

For personal use only



ANNUAL FINANCIAL REPORT

ABN 12 121 542 738

30 June 2018



GR ENGINEERING SERVICES
ENGINEERING CONSULTANTS AND CONTRACTORS



TABLE OF CONTENTS

CORPORATE DIRECTORY	3
DIRECTORS' REPORT	4
FINANCIAL REPORT :	
AUDITOR'S INDEPENDENCE DECLARATION	22
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	23
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	24
CONSOLIDATED STATEMENT OF CASH FLOWS	25
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	26
NOTES TO THE FINANCIAL STATEMENTS	27
DIRECTORS' DECLARATION	66
INDEPENDENT AUDITOR'S REPORT	67
CORPORATE GOVERNANCE STATEMENT	73
ADDITIONAL ASX INFORMATION	81

CALENDAR

Final Dividend:	
Ex-dividend Date	11 October 2018
Record Date	12 October 2018
Payment Date	24 October 2018
Annual General Meeting	22 November 2018



CORPORATE DIRECTORY

GR ENGINEERING SERVICES LIMITED

ACN 121 542 738

ABN 12 121 542 738

DIRECTORS

Phillip Lockyer (Non-Executive Chairman)

Geoff Jones (Managing Director)

Tony Patrizi (Executive Director)

Barry Patterson (Non-Executive Director)

Terrence Strapp (Non-Executive Director)

Peter Hood (Non-Executive Director)

COMPANY SECRETARY & CHIEF FINANCIAL OFFICER

Giuseppe (Joe) Totaro

REGISTERED OFFICE

71 Daly Street

ASCOT WA 6104

PRINCIPAL PLACE OF BUSINESS

71 Daly Street

ASCOT WA 6104

Telephone: (61 8) 6272 6000

Facsimile: (61 8) 6272 6001

Email: gres@gres.com.au

Website: www.gres.com.au

ASX CODE

GNG

AUDITOR

Deloitte Touche Tohmatsu

Tower 2, Brookfield Place, 123 St Georges Terrace

PERTH WA 6000

SOLICITORS TO THE COMPANY

Zafra Legal

Level 10, 105 St Georges Terrace

PERTH WA 6000

SHARE REGISTRY

Computershare Investor Services Pty Limited

Level 11, 172 St Georges Terrace

PERTH WA 6000



DIRECTORS' REPORT

Your Directors present their report together with the financial statements of GR Engineering Services Limited ("GR Engineering" or "consolidated entity") for the financial year 1 July 2017 to 30 June 2018 and the independent auditor's report thereon.

The names of the consolidated entity's Directors in office during the financial year ended 30 June 2018 and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

DIRECTORS

Phillip (Phil) LOCKYER (Non-Executive Chairman)
Geoffrey (Geoff) Michael JONES (Managing Director)
Tony Marco PATRIZI (Executive Director)
Barry Sydney PATTERSON (Non-Executive Director)
Terrence John STRAPP (Non-Executive Director)
Peter John HOOD (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 6.00 cents per share paid on 28 March 2018
- Subsequent to 30 June 2018, an unfranked dividend of 5.00 cents per share was recommended by the Directors to be paid on 24 October 2018.



DIRECTORS' REPORT

REVIEW OF OPERATIONS

Mineral Processing

In the financial year ending 30 June 2018 (FY18), GR Engineering successfully delivered major greenfields and brownfields projects with a combined capital value exceeding \$220 million. GR Engineering's major projects were undertaken in Western Australia, with two major gold processing plants and two brownfields upgrades being successfully completed and commissioned in FY18.

Completed projects

Major projects completed in FY18 include:

- **Mt Morgans Project:** the design and construction of the mineral processing facility for Dacian Gold Limited's Mt Morgans Project, located 25 kilometres south-west of Laverton in Western Australia. This \$107 million project involved the design and construction of a new 2.5Mtpa carbon-in-leach treatment facility and certain supporting infrastructure. Practical completion on this project was achieved in April 2018, approximately one year after its commencement.
- **Dalgaranga Gold Project:** the design and construction of the 2.5Mtpa mineral processing facility for Gascoyne Resources Limited's Dalgaranga Gold Project, located in the Murchison gold mining region of Western Australia. This \$66.5 million project was successfully delivered with practical completion being achieved in May 2018, following commencement of the project in July 2017.
- **Sunrise Dam Upgrade Project:** the upgrade of processing facilities at Anglogold Ashanti Australia Limited's Sunrise Dam gold mine located 55 kilometres south of Laverton, Western Australia. This \$31.3 million project involved the design and construction of a new flotation and ultra-fine grind processing facility with associated services upgrades within the existing processing infrastructure at Sunrise Dam.
- **Cosmic Boy Mill Recovery Enhancement Project:** Initial work on the \$24 million project commenced in July 2015, with engineering, design and procurement of long lead time items. Construction works of \$17.5 million were deferred until to June 2017. Practical completion was achieved in January 2018.

New and ongoing projects

Significant new projects announced in FY18 include:

- **Thunderbird Mineral Sands Project:** GR Engineering was engaged by Sheffield Resources Limited in October 2017 as preferred tenderer for the design and construction of a 7.5Mtpa processing facility for the Thunderbird Mineral Sands Project, located on the Dampier Peninsula in Western Australia. GR Engineering is undertaking engineering design and long lead procurement activities under an Early Works Agreement (EWA) whilst Sheffield continues to progress its offtake, permitting and financing activities.

The EWA contemplates a lump sum EPC contract with a scope of work comprising the design, construction and commissioning of a wet concentrator plant, concentrate upgrade plant, zircon processing plant, ilmenite processing plant, plant area civil works and process water systems, site administration buildings and other infrastructure. The anticipated delivery time for this project is approximately two years.

- **Karlawinda Gold Project:** In April 2018, GR Engineering was appointed as preferred tenderer by Capricorn Metals Limited for the design and construction of a 3.0Mtpa carbon-in-leach processing plant and associated infrastructure for the Karlawinda Gold Project located near Newman in Western Australia. Under a letter of intent provided by Capricorn, GR Engineering has commenced early engineering works pending the entry into an EPC contract with an anticipated value of \$93.1 million.



DIRECTORS' REPORT

Studies and consulting

GR Engineering has been engaged on several engineering and consultancy assignments for international projects, with scopes extending to early engineering studies, process design, procurement support and site supervision services associated with new and existing operations. In FY18, this resulted in strong workflow out of Turkey and PNG on globally significant minerals projects.

A stable commodity price and capital markets environment continues to support capital expenditure on new projects, upgrades and optimisation works, which is evident from the high volume of studies being progressed by GR Engineering. During FY18, GR Engineering completed 47 studies and as at 30 June 2018, was engaged on a further 30 studies across a broad range of commodities for projects both in Australia and abroad.

Oil and Gas

GR Engineering's oil and gas services business, Upstream Production Solutions (Upstream PS) achieved sustained revenue contributions primarily from the provision of coal seam gas services in Queensland, where it has approximately 3,500 well heads under management and offshore and onshore operations and maintenance services in Western Australia.

In Queensland, Upstream PS' demonstrated capacity to deliver reliable and cost effective operations and maintenance services has led to the award of growing work packages under existing contracts in the Bowen and Surat Basins. In Western Australia, Upstream PS continued to undertake operations and maintenance works on a number of oil and gas production assets in the Perth Basin for AWE (Waitsia Field, Xyris and the Dongara processing facilities).

Upstream PS continued to provide operations and maintenance services to the Northern Endeavour FPSO for Northern Oil & Gas Australia (NOGA) located offshore in the Timor Sea. Upstream PS is in the final year of the initial three year contract term, which has two one year extension options, exercisable by NOGA.

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

In September 2017, receivers and managers were appointed to Empire Oil (WA) Limited (Empire). As a result, Upstream PS incurred a bad debt of \$417,000 associated with work carried out on the Red Gully oil and gas production asset.

Safety

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

FY19 Update and Outlook

Work has commenced on the \$17.9 million contract announced by GR Engineering on 20 August 2018 for the design and construction of the Carosue Dam Paste Backfill Plant.

GR Engineering notes that its FY19 financial performance is likely to be dependent on the commence timing of both the Thunderbird Mineral Sands Project and Karlawinda Gold Project. As at the date of this report, GR Engineering notes that both of these projects are anticipated to commencement in the fourth quarter of calendar year 2018, subject to the achievement of financing and permitting outcomes.

GR Engineering intends to provide FY19 guidance ahead of its 2018 Annual General Meeting, to be held on 22 November 2018 when it is likely to have more certainty in relation to the timing of key projects. In the interim, it notes that FY19 financial performance is likely to be weighted to the second half.



DIRECTORS' REPORT

FINANCIAL POSITION

The consolidated entity generated revenue of \$283.6 million, profit before tax of \$16.2 million and earnings before interest, tax, depreciation and amortisation (EBITDA) of \$17.1 million.

Profitability was adversely impacted by bad debt expenses of \$7.0 million, predominantly incurred as a result of the settlement with Wolf Minerals (UK) Limited on 20 April 2018.

As at 30 June the consolidated entity held cash totalling \$21.8 million and had no interest bearing debt.

The most significant application of funds during FY18 was in the reduction of trade and other payables by \$46.9 million versus a reduction in trade and other receivables of \$20.5 million. In addition, GR Engineering paid \$9.2 million in dividends.

DIVIDENDS

The Board has resolved to declare a final FY18 dividend of 5.0 cents per share, unfranked. The ex-dividend date for this dividend will be 11 October 2018, the Record Date is 12 October 2018 and the Payment Date will be 24 October 2018.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Wolf Minerals

On 20 April 2018, GR Engineering announced that its wholly owned subsidiary, GR Engineering Services (UK) Limited (GRES UK) had entered into a settlement agreement with Wolf Minerals (UK) Limited (Wolf) to fully and finally settle all claims without admission of liability in relation to the EPC contract for the design and construction of the Hemerdon tungsten and tin mineral processing plant located in Devon, England.

GRES UK and Wolf have now fully resolved this matter, with the confidential settlement sum having been paid and all securities held under or in connection with the contract being returned and cancelled. The net financial impact of the settlement with Wolf is approximately \$4.8 million (being the primary contributor to the receivable impairment balance referred to in Note 10 of the Notes to the Financial Statements) in addition to some legal fees and administrative expenses also realised in the reporting period.

Insurance Bonds

On 22 June 2018, GR Engineering secured a \$40 million insurance bond facility provided by Insurance Australia Limited, replacing the \$30 million insurance bond facility previously provided by Assetinsure Pty Ltd.

Office Consolidation

In November 2017, GR Engineering consolidated its three Perth offices into one location at 71 Daly Street, Ascot Western Australia. At a cost of approximately \$1.8 million, this relocation will result in substantial savings in rent and administration costs and generate significant operational efficiencies.



DIRECTORS' REPORT

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 2nd July 2018 GR Engineering entered into a Deed of Indemnity with Allianz Australia Insurance Limited in connection with a \$20 million insurance bond facility. Together with the additional \$40 million insurance bond facility provided by Insurance Australia Limited in June 2018 and the Company's \$70 million bank guarantee facility provided by National Australia Bank, the consolidated entity's total bonding capacity increased from \$110 million to \$130 million.

