VALMEC

ANNUAL REPORT

2020



www.valmec.com.au

VALMEC

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ABOUT VALMEC

Valmec is an ASX listed multi-discipline contractor, providing specialised packaged equipment, construction, commissioning, maintenance and asset integrity services to the energy, resources, and infrastructure sectors.

At Valmec, our guiding principle is clear – providing quality results and working closely with customers to deliver cost effective, timely and safe solutions.

As an Australian owned and managed Company, we are committed to fostering mutually beneficial Indigenous and traditional land owner partnerships, and sponsoring long term employment opportunities within the communities in which we work.

OUR MARKETS

- ENERGY
- INFRASTRUCTURE
- RESOURCES
- POWER
- WATER & UTILITIES
- PETROCHEMICAL
- RENEWABLES
- DEFENCE

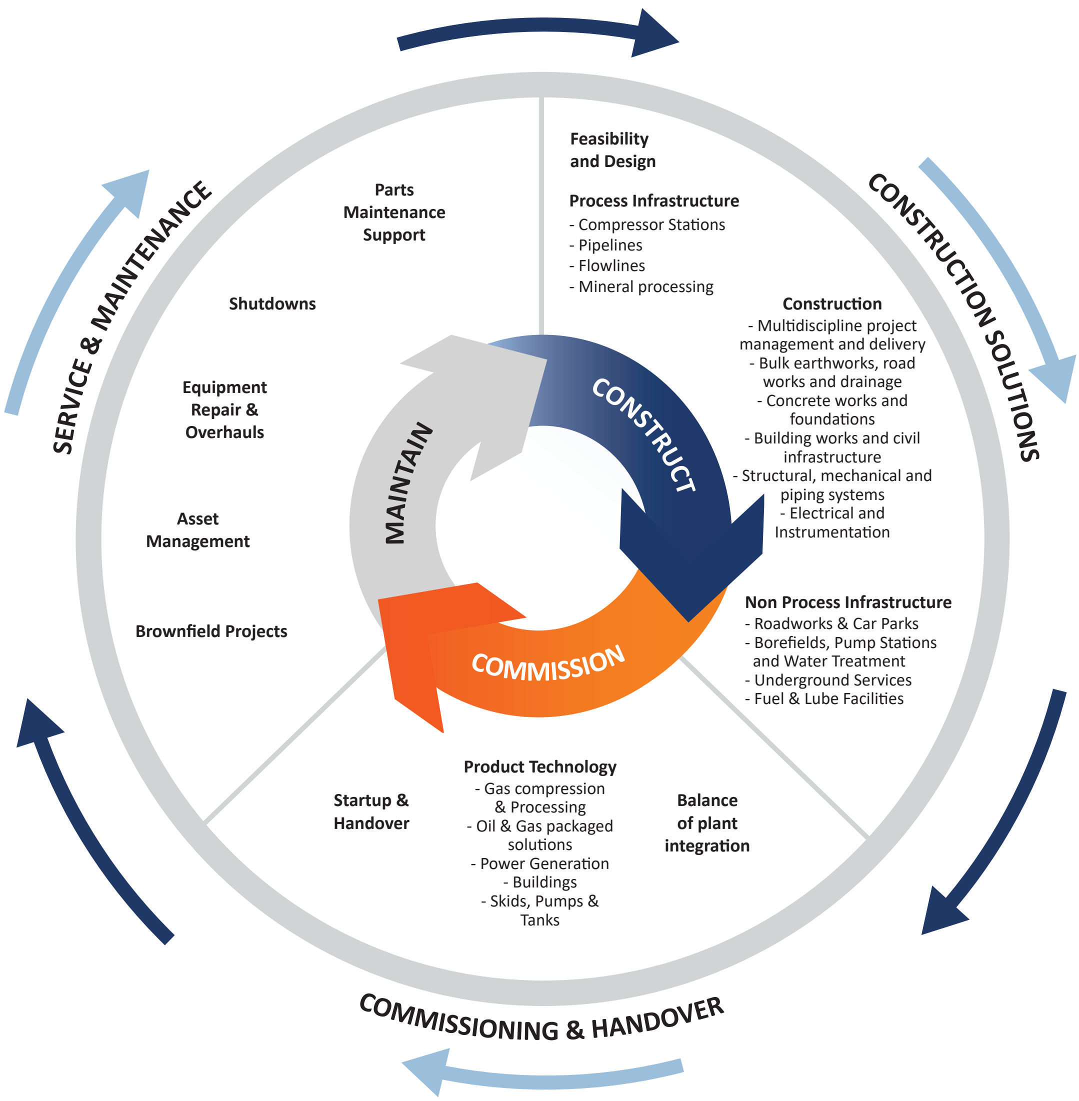
INTEGRATED SOLUTIONS

PROJECTS

- Engineered Solutions
- Upstream Oil and Gas Infrastructure
- Gas Compression and Processing
- Water treatment and storage
- Resources infrastructure
- Energy and Renewables generation
- Refurbishment and brownfields construction
- Pre-commissioning and commissioning

ASSET SERVICES

- Facility operations, service, maintenance and repairs
- OEM sales, parts, rebuild and exchange
- Gas compression and processing products
- Asset integrity and inspection services
- Shutdowns and production critical asset support
- Water utilities renewal programmes
- Completions and commissioning solutions



CORE VALUES

The **Core Values** are the fundamental beliefs and the ingrained principles of our company.

They guide our day to day behaviours and serve as our cultural cornerstones.

SAFETY >
We will not compromise

INTEGRITY >
We do what is right

COLLABORATION >
We work better together

ACCOUNTABILITY >
We deliver on our promises

RESPECT >
We value diversity, community & the environment

3M HOURS

LTI FREE JUNE 2020

WORK, HEALTH & SAFETY

At Valmec, we live our Core Value of Safety everyday – for us, there is no compromise.

During the year, Valmec achieved **Federal Safety Accreditation** status, whilst June 2020 saw us reach 3 million hours loss time injury free.

