

GR Engineering Services Limited
Half Year Financial Report
For the Half Year Ended 31 December 2019

GR ENGINEERING SERVICES LIMITED

HALF-YEAR FINANCIAL REPORT

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GR ENGINEERING SERVICES LIMITED

HALF-YEAR FINANCIAL REPORT

DIRECTORS' REPORT

Your directors present their report on GR Engineering Services Limited (ASX:GNG) (GR Engineering or consolidated entity) for the half-year ended 31 December 2019 (HY20).

DIRECTORS

The names of the consolidated entity's directors in office during the half year and until the date of this report follow. The Directors were in office for this entire period unless otherwise stated.

Geoff Jones (Managing Director)
Phillip Lockyer (Non-Executive Chairman)
Tony Patrizi (Executive Director)
Barry Patterson (Non-Executive Director)
Peter Hood (Non-Executive Director)
Giuseppe (Joe) Totaro (Non-Executive Director)

COMPANY SECRETARY

Omesh Motiwalla

PRINCIPAL ACTIVITIES

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

REVIEW OF RESULTS AND OPERATIONS

The operating loss after tax of the consolidated entity was \$11,170,948 (HY19 profit after tax: \$2,728,227) on revenue of \$95,312,855 (HY19: \$91,340,775). These results include a write off of the outstanding debtor of \$17.4 million owed by Timor Sea Oil & Gas Australia Pty Ltd (liquidators appointed) (TOGA).

Mineral Processing Design and Construction

Completed projects

Major projects that have achieved practical completion since 1 July 2019 include:

- **Carrapateena Northern Wellfield Water Supply Project** - \$21.2 million EPC contract - with OZ Minerals Carrapateena Pty Ltd for the design and construction of the Northern Wellfield for the Carrapateena Project located approximately 160km north of Port Augusta, South Australia. This project achieved practical completion in December 2019.
- **Fosterville Paste Plant Project** - \$23.9 million EPC contract - with Kirkland Lake Gold Limited for the design and construction of a paste plant production facility for its Fosterville gold operation located 25km north-east of Bendigo, Victoria. Practical completion was achieved in January 2020, approximately one year after its commencement.

New and ongoing projects

GR Engineering's design and construction order book for works currently being undertaken and which will continue into FY21 includes:

- **Sandy Ridge Waste Storage Project** - \$46.5 million EPC contract - with Tellus Holdings Limited for the design and construction of a fully integrated facility for the long term storage and permanent isolation of hazardous and intractable waste and associated kaolin mining operation located approximately 75km north east of Koolyanobbing, Western Australia. The project is scheduled for completion in the first quarter of FY21.
- **Wassa Underground Paste Backfill Project** - \$13.2 million EP Contract - with Golden Star Resources Ltd to undertake the design and supply all equipment and materials necessary to construct and commission the paste plant in Ghana. Practical completion is likely to be achieved in FY21.
- **Carosue Dam Operations Plant Expansion Project** - \$24.5 million EPC contract - with Saracen Gold Mines Pty Ltd, a subsidiary of Saracen Mineral Holdings Limited, for the engineering design, procurement and construction of expansion works on the mineral processing plant at the Carosue Dam gold operations, situated approximately 120km north east of Kalgoorlie in Western Australia. Work commenced in November 2019.
- **San Dimas Silver Mine Project** - US\$4.5 million EPCM Services Agreement - with First Majestic Silver Corp. to supply engineering, procurement and construction management services to its San Dimas Silver Mine in Durango, Mexico. GR Engineering Services Americas, Inc., supported by its new subsidiary, Hanlon Engineering & Associates Inc., has been engaged to provide EPCM services and commissioning of a new HIG mill circuit and a new autogenous mill to replace the existing crushing and ball mill circuits. Work commenced in January 2020.

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GR Engineering's pipeline of work opportunities includes:

- **Abra Base Metals Project** - non-binding letter of intent - with Galena Mining Limited's subsidiary, Abra Mining Pty Ltd, for the supply of a 1.2 million tonne per annum lead sulphide flotation plant and ancillary infrastructure for the Abra Base Metals Project located in Western Australia. The contract remains subject to GR Engineering being issued with a full notice to proceed, which is dependent on Abra Mining Pty Ltd achieving financial close on its proposed project financing facilities. GR Engineering has commenced early engineering works up to an agreed capped amount.
- **Woodlark Gold Project** - non-binding letter of intent - with Geopacific Resources Limited for the proposed construction of a 2.4 million tonnes per annum gold process plant in Papua New Guinea. The signing of an EPC contract remains subject to GR Engineering being issued with a full notice to proceed. GR Engineering has commenced early works up to an agreed capped amount.
- **WA Battery Graphite Manufacturing Facility** - non-binding letter of intent - with EcoGraf (Australia) Limited for an engineering, procurement and construction contract for the development of a 20,000tpa battery graphite facility in Western Australia.