On 13 August 2018, GR Engineering announced that it has entered into a settlement deed with Eastern Goldfields Limited and others to finally settle all claims in relation to the contract for the refurbishment of the Davyhurst Gold Project processing plant. The terms of the confidential settlement deed contemplate the payment to GR Engineering of \$8.25 million, with the settlement sum payable in three instalments, with the last instalment payable by 3 October 2018.

On 20 August 2018, GR Engineering entered into a \$17.9 million EPC contract with Saracen Gold Mines Pty Ltd for the design and construction of the Carosue Dam Paste Backfill Plant.

On 22 August 2018, the consolidated entity declared an unfranked dividend of 5.0 cents per share, an aggregate of \$7,674,784. The Record Date of the dividend is 12 October 2018 and the proposed payment date is 24 October 2018.

For personal use only



DIRECTORS' REPORT

BOARD OF DIRECTORS

Phillip (Phil) LOCKYER - Non-Executive Chairman
BAppSc (Mech Eng)

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

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

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

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

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

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

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

- Interests in ordinary shares in GR Engineering – 772,134
- Interests in other securities in GR Engineering :
 - Share Appreciation Rights - 1,150,000
- Special Responsibilities:
 - Managing Director
- Directorships in other listed entities in the last 3 years:
 - Marindi Metals Limited (ASX:MZN) 2006 – Present
 - Azumah Resources Limited (ASX:AZM) 2009 – Present
 - Energy Metals Limited (ASX:EME) 2008 – February 2017
 - Ausgold Limited (ASX:AUC) 29 July 2016 – Present
 - Blackham Resources Limited (ASX:BLK) - 1 August 2018 - Present



DIRECTORS' REPORT

Tony Marco PATRIZI – Executive Director
BE (Mech Eng)

Tony co-founded GR Engineering. Tony is a Mechanical Engineer with over 30 years' experience in the mining and minerals processing industries as a company director, operations manager, 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 - 30 June 2018

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

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

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

- Interests in ordinary shares in GR Engineering – 7,500,000
- Interests in other securities in GR Engineering - None
- Special Responsibilities:
 - 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



DIRECTORS' REPORT

Terrence (Terry) John STRAPP – Non-Executive Director
CPA, SFFin., 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

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

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

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

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

- Interests in ordinary shares in GR Engineering – 500,000
- Interests in other securities in GR Engineering - None
- Special Responsibilities:
 - 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
 - Cue Energy Resources Limited (ASX:CUE) February 2018 - Present



DIRECTORS' REPORT

MEETINGS OF DIRECTORS

The number of Meetings of the Board of Directors held during the year ended 30 June 2018 and the number attended by each director are as follows:

	FULL MEETINGS OF DIRECTORS	
	Eligible	Attended
Phil Lockyer	10	10
Geoff Jones	10	9
Tony Patrizi	10	9
Barry Patterson	10	7
Terrence Strapp	10	10
Peter Hood	10	10

No separate meetings of the Audit and Risk Committee were held during the year with the Board electing to address matters for its consideration within the context of meetings of the full Board of Directors. A meeting of the Remuneration and Nomination Committee was held on 11 October 2017. It was attended by Phillip Lockyer, Peter Hood, Barry Patterson and Terrence Strapp.

OPTIONS

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

SHARE APPRECIATION RIGHTS

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

Grant Date	Vesting & Exercise Date	Exercise price	Quantity
15 November 2016	30 June 2019	Nil	650,000
15 November 2016	30 June 2020	Nil	500,000

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

PERFORMANCE RIGHTS

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

Vesting Date	No. Performance Rights	Expiry Date	Exercise price
31 March 2019	127,500	31 March 2019	-
15 June 2020	30,000	15 June 2020	-
20 August 2020	1,870,000	20 August 2020	-
2 August 2020	60,000	2 August 2020	-
21 August 2020	50,000	21 August 2020	-
1 November 2020	35,000	1 November 2020	-
14 June 2021	60,000	14 June 2021	-

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 2018 55,000 ordinary shares were issued due to the vesting of Performance Rights.



DIRECTORS' REPORT

INDEMNIFYING OFFICERS OR AUDITORS

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

LEGAL PROCEEDINGS

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

NON AUDIT SERVICES

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

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

During the year ended 30 June 2018 fees amounting to \$27,300 were paid to Deloitte Touche Tohmatsu for non-audit services including taxation and corporate finance advice.

AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration for the year ended 30 June 2018 has been reviewed and can be found at page 22 of the annual financial report.

ENVIRONMENTAL ISSUES

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



DIRECTORS' REPORT

REMUNERATION REPORT – AUDITED

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

Directors

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

Executives

- David Sala Tenna (Manager - Projects)
- Joe Totaro (Chief Financial Officer & Company Secretary)
- Rodney Schier (Engineering Manager)
- Paul Newling (General Manager – EPCM) - Resigned 7 February 2018
- Stephen Kendrick (Manager - Projects) - Appointed as executive on 11 December 2017
- Thomas Marshall (Manager - Eastern Region) - Appointed 1 August 2017

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 2017 Annual General Meeting, 85.75% of eligible shareholders voted in favour of the remuneration report. No specific comments were made regarding the remuneration report at the meeting.

REMUNERATION POLICY

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

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

NON-EXECUTIVE DIRECTORS

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

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

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



DIRECTORS' REPORT

EXECUTIVE DIRECTORS

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

SENIOR EXECUTIVES

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

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

EMPLOYMENT DETAILS OF MEMBERS OF KEY MANAGEMENT PERSONNEL

Name	Title	Contract Details	Non Salary Cash Incentives	Shares/ Units	Options/ Rights	Fixed Salary	Total
Phillip Lockyer	Non-Executive Chairman	By rotation and re-election	-	-	-	100%	100%
Geoff Jones	Managing Director	Termination: 6 months notice by the consolidated entity and 3 months notice by the employee	3.6%	-	26.2%	70.2%	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 Director	By rotation and re-election	-	-	-	100%	100%
David Sala Tenna	Manager - Projects	Termination: 3 months notice by the consolidated entity or employee	-	-	-	100%	100%
Stephen Kendrick	Manager - Projects	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%
Thomas Marshall	Manager - Eastern Region	Termination: 4 weeks notice by the consolidated entity or employee	-	-	14.9%	85.1%	100%
Paul Newling - Resigned 7 February 2018	General Manager - EPCM	Termination: 3 months notice by the consolidated entity or employee	-	-	-	100%	100%

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

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



DIRECTORS' REPORT

REMUNERATION DETAILS FOR THE YEAR ENDED 30 JUNE 2018 - BOARD OF DIRECTORS

	Short Term Benefits			Sub Total	Post Employment Benefits	Equity Based Payments		Total	% Performance Based
	Cash Salary & Fees	Non Cash Payments *	Other **		Super-annuation	Equity	Options		
	\$	\$	\$	\$	\$	\$	\$	\$	
NON-EXECUTIVE CHAIRMAN									
Phillip Lockyer									
2018	76,190	-	-	76,190	7,237	-	-	83,427	0.0%
2017	52,933	-	-	52,933	5,028	-	-	57,961	0.0%
EXECUTIVE DIRECTORS									
Geoff Jones									
2018	579,951	29,537	32,000	641,488	20,048	235,296	-	896,832	29.8%
2017	589,738	14,945	72,000	676,683	19,615	162,160	-	858,458	27.3%
Tony Patrizi									
2018	296,331	15,620	-	311,951	28,151	-	-	340,102	0.0%
2017	296,330	14,753	-	311,083	28,151	-	-	339,234	0.0%
NON-EXECUTIVE DIRECTORS									
Barry Patterson									
2018	57,000	-	-	57,000	5,415	-	-	62,415	0.0%
2017	57,000	-	-	57,000	5,415	-	-	62,415	0.0%
Terrence Strapp ***									
2018	62,700	-	-	62,700	5,415	-	-	68,115	0.0%
2017	62,700	-	-	62,700	5,415	-	-	68,115	0.0%
Peter Hood									
2018	57,000	-	-	57,000	5,415	-	-	62,415	0.0%
2017	65,931	-	-	65,931	6,263	-	-	72,194	0.0%
TOTAL DIRECTORS									
2018	1,129,172	45,157	32,000	1,206,329	71,681	235,296	-	1,513,306	17.7%
2017	1,124,632	29,698	72,000	1,226,330	69,887	162,160	-	1,458,377	16.1%

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

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

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



DIRECTORS' REPORT

REMUNERATION DETAILS FOR THE YEAR ENDED 30 JUNE 2018 - EXECUTIVES

	Short Term Benefits			Sub Total	Post Employment Benefits	Equity Based Payments		Total	% Performance Based
	Cash Salary & Fees	Non Cash Payments *	Other **		Super-annuation	Equity	Options		
	\$	\$	\$	\$	\$	\$	\$	\$	
SENIOR EXECUTIVES									
David Sala Tenna - Manager - Projects									
2018	331,193	-	5,479	336,672	31,463	-	-	368,135	1.5%
2017	331,193	4,839	5,479	341,511	31,983	-	-	373,494	1.5%
Joe Totaro – Company Secretary & Chief Financial Officer									
2018	260,869	7,872	5,479	274,220	24,872	-	-	299,092	1.8%
2017	260,869	9,481	5,479	275,829	25,303	-	-	301,132	1.8%
Rodney Schier – Engineering Manager									
2018	261,468	5,748	5,479	272,695	24,839	-	-	297,534	1.8%
2017	261,468	6,483	5,479	273,430	25,359	-	-	298,789	1.8%
Stephen Kendrick - Manager - Projects									
2018	261,468	4,649	5,479	271,596	24,839	-	-	296,435	1.8%
2017	-	-	-	-	-	-	-	-	0.0%
Thomas Marshall - Manager - Eastern Region									
2018	260,791	-	3,653	264,444	25,389	50,634	-	340,467	1.1%
2017	-	-	-	-	-	-	-	-	0.0%
Paul Newling – General Manager EPCM									
2018	299,720	-	-	299,720	14,126	-	-	313,846	0.0%
2017	419,390	-	6,000	425,390	19,615	-	-	445,005	1.3%
TOTAL SENIOR EXECUTIVES									
2018	1,675,509	18,269	25,569	1,719,347	145,528	50,634	-	1,915,509	1.3%
2017	1,272,920	20,803	22,437	1,316,160	102,260	-	-	1,418,420	1.6%
GRAND TOTAL									
2018	2,804,681	63,426	57,569	2,925,676	217,209	285,930	-	3,428,815	10.0%
2017	2,397,552	50,501	94,437	2,542,490	172,147	162,160	-	2,876,797	8.9%

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

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



DIRECTORS' REPORT

LONG TERM INCENTIVES

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 2018 2,155,000 Performance Rights were issued in accordance with the terms and conditions of the Plan. A total of 2,282,500 Performance Rights were on issue as at 30 June 2018.