As we celebrate these milestones, we will always remain vigilant and focused on getting our people home safe, every day.

Valmec congratulates all its team members on this fantastic achievement – a direct result of your ongoing commitment and dedication to safety.

FSC APPROVED • GET ACCREDITED • GET BUILDING

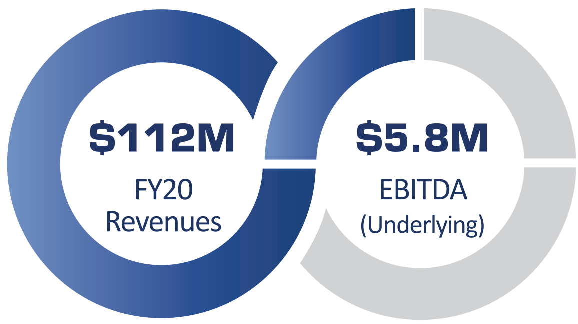
3M HOURS
Loss Time Injury Free

0.55 TRIFR
Total Recordable Injury Freq Rate

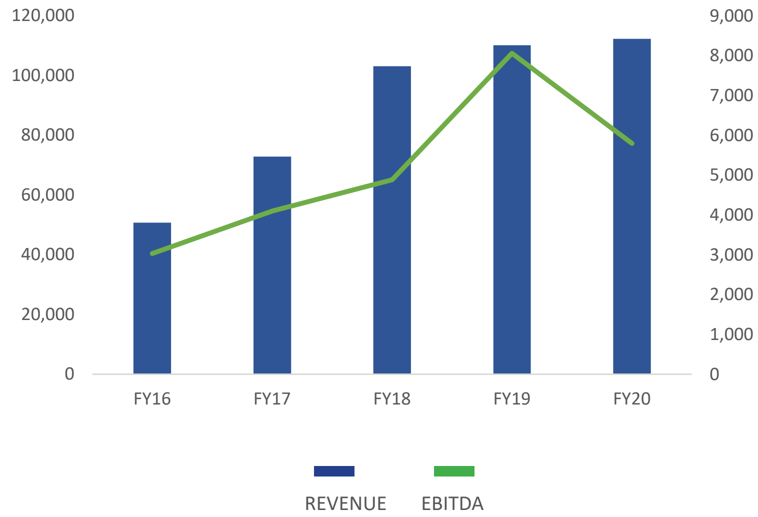
JEMENA ATLAS GAS COMPRESSOR FACILITY

Wandoan, Queensland

FY20 AT A GLANCE

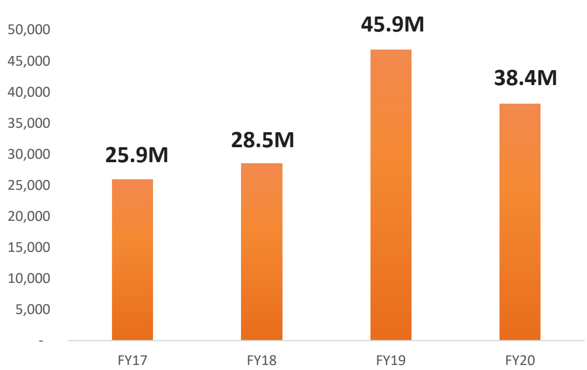


REVENUE & EBITDA
($'000)

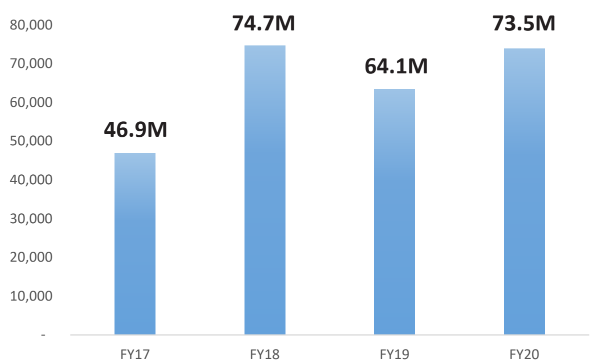


BUSINESS STREAMS

ASSET SERVICES REVENUE
($'000)

