expense	5,413,273	4,218,975
Total employee benefits	74,533,664	50,701,861

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NOTE 8. INCOME TAX EXPENSE

Major components of income tax expense for the years ended 30 June 2016 and 2015 are:

	Consolidated	
Income tax recognised in the Consolidated statement of profit or loss	**2016 $**	**2015 $**
Current income tax		
Current income tax charge	8,804,963	6,894,707
Adjustments in respect of current income tax of previous years	(1,683,392)	(778,276)
Deferred income tax		
Relating to origination and reversal of temporary differences	(1,024,457)	(1,818,250)
Adjustments in respect of previous deferred income tax	(31,380)	(39,925)
Income tax expense reported in statement of profit or loss	6,065,734	4,258,256
Income tax recognised in statement of changes in equity		
Deferred income tax		
Revaluation of shares	283,957	(148,649)
Income tax expense reported in equity	283,957	(148,649)

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 2016 and 2015 is as follows:

	2016 $	2015 $
Accounting profit before income tax	25,405,717	16,786,575
At the statutory income tax rate of 30% (2015: 30%)	7,621,715	5,035,973
Add:		
Non-deductible expenses	280,518	194,444
Adjustments in respect of previous current income tax	(1,683,392)	(818,201)
Impact to tax expense arising from foreign tax rate differential	(283,532)	(276,759)
Other	130,425	–
At effective income tax rate of 23.9% (2015: 24.8%)	6,065,734	4,258,256
Income tax expense reported in statement of profit or loss	6,065,734	4,258,256

NOTE 8. INCOME TAX EXPENSE (continued)

Deferred income tax	Consolidated 2016 $	2015 $
Deferred income tax at 30 June relates to the following:		
Deferred income tax assets		
Accrued employee entitlements	66,324	63,505
Accrued superannuation	17,322	14,073
Accrued audit fees	17,126	17,026
Leasing	(74,520)	(6,027)
Section 40/880 deduction	77	2,277
Provision for long service leave	94,686	93,181
Provision for warranty	2,322,493	1,534,549
Lease termination	96,331	61,452
Payables – Upstream Production Solutions subsidiary	94,806	94,806
Accrued employee entitlements - Upstream Production Solutions subsidiary	776,241	674,208
Shares in listed entity	(371,384)	(87,427)
Plant and equipment	50,725	–
	3,090,227	2,461,623
Deferred income tax liabilities		
Prepayments	(3,555)	(2,434)
Accrued interest	(10,941)	(17,173)
Other accrued income	(4,081)	(2,498)
Unrealised foreign exchange gain	(23,184)	(779)
Assets capitalised for tax	–	(1,554)
Prepayments – Upstream Production Solutions subsidiary	–	(222)
Customer contracts – Upstream Production Solutions subsidiary	(10,429)	(165,797)
Plant and equipment – Upstream Production Solutions subsidiary	(10,019)	(15,028)
	(62,209)	(205,485)
Net deferred tax asset	3,028,018	2,256,138
Current tax assets and liabilities		
Current tax liabilities		
Income tax payable	643,876	2,055,333

NOTE 9. CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	Consolidated	
	2016 $	**2015 $**
Cash on hand	119,698	120,814
Cash at bank	40,303,477	40,489,539
Cash on deposit	24,500,000	23,972,641
	64,923,175	64,582,994

The fair value of cash and cash equivalents is $64,923,175 (2015: $64,582,994).

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:

Cash at bank and on hand	40,423,175	40,610,353
Cash on deposit	24,500,000	23,972,641
	64,923,175	64,582,994

NOTE 9. CURRENT ASSETS – CASH AND CASH EQUIVALENTS (continued)

	Consolidated	
Reconciliation from the net profit after tax to the net cash flow from operations	**2016 $**	**2015 $**
Net profit after tax	19,339,983	12,937,651
Non-cash items		
Depreciation and amortisation	1,789,325	4,169,359
Profit/loss on sale of asset	–	(13,284)
Share based employee payments	394,651	564,101
Net foreign exchange (gain)/loss	(125,554)	284,308
Acquisition of shares as consideration for services	(374,591)	–
Net (gain)/loss arising on sale of financial assets	(1,043,819)	–
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	(3,721,532)	7,373,451
(Increase)/decrease in inventories	(1,587,852)	(2,643,712)
(Increase)/decrease in deferred tax asset	(1,240,276)	(1,709,527)
(Decrease)/increase in trade and other payables	(7,075,721)	13,777,824
(Decrease)/increase in provisions	3,148,498	3,797,890
(Decrease)/increase in tax liabilities	(943,060)	165,591
Increase in unearned income	9,617,878	3,775,415
Net cash from operating activities	18,177,930	42,479,067

NON-CASH TRANSACTIONS

During the year ended 30 June 2016 and year ending 30 June 2015, 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 2016 the consolidated entity acquired equipment under finance lease of $410,530 (2015: $812,348)

NOTE 10. TRADE AND OTHER RECEIVABLES

	Consolidated	
	2016 $	2015 $
Current assets – trade and other receivables		
Trade receivables	29,225,861	25,909,381
Less: Allowance for impairment of receivables	–	–
	29,225,861	25,909,381
Other receivables	229,038	81,784
Accrued revenue	454,464	47,771
	29,909,363	26,038,936

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

Impairment of receivables

Movements in the allowance for impairment of receivables are as follows:

Opening balance	–	–
Receivables written off during the year as uncollectable	–	–
Closing balance	–	–

Bad debts written off during the year as uncollectable amount to $9,900 (2015: $13,745).