In addition, GR Engineering has conditional EPC agreements with Sheffield Resources Limited in relation to its Thunderbird Mineral Sands Project and Strandline Resources Limited in relation to its Fungoni Mineral Sands Project.

Studies and Consulting

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

During HY20, GR Engineering completed 17 project studies and as at the end of HY20 was engaged on 29 studies. This level of study activity continues to underpin a solid pipeline of design and construction opportunities into FY20 and beyond.

Oil and Gas Services

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, and offshore and onshore operations and maintenance services in Western Australia.

Upstream PS continued to provide operations and maintenance services to the Northern Endeavour Floating Production, Storage and Offloading (FPSO) vessel located offshore in the Timor Sea during the half year ended 31 December 2019 for TOGA. On 10 July 2019, the National Offshore Petroleum Safety and Environmental Management Authority (NOPSEMA) issued a prohibition notice in relation to the FPSO, requiring the FPSO halt all production and cease all operations immediately due to structural corrosion concerns. Upstream PS operated and maintained the FPSO under an operations and maintenance contract funded by TOGA as the asset owner. TOGA was unable to recommence production on the FPSO and entered voluntary administration on 20 September 2019.

Following TOGA's entry into voluntary administration on 20 September 2019, the Administrators undertook a financial and operational review of TOGA and received funding from its senior secured lender, Castleton Commodities International (CCI), to operate the business assets of TOGA and explore options for its sale and recapitalisation. Upstream PS was funded by the Administrator to continue providing services to TOGA under the Operations and Maintenance Services Agreement (O&M Agreement) during the term of the administration.

On 7 February 2020, GR Engineering announced that TOGA and its group entities was placed into liquidation. Upstream PS completed the de-manning from the Northern Endeavour FPSO to bring the provision of services under the O&M Agreement to an end. On 7 February 2020, Upstream PS de-registered the safety case and terminated the O&M Agreement.

Consistent with its previous announcements, GR Engineering's assessment of the group's financial exposure to TOGA is \$17.4 million, representing receivables unrecovered by Upstream PS for services rendered. Upstream PS holds a security interest over the Laminaria Corallina production licences, which rank pari passu with CCI's security interest over those licences.

As TOGA has now been placed into liquidation, GR Engineering has recognised an impairment of \$17.4 million in its half year results ended 31 December 2019.

On 20 February 2020, GR Engineering announced that Upstream PS had entered into an agreement with the Department of Industry, Science Energy and Resources of the Australian Government (Department) to provide operations and maintenance services to the Northern Endeavour FPSO. As a result, Upstream PS reinstated minimum manning to the Northern Endeavour FPSO and is proceeding under an initial short term contract to provide services to the Department on commercial terms, in a non-production environment.

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DIRECTORS' REPORT

In Queensland, Upstream PS manage and perform maintenance services on over 4,000 coal seam gas (CSG) wells and 15 gas production trains in the Surat and Southern Bowen Basins. Upstream PS continues to grow the range of services it offers to clients and has recently opened a new workshop and stores facility in Chinchilla enabling it to better service its clients and engage the local community. Upstream PS has recently won a number of new projects providing brownfields maintenance, modifications and repair services to clients across Queensland, South Australia and Victoria.

In Western Australia, in addition to its involvement on the Northern Endeavour FPSO, Upstream PS continued to undertake operations and maintenance works on a number of oil and gas production assets in the Perth Basin for Mitsui (Waitsia Field, Xyris and the Dongara processing facilities) and Triangle Energy (Arrowsmith stabilisation plant and Cliff Head offshore platform).

Work also continued under the maintenance services contract awarded in 2017 with Eni Australia for the provision of maintenance services on the Blacktip gas field production facilities located in the Northern Territory with Upstream PS entering into a two-year contract extension in 2020. 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.