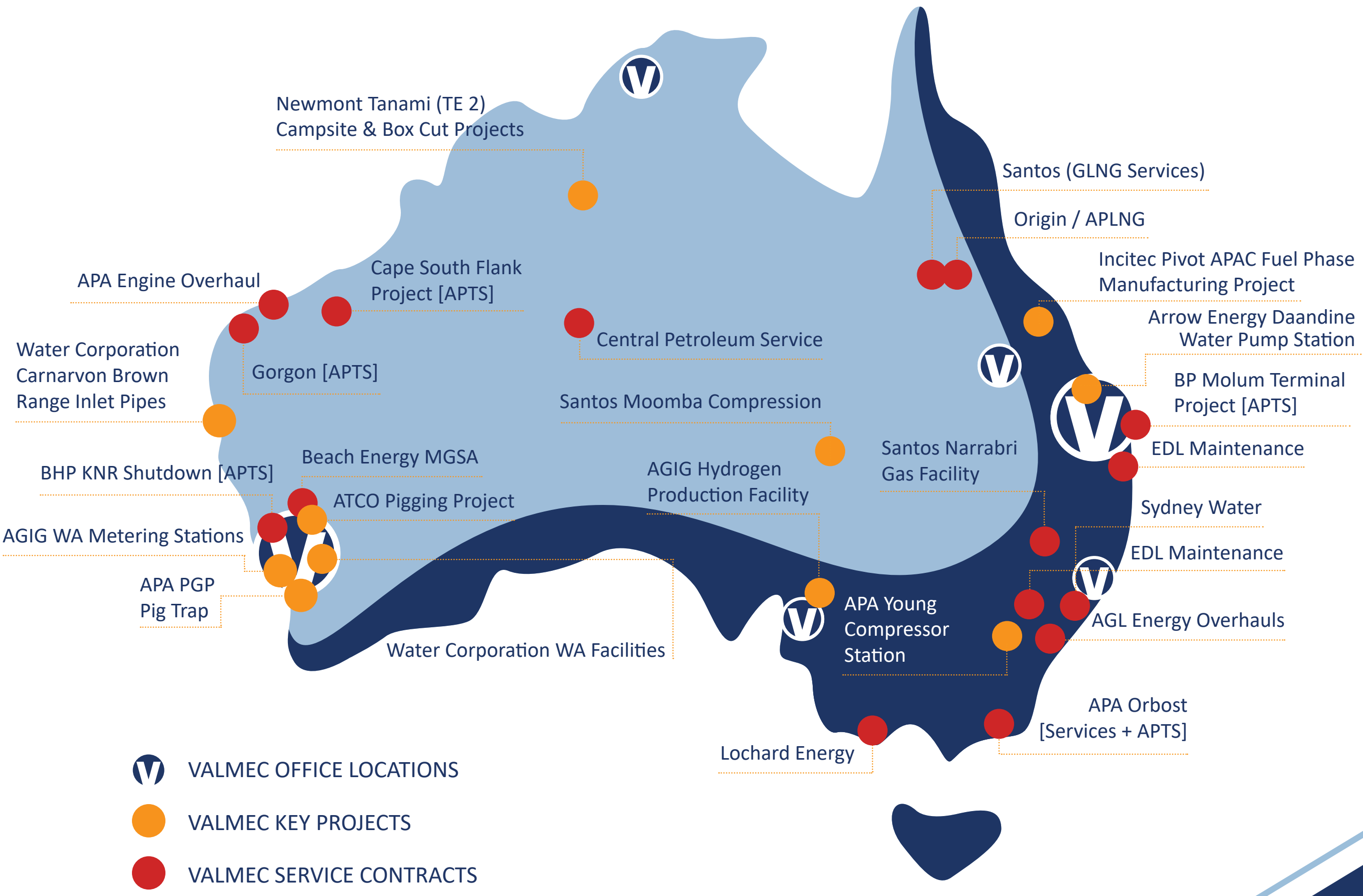


ENERGY & INFRASTRUCTURE REVENUE
($'000)



FY20 KEY CONTRACT LOCATIONS

With teams across Australia, Valmec provides quality construction, services, maintenance and asset integrity solutions. We deliver client value through full asset lifecycle capabilities by working with clients and their partners to execute projects safely and ahead of schedule.



REVIEW OF OPERATIONS

COVID-19 impacted all our lives in ways we would never have envisaged just six months ago and Valmec, similar to the majority of other service providers in our sectors, experienced impacts to its normal operations during the pandemic crisis.

For Valmec, FY2020 was a year of two halves.

For the half year ended 31 December 2019, Valmec had achieved record sales revenue and earnings for the period, positioning the company, at the time, on a trajectory for another year of strong revenue growth. However, with Valmec's clients immediately responding to the dual impact of both COVID-19 and global oil pricing dynamics on their own operations, both energy investment capital and operating expenditures in the sector during the second half, were either delayed into FY2021 or suspended.

Projects that were able to continue in the constrained operating environment were not immune to the effects of the pandemic either, with the company forced to mitigate both supply chain delays and productivity impacts exacerbated by Government enforced restrictions and border closures.

Today, as the effects of the virus slowly subsides and confidence returns to our industry, Valmec continues to implement strategies to prime the business for FY21 to ensure that we continue to remain aligned to our clients' changing operational drivers during these turbulent times.

Valmec now enters FY21 with significant growth opportunities in all of its business streams, underpinned by a strong tender, opportunity pipeline, and growing diversification within its market sectors.

In particular, it is Valmec's exposure to both the water utility and resource infrastructure markets developed though a suite of highly complementary skill-sets within the Group, which will prove to build a level of highly resilient revenues for FY21 whilst core energy markets fully recover.

Revenue

Sales revenue for the year was $112 million, up marginally on the previous corresponding period, but below management expectations for the year. Key revenue shortfalls within our Energy projects division, were a direct result of project suspensions and delays by our clients who were immediately impacted by the collapse of global oil pricing. Valmec expects the majority of these projects to commence coming back on line later this calendar year aligned with a gradual recovery of the sector in general.

Valmec's Infrastructure division finalised its year with a strong order book for FY21 after also delivering increased revenues for the period, being highly leveraged to burgeoning resource sector expansions and water utility markets in Western Australia. Infrastructure revenues are expected to remain resilient within the short-term given the underlying strength in commodity pricing driving resource sector investment and increasing Government spending within public utilities during this period.

Energy Services revenues were also not immune from the dual impact of lower oil and gas prices, and COVID-19 restrictions during H2FY20, but with operations critical services essential for FY21 production, the majority of Valmec's clients have re-commenced, or plan to recommence their normal production operations during Q1 FY20.

Earnings

Underlying [1] Earnings before interest, tax, depreciation and amortisation (EBITDA) for the year was $5.8 million, a decrease of 28% on the previous corresponding period.

EBITDA recovery of 5.1% from normal operations was principally attributable to COVID-19 impacts during H2FY20, which included:

- Client supply chain issues resulting in delays on various projects;
- Project productivity issues due to travel restrictions and increased COVID-19 compliance requirements;
- Prolonged early contractor involvement activities due to client delays in contract awards; and
- Temporary deferrals to planned service activities as clients delayed discretionary maintenance and shutdown programmes until FY21.

Valmec expects EBITDA to strengthen during FY21 with total revenues expected to return to pre-COVID-19 levels, underpinned by an expanding pipeline of infrastructure and resource led gas construction opportunities, recovery of service revenues and further development of the Group's Asset Services strategic initiatives. After intangible asset impairments of $1.1 million, reported net profit after tax (NPAT) for the year was $0.214 million. (FY2019: $3.5 million).

[1]*Underlying EBITDA before John Holland litigation costs of $708K fully written off during FY20.*

Balance Sheet

Delays to energy projects and services contracts during H2FY20 coupled with a significant ramp up in infrastructure construction activity during Q4, impacted short-term working capital requirements moving into FY21. With Services revenues expected to recover during Q1 FY21 along with forecast growth in larger project activity, cash reserves are expected to gradually strengthen due to margin realisation and recurring revenue contributions.