Past due but not impaired

Customers with balances past due but without allowance for impairment of receivables amount to $8,687,141 as at 30 June 2016 ($2,593,631 as at 30 June 2015).

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

0 to 3 months overdue	3,093,929	2,576,343
3 to 6 months overdue	274,265	17,288
Over 6 months overdue	5,318,947	–
	8,687,141	2,593,631

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. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated.

NOTE 11. CURRENT ASSETS – INVENTORIES

Consumables – at cost	643,800	643,800
Work in progress	3,765,564	2,177,712
	4,409,364	2,821,512

NOTE 12. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

	Consolidated 2016 $	Consolidated 2015 $
Plant and equipment – at cost	8,246,046	6,876,508
Less: Accumulated depreciation	(4,925,395)	(3,776,287)
	3,320,651	3,100,221
Plant and equipment under lease	2,096,878	2,096,878
Less: Accumulated depreciation	(1,804,049)	(1,682,508)
	292,829	414,370
	3,613,480	3,514,591

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 2014	680,658	1,360,243	2,040,901
Additions	812,348	1,780,891	2,593,239
Disposals, Write off of assets	–	(45,197)	(45,197)
Depreciation expense	(267,666)	(806,685)	(1,074,351)
Balance at 30 June 2015	1,225,340	2,289,252	3,514,591
Additions	410,530	959,793	1,370,323
Disposals, Write off of assets	–	–	–
Depreciation expense	(367,103)	(904,331)	(1,271,434)
Balance at 30 June 2016	1,268,767	2,344,714	3,613,480

NOTE 13. FINANCIAL ASSETS

Available for sale financial assets held at fair value	Consolidated 2016 $	Consolidated 2015 $
Shares in listed entities	3,712,539	2,347,202

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 23 for movement during the year.

NOTE 14. INTANGIBLE ASSETS

	Consolidated 2016 $	2015 $
Customer contracts acquired on purchase of business	4,247,863	4,247,863
Less: Accumulated amortisation	(4,213,098)	(3,695,207)
Total intangible assets	34,765	552,656

The acquisition of the business of Upstream Production Solutions included seven projects in place at the acquisition date 23 April 2014. The fair value of each contract is amortised over the life of that contract. The lives of the seven contracts range between 2 and 4 years.

NOTE 15. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

Trade payables	18,853,239	22,435,808
Accrued expenses	3,074,800	9,494,986
GST payable	380,920	517,076
Prepaid revenue	2,883,781	355,206
Other payables	3,163,767	2,589,281
	28,356,507	35,392,357

Refer to note 23 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 16. BORROWINGS

Current liabilities – borrowings		
Lease liability	401,450	397,912
Non-current liabilities – borrowings		
Lease liability	522,418	706,432

Refer to Note 23 for further information on financial instruments.

Total secured liabilities

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

Lease liability	923,868	1,104,344

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.

NOTE 17. PROVISIONS

	Consolidated 2016 $	Consolidated 2015 $
Current liabilities – provisions		
Annual leave	3,150,066	2,847,178
Warranties	7,741,642	5,115,160
	10,891,708	7,962,338
Movement in provisions		
Provision for annual leave		
Balance at beginning of year	2,847,178	2,190,232
Additional provisions recognised	2,905,735	2,816,751
Amounts used	(2,602,847)	(2,159,805)
Balance at end of year	3,150,066	2,847,178
Provision for warranty and defects liability		
Balance at beginning of year	5,115,160	2,683,227
Additional provisions/(reduction in provisions) recognised	6,241,778	2,431,933
Amounts used	(3,615,296)	–
Balance at end of year	7,741,642	5,115,160
Non-current liabilities – provisions		
Long service leave	2,290,471	2,111,213
Movement in provisions		
Provision for long service leave		
Balance at beginning of year	2,111,213	1,407,585
Additional provisions recognised	376,044	757,204
Amounts used	(196,786)	(53,576)
Balance at end of year	2,290,471	2,111,213

NOTE 18. CURRENT LIABILITIES – UNEARNED REVENUE

Unearned revenue	15,034,068	5,416,190
Contracts in progress		
Progress billings	404,854,458	216,482,839
Construction costs to date plus recognised profits	389,820,390	211,066,649
	15,034,068	5,416,190

NOTE 19. EQUITY – ISSUED CAPITAL

	Consolidated		Consolidated	
	2016 Shares	2015 Shares	2016 $	2015 $
Ordinary shares – fully paid				
Opening balance	150,732,531	150,407,949	28,918,256	28,785,355
Additional shares issued:				
Exercise of performance rights	1,871,055	–	1,175,848	–
Exercise of share appreciation rights	207,722	324,582	76,132	132,901
Services rendered	60,000	–	55,200	–
Ordinary shares – fully paid	152,871,308	150,732,531	30,225,436	28,918,256

Ordinary shares

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

Changes to the Corporation Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the consolidated entity does not have a limited amount of authorised capital and issued shares do not have a par value.