Grant Date	Vesting Date	Expiry Date	Exercise Price	Number	Fair Value
30 Apr 2014	31 Mar 2019	31 Mar 2019	Nil	127,500	\$0.410
13 Jul 2017	13 Jul 2018	13 Jul 2018	Nil	20,000	\$1.317
13 Jul 2017	15 Jun 2020	15 Jun 2020	Nil	30,000	\$1.065
21 Aug 2017	20 Aug 2020	20 Aug 2020	Nil	1,870,000	\$1.035
21 Aug 2017	2 Aug 2018	2 Aug 2018	Nil	30,000	\$1.297
21 Aug 2017	2 Aug 2020	2 Aug 2020	Nil	60,000	\$1.041
28 Aug 2017	21 Aug 2020	21 Aug 2020	Nil	50,000	\$0.951
1 Nov 2017	1 Nov 2020	1 Nov 2020	Nil	35,000	\$0.978
14 Jun 2018	14 Jun 2021	14 Jun 2021	Nil	60,000	\$1.010

Of the Performance Rights issued in the current financial year, 90,000 relate to key management personnel. Performance Rights which lapsed during the financial year do not relate to key management personnel.



DIRECTORS' REPORT

A total of 1,150,000 Share Appreciation Rights are on issue pursuant to the Plan, with 1,135,705 vesting prior to 30 June 2017 and 136,429 vesting during the year.

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	12 November 2013	30 June 2018	30 June 2018	136,429	Nil	213,334	\$0.1508	26.2%
Jones	15 November 2016	30 June 2019			Nil	650,000	\$0.5969	
	15 November 2016	30 June 2020			Nil	500,000	\$0.5826	

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 2018:

	2014	2015	2016	2017	2018
Revenue (\$000's)	114,183	216,893	255,292	238,691	283,603
Net profit before tax (\$000's)	16,787	17,196	25,406	16,287	16,202
Net profit after tax (\$000's)	14,164	12,938	19,340	12,865	11,641
Share price at year end	\$0.70	\$0.90	\$0.99	\$1.47	\$1.39
Dividend (\$000's)	9,000	12,785	15,158	15,287	9,195
EPS (cents)	9.44	8.60	12.71	8.41	7.60
Diluted EPS (cents)	9.26	8.42	12.64	8.35	7.45

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

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

The 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.



DIRECTORS' REPORT

SHAREHOLDING

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

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

2017	Balance at the start of the year	Received as part of remuneration	Additions / other	Disposals / other	Balance at the end of the year
<i>Ordinary shares</i>					
Phillip Lockyer	-	-	26,500	-	26,500
Geoff Jones	940,253	195,452	-	(500,000)	635,705
Tony Patrizi	9,795,000	-	-	-	9,795,000
Barry Patterson	10,500,000	-	-	(3,000,000)	7,500,000
Terry Strapp	380,000	-	-	-	380,000
Peter Hood	500,000	-	-	-	500,000
David Sala Tenna	13,825,000	-	-	(1,500,000)	12,325,000
Joe Totaro	9,500,000	-	-	(1,500,000)	8,000,000
Rodney Schier	8,100,000	-	-	-	8,100,000
	53,540,253	195,452	26,500	(6,500,000)	47,262,205

OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

During the year ended 30 June 2018 the consolidated entity leased office space at 71 Daly Street, Ascot WA from Ashguard Pty Ltd. Directors of the consolidated entity, Tony Patrizi and Barry Patterson, each have a non controlling interest in Ashguard Pty Ltd. The total amount invoiced by Ashguard Pty Ltd in the year ended 30 June 2018 amounted to \$639,775 including GST (2017: \$327,325). The balance payable at 30 June 2018 is \$108,617 (2017: \$50,994). During the year ended 30 June 2018 the consolidated entity procured items for Ashguard Pty Ltd. The total amount invoiced to Ashguard Pty Ltd in the year ended 30 June 2018 was \$10,995 including GST (2017: \$9,446). The balance outstanding at 30 June 2018 is nil (2017: nil).

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

This marks the end of the remuneration report.



DIRECTORS' REPORT

CORPORATE GOVERNANCE

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

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

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

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

On behalf of the Directors

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

Geoff Jones
Managing Director

Date : 22 August 2018

For personal use only



AUDITOR'S INDEPENDENCE DECLARATION

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Tower 2
Brookfield Place
123 St Georges Terrace
Perth WA 6000
GPO Box A46
Perth WA 6837 Australia

Tel: +61 8 9365 7000
Fax: +61 8 9365 7001
www.deloitte.com.au

22 August 2018

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

Dear Directors

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 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely

DELOITTE TOUCHE TOHMATSU

Nicole Menezes
Partner
Chartered Accountants

For personal use only



CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2018

	Notes	Consolidated	
		2018 \$	2017 \$
Revenue	5	283,602,634	238,690,534
Other income	6	950,156	1,382,624
Expenses			
Employee benefits expense	7	(87,569,885)	(79,075,485)
Superannuation expense	7	(7,024,520)	(6,547,039)
Depreciation and amortisation expense		(1,369,289)	(1,392,211)
Workers compensation expense		(654,695)	(594,837)
Equity based payments		(774,750)	(270,931)
Finance costs	7	(62,894)	(56,080)
Direct materials and subcontractor costs		(155,278,257)	(128,574,678)
Accountancy & audit fees		(469,214)	(279,974)
Marketing		(65,088)	(96,838)
Bad debts	10	(7,034,243)	-
Occupancy		(2,143,979)	(2,443,873)
Impairment of financial assets		(810,321)	-
Administration		(5,093,766)	(4,454,405)
Profit before income tax expense		<u>16,201,889</u>	<u>16,286,807</u>
Income tax expense	8	(4,560,896)	(3,421,894)
Profit after income tax expense for the year attributable to the owners of GR Engineering Services Limited	20	<u>11,640,993</u>	<u>12,864,913</u>
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		(789,563)	(1,154,489)
Exchange differences on translating foreign operations		366,843	174,999
Other comprehensive income for the year, net of income tax		<u>(422,720)</u>	<u>(979,490)</u>
Total comprehensive income for the year attributable to the owners of GR Engineering Services Limited		<u>11,218,273</u>	<u>11,885,423</u>
Profit attributable to owners of the parent		<u>11,640,993</u>	<u>12,864,913</u>
Total comprehensive income attributable to the owners of the parent		<u>11,218,273</u>	<u>11,885,423</u>
		Cents	Cents
Basic earnings per share	30	7.60	8.41
Diluted earnings per share	30	7.45	8.35



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	Notes	Consolidated	
		2018 \$	2017 \$
Assets			
Current assets			
Cash and cash equivalents	9	21,751,300	34,868,758
Trade and other receivables	10	45,648,672	66,183,661
Inventories	11	6,884,447	19,783,118
Prepayments		614,173	497,293
Current tax assets	8	-	2,212,666
Total current assets		<u>74,898,592</u>	<u>123,545,496</u>
Non-current assets			
Property, plant and equipment	12	3,878,743	2,716,545
Financial assets	13	2,621,911	3,129,121
Deferred tax	8	3,203,273	1,025,438
Total non-current assets		<u>9,703,927</u>	<u>6,871,104</u>
Total assets		<u>84,602,519</u>	<u>130,416,600</u>
Liabilities			
Current liabilities			
Trade and other payables	14	15,235,581	62,217,046
Borrowings	15	336,110	458,403
Income tax	8	390,072	-
Provisions	16	11,651,145	8,834,547
Unearned revenue	17	1,831,981	7,135,911
Total current liabilities		<u>29,444,889</u>	<u>78,645,907</u>
Non-current liabilities			
Borrowings	15	128,932	226,612
Provisions	16	2,557,618	2,681,091
Total non-current liabilities		<u>2,686,550</u>	<u>2,907,703</u>
Total liabilities		<u>32,131,439</u>	<u>81,553,610</u>
Net assets		<u>52,471,080</u>	<u>48,862,990</u>
Equity			
Issued capital	18	30,445,356	30,388,000
Reserves	19	566,641	(538,355)
Retained profits	20	21,459,083	19,013,345
Total equity		<u>52,471,080</u>	<u>48,862,990</u>

For personal use only



CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2018

	Notes	Consolidated	
		2018 \$	2017 \$
Cash flows from operating activities			
Receipts from customers		343,066,602	192,863,083
Payments to suppliers and employees		(341,128,499)	(203,382,079)
Income tax paid		(3,358,024)	(3,781,074)
Interest received		532,544	820,561
Net cash flows (used in)/provided by operating activities	9	<u>(887,377)</u>	<u>(13,479,509)</u>
Cash flows from investing activities			
Purchase of property, plant and equipment		(2,654,972)	(456,108)
Proceeds from sale of property, plant and equipment		-	28,484
Investment in financial assets		(250,000)	(396,666)
Net cash flows used in investing activities		<u>(2,904,972)</u>	<u>(824,290)</u>
Cash flows from financing activities			
Payment of finance lease liabilities		(695,866)	(752,045)
Dividends paid		(9,195,256)	(15,287,131)
Net cash flows used in financing activities	9	<u>(9,891,122)</u>	<u>(16,039,176)</u>
Net (decrease)/increase in cash and cash equivalents		(13,683,471)	(30,342,975)
Cash and cash equivalents at beginning of period		34,868,758	64,923,175
Effects of exchange rate changes of balances of cash held in foreign currencies		566,013	288,558
Cash and cash equivalents at end of period	9	<u>21,751,300</u>	<u>34,868,758</u>



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2018

	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 2016	30,225,436	584,497	99,171	53,040	(1,270,503)	866,563	21,435,563	51,993,767
Profit for the period	-	-	-	-	-	-	12,864,913	12,864,913
Other comprehensive income for the period	-	-	-	-	174,999	(1,154,489)	-	(979,490)
Total comprehensive income for the period	-	-	-	-	174,999	(1,154,489)	12,864,913	11,885,423
Dividends	-	-	-	-	-	-	(15,287,131)	(15,287,131)
Issue of shares	162,564	-	(114,597)	(47,967)	-	-	-	-
Share based payments	-	-	108,771	162,160	-	-	-	270,931
Balance as at 30 June 2017	30,388,000	584,497	93,345	167,233	(1,095,504)	(287,926)	19,013,345	48,862,990
Profit for the period	-	-	-	-	-	-	11,640,993	11,640,993
Other comprehensive income for the period	-	-	-	-	366,843	(789,563)	-	(422,720)
Total comprehensive income for the period	-	-	-	-	366,843	(789,563)	11,640,993	11,218,273
Dividends	-	-	-	-	-	-	(9,195,255)	(9,195,255)
Issue of shares	57,356	-	(25,190)	(32,166)	-	-	-	-
Share based payments	-	-	539,455	235,296	-	-	-	774,751
Balance as at 30 June 2018	30,445,356	584,497	607,610	370,363	(728,661)	(1,077,489)	21,459,083	51,660,759

For personal use only



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

Note 1. General information

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

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

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

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

The financial report was authorised for issue, in accordance with a resolution of directors, on 21 August 2018. 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 2017.