Net assets of the consolidated group are at $30.1 million, consistent with prior years after asset impairments and John Holland legal costs of $0.708 million.

Net Tangible Asset backing of 22.4c has increased from the prior year (FY2019: 21c).

Safety

Importantly, Valmec's HSE performance has remained resilient during FY20 and with employee growth peaking at over 400 during the year, it was pleasing to observe that our underlying safety culture and systems remained robust.

During the year, Valmec also achieved Federal Safety Accreditation status, a significant milestone for the Company and also testament to the quality of processes and systems supporting its operations. Valmec finishes the financial year with a recorded TRIFR (total recordable injury frequency rate) of 0.55 as at 30 June 2020, consistent with prior years.

The Company also continued to preserve its recorded LTIFR (lost time injury frequency rate) of zero after circa 3,200 days or over 3.1 million hours without a lost time injury.

Operations and Outlook During the Year

Notwithstanding the COVID-19 macro-environment conditions during H2FY20, Valmec continued to leverage its growing suite of execution capabilities to deliver value to its core sectors, energy, resources and water infrastructure during the year.

It was the Company's diversified infrastructure markets that helped mitigate some of the impacts of COVID-19, with re-occurring water utility service contracts and resource construction activities within the Northern Territory, providing resilience of revenues during this period. This resilience of infrastructure revenues is expected to continue into FY21.

From an energy perspective in FY21, current economic conditions are also driving greater focus on the importance of gas to the Australian economy. The Federal Government is driving a gas-led recovery in manufacturing to power Australia's way out of COVID-19, whilst also looking to gas as the best transition fuel to meet future emissions strategies. During the year, Arrow Energy (Shell / PetroChina) also announced the first phase of their $10B development of their Surat Basin assets, which, aligning with expected east coast gas shortfalls in 2023, should drive more short-term development spending impetus across the sector.

- Moving into FY21, Valmec continues to experience growth in its tender pipeline as well as extend its footprint within resource infrastructure projects, leveraging burgeoning gold sector expansions across both Western Australia and Northern Territory. These markets are also underpinning non-civil focused mining opportunities for Valmec such as dewatering, water treatment, power generation and gas infrastructure scopes, which are well aligned to Valmec's core capabilities in this space.

- With the Energy sector advancing into an extended operations cycle to support Australian LNG within a constrained macro-pricing environment, Valmec's key focus during FY21 will be on expanding its existing capabilities to deliver full asset lifecycle services to its markets. The Valmec mandate for its clients, will be to provide lower total cost of ownership solutions through a unique and integrated sole source offering, whilst opening up a suite of new revenue opportunities for Valmec.

- During the year, Valmec was appointed as a Platinum Tier Gas Compression provider for INNIO Waukesha, a key OEM provider of compression equipment for the Australian gas industry. As an authorised regional representative, the Valmec service offering to clients is now able to encompass direct access to new Waukesha® products and specialised support, whilst also being able to access a greater suite of new sales and service opportunities within the region.

- During the year, Valmec continued to deliver Australia's first hydrogen production facility and largest renewable gas project for Australian Gas Infrastructure Group (AGIG). Valmec is excited to be an early player in what is considered an emerging industry and a key part of the Australian Government carbon emissions strategy for 2030.

- Valmec's action against John Holland continues in the Supreme Court and during FY20, the Company completed and filed its Independent Expert's Reports in relation to its claims. Following the filing of these Reports, there are now Supreme Court Orders in place which requires John Holland to file its responding Independent Experts Report in a timely manner during FY21. All costs associated with progressing the action have been expensed during year.

- Key construction and service contracts undertaken during the 2020 financial year include the following:

  - Facility construction works for Jemena on its Atlas Gas Pipeline Project in South West Queensland [$28 million];
  - Ongoing Engineering, Procurement and Construction (EPC) works for Australian Gas Infrastructure Group ("AGIG") to deliver Australia's first hydrogen production facility in Tonsley, South Australia [$5 million];
  - Infrastructure construction works for Newmont Goldcorp on their Tanami Expansion 2 (TE2) Project in the Northern Territory [$15 million];
  - Infrastructure construction and services works for Water Corporation's metropolitan and regional Western Australian facilities [$16 million];
  - Infrastructure and services works for IPL as part of the APAC Fuel Phase Manufacturing Project in Queensland [$5 million];
  - Maintenance services with Origin Energy Resources Limited for the APLNG Project [$10 million];
  - Daandine Pump Station construction for Arrow Energy in the Surat Basin, Queensland [$3 million];
  - Compression equipment overhaul, testing, commissioning, compression and maintenance services for APA Group's Sole Orbost Project in Victoria [$6 million];
  - Testing and Inspection works for BP Bulwer as part of its Molum Terminal Project in Queensland [$1.5 million];
  - Testing, Inspection and ILI services for BHP as part of its 2019 shutdown at its KNR facility in Western Australia [$2.4 million].

Valmec enters FY21 with an Order Book of circa $74 million and a strong pipeline of construction and service opportunities worth over $600 million. Valmec's Infrastructure and upstream energy services markets are also set to grow significantly during the next twelve months, allowing the Company to continue its upward earnings trajectory during FY21.

Through the myriad of COVID-19 restrictions and travel isolation requirements imposed on our operations during FY20, our loyal and committed employees have remained resilient, demonstrating both vigilance and adaptability whilst also ensuring safe, efficient quality services to our clients at all times. Valmec also recognises the contributions that our families have made during this time, providing our teams with invaluable support whilst, having to endure extended periods away from their loved ones.

Thank you to all our staff and our families for your ongoing support and hard work during a challenging year, having laid the foundation for the Company to come out of FY20, stronger than ever.

- *Construct*
- *Commission*
- *Maintain*

ENERGY & INFRASTRUCTURE

$73.5M
FY20 Revenues

$600M
Tender Pipeline

Valmec provides in-house engineering and trade resources to fully self-execute earthworks, civil, structural, mechanical, piping, electrical and instrumentation construction scopes.