Safety

The GR Engineering group's Total Reportable Injury Frequency rate for HY20 was 3.87, comparing favourably to the FY19 result of 4.99 and industry benchmarks. The Company pursues continuous improvement in its commitment to safety, with its primary objective being the achievement of a zero harm workplace environment on all jobs and at all locations.

DIVIDENDS

During the half year period, a final dividend for financial year ended 30 June 2019 was paid. This was an unfranked dividend of 2.0 cents per share, paid on 23 October 2019.

An unfranked dividend of 2.0 cents per share has been declared for the 6 months ended 31 December 2019. The ex-dividend date for the interim dividend is 12 March 2020, the record date for determining entitlements to the interim dividend is 13 March 2020 and the payment date for the interim dividend is 3 April 2020.

AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS

The auditor's independence declaration to the directors is included on page 6 of the Half Year Financial Report.

EVENTS AFTER THE REPORTING DATE

On 16 January 2020, GR Engineering announced that it had entered into an agreement to acquire Hanlon Engineering & Associates, Inc., based in Arizona, USA.

The acquisition remains subject to the satisfaction of a number of conditions precedent customary for an agreement of this nature. It is anticipated that the acquisition will be completed by the end of February 2020. No material earnings impact is forecast for the current financial year.

On 21 February 2020, GR Engineering disposed of 50% of its shareholding in Ora Banda Mining Limited (ASX:OBM) for \$2.6 million (net of brokerage and GST). A gain on sale of \$0.3 million was recorded from the initial purchase price.

Signed in accordance with a resolution of directors made pursuant to s.306(3) of the Corporations Act 2001.

On behalf of the Directors



Geoff Jones
Managing Director
Date: 25 February 2020

GR ENGINEERING SERVICES LIMITED HALF-YEAR FINANCIAL REPORT

AUDITOR'S INDEPENDENCE DECLARATION



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

25 February 2020

Dear Board Members,

GR Engineering Services Limited – Independence Declaration

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 review of the financial report of GR Engineering Services Limited for the half-year ended 31 December 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely

A handwritten signature in blue ink that reads "Deloitte Touche Tohmatsu".

DELOITTE TOUCHE TOHMATSU

A handwritten signature in blue ink that reads "Nicole Menezes".

Nicole Menezes
Partner
Chartered Accountants

GR ENGINEERING SERVICES LIMITED

HALF-YEAR FINANCIAL REPORT

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	Notes	Half-Year Ended 31 December 2019	Half-Year Ended 31 December 2018
		\$	\$
Revenue	3(a)	95,312,855	91,340,775
Cost of sales		86,542,032	76,733,968
Gross profit		8,770,823	14,606,807
Other income	3(b)	1,981,607	431,416
Finance costs	3(c)	115,626	21,822
Occupancy expenses		205,572	869,320
Administrative expenses		8,404,804	8,036,118
Bad and doubtful debt expense		17,400,000	1,003,186
Depreciation and amortisation	3(d)	1,322,241	704,768
Profit (loss) before income tax		(16,695,813)	4,403,010
Income tax expense (credit)		(5,524,865)	1,674,783
Net profit (loss) for the period		(11,170,948)	2,728,227
Other comprehensive income			
<u>Items that may be reclassified subsequently to profit or loss :</u>			
Fair value gain (loss) on available for sale financial assets		38,802	(74,823)
Exchange differences on translating foreign operations		(7,707)	15,864
Total other comprehensive income, net of income tax		31,095	(58,959)
Total comprehensive income for the period		(11,139,853)	2,669,268
Profit attributable to owners of the parent		(11,170,948)	2,728,227
Total comprehensive income attributable to owners of the parent		(11,139,853)	2,669,268
Earnings per Share:		<i>Cents per share</i>	<i>Cents per share</i>
Basic (cents per share)		(7.28)	1.78
Diluted (cents per share)		(7.28)	1.74