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

- AASB 1048 'Interpretation of Standards'
- AASB 2016-1 'Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses'
- AASB 2016-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107'
- AASB 2017-2 'Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016'

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



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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 2018.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
<ul style="list-style-type: none"> AASB 9 'Financial Instruments', and the relevant amending standards 	1 January 2018	30 June 2019
<ul style="list-style-type: none"> 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
<ul style="list-style-type: none"> AASB 16 'Leases' 	1 January 2019	30 June 2020
<ul style="list-style-type: none"> 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', AASB 2017-5 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections 	1 January 2022	30 June 2023
<ul style="list-style-type: none"> AASB 2016-5 'Amendments to Australian Accounting Standards - Classification and Measurement of Share-based Payment Transactions' 	1 January 2018	30 June 2019
<ul style="list-style-type: none"> AASB 2017-7 'Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures' 	1 January 2019	30 June 2020
<ul style="list-style-type: none"> AASB 2018-1 'Amendments to Australian Accounting Standards – Annual Improvements 2015–2017 Cycle' 	1 January 2019	30 June 2020
<ul style="list-style-type: none"> Interpretation 22 'Foreign Currency Transactions and Advance Consideration' 	1 January 2018	30 June 2019
<ul style="list-style-type: none"> Interpretation 23 Uncertainty over Income Tax Treatments, AASB 2017-4 Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments 	1 January 2019	30 June 2020

At the date of authorisation of the financial statements, there were no new IASB Standards or IFRIC Interpretations (for which Australian equivalent Standards and Interpretations have not yet been issued) which were applicable to the consolidated entity.

Whilst AASB 15 has not yet been adopted, the consolidated entity does not anticipate a material impact for when this new standard is adopted, as the majority of contracts tend to be less than 1 year. A number of the consolidated entity's major contracts were closed out during the current reporting period.

AASB 9 will impact the consolidated entity as it introduces the "expected credit loss" method. The consolidated entity has reviewed the new standard and it is not expected to materially impact the consolidated entity when initially adopted. Whilst some isolated bad debts have occurred this year, they represent less than 2% of the total revenue of the consolidated entity in the current year. Historically the consolidated entity has had a strong recovery of its receivables, so the future adoption of this new standard is likely to result in an immaterial provision to the trade receivables based on the "expected credit loss" method.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

Note 2. Significant accounting policies (continued)

The consolidated entity is yet to undertake a formal assessment of the impact of the other accounting standards that are issued but not yet effective, but the impact on the consolidated entity is anticipated to be immaterial as the majority do not impact its current operations, other than the future impact of AASB 16. Whilst the formal assessment is not yet undertaken, the consolidated entity discloses in Note 26 that it has operating lease commitments. These are likely to appear on the Statement of Financial Position in the future when the new AASB 16 is initially adopted 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

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

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

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.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

Note 2. Significant accounting policies (continued)

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.

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.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

Note 2. Significant accounting policies (continued)

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 consolidated entity's accounting policies.

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

Operating segments

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

Foreign currency translation

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

Foreign currency transactions

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

Foreign operations

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

The functional currency of GR Engineering Services (UK) Limited is Great British pounds. The functional currency of Upstream Production Solutions Malaysia Sdn. Bhd. is Malaysian Ringgit. The functional currency of GR Engineering Services (Greece) is Euro. The functional currency of GR Engineering Services Turkey is Turkish Lira. The functional currency of other foreign subsidiaries of the consolidated entity is United States dollars.

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

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



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

Note 2. Significant accounting policies (continued)

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

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.

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.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

Note 2. Significant accounting policies (continued)

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.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

Note 2. Significant accounting policies (continued)

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.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

Note 2. Significant accounting policies (continued)

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.

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 use 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.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

Note 2. Significant accounting policies (continued)

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.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

Note 2. Significant accounting policies (continued)

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.

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.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

Note 2. Significant accounting policies (continued)

Dividends

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

Earnings per share

Basic earnings per share

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

Diluted earnings per share

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

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.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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.

As disclosed in the trade and other receivables accounting policy, an estimate of doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified. The allowance for doubtful debts assessment requires a degree of estimation and judgement. Where the estimation is different to actual results, carrying amounts are adjusted in the next financial period. Management continually evaluates these estimates based on historical experience, aging of receivables, historical collection rates and specific knowledge of the individual debtor situations. The directors have assessed their aged receivable balance at the reporting date and based on the information available, no allowance for doubtful debts has been made.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

Note 4. Operating segments

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

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

Segment revenues and results

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

Segment revenue

	2018	2017
	\$	\$
Mineral processing	202,381,222	169,826,934
Oil and gas	81,221,412	68,863,600
Total revenue	<u>283,602,634</u>	<u>238,690,534</u>

Segment profit before tax

	2018	2017
	\$	\$
Mineral processing	15,725,717	10,766,446
Oil and gas	1,286,493	5,520,361
Corporate - securities available for sale	(810,321)	-
Total profit before tax	<u>16,201,889</u>	<u>16,286,807</u>

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current year (2017: nil).

Segment assets and liabilities

Segment assets

	2018	2017
	\$	\$
Mineral processing	56,658,123	96,606,076
Oil and gas	25,322,485	30,681,403
Corporate - securities available for sale	2,621,911	3,129,121
Total assets	<u>84,602,519</u>	<u>130,416,600</u>

Depreciation and amortisation

	2018	2017
	\$	\$
Mineral processing	470,644	443,936
Oil and gas	898,645	948,275
Total depreciation and amortisation	<u>1,369,289</u>	<u>1,392,211</u>

Segment liabilities

	2018	2017
	\$	\$
Mineral processing	21,377,067	65,704,791
Oil and gas	10,754,372	15,848,819
Total liabilities	<u>32,131,439</u>	<u>81,553,610</u>



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

Note 4. Operating segments (continued)

Geographical information

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

Revenue	2018 \$	2017 \$
Australia	272,839,270	222,306,462
Overseas	10,763,364	16,384,072
Total revenue	<u>283,602,634</u>	<u>238,690,534</u>

Non-current assets

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

Information about major customers

During the financial year three customers individually provided more than 10% of total revenue each for the consolidated entity (2017: 4 customers).

Note 5. Revenue

	Consolidated	
	2018 \$	2017 \$
Rendering of services - construction contracts	202,381,222	169,826,934
Rendering of services - operations and maintenance contracts	81,221,412	68,863,600
Total revenue	<u>283,602,634</u>	<u>238,690,534</u>

Note 6. Other income

	Consolidated	
	2018 \$	2017 \$
Net foreign exchange gain/(loss)	382,153	(23,748)
Net gain/(loss) on disposal of property, plant and equipment	26,515	32,887
Subsidies and grants	76,080	34,509
Interest revenue	532,544	820,561
Other revenue	(67,136)	518,415
Total other income	<u>950,156</u>	<u>1,382,624</u>



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

Note 7. Expenses

	Consolidated	
	2018	2017
	\$	\$
Profit before income tax includes the following specific expenses:		
<i>Finance costs</i>		
Interest and leasing charges on finance leases	62,894	56,080
<i>Employee benefits</i>		
Employee benefits expense excluding superannuation	87,569,885	79,075,485
Defined contribution superannuation expense	7,024,520	6,547,039
Total employee benefits	<u>94,594,405</u>	<u>85,622,524</u>
<i>Administration costs</i>		
Net loss on disposal of inventories	<u>150,000</u>	<u>-</u>

Note 8. Income tax expense

Major components of income tax expense for the years ended 30 June 2018 and 2017 are:

Income tax recognised in the Consolidated statement of profit or loss

	Consolidated	
	2018	2017
	\$	\$
<i>Current income tax</i>		
Current income tax charge	7,220,465	3,554,953
Adjustments in respect of current income tax of previous years	(463,122)	(2,630,422)
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	(2,063,423)	1,428,345
Adjustments in respect of previous deferred income tax	(133,024)	1,069,018
Income tax expense reported in statement of profit or loss	<u>4,560,896</u>	<u>3,421,894</u>

Income tax recognised in statement of changes in equity

	2018	2017
	\$	\$
<i>Deferred income tax</i>		
Revaluation of shares	18,612	(494,781)
Income tax expense reported in equity	<u>18,612</u>	<u>(494,781)</u>

A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the consolidated entity's effective income tax rate for the years ended 30 June 2018 and 2017 is as follows:

Accounting profit before income tax	16,201,889	16,286,807
At the statutory income tax rate of 30% (2017: 30%)	4,860,567	4,886,042
Add:		
Non-deductible expenses	297,686	144,901
Adjustments in respect of previous current income tax	(596,146)	(1,561,404)
Impact to tax expense arising from foreign tax rate differential	(1,211)	(47,645)
Other	-	-
At effective income tax rate of 29.1% (2017: 21.0%)	<u>4,560,896</u>	<u>3,421,894</u>
Income tax expense reported in statement of profit or loss	<u>4,560,896</u>	<u>3,421,894</u>

**NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 JUNE 2018

Note 8. Income tax expense (continued)

	Consolidated	
	2018	2017
	\$	\$
Deferred income tax		
Deferred income tax at 30 June relates to the following:		
<i>Deferred income tax assets</i>		
Accrued employee entitlements	63,810	78,948
Accrued superannuation	17,536	17,534
Accrued audit fees	18,000	13,050
Leasing	(54,962)	(54,962)
Provision for long service leave	102,598	104,784
Provision for warranty	1,720,707	1,439,605
Provisions - other	468,734	-
Lease termination	-	48,165
Payables - Upstream Production Solutions subsidiary	94,806	94,806
Accrued employee entitlements - Upstream Production Solutions subsidiary	1,179,112	973,959
Shares in listed entity	347,881	123,397
Plant and equipment	37,376	43,465
Accrued Bonus	296,182	247,758
Bad debts not immediately deductible	635,645	-
	<u>4,927,425</u>	<u>3,130,509</u>
<i>Deferred income tax liabilities</i>		
Prepayments	-	(25,632)
Other accrued income	-	(44)
Unrealised foreign exchange gain	(21,298)	(7,980)
Prepayments - Upstream Production Solutions subsidiary	(135)	(200)
Plant and equipment - Upstream Production Solutions subsidiary	-	(5,009)
Work in progress	(1,702,719)	(2,066,206)
	<u>(1,724,152)</u>	<u>(2,105,071)</u>
Net deferred tax asset	<u>3,203,273</u>	<u>1,025,438</u>
Current tax assets and liabilities		
<i>Current tax (assets)/liabilities</i>		
Income tax receivable/payable	<u>390,072</u>	<u>(2,212,666)</u>



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

Note 9. Current assets - cash and cash equivalents

	Consolidated	
	2018	2017
	\$	\$
Cash on hand	53,457	51,557
Cash at bank	21,697,843	34,817,201
Cash on deposit	-	-
	<u>21,751,300</u>	<u>34,868,758</u>

The fair value of cash and cash equivalents is \$21,751,300 (2017: \$34,868,758).