Our clients' requirements range from fit for purpose commercial and industrial installations, through to engineered large scale, and technically complex projects.

OUR PROJECTS

Valmec is proud to be involved in the largest renewable gas project in Australia, a first of its kind - which will assist with the development of the hydrogen economy in Australia.

With a contract value of circa $5 million, Valmec was engaged by Australian Gas Infrastructure Group (AGIG) to provide Engineering, Procurement, and Construction (EPC) at **Hydrogen Park SA (HyP SA)**, located at Tonsley Innovation District, in SA.

With the facility set to be operational later this year, AGIG will be able to produce renewable hydrogen, for blending with natural gas, as part of a five-year (minimum) demonstration.

HYP SA PROJECT

1.25 MW
ELECTROLYSER

H_2

BLEND
W/ NATURAL GAS

100%
RENEWABLE HYDROGEN

ENERGY PROJECTS

APAC FUEL PHASE MANUFACTURING
Moranbah, QLD

Valmec was contracted by Incitec Pivot Limited to upgrade the emulsion plant facilities in Moranbah, Queensland for the APAC Fuel Phase Manufacturing Project.

Scope of works included earthworks, concrete, fabrication, supply, and installation of structural steel and piping, fuel tanks, and associated equipment. Valmec's electrical scope consisted of the supply and installation of electrical cabling, instrumentation, and equipment, as well as undertaking pre-commissioning activities.

The project was completed in March 2020.

YOUNG WAGGA COMPRESSOR STATION
Young, NSW

Valmec was chosen as a lead contractor to undertake modification works to APA's Young Wagga Compressor Station and Young Hub, to facilitate increased southbound winter capacity of gas.

The works comprised civil and earthworks, offsite fabrication and on-site installation of structural, mechanical and piping scope, as well as undertaking electrical, instrumentation and pre-commissioning activities required for the upgrade of the Compressor Station Facility.

Valmec personnel were also engaged to undertake commissioning activities, preparing for the successful start-up of the plant in May 2020.

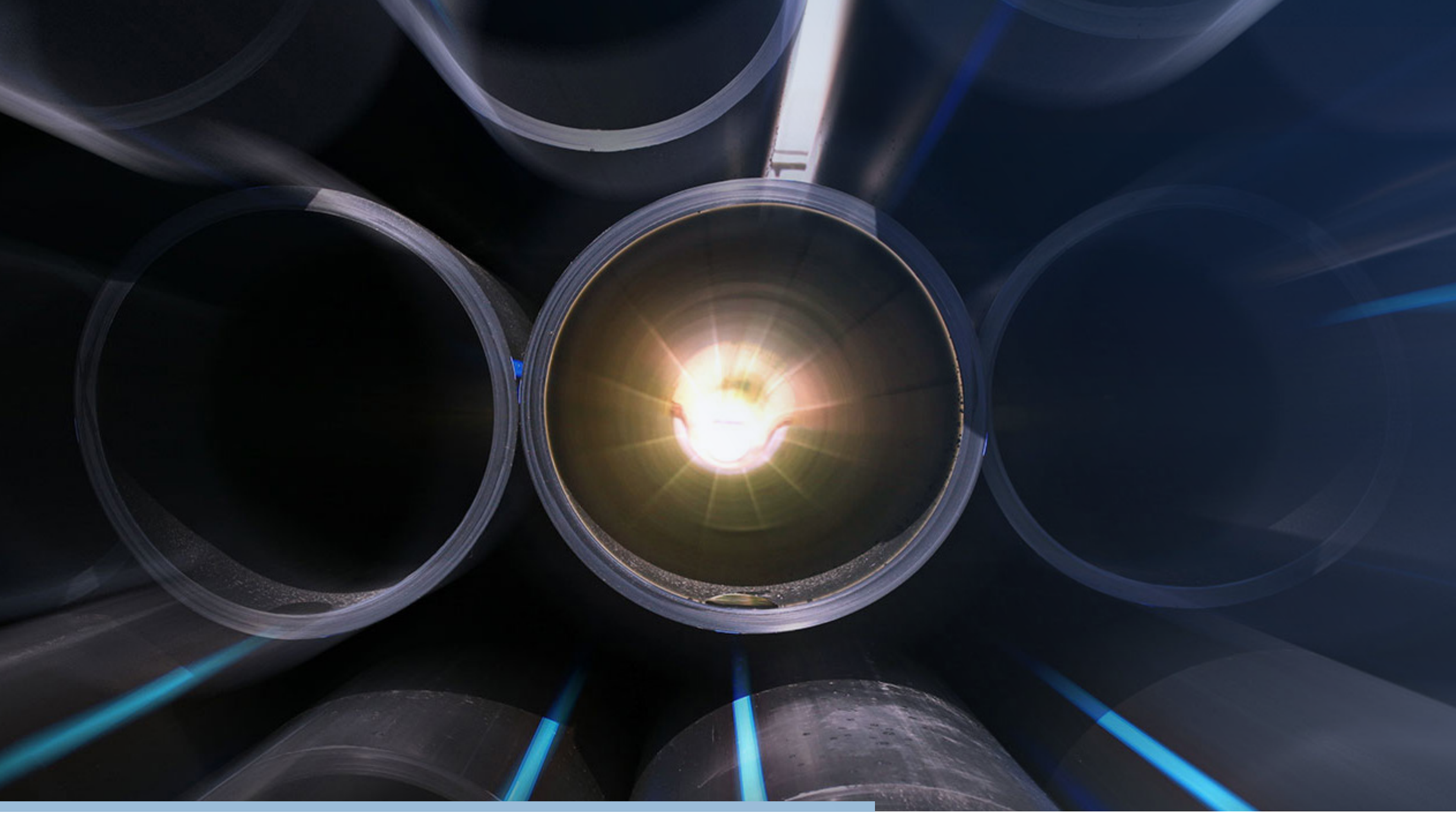
PGP PIG TRAP UPDATE
Milo, WA

Valmec was contracted by APA Group, to install a new pig launcher, for the Parmelia Gas Pipeline (PGP) upgrade, at the Mondarra Gas Storage Facility connection.