GR ENGINEERING SERVICES LIMITED

HALF-YEAR FINANCIAL REPORT

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Notes	31 December 2019	30 June 2019
		\$	\$
ASSETS			
Current Assets			
Cash and cash equivalents	4	20,739,874	31,432,874
Trade and other receivables	5	28,911,791	35,480,709
Inventories		293,800	293,800
Other		2,792,024	1,083,294
Current tax asset		2,344,037	1,589,793
Total Current Assets		55,081,526	69,880,470
Non-Current Assets			
Deferred tax asset		7,102,072	449,795
Property, plant and equipment		5,617,017	3,381,287
Financial assets	11	6,950,629	7,879,585
Total Non-Current Assets		19,669,718	11,710,667
TOTAL ASSETS		74,751,244	81,591,137
LIABILITIES			
Current Liabilities			
Trade and other payables		26,382,058	24,765,901
Borrowings		2,980,693	500,706
Provisions		7,293,805	7,034,205
Contract liabilities	6	2,372,783	1,524,265
Total Current Liabilities		39,029,339	33,825,077
Non-Current Liabilities			
Borrowings		1,756,780	49,536
Provisions		1,480,964	1,300,989
Total Non-Current Liabilities		3,237,744	1,350,525
TOTAL LIABILITIES		42,267,083	35,175,602
NET ASSETS		32,484,161	46,415,535
EQUITY			
Issued capital	7	30,562,886	30,562,886
Reserves		1,165,882	853,844
Retained earnings		755,393	14,998,805
TOTAL EQUITY		32,484,161	46,415,535

GR ENGINEERING SERVICES LIMITED

HALF-YEAR FINANCIAL REPORT

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	<i>Notes</i>	
	<i>31 December 2019</i>	<i>31 December 2018</i>
	\$	\$
Cash flows from operating activities		
Receipts from customers	90,490,736	95,303,597
Payments to suppliers and employees	(95,567,927)	(80,859,469)
Income tax paid	(2,555,245)	(1,158,462)
Interest received	95,711	199,795
Net cash flows provided by operating activities	(7,536,725)	13,485,461
Cash flows from investing activities		
Purchase of property, plant and equipment	(357,936)	(589,942)
Proceeds from sale of assets	-	29,000
Proceeds from sale of financial assets	1,419,060	-
Net cash flows used in investing activities	1,061,124	(560,942)
Cash flows from financing activities		
Payment of finance and operating lease liabilities	(1,065,908)	(213,056)
Dividends paid	(3,072,464)	(7,674,784)
Net cash flows used in financing activities	(4,138,372)	(7,887,840)
Net increase in cash and cash equivalents	(10,613,973)	5,036,679
Cash and cash equivalents at beginning of period	31,432,874	21,751,300
Effects of exchange rate changes of balances of cash held in foreign currencies	(79,027)	91,554
Cash and cash equivalents at end of period	4 20,739,874	26,879,533

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	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 2018	30,445,356	584,497	607,610	370,363	(728,661)	(267,168)	21,459,083	52,471,080
Profit for the period	-	-	-	-	-	-	2,728,227	2,728,227
Other Comprehensive income for the period	-	-	-	-	15,864	(74,823)	-	(58,959)
Total Comprehensive income for the period	-	-	-	-	15,864	(74,823)	2,728,227	2,669,268
Dividends paid	-	-	-	-	-	-	(7,674,784)	(7,674,784)
Issue of shares	65,255	-	-	(65,255)	-	-	-	-
Share based payments	-	-	219,958	180,371	-	-	-	400,329
Balance as at 31 December 2018	30,510,611	584,497	827,568	485,479	(712,797)	(341,991)	16,512,526	47,865,893
Balance as at 30 June 2019	30,562,886	-	1,029,128	210,706	(710,315)	324,325	14,998,805	46,415,535
Profit for the period	-	-	-	-	-	-	(11,170,948)	(11,170,948)
Other Comprehensive income for the period	-	-	-	-	(7,707)	38,802	-	31,095
Total Comprehensive income for the period	-	-	-	-	(7,707)	38,802	(11,170,948)	(11,139,853)
Dividends paid	-	-	-	-	-	-	(3,072,464)	(3,072,464)
Issue of shares	-	-	-	-	-	-	-	-
Share based payments	-	-	240,432	40,511	-	-	-	280,943
Balance as at 31 December 2019	30,562,886	-	1,269,560	251,217	(718,022)	363,127	755,393	32,484,161

GR ENGINEERING SERVICES LIMITED

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

1 CORPORATE INFORMATION

The financial report of GR Engineering Services Limited and its subsidiaries for the half year ended 31 December 2019 was authorised for issue in accordance with a resolution of the directors on 20 February 2020.

GR Engineering Services Limited is a limited company incorporated and domiciled in Australia. The registered office of GR Engineering Services Limited is located at 71 Daly Street, Ascot, Western Australia.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The condensed 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. 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.