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

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

Reconciliation of cash

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

	Consolidated	
	2018	2017
	\$	\$
Cash at bank and on hand	21,751,300	34,868,758
Cash on deposit	-	-
	<u>21,751,300</u>	<u>34,868,758</u>

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

	Consolidated	
	2018	2017
	\$	\$
Net profit after tax	11,640,993	12,864,913
<i>Adjustments for :</i>		
Depreciation and amortisation	1,369,289	1,392,211
(Profit)/loss on sale of asset	123,485	(32,887)
Share based employee payments	774,750	270,931
Net foreign exchange (gain)/loss	(199,171)	(113,559)
Acquisition of shares as consideration for services	-	(669,185)
Interest expense on finance leases	62,894	-
<i>Changes in assets and liabilities</i>		
(Increase)/decrease in trade and other receivables	22,128,833	(35,754,837)
(Increase)/decrease in inventories	1,561,627	(3,121,794)
(Increase)/decrease in deferred tax asset	(1,399,866)	2,497,361
(Decrease)/increase in trade and other payables	(48,298,379)	33,905,970
(Decrease)/increase in provisions	2,712,316	(1,711,974)
(Decrease)/increase in tax liabilities	2,602,738	(2,856,542)
(Decrease)/increase in unearned income	6,033,114	(20,150,117)
Net cash from operating activities	<u>(887,377)</u>	<u>(13,479,509)</u>

Non-cash transactions

During the year ended 30 June 2018 and year ended 30 June 2017, 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 2018 the consolidated entity acquired equipment under finance lease of \$267,043 (2017: \$38,659)



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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

	Consolidated	
	2018	2017
<i>Borrowings - Finance leases</i>	\$	\$
Opening balance	685,015	923,868
Repayments of principal	(632,972)	(752,042)
Interest paid	(62,894)	(56,080)
New non-cash hire purchase assets	475,893	569,269
Closing Balance	<u>465,042</u>	<u>685,015</u>

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

	Consolidated	
	2018	2017
	\$	\$
Trade receivables	40,906,582	65,513,894
Less: Allowance for impairment of receivables	-	-
	<u>40,906,582</u>	<u>65,513,894</u>
Other receivables	375,987	407,415
GST receivable	1,297,724	-
Accrued revenue	3,068,379	262,352
	<u>45,648,672</u>	<u>66,183,661</u>

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

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

Impairment of receivables

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

	Consolidated	
	2018	2017
	\$	\$
Opening balance	-	-
Receivables written off during the year as uncollectable	-	-
Closing balance	<u>-</u>	<u>-</u>

Bad debts written off during the year as uncollectable amount to \$7,034,203 (2017: nil).

Past due but not impaired

Customers with balances past due but without allowance for impairment of receivables amount to \$18,341,993 as at 30 June 2018 (\$32,391,074 as at 30 June 2017).

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

	Consolidated	
	2018	2017
	\$	\$
0 to 3 months overdue	4,525,687	24,589,480
3 to 6 months overdue	1,330,736	4,119,674
Over 6 months overdue	12,485,570	3,681,920
	<u>18,341,993</u>	<u>32,391,074</u>

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.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

Note 11. Current assets - inventories

	Consolidated	
	2018	2017
	\$	\$
Consumables - at cost	293,800	643,800
Work in progress - oil and maintenance contracts	5,675,731	6,887,358
Work in progress - construction contracts	914,916	12,251,960
	<u>6,884,447</u>	<u>19,783,118</u>

For information on construction contracts in progress, refer to note 17.

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

	Consolidated	
	2018	2017
	\$	\$
Plant and equipment - at cost	10,029,619	7,543,054
Less: Accumulated depreciation	(6,885,543)	(5,727,154)
	<u>3,144,076</u>	<u>1,815,900</u>
Plant and equipment under lease	3,003,855	3,088,318
Less: Accumulated depreciation	(2,269,188)	(2,187,673)
	<u>734,667</u>	<u>900,645</u>
	<u>3,878,743</u>	<u>2,716,545</u>

Reconciliations

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

	Plant & Equipment Under Lease	Plant & Equipment	Total
	\$	\$	\$
Balance at 30 June 2016	1,243,709	2,369,771	3,613,480
Additions	38,659	544,362	583,021
Disposals, Write off of assets	-	(122,509)	(122,509)
Transfers in/(out)	(109,520)	109,520	-
Depreciation expense	(272,203)	(1,085,244)	(1,357,447)
Balance at 30 June 2017	<u>900,645</u>	<u>1,815,900</u>	<u>2,716,545</u>
Additions	267,042	2,273,354	2,540,396
Disposals, Write off of assets	-	(8,909)	(8,909)
Transfers in/(out)	(173,882)	173,882	-
Depreciation expense	(259,138)	(1,110,151)	(1,369,289)
Balance at 30 June 2018	<u>734,667</u>	<u>3,144,076</u>	<u>3,878,743</u>



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

Note 13. Financial assets

Available for sale financial assets held at fair value

	Consolidated	
	2018	2017
	\$	\$
Shares in listed entities	<u>2,621,911</u>	<u>3,129,121</u>

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

Note 14. Current liabilities - trade and other payables

	Consolidated	
	2018	2017
	\$	\$
Trade payables	9,261,816	38,357,008
Accrued expenses	2,525,906	17,381,052
GST payable	-	556,319
Prepaid revenue	502,428	2,985,996
Other payables	2,945,431	2,936,671
	<u>15,235,581</u>	<u>62,217,046</u>

Refer to note 22 for further information on financial instruments.

Trade payables are non-interest bearing and are normally settled on 30 day terms.

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

**NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 JUNE 2018

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

	Consolidated	
	2018	2017
	\$	\$
Lease liability	336,110	458,403

Non-current liabilities - borrowings

	Consolidated	
	2018	2017
	\$	\$
Lease liability	128,932	226,612

Refer to note 22 for further information on financial instruments.

Total secured liabilities

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

	Consolidated	
	2018	2017
	\$	\$
Lease liability	465,042	685,015

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 16. Provisions**Current liabilities - provisions**

	Consolidated	
	2018	2017
	\$	\$
Annual leave	4,404,077	4,035,862
Warranties	5,735,691	4,798,685
Project returns	1,511,377	-
	<u>11,651,145</u>	<u>8,834,547</u>

Movement in provisions

	Consolidated	
	2018	2017
	\$	\$
<i>Provision for annual leave</i>		
Balance at beginning of year	4,035,862	3,150,066
Additional provisions recognised	3,521,404	3,483,853
Amounts used	(3,153,189)	(2,598,057)
Balance at end of year	<u>4,404,077</u>	<u>4,035,862</u>

Provision for warranty and defects liability

Balance at beginning of year	4,798,685	7,741,642
Additional provisions/(reduction in provisions) recognised	1,621,477	(197,821)
Amounts used	(684,471)	(2,745,136)
Balance at end of year	<u>5,735,691</u>	<u>4,798,685</u>

**NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 JUNE 2018

Note 16. Provisions (continued)

	Consolidated	
	2018	2017
	\$	\$
<i>Provision for project returns</i>		
Balance at beginning of year	-	-
Additional provisions/(reduction in provisions) recognised	1,511,377	-
Amounts used	-	-
Balance at end of year	<u>1,511,377</u>	<u>-</u>

Non-current liabilities - provisions

	Consolidated	
	2018	2017
	\$	\$
Long service leave	<u>2,557,618</u>	<u>2,681,091</u>

Movement in provisions

	Consolidated	
	2018	2017
	\$	\$
<i>Provision for long service leave</i>		
Balance at beginning of year	2,681,091	2,290,471
Additional provisions recognised	237,437	547,780
Amounts used	(360,910)	(157,160)
Balance at end of year	<u>2,557,618</u>	<u>2,681,091</u>

Note 17. Unearned revenue

	Consolidated	
	2018	2017
	\$	\$
Unearned revenue - Current liabilities	<u>1,831,981</u>	<u>7,135,911</u>

Contracts in progress

	Consolidated	
	2018	2017
	\$	\$
Progress billings	358,163,468	386,684,581
Construction costs to date plus recognised profits	<u>(357,246,403)</u>	<u>(391,800,630)</u>
	<u>917,065</u>	<u>(5,116,049)</u>



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

Note 18. Equity - issued capital

	Consolidated		Consolidated	
	2018 Shares	2017 Shares	2018 \$	2017 \$
<i>Ordinary shares - fully paid</i>				
Opening balance	153,254,260	152,871,308	30,388,000	30,225,436
Additional shares issued :				
Exercise of performance rights	55,000	187,500	25,190	114,597
Exercise of share appreciation rights	136,429	195,452	32,166	47,967
Ordinary shares - fully paid	<u>153,445,689</u>	<u>153,254,260</u>	<u>30,445,356</u>	<u>30,388,000</u>

Ordinary shares

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

Share appreciation rights

As at 30 June 2018, the consolidated entity had on issue a total of 1,150,000 share appreciation rights to Geoff Jones, Managing Director, as part of the consolidated entity's equity incentive plan (as at 30 June 2017: 1,363,334).

Number of shares under share appreciation rights	Grant date	Vesting date	Exercise price	Performance condition share price targets
650,000	15/11/2016	30/06/2019	\$0.89	\$1.36
500,000	15/11/2016	30/06/2020	\$0.89	\$1.50

Performance rights

As at 30 June 2018, the consolidated entity had on issue a total of 2,282,500 performance rights (as at 30 June 2017: 415,000):

Number of performance rights	Grant date	Expiry date	Exercise price
127,500	30/04/2014	31/03/2019	Nil
20,000	13/07/2017	13/07/2018	Nil
30,000	13/07/2017	15/06/2020	Nil
1,870,000	21/08/2017	20/08/2020	Nil
30,000	21/08/2017	02/08/2018	Nil
60,000	21/08/2017	02/08/2020	Nil
50,000	28/08/2017	21/08/2020	Nil
35,000	01/11/2017	01/11/2020	Nil
60,000	14/06/2018	14/06/2021	Nil



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

Note 19. Equity - reserves

	Consolidated	
	2018	2017
	\$	\$
Foreign currency reserve	(728,661)	(1,095,504)
Performance rights reserve	607,610	93,345
Share options reserve	584,497	584,497
Share appreciation rights reserve	370,363	167,233
Investment revaluation reserve	(267,168)	(287,926)
	<u>566,641</u>	<u>(538,355)</u>

	Consolidated	
	2018	2017
	\$	\$
<i>Foreign currency reserve</i>		
Balance at beginning of year	(1,095,504)	(1,270,503)
Additional amounts recognised	366,843	174,999
Balance at end of year	<u>(728,661)</u>	<u>(1,095,504)</u>

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

	Consolidated	
	2018	2017
	\$	\$
<i>Performance rights reserve</i>		
Balance at beginning of year	93,345	99,171
Additional amounts recognised	539,455	108,771
Amount exercised	(25,190)	(114,597)
Balance at end of year	<u>607,610</u>	<u>93,345</u>

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

	Consolidated	
	2018	2017
	\$	\$
<i>Share options reserve</i>		
Balance at beginning of year	584,497	584,497
Additional amounts recognised	-	-
Balance at end of year	<u>584,497</u>	<u>584,497</u>

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

	Consolidated	
	2018	2017
	\$	\$
<i>Share appreciation rights reserve</i>		
Balance at beginning of year	167,233	53,040
Additional amounts recognised	235,296	162,160
Amount exercised	(32,166)	(47,967)
Balance at end of year	<u>370,363</u>	<u>167,233</u>

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

**NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 JUNE 2018

Note 19. Equity - reserves (continued)

	Consolidated	
	2018	2017
	\$	\$
<i>Investment revaluation reserve</i>		
Balance at beginning of year	(287,926)	866,563
Movement in fair value	(868,006)	(1,649,270)
Amount taken to profit or loss	810,321	-
Tax effect of movement in fair value	78,443	494,781
Balance at end of year	<u>(267,168)</u>	<u>(287,926)</u>

The above investment revaluation reserve relates to the revaluation of shares held in listed entities to fair value at the end of the reporting period. The fair value is determined using the quoted share price at 30 June 2018.