The scope of works included supply of all civil, structural and piping materials.

Valmec successfully executed the works around APA's legacy assets without loss of operation, integrity to the pipeline, and without incident.

The project was completed in April 2020.



PIPES FOR PERTH

Valmec has been working with Water Corporation over the last 3 years to deliver its **Pipes for Perth** water main renewal programme.

The scope of Valmec's services includes upgrading and replacing Water Corporation's existing pipeline assets throughout the Perth metropolitan area.

Valmec is proud to be associated with Water Corporation's water main renewal programme, improving the security and reliability of Perth's water supply.

REPLACING

AGEING WATER PIPES

IMPROVES

THE SECURITY AND RELIABILITY OF PERTH'S WATER SUPPLY

INFRASTRUCTURE PROJECTS

BOX CUT & SUB BRACE CONSTRUCTION
Tanami, NT

Off the back of another successful delivery for valued client Newmont, Valmec was awarded the construction of the new mineshaft box cut and sub brace foundation for the Tanami Expansion 2 (TE2) Project.

The works involved excavation to a depth of 15m before forming and pouring more than 1500 cubic meters of concrete, as the base of the new shaft headframe. This project was one of the largest concrete structures Valmec has ever delivered.

Our team have successfully achieved all milestone timelines to date, with completion scheduled for February 2021.

SHENTON PARK PUMP TEST FACILITY
Perth, WA

Valmec was proud to be a part of the Shenton Park Upgrade Project, for valued client Water Corporation.

Valmec was contracted to design and construct a Bore Pump and PRV testing facility, which would accommodate the testing of bore pumps ranging from 0 to 315kW. The facility would allow the client to rebuild bore pumps, and test refurbished pumps, ensuring that they are fully operational.

This first-class test facility was successfully completed by our team in July 2020.

ARROW ENERGY WATER PUMP STATION
Daandine, QLD

Valmec was engaged by Arrow Energy to construct two new water pump stations at a treated water dam in Daandine, 35 kilometres west of Dalby, Queensland.

Our team demolished the existing infrastructure, provided temporary pumping facilities, then procured and constructed a new pumping infrastructure for the dam. The project was completed in May 2020.

The dam houses water extracted from Arrow's nearby gas fields, which then serves as feedlot water, supplied to a Dalby feedlot operator and local landholders.

ASSET SERVICES

$38.4M
FY20 Revenues

Valmec's Asset Services capabilities are broad and extend to:

Supply of OEM parts and equipment for maintenance and repair of oil and gas engines, and equipment.

APTS supplies Inspection and Asset Testing services comprising of Non-Destructive Testing (NDT), Pressure Testing, Pre-commissioning, Chemical Cleaning, and Flange Management.

We hold Long Term Service Agreements (LTSA) with major oil and gas companies, providing increased visibility service revenues, and leveraging of additional construction opportunities.

ASSET SERVICES CONTRACTS

Valmec continues to grow its future reoccuring revenue streams for FY20, servicing current, and new asset services contracts for energy and resource producers across Australia.

ORIGIN ENERGY LTSA FOR APLNG
Spring Gully, QLD

Valmec continues to service its Long Term Services Contract with Origin Energy Resources Limited on behalf of the Australia Pacific LNG Joint Venture, (APLNG) Project.

Since the contract's inception in 2016, Valmec has provided specialist technicians, equipment and parts, within its preventative and corrective maintenance service scope, as well as delivered brownfield construction services to the APLNG Project's upstream gas compression and power generation assets, located in South West Queensland.

SANTOS WAUKESHA OVERHAUL
Fairview, QLD

Valmec Services was awarded an important contract for work on the Santos Fairview site for their legacy compression assets (including a Waukesha P9390 GSI, Ariel Reciprocating Compressor, a swing engine, and Ariel Compressor).

The overhauls are an integral part of our client's maintenance operations – our team conducted rigorous evaluations, whilst also meeting strict operational standards. Overhauls assures “like new” performance and durability of the assets, which will maximise performance and uptime in the long-run, delivering value for our client.

BEACH ENERGY MGSA
Beharra Springs, WA

Valmec Services has entered into a 5-year Master Goods and Services Agreement (MGSA) with Beach Energy for the Beharra Springs Gas Plant (BSGP) in the Perth Basin. The first project to be undertaken under the MGSA, will be the restaging of 2 gas compressors at the BSGP.

The restaging work on both units will be carried out together, with the 8000-hour engine and compressor service programme.

ASSET SERVICES CONTRACTS

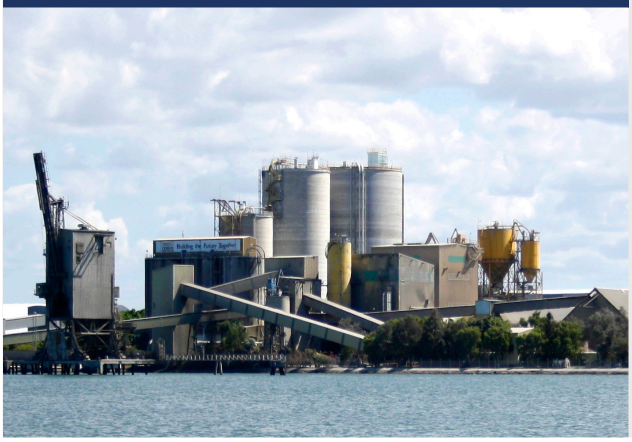
ORBOST PLANT UPGRADE
Newmerella, VIC

APTS was awarded the Orbost Gas Plant Upgrade contract, for valued client Downers Group, at the Orbost Gas Plant in regional Victoria.

Works included hydro testing, chemical cleaning, PSV certification and pre-commissioning for the new hydrogen sulphide treatment facility, thermal oxidiser and bioreactor tanks, along with the relocated flare, upgraded original plant, and modifications works.