The accounting policies and methods of computation adoption in the preparation of the half-year financial report are consistent with those adopted and disclosed in the consolidated entity's annual financial report for the financial year ended 30 June 2019, except for the impact of the Standards and Interpretations described below. The accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

(b) Statement of Compliance

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The half-year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

(c) Standards and Interpretations adopted in the current half year period

The accounting policies adopted in the preparation of the half-year financial report are consistent with those applied in the preparation of the consolidated entity's annual financial report for the year ended 30 June 2019, except for new standards, amendments to standards and interpretations which became effective on 1 July 2019 as set out below.

In the current half year, the consolidated entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") that are relevant to its operations and effective for an accounting period that begins on or after 1 July 2019, which include:

- AASB 16 *Leases*
- AASB 2017-6 *Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation*
- AASB 2018-1 *Amendments to Australian Accounting Standards – Annual Improvements 2015–2017 Cycle*
- Interpretation 23 *Uncertainty over Income Tax Treatments*

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Standards and Interpretations adopted in the current year (continued)

Impact on Application

The only new standard adopted which has had a material impact on the consolidated entity's result has been that of AASB 16 Leases ("AASB 16"). It is discussed in further detail below.

AASB 16: Leases

AASB 16 Leases replaces previous accounting requirements for leases under AASB 117 Leases. Under AASB 16 Leases, the consolidated entity's accounting for operating leases as a lessee results in the recognition of a right-of-use (ROU) asset and an associated lease liability on the Statement of Financial Position. The lease liability represents the present value of future lease payments over the estimated remaining lease term, with the exception of short-term and low value leases. An interest expense is recognised on the lease liabilities and a depreciation charge will be recognised for the ROU assets. There are also additional disclosure requirements under the new standard.

The consolidated entity has assessed all relevant contracts to determine if they result in a lease being recognised under AASB 16. Short term and low value leases have been excluded. The consolidated entity has recognised right of use assets and liabilities as at 1 July 2019 for their term rental agreements for office premises located in Western Australia, Queensland and Victoria, with the useful life of the assets for depreciation purposes and the lease term being equal to the remaining contractual term of the property leases. A modified retrospective approach has been used, where comparative information for the previous financial year is not required to be restated and no adjustments are made to the opening balance of retained earnings as at 1 July 2019. The consolidated entity already had existing finance leases relating to motor vehicles, which are also disclosed within borrowings.

The lease liabilities in respect to the office premises have been measured at the present value of the remaining lease payments over the estimated remaining lease term, discounted using the consolidated entity's incremental borrowing rate as at 1 July 2019. The weighted average interest rate used for discounting is 6%. This rate takes into account the particular circumstances applicable to the underlying leased assets (including the amount, lease term, economic environment and other relevant factors). Leases with similar characteristics have been grouped together, predominantly on the basis of geography and lease length.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Standards and Interpretations adopted in the current year (continued)

Reconciliation of operating lease commitments disclosed in the annual financial report at 30 June 2019 to lease liabilities at 1 July 2019

Operating lease commitments disclosed at 30 June 2019	3,974,154
Less: short term and low value agreements not assessed as leases	(653,803)
Add: new agreements or adjustments for those reassessed as leases	47,451
Discounted using the consolidated entity's incremental borrowing rate	(191,949)
Lease liabilities recognised on 1 July 2019	<u>3,175,853</u>

Impact of application of AASB 16 on the half year ending 31 December 2019 :

Impact on borrowings

	\$
Opening balance at 1 July 2019	550,242
Operating leases recognised under AASB 16 from 1 July 2019 onwards	3,175,853
Borrowing costs of these operating leases	88,443
Payments of these operating leases	(612,784)
Movement in other borrowings	1,535,719
Closing balance as at 31 December 2019	<u>4,737,473</u>

Impact on property, plant and equipment

	\$
Opening balance at 1 July 2019	3,381,287
Right of use assets recognised under AASB 16 from 1 July 2019 onwards	3,175,853
Depreciation on these right of use assets	(590,260)
Movement in other property, plant and equipment	(349,863)
Closing balance as at 31 December 2019	<u>5,617,017</u>

Impact on profit or loss for the half year

	\$
Positive impact from rent payments not recognised as an expense	612,784
Negative impact from increase in interest expense	(88,443)
Negative impact from increase in depreciation expense	(590,260)
Overall negative impact on profit or loss	<u>(65,919)</u>

Right of use assets were measured at amounts equal to the carrying amount of the respective lease liabilities on the adoption date, totalling \$3,175,853. There were no onerous lease contracts that would have required an adjustment to the right of use assets on the adoption date. Depreciation is recognised for right of use assets on a straight line basis over the remaining lease term.