Share appreciation rights

As at 30 June 2016, the consolidated entity had on issue a total of 509,631 share appreciation rights to Geoff Jones, Managing Director, as part of the consolidated entity's equity incentive plan (as at 30 June 2015: 942,064).

Number of shares under share appreciation rights	Grant date	Vesting date	Exercise price	Performance condition share price targets
296,297	12/11/13	30/06/17	$0.50	$1.04
213,334	12/11/13	30/06/18	$0.50	$1.24

Performance rights

As at 30 June 2016, the consolidated entity had on issue a total of 442,500 performance rights (as at 30 June 2015: 2,295,000):

Number of performance rights	Grant date	Expiry date	Exercise price
127,500	30/04/14	31/03/17	Nil
127,500	30/04/14	31/03/18	Nil
127,500	30/04/14	31/03/19	Nil
60,000	31/03/16	31/03/17	Nil

NOTE 20. EQUITY – RESERVES

	Consolidated 2016 $	2015 $
Foreign currency reserve	(1,270,503)	699,712
Performance rights reserve	99,171	984,762
Share options reserve	584,497	584,497
Share appreciation rights reserve	53,040	79,978
Investment revaluation reserve	866,563	203,996
	332,768	2,552,945
Foreign currency reserve		
Balance at beginning of year	699,712	(404,255)
Additional amounts recognised	(1,970,215)	1,103,967
Balance at end of year	(1,270,503)	699,712

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

	2016 $	2015 $
Performance rights reserve		
Balance at beginning of year	984,762	590,246
Additional amounts recognised	290,257	394,516
Amount exercised	(1,175,848)	–
Balance at end of year	99,171	984,762

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

	2016 $	2015 $
Share options reserve		
Balance at beginning of year	584,497	545,500
Additional amounts recognised	–	38,997
Balance at end of year	584,497	584,497

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.

NOTE 20. EQUITY – RESERVES (continued)

	Consolidated 2016 $	Consolidated 2015 $
Share appreciation rights reserve		
Balance at beginning of year	79,978	82,291
Additional amounts recognised	49,194	130,588
Amount exercised	(76,132)	(132,901)
Balance at end of year	53,040	79,978

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.

	Consolidated 2016 $	Consolidated 2015 $
Investment revaluation reserve		
Balance at beginning of year	203,996	(142,852)
Gain realised on sale of investment	(672,329)	–
Additional amounts recognised	1,881,394	370,529
Less tax effect of additional amount recognised	(546,498)	(23,681)
Balance at end of year	866,563	203,996

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 2016.

NOTE 21. EQUITY – RETAINED PROFITS

	Consolidated 2016 $	Consolidated 2015 $
Retained profits at the beginning of the financial year	17,253,511	17,100,536
Profit after income tax expense for the year	19,339,983	12,937,651
Payment of dividends	(15,157,931)	(12,784,676)
Retained profits at the end of the financial year	21,435,563	17,253,511

NOTE 22. EQUITY – DIVIDENDS

	Consolidated	
	2016 $	**2015 $**
Dividends		
Year ended 30 June 2015		
Dividend paid 30 September 2014 (fully franked at 30% tax rate):		
4 cents per ordinary share		6,016,318
Dividend paid 30 March 2015 (fully franked at 30% tax rate):		
4.5 cents per ordinary share		6,768,358
Year ended 30 June 2016		
Dividend paid 25 September 2015 (fully franked at 30% tax rate):		
5 cents per ordinary share	7,536,627	
Dividend paid 30 March 2015 (fully franked at 30% tax rate):		
5 cents per ordinary share	7,621,304	
	15,157,931	12,784,676

On 23 August 2016, the consolidated entity declared a fully franked dividend of 5.0 cents per share, an aggregate of $7,643,565. The Record Date of the dividend is 14 September 2016 and the proposed payment date is 28 September 2016.

	2016 $	2015 $
Franking credits		
Franking credits available for subsequent financial years based on a tax rate of 30%	1,762,045	1,219,526

NOTE 23. 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:

	2016 $	2015 $
Financial assets		
Cash and cash equivalents	64,923,175	64,582,994
Trade and other receivables	29,909,363	26,038,936
Available for sale securities	3,712,539	2,347,202
Total financial assets	98,545,077	92,969,132
Financial liabilities		
Trade and other payables	28,356,507	35,392,357
Finance lease liabilities	923,868	1,104,344
Total financial liabilities	29,280,375	36,496,701

NOTE 23. FINANCIAL INSTRUMENTS (continued)

Capital 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	
	2016 AUD $	2015 AUD $	2016 AUD $	2015 AUD $
United States Dollars	3,844,603	4,074,106	(45,189)	(476,221)
Great British Pounds	3,629,317	18,570,958	(1,939,545)	(9,946,829)
	7,473,920	22,645,065	(1,984,734)	(10,423,050)

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 2016 of AUD $1 = USD $0.74 (2015: AUD $1 = USD $0.77).

The consolidated entity holds balances in Great British pounds, these balances are translated into Australian dollars at the prevailing exchange rate at 30 June 2016 of AUD $1 = GBP £0.55 (2015: AUD $1 = GBP £0.49).