The plant is now fully operational, with the capacity to deliver up to 68 terajoules of natural gas per day into the East Coast Gas Grid, which is equivalent to approximately 12 per cent of the current demand in Victoria.

BP MOLUM TERMINAL PROJECT
Bulwer Island, QLD



Earlier this year, APTS Pty Ltd was awarded the Molum Terminal Project for valued client BP, on the Bulwer Island Refinery in Queensland. The Project encompassed bringing decommissioned piping systems back into service with a project scope that included welding, NDT, pigging, cleaning, testing, ILI, and commissioning works.

APTS successfully delivered this project by combining our deep expertise, along with the support and experience from Valmec's Energy and Infrastructure teams.

Even through COVID-19 border closures, our team's efforts allowed successful delivery of project works within critical timelines, bringing BP's decommissioned facility back to life.

KWINANA NICKEL REFINERY SHUTDOWN
Kwinana, WA

APTS Pty Ltd was awarded a contract by BHP Kwinana Nickel Refinery for Testing, Inspection, and Industrial Services during its September 2019 shutdown.

The works included; NDT, Plant Inspection, Hydro Testing, In-line Inspection, and Chemical Cleaning services.

After working with the client on scheduling, our APTS team was able to safely and successfully complete the scope of works within the client's time frame. Our client was impressed with the team's flexibility during the compressed schedule, seamlessly dealing with any challenges presented, during more than 11K hours of incident-free works.

FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020

Valmec Limited

ABN 94 003 607 074

Appendix 4E &
Financial Report for the
Year Ended 30 June 2020

APPENDIX 4E
FOR THE YEAR ENDED 30 JUNE 2020

Appendix 4E – Preliminary Final Report For The Year Ended 30 June 2020

Results for Announcement to Market

	2020	2019	
Key Information	**$000**	**$000**	**% Change**
Revenue from ordinary activities	112,017	110,162	1.68%
Profit after tax from ordinary activities attributable to members	214	3,535	(93.95%)
Net profit attributable to members	214	3,535	(93.95%)

Dividends Paid and Proposed	Amount per Security	Franked Amount per Security at 30% of Tax
Ordinary shares:		
2020 final – nil	0.000	-

Explanation of Key Information and Dividends

Refer to the accompanying directors' report.

Statement of Profit or Loss and Other Comprehensive Income with Notes to the Statement

Refer to page 39 of the 30 June 2020 financial report and accompanying notes for Valmec Limited.

Statement of Financial Position with Notes to the Statement

Refer to page 40 of the 30 June 2020 financial report and accompanying notes for Valmec Limited.

Statement of Cash Flows with Notes to the Statement

Refer to page 42 of the 30 June 2020 financial report and accompanying notes for Valmec Limited.

Dividend Details

There was no dividends paid during the current or prior year.

Dividend Reinvestment Plan

There was no dividend reinvestment plan in operation which occurred during the financial year.

Net Tangible Assets per Share	2020	2019
	$	**$**
Net tangible assets per share*	0.22	0.21

*Net tangible assets per share accounting for the adoption of the new leasing standard (AASB16) for FY20 is $0.18.

Investment in Associates and Joint Ventures

There are no associates or joint venture entities.

Commentary on the Results for the Period

Refer to the commentary on the results for the period contained in the "Review of Operations" included within the operating and financial review section of the annual report.

Status of Audit

The 30 June 2020 financial report and accompanying notes for Valmec Limited have been audited and are not subject to any disputes or qualifications. Refer to page 80 of the 30 June 2020 financial report for a copy of the auditor's report.

Loss or gain over entries

None.

DIRECTORS' REPORT

Definitions

For the purposes of this report:

Valmec Limited or Listed Entity or the Company means only the legal entity of Valmec Limited, which is listed on the Australian Stock Exchange (ASX: VMX).

Valmec Group means Valmec Limited and all its subsidiaries. The Consolidated group or Group means the Valmec Group.

Your directors present their report on the consolidated group (referred to herein as the Group) consisting of Valmec Limited (referred to hereafter as the "company" or "parent entity") and its controlled entities for the financial year ended 30 June 2020. The information in the preceding operating and financial review forms part of this directors' report for the financial year ended 30 June 2020 and is to be read in conjunction with the following information:

General Information

Directors

The following persons were directors of Valmec Limited during or since the end of the financial year up to the date of this report:

- Stephen Zurhaar – Non-executive Chairman
- Steve Dropulich – Managing Director
- Stephen Lazarakis – Non-executive Director
- Peter McMorrow – Non-executive Director (appointed on 1 November 2019)
- Vincent Goss – Non-executive Director (retired on 31 December 2019)

Principal Activities

VALMEC Limited is a diversified energy and infrastructure services group providing equipment, construction, commissioning, maintenance and asset integrity services to the oil and gas, resources and infrastructure sectors throughout Australia.

The principal activities of the consolidated entity during the financial year were:

- Gas Compression and Processing;
- Process Services Engineering, Procurement and Construction;
- Infrastructure Service Construction;
- Petrochemical and Mining Fabrication;
- Electrical and underground services;
- Asset Preservation, Service and Maintenance
- Asset Integrity and Inspection Services.

Valmec operates from offices in Perth, Adelaide, Sydney, and Brisbane, with regional workshop facilities in Roma (QLD).

Significant Changes to Activities

No significant changes in the nature of the consolidated entity's principal activities occurred during the financial year.

Dividends Paid or Recommended

In respect of the financial year end 30 June 2020, no dividend has been paid (2019: $Nil).

Indemnifying Officers or Auditor

During the financial year, the Company paid a premium in respect of a contract insuring the directors of the Company (as named above), the company secretary, and all executive officers of the Company and of any related body corporate against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

Proceedings on Behalf of Company

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

The company was not a party to any such proceedings during the year.

Non-audit Services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 8 to the financial statements.

The board of directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services outlined in Note 8 do not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

Auditor

RSM Australia Partners continues in office in accordance with section 327 of the Corporations Act 2001.