Note 20. Equity - retained profits

	Consolidated	
	2018	2017
	\$	\$
Retained profits at the beginning of the financial year	19,013,345	21,435,563
Profit after income tax expense for the year	11,640,993	12,864,913
Payment of dividends	<u>(9,195,255)</u>	<u>(15,287,131)</u>
Retained profits at the end of the financial year	<u>21,459,083</u>	<u>19,013,345</u>

Note 21. Equity - dividends

	Consolidated	
	2018	2017
	\$	\$
<i>Dividends</i>		
Year ended 30 June 2017		
Dividend paid 28 September 2016 (fully franked at 30% tax rate):		
5 cents per ordinary share		7,643,565
Dividend paid 30 March 2017 (fully franked at 30% tax rate):		
5 cents per ordinary share		7,643,565
Year ended 30 June 2018		
Dividend paid 28 March 2018 (fully franked at 30% tax rate):		
6 cents per ordinary share	9,195,255	
	<u>9,195,255</u>	<u>15,287,130</u>

On 22 August 2018, the consolidated entity declared an unfranked dividend of 5.0 cents per share, an aggregate of \$7,674,784. The Record Date of the dividend is 12 October 2018 and the proposed payment date is 24 October 2018.

Franking credits

	Consolidated	
	2018	2017
	\$	\$
Franking (debits)/credits available for subsequent financial years based on a tax rate of 30%	<u>(448,346)</u>	<u>(487,101)</u>



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

Note 22. Financial instruments

Financial risk management objectives

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

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

	Consolidated	
	2018	2017
	\$	\$
Financial assets		
Cash and cash equivalents	21,751,300	34,868,758
Trade and other receivables	45,648,672	66,183,661
Available for sale securities	2,621,911	3,129,121
Total financial assets	<u>70,021,883</u>	<u>104,181,540</u>
Financial liabilities		
Trade and other payables	15,235,581	62,217,046
Finance lease liabilities	465,042	685,015
Total financial liabilities	<u>15,700,623</u>	<u>62,902,061</u>

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	
	2018	2017	2018	2017
	AUD \$	AUD \$	AUD \$	AUD \$
United States Dollars	1,189,205	2,148,332	(53,274)	(3,452,866)
Great British Pounds	21,754	5,244,243	(159,821)	(293,159)
Euro	103,008	836,907	(3,589)	(149,476)
	<u>1,313,967</u>	<u>8,229,482</u>	<u>(216,684)</u>	<u>(3,895,501)</u>

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

The consolidated entity holds balances in United States dollars, these balances are translated into Australian dollars at the prevailing exchange rate at 30 June 2018 of AUD \$1 = USD \$0.74 (2017: 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 2018 of AUD \$1 = GBP £0.56 (2017: AUD \$1 = GBP £0.59).

The consolidated entity holds balances in Euro, these balances are translated into Australian dollars at the prevailing exchange rate at 30 June 2018 of AUD \$1 = EUR €0.63 (2017: AUD \$1 = EUR €0.67).



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

Note 22. Financial instruments (continued)

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

	Effect of 10% increase in exchange rate		Effect of 10% decrease in exchange rate	
	Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
	\$	\$	\$	\$
Consolidated - 2018				
United States Dollars	(102,996)	(102,996)	126,545	126,545
Great British Pounds	12,556	12,556	(15,336)	(15,336)
Euro	(9,026)	(9,026)	11,062	11,062
	<u>(99,466)</u>	<u>(99,466)</u>	<u>122,271</u>	<u>122,271</u>
	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
	\$	\$	\$	\$
Consolidated - 2017				
United States Dollars	118,747	118,747	(144,761)	(144,761)
Great British Pounds	(450,098)	(450,098)	550,120	550,120
Euro	(62,367)	(62,367)	76,536	76,536
	<u>(393,718)</u>	<u>(393,718)</u>	<u>481,895</u>	<u>481,895</u>

Interest rate risk

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

	Effect of 1% increase in interest rate		Effect of 1% decrease in interest rate	
	Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
	\$	\$	\$	\$
Consolidated - 2018				
Interest revenue	294,251	294,251	(294,251)	(294,251)
Interest expense	(5,170)	(5,170)	5,454	5,454
	<u>289,081</u>	<u>289,081</u>	<u>(288,797)</u>	<u>(288,797)</u>
	Effect of 1% increase in interest rate		Effect of 1% decrease in interest rate	
	Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
	\$	\$	\$	\$
Consolidated - 2017				
Interest revenue	314,562	314,562	(314,562)	(314,562)
Interest expense	(3,421)	(3,421)	3,421	3,421
	<u>311,141</u>	<u>311,141</u>	<u>(311,141)</u>	<u>(311,141)</u>



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

Note 22. Financial instruments (continued)

Equity price risk

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

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

- profit for the year ended 30 June 2018 would have been unaffected as the equity investments are classified as available-for-sale; and
- other comprehensive income for the year ended 30 June 2018 would increase by \$131,096 (2017: \$156,456) as a result of an increase of 5% in equity prices, and decrease by \$131,096 (2017: \$156,456) as a result of a decrease of 5% in equity prices.

Credit risk management

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

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

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

Liquidity risk management

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



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

Note 22. Financial instruments (continued)

Liquidity and interest rate risk tables

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

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

Consolidated - 2017	Weighted average interest rate %	Remaining contractual maturities			Total \$
		Less than 6 months \$	6 to 12 months \$	Over 12 months \$	
Non-derivatives					
<i>Non-interest bearing</i>					
Trade payables	-	62,217,046	-	-	62,217,046
<i>Interest-bearing - fixed rate</i>					
Lease liability	3.75%	276,068	182,335	226,612	685,015
Total non-derivatives		<u>62,493,114</u>	<u>182,335</u>	<u>226,612</u>	<u>62,902,061</u>

Fair value of financial instruments

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

Consolidated	2018		2017	
	Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
Assets				
Cash at bank	21,751,300	21,751,300	34,868,758	34,868,758
Cash on deposit	-	-	-	-
Trade receivables	45,648,672	45,648,672	66,183,661	66,183,661
Available for sale securities	2,621,911	2,621,911	3,129,121	3,129,121
	<u>70,021,883</u>	<u>70,021,883</u>	<u>104,181,540</u>	<u>104,181,540</u>
Liabilities				
Trade payables	15,235,581	15,235,581	62,217,046	62,217,046
Lease liability	465,042	465,042	685,015	685,015
	<u>15,700,623</u>	<u>15,700,623</u>	<u>62,902,061</u>	<u>62,902,061</u>



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

Note 22. Financial instruments (continued)

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

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

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

Fair value hierarchy - 2018

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

Fair value hierarchy - 2017

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<i>Financial assets</i>				
Trade receivables	-	66,183,661	-	66,183,661
Available for sale securities	3,129,121	-	-	3,129,121
	<u>3,129,121</u>	<u>66,183,661</u>	<u>-</u>	<u>69,312,782</u>
<i>Financial liabilities</i>				
Trade payables	-	62,217,046	-	62,217,046
Lease liability	-	685,015	-	685,015
	<u>-</u>	<u>62,902,061</u>	<u>-</u>	<u>62,902,061</u>

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

Reconciliation of Level 1 fair value measurements:

	Consolidated	
	2018 \$	2017 \$
<u>Available for sale equity securities</u>		
Opening balance	3,129,121	3,712,539
Additions	250,000	1,065,852
Disposals	-	-
Net revaluations in other comprehensive income	(757,210)	(1,649,270)
Closing balance	<u>2,621,911</u>	<u>3,129,121</u>



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

Note 23. Key management personnel disclosures*Directors*

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

Executive directors

Geoff Jones	Managing Director
Tony Patrizi	Executive Director

Non-executive directors

Phil Lockyer	Non-Executive Chairman
Peter Hood	Non-Executive Director
Barry Patterson	Non-Executive Director
Terry Strapp	Non-Executive Director

Other key management personnel

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

Executives

David Sala Tenna	Manager - Projects
Joe Totaro	Chief Financial Officer and Company Secretary
Rodney Schier	Engineering Manager
Stephen Kendrick	Manager - Projects (Appointed 11 December 2017)
Paul Newling	General Manager - EPCM (Resigned 7 February 2018)
Thomas Marshall	Manager - Eastern Region (Appointed 1 August 2017)

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	
	2018	2017
	\$	\$
Short term benefits	2,868,107	2,487,396
Post employment benefits	217,209	172,147
Share based payments	285,930	162,160
Other	57,569	94,437
	<u>3,428,815</u>	<u>2,916,140</u>

Note 24. Remuneration of auditors

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

	Consolidated	
	2018	2017
	\$	\$
<i>Audit services - Deloitte Touche Tohmatsu</i>		
Audit or review of the financial statements - Deloitte Touche Tohmatsu Australia	135,473	132,009
Audit or review of the financial statements - Deloitte Touche Tohmatsu UK	13,276	9,311
<i>Other services - Deloitte Touche Tohmatsu</i>		
Tax compliance - Deloitte Touche Tohmatsu Australia	27,300	24,150
Other services - Deloitte Touche Tohmatsu Australia	-	19,062
	<u>176,049</u>	<u>184,532</u>



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

Note 25. Contingent liabilities

The consolidated entity has bank guarantees in place as at 30 June 2018 of \$13,093,965 (2017: \$35,164,531).

The consolidated entity's standby multi-option facility has a limit of \$70,000,000. The facilities are secured by a fixed and floating charge over all the assets of the consolidated entity. The consolidated entity provides bank guarantees under this facility to support project performance in favour of certain clients. The amount of these bank guarantees at 30 June 2018 is \$12,744,809 (30 June 2017: \$34,258,841). 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 \$349,156 (30 June 2017: \$905,690). The amount of bank guarantees issued under this facility at 30 June 2018 is \$349,156 (30 June 2017: \$905,690).

The consolidated entity has an insurance bond facility to provide retention and off site materials bonds in connection with certain projects. The \$40 million facility with Insurance Australia Limited was taken out on 22 June 2018. On 2 July 2018 the Company secured an additional \$20 million insurance bond facility with Allianz Australia Insurance Limited. No bonds were on issue under the Insurance Australia Limited facility as at 30 June 2018.

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

Note 26. Commitments

The consolidated entity has leased certain items of its equipment under finance leases. The average lease term is 4 years (2017: 4 years). The consolidated entity has options to purchase the equipment for a nominal amount at the end of the lease terms. The consolidated entity's obligations under finance leases are secured by the lessors' title to the leased assets.

	Consolidated	
	2018	2017
	\$	\$
Finance Leases		
Not longer than 1 year	349,379	475,573
Longer than 1 year and not longer than 5 years	132,608	231,617
Longer than 5 years	-	-
Minimum lease payments	481,987	707,190
Less: future finance charges	(16,946)	(22,176)
Present value of minimum lease payments	465,041	685,014

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.

	Consolidated	
	2018	2017
	\$	\$
Non-Cancellable Operating Lease Commitments		
Not longer than 1 year	1,316,431	1,452,354
Longer than 1 year and not longer than 5 years	2,174,595	591,814
Longer than 5 years	-	-
Total lease payments	3,491,026	2,044,168



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

Note 27. Related party transactions

During the year ended 30 June 2018 the consolidated entity leased office space at 71 Daly Street from Ashguard Pty Ltd. Directors of the consolidated entity, Tony Patrizi and Barry Patterson, each have a non controlling interest in Ashguard Pty Ltd. The total amount invoiced by Ashguard Pty Ltd in the year ended 30 June 2018 amounted to \$639,775 including GST (2017: \$327,325). The balance payable at 30 June 2018 is \$108,617 (2017: \$50,994). During the year ended 30 June 2018 the consolidated entity procured items for Ashguard Pty Ltd. The total amount invoiced to Ashguard Pty Ltd in the year ended 30 June 2018 was \$10,995 including GST (2017: \$9,446). The balance outstanding at 30 June 2018 is nil (2017: 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 2018.