NOTE 23. 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
	$	$	$	$
2016				
United States Dollars	(345,349)	(345,349)	422,221	422,221
Great British Pounds	(153,616)	(153,616)	187,753	187,753
	(498,965)	(498,965)	609,974	609,974
2015				
United States Dollars	(327,078)	(327,078)	399,768	399,768
Great British Pounds	(784,012)	(784,012)	958,237	958,237
	(1,111,090)	(1,111,090)	1,358,005	1,358,005

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 exchange rate		Effect of 1% decrease in exchange rate	
	Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
	$	$	$	$
Consolidated – 2016				
Interest revenue	384,536	384,536	(384,536)	(384,536)
Interest expense	(3,577)	(3,577)	3,543	3,543
	380,959	380,959	(380,993)	(380,993)
Consolidated – 2015				
Interest revenue	334,487	334,487	(334,487)	(334,487)
Interest expense	(1,317)	(1,317)	1,314	1,314
	333,170	333,170	(333,173)	(333,173)

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.

- profit for the year ended 30 June 2016 would have been unaffected as the equity investments are classified as available-for-sale; and
- other comprehensive income for the year ended 30 June 2016 would increase by $185,627 (2015: $117,360) as a result of an increase of 5% in equity prices, and decrease by $185,627 (2015: $117,360) as a result of a decrease of 5% in equity prices.

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NOTE 23. FINANCIAL INSTRUMENTS (continued)

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.

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.

		Remaining contractual maturities			
Non-derivatives	**Weighted average interest rate %**	**Less than 6 months $**	**6 to 12 months $**	**Over 12 months $**	**Total $**
Consolidated – 2016					
Non-interest bearing					
Trade payables	–	28,356,507	–	–	28,356,507
Interest-bearing – fixed rate					
Lease liability	3.87	182,835	218,615	522,418	923,868
Total non-derivatives		28,539,342	218,615	522,418	29,280,375
Consolidated – 2015					
Non-interest bearing					
Trade payables	–	35,392,357	–	–	35,392,357
Interest-bearing – fixed rate					
Lease liability	6.42	226,250	171,662	706,432	1,104,344
Total non-derivatives		35,618,607	171,662	706,432	36,496,701

NOTE 23. FINANCIAL INSTRUMENTS (continued)

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	2016 Carrying amount $	2016 Fair Value $	2015 Carrying amount $	2015 Fair Value $
Assets				
Cash at bank	40,423,175	40,423,175	40,610,353	40,610,353
Cash on deposit	24,500,000	24,500,000	23,972,641	23,972,641
Trade receivables	29,909,363	29,909,363	26,038,936	26,038,936
Available for sale securities	3,712,539	3,712,539	2,347,202	2,347,202
	98,545,077	98,545,077	92,969,132	92,969,132
Liabilities				
Trade payables	28,356,507	28,356,507	35,392,357	35,392,357
Lease liability	923,868	923,868	1,104,344	1,104,344
	29,280,375	29,280,375	36,496,701	36,496,701

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.

NOTE 23. FINANCIAL INSTRUMENTS (continued)

Fair value of financial instruments (continued)

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

	Level 1 $	Level 2 $	Level 3 $	Total $
Fair value hierarchy – 2016				
Financial assets				
Trade receivables	–	29,909,363	–	29,909,363
Available for sale securities	3,712,539	–	–	3,712,539
	3,712,539	29,909,363	–	33,621,902
Financial liabilities				
Trade payables	–	28,356,507	–	28,356,507
Lease liability	–	923,868	–	923,868
	–	29,280,375	–	29,280,375
Fair value hierarchy – 2015				
Financial assets				
Trade receivables	–	26,038,936	–	26,038,936
Available for sale securities	2,347,202	–	–	2,347,202
	2,347,202	26,038,936	–	28,386,138
Financial liabilities				
Trade payables	–	35,392,357	–	35,392,357
Lease liability	–	1,104,344	–	1,104,344
	–	36,496,701	–	36,496,701

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	
	2016 $	2015 $
Available for sale equity securities		
Opening balance	2,347,202	601,704
Additions	1,339,228	1,250,000
Disposals	(1,592,745)	–
Net revaluations in other comprehensive income	1,618,854	495,498
Closing balance	3,712,539	2,347,202

NOTE 24. KEY MANAGEMENT PERSONNEL DISCLOSURES

Directors

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

Executive directors

Joe Ricciardo	Non-Executive Chairman - Retired 18 April 2016
Peter Hood	Non-Executive Chairman - Appointed 18 April 2016
Tony Patrizi	Executive Director
Geoff Jones	Managing Director

Non-executive directors

Barry Patterson	Non-Executive Director
Terry Strapp	Non-Executive Director
Peter Hood	Non-Executive Director

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	General Manager EPC Division
Paul Newling	General Manager EPCM Division
Joe Totaro	Chief Financial Officer and Company Secretary
Rodney Schier	Engineering Manager

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	
	2016 $	2015 $
Short term benefits	2,370,710	2,329,156
Post employment benefits	171,504	167,810
Share based payments	55,605	176,082
Other	27,853	–
	2,625,672	2,673,048

NOTE 25. 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	
	2016 $	2015 $
Audit services – Deloitte Touche Tohmatsu		
Audit or review of the financial statements - Deloitte Touche Tohmatsu Australia	122,911	112,627
Audit or review of the financial statements - Deloitte Touche Tohmatsu UK	9,574	10,884
Other services – Deloitte Touche Tohmatsu		
Tax compliance - Deloitte Touche Tohmatsu Australia	22,575	30,450
Other services - Deloitte Touche Tohmatsu Australia	–	26,250
	155,060	180,211

NOTE 26. CONTINGENT LIABILITIES

The consolidated entity has bank guarantees in place as at 30 June 2016 of $30,697,308 (2015: $29,737,896).