Leases accounting policy

Set out below is the new accounting policy of the Consolidated entity on adoption of AASB 16.

From 1 July 2019, the consolidated entity assesses whether a contract is or contains a lease, at inception of the contract. The consolidated entity recognises as a right of use asset and a corresponding liability at the date on which the leased asset is available for use by the consolidated entity. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period, so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Assets and liabilities arising from a lease are initially measured on a present value basis of the lease payments.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Standards and Interpretations adopted in the current year (continued)

The lease payments are discounted using the interest rate implicit in the lease. If the rate can not be determined, the lessee's incremental borrowing rate is used being the rate the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Lease liabilities include the value of the following lease payments, where applicable:

- Fixed payments, less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate;
- Amounts expected to be payable by the lease under residual value guarantees;
- The exercise price of a purchase option if the lessee is reasonably certain to exercise the option; and
- Payment of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease liabilities are presented in borrowings in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The consolidated entity remeasures the lease liability (and makes a corresponding adjustment to the related right of use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances;
- The lease payments change due to changes in an index or rate or a change in expected payments under a guaranteed residual value;
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The consolidated entity did not make any such adjustments during the current period.

The right of use assets comprise the initial measurement of the corresponding lease liability, less any lease incentives received and any initial direct costs. They are subsequently measured as cost less accumulated depreciation and any impairment losses.

The right of use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight line basis. The lease term is the current contracted lease term and the term of any lease extension option where there is a likelihood that the option to extend the lease will be exercised. The right of use assets are presented in property, plant and equipment in the consolidated statement of financial position.

The consolidated entity applies AASB 136 *Impairment of Assets* to determine whether a right of use asset is impaired and accounts for any identified impairment loss as described in the policies in the consolidated entity's annual financial report for 30 June 2019.

The consolidated entity applies the short-term lease recognition exemption (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered low value (i.e. below \$5,000). Lease payments on short-term leases and leases of low-value assets recognised as an expense in profit or loss on a straight-line basis over the lease term.

Critical judgements applied

The management has exercised their judgement in the determination of the lease term. Management have considered extension options under their lease agreements and if it is reasonably certain that these options will be exercised, an extended lease term will be assumed.

GR ENGINEERING SERVICES LIMITED

HALF-YEAR FINANCIAL REPORT

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Standards and Interpretations issued but not yet adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the consolidated entity for the reporting period ended 31 December 2019. Those which may be relevant to the consolidated entity are set out in the table below, but these are not expected to have any significant impact on the consolidated entity's financial statements:

Standard / Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2018-6 'Amendments to Australian Accounting Standards - Definition of a Business'	1 January 2020	30 June 2021
AASB 2018-7 'Amendments to Australian Accounting Standards – Definition of Material'	1 January 2020	30 June 2021
AASB 2019-1 'Amendments to Australian Accounting Standards – References to the Conceptual Framework'	1 January 2020	30 June 2021
AASB 2019-5 'Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia'	1 January 2020	30 June 2021

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FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

3 REVENUES AND EXPENSES

	31 December 2019 \$	31 December 2018 \$
(a) Disaggregation of revenue & time of revenue recognition		
Rendering of services		
Rendering of services - mineral processing - over time	53,886,252	46,497,545
Rendering of services - oil & gas - at a point in time	41,426,603	44,843,230
	<u>95,312,855</u>	<u>91,340,775</u>
(b) Other income		
Interest revenue	95,711	199,795
Government rebates and subsidies	53,307	8,385
Profit (loss) on sale of fixed assets	24,183	(77,374)
Profit on sale of financial assets	404,060	-
Net foreign exchange gain/(loss)	(104,401)	82,898
Sundry revenue	1,508,747	217,712
	<u>1,981,607</u>	<u>431,416</u>
(c) Finance costs		
Interest charges on finance leases	<u>115,626</u>	<u>21,822</u>
(d) Depreciation and amortisation		
Depreciation of fixed assets	<u>1,322,241</u>	<u>704,768</u>
(e) Employee benefits expense		
Wages and salaries	35,022,205	33,432,147
Workers' compensation costs	508,273	353,960
Superannuation costs	2,985,572	2,968,529
Share based payments	280,943	400,330
	<u>38,796,993</u>	<u>37,154,966</u>