Note 28. Parent entity information

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

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

Statement of profit or loss and other comprehensive income

	Parent	
	2018	2017
	\$	\$
Profit after income tax	10,816,275	7,722,574
Total comprehensive income	10,026,712	6,568,085

Statement of financial position

	Parent	
	2018	2017
	\$	\$
Total current assets	53,911,296	98,474,757
Total assets	61,990,997	104,148,971
Total current liabilities	20,048,783	66,340,738
Total liabilities	21,812,327	66,340,738
Equity		
Issued capital	30,445,356	30,388,000
Performance rights reserve	607,610	93,345
Share options reserve	584,497	584,497
Share appreciation rights reserve	370,363	167,233
Investment revaluation reserve	(313,259)	(287,926)
Retained profits	8,484,103	6,863,084
Total equity	40,178,670	37,808,233

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



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

Note 29. Events after the reporting period

On 2nd July 2018 GR Engineering entered into a Deed of Indemnity with Allianz Australia Insurance Limited in connection with a \$20 million insurance bond facility. Together with the additional \$40 million insurance bond facility provided by Insurance Australia Limited in June 2018 and the Company's \$70 million bank guarantee facility provided by National Australia Bank, the consolidated entity's total bonding capacity increased from \$110 million to \$130 million.

On 13 August 2018, GR Engineering announced that it has entered into a settlement deed with Eastern Goldfields Limited and others to finally settle all claims in relation to the contract for the refurbishment of the Davyhurst Gold Project processing plant. The terms of the confidential settlement deed contemplate the payment to GR Engineering of \$8.25 million, with the settlement sum payable in three instalments, with the last instalment payable by 3 October 2018.

On 20 August 2018, GR Engineering entered into a \$17.9 million EPC contract with Saracen Gold Mines Pty Ltd for the design and construction of the Carosue Dam Paste Backfill Plant.

On 22 August 2018, the consolidated entity declared an unfranked dividend of 5.0 cents per share, an aggregate of \$7,674,784. The Record Date of the dividend is 12 October 2018 and the proposed payment date is 24 October 2018.

No other matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 30. Earnings per share

	Consolidated	
	2018	2017
	\$	\$
Profit after income tax attributable to the owners of GR Engineering Services Limited	11,640,993	12,864,913
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	153,268,497	152,919,101
Adjustments for calculation of diluted earnings per share:		
Weighted average number of employee performance rights and share appreciation rights issued	3,080,048	1,216,745
Weighted average number of ordinary shares used in calculating diluted earnings per share	156,348,545	154,135,846
	Cents	Cents
Basic earnings per share	7.60	8.41
Diluted earnings per share	7.45	8.35



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

Note 31. Share-based payments

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

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

The consolidated entity has issued a total of 5,200,000 performance rights to employees and long term contractors under the Plan. Each right entitles the employee to acquire one fully paid share in the consolidated entity for nil consideration, subject to the employees meeting a service term of three years from the date of grant. Of this total, 2,155,000 performance rights were issued during the financial year ending 30 June 2018 (2017: 160,000).

During the financial year a total of 55,000 performance rights vested (2017: 187,500). A total of 803,945 performance rights have lapsed due to resignations and redundancies of entitled employees since the date of issue of the first tranche of rights. Of this total 232,500 have lapsed in the financial year ending 30 June 2018 (2017: nil).

A summary of performance rights on issue at 30 June 2018 follows:

	Tranche 7	Tranche 11	Tranche 12	Tranche 13	Tranche 14
Number issued	127,500	20,000	30,000	1,870,000	30,000
Number lapsed	-	-	-	-	-
Grant date	30 Apr 2014	13 Jul 2017	13 Jul 2017	21 Aug 2017	21 Aug 2017
Exercise price	Nil	Nil	Nil	Nil	Nil
Vesting date	31 Mar 2019	13 Jul 2018	15 Jun 2020	20 Aug 2020	2 Aug 2018
Expiry date	31 Mar 2019	13 Jul 2018	15 Jun 2020	20 Aug 2020	2 Aug 2018
Vesting period (years)	5	1	3	3	1
Vesting conditions	Nil	Nil	Nil	Nil	Nil
Fair value	\$0.410	\$1.317	\$1.065	\$1.035	\$1.297
	Tranche 15	Tranche 16	Tranche 17	Tranche 18	
Number issued	60,000	50,000	35,000	60,000	
Number lapsed	-	-	-	-	
Grant date	21 Aug 2017	28 Aug 2017	1 Nov 2017	14 Jun 2018	
Exercise price	Nil	Nil	Nil	Nil	
Vesting date	2 Aug 2020	21 Aug 2020	1 Nov 2020	14 Jun 2021	
Expiry date	2 Aug 2020	21 Aug 2020	1 Nov 2020	14 Jun 2021	
Vesting period (years)	3	3	3	3	
Vesting conditions	Nil	Nil	Nil	Nil	
Fair value	\$1.041	\$0.951	\$0.978	\$1.010	



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

Note 31. Share-based payments (continued)

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

	Tranche 7	Tranche 11	Tranche 12	Tranche 13	Tranche 14
Grant date share price	\$0.705	\$1.470	\$1.470	\$1.440	\$1.440
Exercise price	-	-	-	-	-
Expected volatility	60%	50%	50%	50%	50%
Term (years)	5	1	3	3	1
Dividend yield	11%	11%	11%	11%	11%
Risk free interest rate	3.33%	1.77%	1.94%	1.95%	1.78%

	Tranche 15	Tranche 16	Tranche 17	Tranche 18
Grant date share price	\$1.440	\$1.320	\$1.360	\$1.410
Exercise price	-	-	-	-
Expected volatility	50%	50%	50%	50%
Term (years)	3	3	3	3
Dividend yield	11%	11%	11%	11%
Risk free interest rate	1.95%	1.99%	1.99%	2.14%

Movement in performance rights

Consolidated	2018		2017	
	Number of performance rights	Weighted average exercise price	Number of performance rights	Weighted average exercise price
Balance at beginning of year	415,000	-	442,500	-
Granted during the year	2,155,000	-	160,000	-
Vested during the year	(55,000)	-	(187,500)	-
Forfeited during the year	(232,500)	-	-	-
Balance at end of year	<u>2,282,500</u>	<u>-</u>	<u>415,000</u>	<u>-</u>

The weighted average fair value of performance rights granted at 30 June 2018 is \$1.00. The weighted average exercise price of these performance rights at 30 June 2018 is nil. The weighted average remaining contractual life of performance rights outstanding at 30 June 2018 is 745 days.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

Note 31. Share-based payments (continued)

The consolidated entity has issued a total of 4,419,337 share appreciation rights to Geoff Jones, Managing Director, as part of the consolidated entity's equity incentive plan. Of this total, 213,334 vested during the financial year ending 30 June 2018 (2017: 296,297). The share appreciation rights are subject to vesting conditions, namely the participant being employed by the consolidated entity as Managing Director and the share price being equal to or greater than the exercise price at the vesting date.

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

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

	Class F	Class G
Grant date share price	\$1.63	\$1.63
Exercise price	\$0.89	\$0.89
Expected volatility	50%	50%
Vesting period (years)	2	3
Dividend yield	8%	8%
Risk free interest rate	1.84%	1.84%

Movement in share appreciation rights

Consolidated	2018		2017	
	Number of share appreciation rights	Weighted average exercise price	Number of share appreciation rights	Weighted average exercise price
Balance at beginning of year	1,363,334	-	509,631	-
Granted during the year	-	-	1,150,000	-
Vested and exercised during the year	(213,334)	-	(296,297)	-
Balance at end of year	<u>1,150,000</u>	<u>-</u>	<u>1,363,334</u>	<u>-</u>

The weighted average fair value of share appreciation rights granted at 30 June 2018 is \$0.59. The weighted average exercise price of these share appreciation rights at 30 June 2018 is \$0.89. The weighted average remaining contractual life of share appreciation rights outstanding at 30 June 2018 is 524 days.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

Note 32. Subsidiaries

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

Name of subsidiary	Country of incorporation	Equity holding	
		2018	2017
GR Engineering Services (Indonesia) Pty Limited	Australia	100%	100%
GR Engineering Services (Argentina) Pty Limited	Australia	100%	100%
PT GR Engineering Services Indonesia *	Indonesia	100%	100%
GR Engineering Services (Africa)	Mauritius	100%	100%
GR Engineering Services (UK) Limited	United Kingdom	100%	100%
GR Engineering Services (Ghana) Limited **	Ghana	100%	100%
GR Engineering Services (Côte D'Ivoire) **	Côte D'Ivoire	100%	100%
GR Engineering Services (Mali) **	Mali	100%	100%
GR Engineering Services (Tengrela) ***	Côte D'Ivoire	100%	100%
GR Engineering Services Peru S.A.	Peru	100%	100%
GR Engineering Services (Greece) +	Greece	100%	100%
GR Engineering Services (Tanzania) Limited	Tanzania	100%	100%
GR Engineering Services Turkey Limited **	Turkey	100%	-
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.

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

** GR Engineering Services (Turkey) Limited was incorporated on 22 November 2017



DIRECTORS' DECLARATION

The directors declare that:

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

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

On behalf of the Directors

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

Name: Geoff Jones
Managing Director
Date: 22 August 2018



INDEPENDENT AUDITOR'S REPORT

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Tower 2
Brookfield Place
123 St Georges Terrace
Perth WA 6000
GPO Box A46
Perth WA 6837 Australia

Tel: +61 8 9365 7000
Fax: +61 8 9365 7001
www.deloitte.com.au

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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of GR Engineering Services Limited (the "Company") and its subsidiaries (the "Group"), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- (i) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

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

Key Audit Matters

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

For personal use only

INDEPENDENT AUDITOR'S REPORT



Key audit matter	How the scope of our audit responded to the Key Audit Matter
<p>Recognition of revenue</p> <p>As disclosed in Note 5, revenue recognised for the year ended 30 June 2018 relating to both construction contracts and operations and maintenance contracts was \$283,602,634.</p> <p>As disclosed in Note 3, revenue and costs are recognised by reference to the stage of completion of the contract activity.</p> <p>The recognition of revenue requires significant management judgement in:</p> <ul style="list-style-type: none"> • Determining the stage of completion; • Estimating total contract revenue and contract cost including the estimation of cost contingencies; • Determining contractual entitlement and assessing the probability of customer approval of variations and acceptance of claims; and • Estimating the project completion date. 	<p>Our procedures included, but were not limited to:</p> <p>Evaluating management's processes and controls in respect of the recognition of contract revenue. As part of this process we tested key controls including:</p> <ul style="list-style-type: none"> • The preparation, review and authorisation of monthly contract status report for all contracts; • The estimation, review and monitoring of costs to complete; and • The comprehensive project reviews that are undertaken by Group management on a monthly basis. <p>Selecting a sample of contracts for testing based on a number of quantitative and qualitative factors which may indicate that a greater level of judgement is required in recognising revenue, including:</p> <ul style="list-style-type: none"> • Contract history; • Significant unapproved claims and variations; • Delay risk; • High-value contracts; and • Loss-making contracts. <p>In respect to our sample of contracts selected for testing above, the following procedures were performed:</p> <ul style="list-style-type: none"> • Obtained a detailed understanding of the contract terms and conditions to evaluate whether the individual characteristics of each contract were reflected in management's estimate of forecast costs and revenue; • Tested a sample of costs incurred to date and agreed these to supporting documentation; • Assessed the current programme status against the original budgeted programme; • Challenged the forecast costs to complete through discussion and challenge of project managers and finance personnel, as well as inspection of supporting documentation for contracted costs; • Tested contractual entitlement, variations and claims recognised within contract revenue through agreement to supporting documentation and by reference to the underlying contract;