The consolidated entity has a bank guarantee facility with the National Australia Bank to provide bank guarantees to support project performance in favour of certain clients of the consolidated entity. The facility has an approved limit of $40,000,000. The facility is secured by a fixed and floating charge over all the assets of the consolidated entity. The amount of bank guarantees issued under this facility at 30 June 2016 is $29,791,618 (2015: $28,800,581). 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 $905,690 (2015: $937,315). The amount of bank guarantees issued under this facility at 30 June 2016 is $905,690 (2015: $937,315).

The consolidated entity has a $30,000,000 insurance bond facility with Assetinsure Pty Ltd (2015: $30,000,000). This facility has been utilised to provide retention and off site materials bonds in connection with certain projects. The amount of insurance bonds issued under this facility at 30 June 2016 is $10,033,027 (2015: $14,912,256).

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 27. COMMITMENTS

The consolidated entity has leased certain items of its equipment under finance leases. The average lease term is 3 years (2015: 3 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.

	Consolidated	
	2016 **$**	**2015** **$**
Finance Leases		
Not longer than 1 year	430,815	435,514
Longer than 1 year and not longer than 5 years	539,570	737,675
Longer than 5 years	–	–
Minimum lease payments	970,385	1,173,189
Less: future finance charges	(46,517)	(68,845)
Present value of minimum lease payments	923,868	1,104,344

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		
Not longer than 1 year	1,738,202	1,913,651
Longer than 1 year and not longer than 5 years	1,257,555	2,222,302
Longer than 5 years	–	–
Total lease payments	2,995,757	4,135,953

NOTE 28. RELATED PARTY TRANSACTIONS

During the year ended 30 June 2016 the consolidated entity leased office space at 71-73 Daly Street from Ashguard Pty Ltd. Directors of the consolidated entity, namely Joe Ricciardo, 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 2016 amounted to $314,019 including GST (2015: $314,263). The balance payable at 30 June 2016 is $46,860 (2015: $46,054). During the year ended 30 June 2016 the consolidated entity procured items for Ashguard Pty Ltd. The total amount invoiced to Ashguard Pty Ltd in the year ended 30 June 2016 was $1,225 including GST (2015: $10,998). The balance outstanding at 30 June 2016 is nil (2015: nil).

During the year ended 30 June 2016 the consolidated entity procured items and hired equipment from PIHA Pty Ltd, a subsidiary of Mineral Resources Limited, a company in which Joe Ricciardo was a non-executive director until his retirement on 18 April 2016. The total amount invoiced by PIHA Pty Ltd in the year ended 30 June 2016 amounted to $849,728 including GST (2015: $240,664). The balance payable at 30 June 2016 is $89,756 (2015: $237,936). In previous years the consolidated entity provided engineering services and procurement of materials for PIHA Pty Ltd. The total amount invoiced to PIHA Pty Ltd in the year ended 30 June 2016 was nil (2015: $41,083). The balance outstanding at 30 June 2016 is nil (2015: nil).

In previous years the consolidated entity provided engineering services and procurement of materials for Crushing Services International Pty Ltd (a subsidiary of Mineral Resources Limited), a company in which Joe Ricciardo was a non-executive director until his retirement on 18 April 2016. The total amount invoiced to Crushing Services International Pty Ltd in the year ended 30 June 2016 was nil (2015: $151,580). The balance outstanding at 30 June 2016 is nil (2015: nil).

During the year ended 30 June 2016 the consolidated entity provided engineering services and procurement of materials for Azumah Resources Limited, a company in which Geoff Jones is a non-executive director. The total amount invoiced to Azumah Resources Limited in the year ended 30 June 2016 was $29,760 including GST (2015: $204,886). The balance outstanding at 30 June 2016 is nil (2015: nil).

During the year ended 30 June 2016 the consolidated entity was provided engineering services by Optiro Pty Ltd, a company in which Joe Ricciardo and Tony Patrizi each hold non-controlling interests. The total amount invoiced by Optiro Pty Ltd in the year ended 30 June 2016 was $11,253 including GST (2015: nil). The balance payable at 30 June 2016 is nil (2015: nil). In previous years the consolidated entity provided engineering services and procurement of materials for Optiro Pty Ltd. The total amount invoiced to Optiro Pty Ltd in the year ended 30 June 2016 was nil (2015: $9,680). The balance outstanding at 30 June 2016 is nil (2015: $9,680).

In previous years the consolidated entity provided engineering services and procurement of materials for Marindi Metals Limited (previously Brumby Resources Limited), a company in which Geoff Jones is a non-executive director. The total amount invoiced to Marindi Metals Limited in the year ended 30 June 2016 was nil (2015: $56,562). The balance outstanding at 30 June 2016 is nil (2015: nil).

During the year ended 30 June 2016 the consolidated entity provided engineering services and procurement of materials for Dacian Gold Limited, a company in which Barry Patterson is a non-executive director. The total amount invoiced to Dacian Gold Limited in the year ended 30 June 2016 was $418,372 including GST (2015: $7,420). The balance outstanding at 30 June 2016 is $302,581 (2015: 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 2016.