4 CASH AND CASH EQUIVALENTS

	31 December 2019 \$	30 June 2019 \$
Cash at bank and in hand	20,739,874	28,432,874
Short term deposits	-	3,000,000
	<u>20,739,874</u>	<u>31,432,874</u>

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 31 December 2019:

	31 December 2019 \$	30 June 2019 \$
Cash at bank and in hand	20,739,874	28,432,874
Short-term deposits	-	3,000,000
	<u>20,739,874</u>	<u>31,432,874</u>

GR ENGINEERING SERVICES LIMITED
HALF-YEAR FINANCIAL REPORT

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

5 TRADE AND OTHER RECEIVABLES

	<i>31 December</i> <i>2019</i> \$	<i>30 June</i> <i>2019</i> \$
Trade receivables	19,399,968	28,285,361
Less: Loss allowance	(257,339)	(257,339)
	<u>19,142,629</u>	<u>28,028,022</u>
Contract assets - oil and maintenance contracts	2,860,674	6,304,751
Contract assets - mineral processing contracts	5,219,688	688,582
	<u>8,080,362</u>	<u>6,993,333</u>
Other receivables	1,688,800	459,354
	<u>28,911,791</u>	<u>35,480,709</u>

6 CONTRACT LIABILITIES

	<i>31 December</i> <i>2019</i> \$	<i>30 June</i> <i>2019</i> \$
Contract liabilities - current liabilities	2,372,783	1,524,265
	<u>2,372,783</u>	<u>1,524,265</u>

7 ISSUED CAPITAL

	<i>31 December</i> <i>2019</i> <i>No of shares</i>	<i>30 June</i> <i>2019</i> <i>No of shares</i>
<i>Ordinary Shares</i> Issued and fully paid	<u>153,623,189</u>	<u>153,623,189</u>
<i>Issue of ordinary shares</i> At 30 June 2019	<i>No of shares</i> 153,623,189	\$ 30,562,886
At 31 December 2019	<u>153,623,189</u>	<u>30,562,886</u>

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

GR ENGINEERING SERVICES LIMITED

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

8 CONTINGENCIES

	31 December 2019	30 June 2019
	\$	\$
Bank guarantees		
Bank guarantees issued	11,979,902	8,082,149

The consolidated entity's standby multi-option bank 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 31 December 2019 is \$11,547,843 (30 June 2019: \$7,614,228). 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 \$432,059 (30 June 2019: \$467,921). The amount of bank guarantees issued under this facility at 31 December 2019 is \$432,059 (30 June 2019: \$467,921).

The consolidated entity has a \$40 million insurance bond facility with Tokio Marine & Nichido Fire Insurance Co., Ltd. and an additional \$20 million insurance bond facility with Allianz Australia Insurance Limited. These facilities are utilised to provide retention and off site materials bonds in connection with certain projects. The amount of insurance bonds issued under the Allianz Australia Insurance Limited facility at 31 December 2019 is \$3,345,351 (30 June 2019: \$895,749). No bonds were on issue under the Tokio Marine & Nichido Fire Insurance Co., Ltd. facility as at 31 December 2019 (30 June 2019: nil).

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

9 DIVIDENDS

During the half year, the consolidated entity made the following dividend payments :

	31 December 2019		31 December 2018	
	Cents per share	\$	Cents per share	\$
<i>Fully paid ordinary shares</i>				
Dividend	2.00	3,072,464	5.00	7,674,784
	2.00	3,072,464	5.00	7,674,784

An unfranked dividend of 2.0 cents per share has been declared for the six months ended 31 December 2019. The ex dividend date for the interim dividend is 12 March 2020, the record date for determining entitlements to the interim dividend is 13 March 2020 and the payment date for the interim dividend is 3 April 2020.