For personal use only



INDEPENDENT AUDITOR'S REPORT



For personal use only

Key audit matter	How the scope of our audit responded to the Key Audit Matter
	<ul style="list-style-type: none"> • Evaluated significant exposures to liquidated damages for late delivery of contract works; and • Evaluated contract performance in the period since year end to audit opinion date to reflect on year-end revenue recognition judgements. <p>Assessing the appropriateness of the disclosures in Notes 3 and 5 to the financial statements.</p>
<p>Trade and other receivables</p> <p>As disclosed in Note 10, the trade and other receivables as at 30 June 2018 was \$44,350,948.</p> <p>The assessment of recoverability of the trade debtors as at 30 June 2018 required significant judgement given the long outstanding nature of certain receivable balances and the ability of the debtors to pay the amounts due.</p>	<p>Our procedures included, but were not limited to:</p> <p>Obtaining an understanding of how management assesses the recoverability of trade debtors and therefore the allowance for impairment.</p> <p>Challenging the assessment of recoverability by:</p> <ul style="list-style-type: none"> • Review of agreed payment plans with certain customers and testing of payments received against those payment plans; • Obtaining confidential settlement deeds to provide evidence as to the accuracy of the debtor balance recorded; • Obtaining correspondence with customers with significant balances past due to understand the cause of delays and the status of negotiation for settlement, if any; and • Assessing whether there are any circumstances which would indicate that the debtor would not be able to meet its obligations. <p>Assessing the appropriateness of the disclosures in Note 10 to the financial statements.</p>
<p>Provision for warranty</p> <p>As disclosed in Note 17, the warranty provision as at 30 June 2018 was \$5,735,691.</p> <p>The assessment of the provision for warranty requires management to make an estimate of the likely future costs that may be incurred in relation to ongoing and completed contracts.</p>	<p>Our procedures included, but were not limited to:</p> <p>Obtaining an understanding of how management estimates their provision for warranty.</p> <p>Assessing the provision through:</p> <ul style="list-style-type: none"> • Evaluating the contracts with applicable warranty obligations; • Reviewing historic claim outcomes and the accuracy of management's estimate; and



INDEPENDENT AUDITOR'S REPORT



Key audit matter	How the scope of our audit responded to the Key Audit Matter
	<ul style="list-style-type: none"> Assessing the consistency of assumptions applied. Assessing the appropriateness of the disclosures in Note 3 and 17 to the financial statements.

Other Information

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

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

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

For personal use only



INDEPENDENT AUDITOR'S REPORT

Deloitte

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



INDEPENDENT AUDITOR'S REPORT

Deloitte.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 13 to 19 of the Directors' Report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of GR Engineering Services Limited, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Nicole Menezes

Nicole Menezes
Partner
Chartered Accountants
Perth, 22 August 2018

For personal use only



CORPORATE GOVERNANCE STATEMENT

Approach to Corporate Governance

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

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

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

Charters

Board
Audit and Risk Committee
Nomination and Remuneration Committee

Policies and Procedures

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

The Company reports below on whether it has followed each of the recommendations during the 2017/2018 financial year (**Reporting Period**). The information in this statement is current at 22 August 2018. This statement was approved by a resolution of the Board on 21 August 2018.

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 2018, which is, or will be, 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*.



CORPORATE GOVERNANCE STATEMENT

Recommendation 1.2

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

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

Recommendation 1.3

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

Recommendation 1.4

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

Recommendation 1.5

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

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

"Subject to the identification of suitable qualified candidates, to increase the percentage of professional and senior executive positions occupied by women to 15% by 30 June 2019."

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

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

	Proportion of women
Whole organisation	54 out of 402 (13%) (13% as at 30 June 2017)
Senior executive positions	10 out of 67 (15%) (17% as at 30 June 2017)
Board	0 out of 6 (0%) (0% as at 30 June 2017)



CORPORATE GOVERNANCE STATEMENT

Recommendation 1.6

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

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

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

Recommendation 1.7

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

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

Principle 2 – Structure the board to add value

Recommendation 2.1

The Board has established a Nomination and Remuneration Committee comprising Phillip Lockyer (Chair), Barry Patterson, 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.

Recommendation 2.2

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

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.



CORPORATE GOVERNANCE STATEMENT

Recommendation 2.3

The Board considers the independence of directors having regard to the relationships listed in Box 2.3 of the Principles & Recommendations. The independent directors of the Company are Messrs Lockyer, Patterson (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 6 directors 4 of whom are or are deemed to be independent. The two non-independent directors are Tony Patrizi and Geoff Jones. Tony Patrizi is a founding 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 preserving a majority of independent directors.

Recommendation 2.5

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

Recommendation 2.6

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

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



CORPORATE GOVERNANCE STATEMENT

Principle 3 – Act ethically and responsibly

Recommendation 3.1

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

Principle 4 – Safeguard integrity in corporate reporting

Recommendation 4.1

The Board has established an Audit and Risk Committee. The members of the Audit and Risk Committee are Messrs 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, SFFin, 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 Chairman of the International Chamber of Commerce National Committee of Australia and is Past President of the Australian Chamber of Commerce and Industry and the Chamber of Commerce and Industry Western Australia. Peter is currently Chairman of Matrix Composites and Engineering Limited and Lead Independent Director of Cue Energy Resources 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 two separate meetings during the year.

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

Recommendation 4.2

Before the Board approved the Company financial statements for the half year ended 31 December 2017 and the full-year ended 30 June 2018, it received from the Managing Director and the Chief Financial Officer a declaration that, in their opinion, the financial records of the Company for the relevant financial period have been properly maintained and that the financial statements for the relevant financial period comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company and the consolidated entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.



CORPORATE GOVERNANCE STATEMENT

Recommendation 4.3

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

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

A representative of the Company's auditor, Deloitte Touche Tohmatsu attended the Company's annual general meeting held on 14 November 2017.

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.



CORPORATE GOVERNANCE STATEMENT

Principle 7 – Recognise and manage risk

Recommendation 7.1

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

Recommendation 7.2

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

Recommendation 7.3

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

Recommendation 7.4

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

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

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

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



CORPORATE GOVERNANCE STATEMENT

Principle 8 – Remunerate fairly and responsibly

Recommendation 8.1

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

Recommendation 8.2

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

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

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

Recommendation 8.3

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



ADDITIONAL ASX INFORMATION

The shareholder information set out below was applicable as at 20 August 2018:

- the twenty largest shareholders held 85.41% of the Ordinary Shares; and
- there were 1,447 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	230	120,780	0.08%
1,001 - 5,000	491	1,436,172	0.94%
5,001 - 10,000	288	2,281,484	1.49%
10,001 - 100,000	389	11,434,636	7.45%
100,001 - 1,000,000	31	8,701,906	5.67%
1,000,001 - 9,999,999,999	18	129,490,711	84.38%
	1,447	153,465,689	100.00%

The number of shareholders holding less than a marketable parcel of ordinary shares is 80.

Equity security holders

Top 20 Shareholders as at 20 August 2018

Name	Number of shares held	% of shares issued
1. Citicorp Nominees Pty Ltd	18,275,517	11.91%
2. Mr David Joseph Sala Tenna + Ms Jane Frances Sala Tenna	12,325,000	8.03%
3. Joley Pty Ltd	10,524,000	6.86%
4. Paksian Pty Ltd	9,798,578	6.38%
5. Quintal Pty Ltd	9,500,000	6.19%
6. Kingarth Pty Ltd	9,025,000	5.88%
7. Ms Beverley June Schier	8,100,000	5.28%
8. Mr Giuseppe Totaro	8,000,000	5.21%
9. J P Morgan Nominees Australia Limited	7,966,210	5.19%
10. Polly Pty Ltd	7,500,000	4.89%
11. HSBC Custody Nominees (Australia) Limited	7,003,833	4.56%
12. Ledgking Pty Ltd	6,000,000	3.91%
13. National Nominees Limited	4,601,649	3.00%
14. Ms Barbara Ann Woodhouse	3,500,000	2.28%
15. Mr Stephen Paul Kendrick	3,491,000	2.27%
16. Sistar Pty Ltd	1,486,000	0.97%
17. Kendrick Investments Pty Ltd	1,384,000	0.90%
18. Mr Cono Antonino Angelo Ricciardo	1,010,000	0.66%
19. Mr Michael Gerald Woodhouse + Mrs Barbara Ann Woodhouse	813,950	0.53%
20. Mr Cono Antonio Angelo Ricciardo + Mr Brett Alan Turner	772,109	0.50%
	131,076,846	85.41%

Substantial shareholders

Name	Number of shares held	% of shares issued
1. Commonwealth Bank of Australia (and its related bodies corporate)	15,466,687	10.08%
2. Mr David Joseph Sala Tenna + Ms Jane Frances Sala Tenna	12,325,000	8.03%
3. Joley Pty Ltd	10,524,000	6.86%
4. Paksian Pty Ltd	9,798,578	6.38%
5. Quintal Pty Ltd	9,500,000	6.19%
6. Spheria Asset Management Pty Limited	9,239,718	6.02%
7. Kingarth Pty Ltd	9,025,000	5.88%
8. Pinnacle Investment Management Group Ltd & Pinnacle Investment Management Ltd	8,699,283	5.67%
9. Ms Beverley June Schier	8,100,000	5.28%
10. Eley Griffiths Group Pty Limited	8,022,194	5.23%
11. Mr Giuseppe Totaro	8,000,000	5.21%



ADDITIONAL ASX INFORMATION

Voting rights

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

Ordinary shares

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

Options over ordinary shares

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

Performance rights

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

Share appreciation rights

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

Options on issue

There are nil options on issue at 30 June 2018.

Performance rights

The following performance rights are on issue:

<i>Number</i>	<i>Vesting date</i>
127,500	31 Mar 2019
30,000	15 Jun 2020
1,870,000	20 Aug 2020
60,000	2 Aug 2020
50,000	21 Aug 2020
35,000	1 Nov 2020
60,000	14 Jun 2021

Share appreciation rights

The following share appreciation rights are on issue:

<i>Number</i>	<i>Grant date</i>	<i>Expiry date</i>	<i>Exercise price</i>
650,000	15 Nov 2016	30 Jun 2019	\$0.89
500,000	15 Nov 2016	30 Jun 2020	\$0.89

Company secretary

Mr Giuseppe (Joe) Totaro

Registered office

71 Daly Street
ASCOT WA 6104

Principal place of business

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

Share registry

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

On-market buyback

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

Restricted securities

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