NOTE 29. 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.

	Parent	
	2016 **$**	**2015** **$**
Statement of profit or loss and other comprehensive income		
Profit after income tax	16,894,564	11,374,906
Total comprehensive income	16,894,564	11,374,906
Statement of financial position		
Total current assets	85,709,362	73,873,257
Total assets	92,642,855	79,002,083
Total current liabilities	46,386,507	34,145,653
Total liabilities	46,386,507	35,539,586
Equity		
Issued capital	30,225,436	28,918,256
Performance rights reserve	99,171	984,762
Share options reserve	584,497	584,497
Share appreciation rights reserve	53,040	79,978
Investment revaluation reserve	866,563	203,996
Retained profits	14,427,641	12,691,008
Total equity	46,256,348	43,462,497

The contingent liabilities and commitments of the parent entity are the same as those of the consolidated entity, as set out in notes 26 and 27.

NOTE 30. EVENTS AFTER THE REPORTING PERIOD

Dividend declaration

On 23 August 2016, the consolidated entity declared a fully franked dividend of 5.0 cents per share, an aggregate of $7,643,565. The Record Date of the dividend is 14 September 2016 and the proposed payment date is 28 September 2016.

No other matter or circumstance has arisen since 30 June 2016 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 31. EARNINGS PER SHARE

	Consolidated 2016 $	2015 $
Profit after income tax attributable to the owners of GR Engineering Services Limited	19,339,983	12,937,651
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	152,151,265	150,408,838
Adjustments for calculation of diluted earnings per share:		
Weighted average number of employee performance rights and share appreciation rights issued	907,090	3,237,064
Weighted average number of ordinary shares used in calculating diluted earnings per share	153,058,355	153,645,902
	Cents	**Cents**
Basic earnings per share	12.71	8.60
Diluted earnings per share	12.64	8.42

NOTE 32. 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 issued a total of 2,215,000 performance rights on 11 September 2012 to a total of 86 employees and long term contractors under an Equity Incentive 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. These performance rights vested on 21 September 2015.

A further 50,000 rights were issued to two employees on 4 October 2012. A third tranche of 50,000 rights were issued to an employee on 13 May 2013, these tranches of rights have a three year service term from the date of issue. On 30 April 2014 four further tranches of 127,500 rights each were issued to two employees. These tranches each have varying service terms of 2, 3, 4 and 5 years from the date of issue. On 31 March 2016, a tranche of 60,000 rights were issued, with a service term of 1 year.

NOTE 32. SHARE-BASED PAYMENTS (continued)

A total of 571,445 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, 41,445 have lapsed in the financial year ending 30 June 2016 (2015: 20,000).

A summary of performance rights on issue at 30 June 2016 follows:

	Tranche 5	Tranche 6	Tranche 7	Tranche 8
Number issued	127,500	127,500	127,500	60,000
Number lapsed	–	–	–	–
Grant date	30/04/2014	30/04/2014	30/04/2014	31/03/2016
Exercise price	Nil	Nil	Nil	Nil
Vesting date	31/03/2017	31/03/2018	31/03/2019	31/03/2017
Expiry date	31/03/2017	31/03/2018	31/03/2019	31/03/2017
Vesting period (years)	3	4	5	1
Vesting conditions	Nil	Nil	Nil	Nil
Fair value	$0.511	$0.458	$0.410	$0.824

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

	Tranche 5	Tranche 6	Tranche 7	Tranche 8
Grant date share price	$0.705	$0.705	$0.705	$0.920
Exercise price	–	–	–	–
Expected volatility	60%	60%	60%	60%
Term (years)	3	4	5	1
Dividend yield	11%	11%	11%	11%
Risk free interest rate	2.95%	3.33%	3.33%	1.89%

NOTE 32. SHARE-BASED PAYMENTS (continued)

Movement in performance rights

Consolidated	2016 Number of performance rights	2016 Weighted average exercise price	2015 Number of performance rights	2015 Weighted average exercise price
Balance at beginning of year	2,295,000	–	2,315,000	–
Granted during the year	60,000	–	-	–
Vested during the year	(1,871,055)		-	
Forfeited during the year	(41,445)	–	(20,000)	–
Balance at end of year	442,500	–	2,295,000	–

The weighted average fair value of performance rights granted at 30 June 2016 is $0.51. The weighted average exercise price of these performance rights at 30 June 2016 is nil. The weighted average remaining contractual life of performance rights outstanding at 30 June 2016 is 590 days.

On 12 November 2013, the consolidated entity issued a total of 3,269,337 share appreciation rights to Geoff Jones, Managing Director, as part of the consolidated entity's equity incentive plan. Of this total, 432,433 vested during the financial year ending 30 June 2016 (2015: 727,273). 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.