GR ENGINEERING SERVICES LIMITED

HALF-YEAR FINANCIAL REPORT

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

10 SEGMENT INFORMATION

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

	31 December 2019 \$	31 December 2018 \$
Mineral processing	53,886,252	46,497,545
Oil and gas	41,426,603	44,843,230
Total revenue	<u>95,312,855</u>	<u>91,340,775</u>

Segment profit before tax

	31 December 2019 \$	31 December 2018 \$
Mineral processing	(2,227,806)	2,806,039
Oil and gas	(14,468,007)	1,596,971
Total profit (loss) before tax	<u>(16,695,813)</u>	<u>4,403,010</u>

Segment assets

	31 December 2019 \$	30 June 2019 \$
Mineral processing	46,508,402	41,875,991
Oil and gas	21,292,213	31,835,561
Corporate - financial assets	6,950,629	7,879,585
Total assets	<u>74,751,244</u>	<u>81,591,137</u>

11 FINANCIAL ASSETS

Financial assets held at fair value through other comprehensive income

	31 December 2019 \$	30 June 2019 \$
Shares and options in listed entities	<u>6,950,629</u>	<u>7,879,585</u>

Shares and options held in the listed entities are measured at fair value at the end of the reporting period.

GR ENGINEERING SERVICES LIMITED

HALF-YEAR FINANCIAL REPORT

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

12 FINANCIAL INSTRUMENTS

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 :

	31 December 2019		30 June 2019	
	<i>Carrying amount</i>	<i>Fair value</i>	<i>Carrying amount</i>	<i>Fair value</i>
	\$	\$	\$	\$
Assets				
Cash at bank	20,739,874	20,739,874	31,432,874	31,432,874
Trade receivables	28,911,791	28,911,791	35,480,709	35,480,709
Equity instruments	6,950,629	6,950,629	7,879,585	7,879,585
	<u>56,602,294</u>	<u>56,602,294</u>	<u>74,793,168</u>	<u>74,793,168</u>
Liabilities				
Trade payables	26,382,058	26,382,058	24,765,901	24,765,901
Lease liabilities	4,737,473	4,737,473	550,242	550,242
	<u>31,119,531</u>	<u>31,119,531</u>	<u>25,316,143</u>	<u>25,316,143</u>

The consolidated entity holds equity securities of \$6,950,629 (30 June 2019: \$7,879,585) which are classified as fair value hierarchy level 1, in which fair values are based on quoted prices in active markets. There have been no transfers of fair value hierarchy levels during the period.

During the period, net gains of \$488,638 (31 December 2018: net loss of \$74,823) have been included in other comprehensive income and are reported in the investment revaluation reserve.

During the period, equity securities were disposed of, resulting in a gain on sale of \$404,060 recorded in other income.

13 KEY MANAGEMENT PERSONNEL

Remuneration arrangements of key management personnel are disclosed in the annual financial report dated 30 June 2019.

14 EVENTS AFTER THE REPORTING DATE

An unfranked dividend of 2.0 cents per share has been declared for the six months ended 31 December 2019. The ex dividend date for the interim dividend is 12 March 2020, the record date for determining entitlements to the interim dividend is 13 March 2020 and the payment date for the interim dividend is 3 April 2020.

On 16 January 2020, GR Engineering announced that it had entered into an agreement to acquire Hanlon Engineering & Associates, Inc., based in Arizona, USA. The acquisition remains subject to the satisfaction of a number of conditions precedent customary for an agreement of this nature. It is anticipated that the acquisition will be completed by the end of February 2020. No material earnings impact is forecast for the current financial year.

On 21 February 2020, GR Engineering disposed of 50% of its shareholding in Ora Banda Mining Limited (ASX:OBM) for \$2.6 million (net of brokerage and GST). A gain on sale of \$0.3 million was recorded from the initial purchase price.

There has been no other matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial period, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

GR ENGINEERING SERVICES LIMITED

HALF-YEAR FINANCIAL REPORT

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; and

(b) In the directors' opinion, the attached financial statements and notes thereto are in compliance 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.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors

A handwritten signature in black ink, appearing to be 'G Jones', written over a large, loopy, oval-shaped scribble.

Name: Geoff Jones
Managing Director
Date: 25 February 2020

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

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

We have reviewed the accompanying half-year financial report of GR Engineering Services Limited ("the Company"), which comprises the condensed consolidated statement of financial position as at 31 December 2019, and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 7 to 21.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Company*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the GR Engineering Services Limited's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of GR Engineering Services Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Auditor's Independence Declaration

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of GR Engineering Services Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU



Nicole Menezes
Partner
Chartered Accountants
Perth, 25 February 2020