Number of share appreciation rights	Grant date	Vesting date	Exercise price	Performance condition share price targets	Fair value at grant date
1,600,000	12 Nov 2013	30 Jun 2014	$0.50	$0.60	$0.18
727,273	12 Nov 2013	30 Jun 2015	$0.50	$0.72	$0.18
432,433	12 Nov 2013	30 Jun 2016	$0.50	$0.86	$0.18
296,297	12 Nov 2013	30 Jun 2017	$0.50	$1.04	$0.16
213,334	12 Nov 2013	30 Jun 2018	$0.50	$1.24	$0.15

The fair value of share appreciation rights granted during the year was calculated using a Monte Carlo pricing model applying inputs as follows:

	Class A	Class B	Class C	Class D	Class E
Grant date share price ($)	0.67	0.67	0.67	0.67	0.67
Exercise price ($)	0.50	0.50	0.50	0.50	0.50
Expected volatility (%)	60	60	60	60	60
Vesting period (years)	0	1	2	3	4
Dividend yield (%)	11	11	11	11	11
Risk free interest rate (%)	2.80	2.80	3.06	3.06	3.48

NOTE 32. SHARE-BASED PAYMENTS (continued)

Movement in share appreciation rights

	2016		2015	
Consolidated	Number of share appreciation rights	Weighted average exercise price	Number of share appreciation rights	Weighted average exercise price
Balance at beginning of year	942,064	–	1,669,337	–
Granted during the year	–	–	–	–
Vested and exercised during the year	(432,433)	–	(727,273)	–
Balance at end of year	509,631	–	942,064	–

On the date of exercise of 432,433 of the above share appreciation rights, 30 June 2016, the closing share price was $0.99 per share.

The weighted average fair value of share appreciation rights granted at 30 June 2016 is $0.16. The weighted average exercise price of these share appreciation rights at 30 June 2016 is $0.50. The weighted average remaining contractual life of share appreciation rights outstanding at 30 June 2016 is 518 days.

NOTE 33. SUBSIDIARIES

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

		Equity holding	
Name of subsidiary	Country of incorporation	2016 %	2015 %
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	–
GR Engineering Services (Greece) ++	Greece	100	–
GR Engineering Services (Tanzania) Limited +++	Tanzania	100	–
Upstream Production Solutions Pty Ltd	Australia	100	100
Upstream Production Solutions (Malaysia) Sdn. Bhd.	Malaysia	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.

\+ Incorporation date 1 September 2015.

++ GR Engineering Services (Greece) is 100% owned by GR Engineering Services (UK) Limited, and incorporation date is 13 January 2016

+++ Incorporation date 2 May 2016

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 Section 295A of the *Corporations Act 2001*.

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

On behalf of the Directors

Geoff Jones
Managing Director

23 August 2016

Deloitte.

Deloitte Touche Tohmatsu
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Independent Auditor's Report to the members of GR Engineering Services Limited

Report on the Financial Report

We have audited the accompanying financial report of GR Engineering Services Limited, which comprises the statement of financial position as at 30 June 2016, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 22 to 67.

Directors' Responsibility 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 Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the company's preparation of the financial report that gives a true and fair view, 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Deloitte.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of GR Engineering Services Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of GR Engineering Services Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.

Report 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 2016. 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.

Opinion

In our opinion the Remuneration Report of GR Engineering Services Limited for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

A T Richards
Partner
Chartered Accountants
Perth, 24 August 2016

68

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 it 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, 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

The Company reports below on whether it has followed each of the recommendations during the 2015/2016 financial year (**Reporting Period**). The information in this statement is current at 23 August 2016. This statement was approved by a resolution of the Board on 23 August 2016.

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 2016, which is disclosed on the Company's website www.gres.com.au, under the section marked "News".

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).

PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT (continued)

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 2017."

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 Senior Management as defined by the Workplace Gender Equality Agency:

	Proportion of women		
Whole organisation	53 out of 344	(15%)	(16% as at 30 June 2015)
Senior executive positions	22 out of 146	(15%)	(10% as at 30 June 2015)
Board	0 out of 6	(0%)	(0% as at 30 June 2015)

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 Barry Patterson (Chair), Terrence Strapp 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.

The Nominations and Remuneration Committee held no separate meeting during the year electing instead to address matters for its consideration within the context of meetings of the full Board of Directors.

Recommendation 2.2

The mix of skills and diversity that the Board currently has is a Board comprised of 4 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.

All 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.

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 Patterson (deemed independent), Strapp and Hood.

Mr Patterson is a substantial shareholder of the Company. Notwithstanding that he is a substantial shareholder the Board considers Mr Patterson to be an independent director because he is not a member of management and is 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, his 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 interests as a substantial shareholder 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 5 directors three 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 shareholders of the Company and Geoff Jones has been employed by the Company since 2011, initially as Chief Operating officer and since 01 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 creating a majority of independent directors.

Recommendation 2.5

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

PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE (continued)

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.

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

Terrence Strapp *(CPA, FFin, MAICD)* is a Certified Practicing Accountant and has extensive experience in banking, finance and corporate risk management. Mr Strapp has extensive experience in the preparation and interpretation of financial statements and information.

Peter Hood *(BE (Chem), MAustIMM, FChemE, FAICD)* is a Chemical Engineer and was formerly the Chief Executive Officer of Coogee Chemicals and Coogee Resources. He is currently the Chairman of the Australian Chamber of Commerce and Industry and Immediate Past President of the Chamber of Commerce and Industry Western Australia. Peter is currently Chairman of Matrix Composites and Engineering Limited. His broad based commercial experience includes the interpretation of financial statements and information.

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.

The Company has also established a Procedure for the Selection, Appointment and Rotation of its External Auditor. The Board is responsible for the initial appointment of the external auditor and the appointment of a new external auditor when any vacancy arises. Candidates for the position of external auditor must demonstrate complete independence from the Company through the engagement period. The Board may otherwise select an external auditor based on criteria relevant to the Company's business and circumstances. The performance of the external auditor is reviewed on an annual basis by the Board.

The Audit and Risk Committee held no separate meeting during the year electing instead to address matters for its consideration within the context of meetings of the full Board of Directors.

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.

PRINCIPLE 4 – SAFEGUARD INTEGRITY IN CORPORATE REPORTING (continued)

Recommendation 4.2

Before the Board approved the Company financial statements for the half year ended 31 December 2015 and the full-year ended 30 June 2016, 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.

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 10 November 2015.

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.

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 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.

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.

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 of 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.

The shareholder information set out below was applicable as at 31 August 2016:

- the twenty largest shareholders held 83.59% of the Ordinary Shares; and
- there were 1,308 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	160	100,304	0.07
1,001 – 5,000	441	1,353,766	0.89
5,001 – 10,000	247	2,049,142	1.34
10,001 – 100,000	405	12,871,381	8.42
100,001 – 1,000,000	38	11,747,703	7.68
1,000,001 – 9,999,999,999	17	124,749,012	81.60
Total	**1,306**	**152,871,308**	**100.00**

The number of shareholders holding less than a marketable parcel of ordinary shares is 36.

Equity security holders

Top 20 Shareholders as at 16 September 2016:

	Name	Number of shares held	% of shares issued
1.	Citicorp Nominees Pty Ltd	15,296,584	10.01
2.	Mr David Joseph Sala Tenna + Ms Jane Frances Sala Tenna	12,325,000	8.06
3.	Joley Pty Ltd	12,000,000	7.85
4.	Polly Pty Ltd	10,500,000	6.87
5.	Paksian Pty Ltd	9,798,578	6.41
6.	Kingarth Pty Ltd	9,795,000	6.41
7.	Quintal Pty Ltd	9,500,000	6.21
8.	Mr Giuseppe Totaro	9,000,000	5.89
9.	Ms Beverley June Schier	8,100,000	5.30
10.	Ms Barbara Ann Woodhouse	6,085,022	3.98
11.	Ledgking Pty Ltd	6,000,000	3.92
12.	National Nominees Pty Ltd	4,368,693	3.51
13.	Mr Stephen Paul Kendrick	3,491,000	2.28
14.	J P Morgan Nominees Australia Ltd	3,294,625	2.16
15.	HSBC Custody Nominees (Australia) Limited	2,251,244	1.47
16.	RBC Investor Services Australia Pty Ltd	1,700,000	1.11
17.	Kendrick Investments Pty Ltd	1,384,000	0.91
18.	Mr Cono Antonino Angelo Ricciardo	980,000	0.64
19.	Bond Street Custodians Limited	866,244	0.57
20.	Mr Michael Gerald Woodhouse + Mrs Barbara Ann Woodhouse	813,950	0.53
		127,779,940	**83.59**

Substantial shareholders

	Name	Number of shares held	% of shares issued
1.	Commonwealth Bank of Australia (and its related bodies corporate)	15,208,984	9.95
2.	Mr David Joseph Sala Tenna + Ms Jane Frances Sala Tenna	12,325,000	8.06
3.	Joley Pty Ltd	12,000,000	7.85
4.	Polly Pty Ltd	10,500,000	6.87
5.	Paksian Pty Ltd	9,798,578	6.41
6.	Kingarth Pty Ltd	9,795,000	6.41
7.	Mr Giuseppe Totaro	9,500,000	6.21
8.	Quintal Pty Ltd	9,500,000	6.21
9.	Ms Beverley June Schier	8,100,000	5.30

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 2016.

Performance rights

The following performance rights are on issue:

Number	Grant date	Expiry date	Exercise price
127,500	30 Apr 2014	31 Mar 2017	–
127,500	30 Apr 2014	31 Mar 2018	–
127,500	30 Apr 2014	31 Mar 2019	–
60,000	31 Mar 2016	31 Mar 2017	–

Share appreciation rights

The following share appreciation rights are on issue:

Number	Grant date	Expiry date	Exercise price
296,297	12 Nov 2013	30 Jun 2017	–
213,334	12 Nov 2013	30 Jun 2018	–

CORPORATE DIRECTORY

GR ENGINEERING SERVICES LIMITED

ACN 121 542 738
ABN 12 121 542 738

DIRECTORS

Geoff Jones (Managing Director)
Peter Hood (Non-Executive Chairman)
Tony Patrizi (Executive Director)
Barry Patterson (Non-Executive Director)
Terrence Strapp (Non-Executive Director)

COMPANY SECRETARY & CHIEF FINANCIAL OFFICER

Giuseppe (Joe) Totaro

REGISTERED OFFICE

179 Great Eastern Highway
BELMONT WA 6104

PRINCIPAL PLACE OF BUSINESS

179 Great Eastern Highway
BELMONT WA 6104

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Email:	gres@gres.com.au
Website:	www.gres.com.au

ASX CODE

GNG

AUDITOR

Deloitte Touche Tohmatsu
123 / 125 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

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.

gres.com.au