Performance rights

At the date of this report, the unissued ordinary shares of Valmec Limited under performance rights are as follows:

Grant Date	Date of Expiry	Exercise Price	Number under Option
30/11/2015	30/11/2020	$nil	122,118
31/08/2017	31/08/2022	$nil	222,750
29/11/2019	29/11/2024	$nil	633,802
01/11/2019	31/10/2022	$nil	103,448
			1,082,118

Performance rights holders do not have any rights to participate in any issues of shares or other interests in the company or any other entity.

There have been no performance rights granted over unissued shares or interests of any controlled entity within the Group during or since the end of the reporting period.

For details of performance rights issued to directors and executives as remuneration, refer to the remuneration report.

Options

At the date of this report, the unissued ordinary shares of Valmec Limited under option are as follows:

Grant Date	Date of Expiry	Exercise Price	Number under Option
30/11/2015	30/09/2020	$0.30	330,861
31/08/2017	31/06/2022	$0.30	544,500
			875,361

Option holders do not have any rights to participate in any issues of shares or other interests in the company or any other entity.

There have been no options granted over unissued shares or interests of any controlled entity within the Group during or since the end of the reporting period.

For details of options issued to directors and executives as remuneration, refer to the remuneration report.

Shares issued on the exercise of options

Nil ordinary shares of Valmec Limited were issued during the year ended 30 June 2020 and up to the date of this report on the exercise of options granted.

Rounding of Amounts

The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Events after the Reporting Period

The impact of the Coronavirus (COVID-19) pandemic is ongoing, and it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

Other than the above, there have been no other matters or circumstances occurring subsequent to the end of the financial year 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.

Environmental Issues

The Group's operations are subject to a range of environmental regulations. During the financial year, Valmec Limited and its subsidiaries met all reporting requirements under any relevant legislation. There were no incidents which required reporting.

Future Developments, Prospects and Business Strategies

Other than as referred to in this report, further information as to likely developments in the operations of the consolidated entity would, in the opinion of the directors, be likely to result in unreasonable prejudice to the consolidated entity.

Officers of the company who are former partners of RSM Australia Partners

There are no officers of the company who are former partners of RSM Australia Partners.

Information Relating to Directors and Company Secretary

Stephen Zurhaar	Non-Executive Chairman
Qualifications	Fellow of the Australian Institute of Company Directors and a Certified Practicing Accountant.
Experience	Stephen Zurhaar is the Chairman and founder of the Z Corp Group of Businesses and Executive Director of Core Equities Pty Ltd. Stephen was also one of the Founders of the HVAC/HPS Group of Companies and from the Group's inception up to its sale to Enerflex Ltd (a TSX listed Public Company) in 2005, was actively involved in its executive management, holding different key roles such as Finance Director, CEO and ultimately Chairman. Stephen was pivotal in negotiating the successful transactions with Enerflex Ltd and with ANZ Private Equity in their purchase of HVAC Construction QLD Pty Ltd. He now consults on strategic and change management for SMEs and Private Equity Groups.
Interest in Shares	20,515,000
Interest in Options	Nil
Special Responsibilities	Member of remuneration committee, nomination committee, audit and risk committee and mergers and acquisition committee.
Directorships held in other listed entities during the three years prior to the current year	None.

Steve Dropulich	Managing Director
Qualifications	Steve is a Chartered Accountant and member of the Australian Institute of Company Directors.
Experience	Steve most recently held the role of Managing Director/ Vice President of the Enerflex Australasia Group, a multi-discipline Engineering, Construction, Supply and Service organisation servicing the Oil, Gas and Mining Sectors. The Enerflex Australasia Group grew to over 500 employees and annual revenues of over $300m during Steve's tenure; making it the second largest Regional operation for a TSX listed Company, Enerflex Limited, outside North America.
Interest in Shares	6,579,779
Interest in Options	875,361
Interest in performance rights	978,670
Special Responsibilities	Member of mergers and acquisition committee.
Directorships held in other listed entities during the three years prior to the current year	None.

Stephen Lazarakis	Non-Executive Director
Qualifications	Bachelor of Mechanical Engineering.
Experience	Mr Lazarakis brings over 30 years of experience in the Heavy Engineering Industry. He was also the Founder and Managing Director of HVAC Queensland Pty Ltd, a company specialising in Complex Industrial and Mechanical contracting services to the Queensland market, until the company's acquisition by ANZ Capital in 2010. Having resided in Queensland for over twenty years, Mr Lazarakis has developed a strong track record in the local engineering industry within its Gas, Resources, Infrastructure and Commercial sectors. Stephen retains a commitment to working with Queensland based organisations by providing the guidance and support required to ensure the development of business principles which incorporate a high level of corporate governance and ethical standards.
Interest in Shares	17,236,444
Interest in Options	Nil
Special Responsibilities	Member of audit and risk committee.
Directorships held in other listed entities during the three years prior to the current year	None.

Peter McMorrow	Non-Executive Director
Qualifications	Bachelor of Mechanical Engineering.
Experience	Mr McMorrow has over 40 years' project and executive experience and is a respected leader in the infrastructure and resources industries. Encompassing a wide variety of large and complex infrastructure projects both overseas and within Australia, his industry knowledge extends to all facets of engineering, project identification, winning and delivery as well as management of dynamic, profitable and long lasting business operations. Mr McMorrow was Managing Director of Leighton Contractors from 2004 to 2010. Under his guidance, Leighton Contractors expanded considerably with turnover increasing to over $5 billion and the workforce increasing fourfold to approximately 10,000 employees. He also currently serves as Chairman of the Board for SRG Global Limited.
Interest in Shares	358,326
Interest in Options	Nil
Interest in Performance Rights	103,448
Special Responsibilities	Member of remuneration and nomination committee.
Directorships held in other listed entities during the three years prior to the current year	SRG Global Limited.

Vincent Goss	Non-Executive Director (Retired on 31 December, 2019)
Qualifications	Officer Fellow of the Institution of Engineers Australia and also holds a Builders Registration accreditation in Western Australia.
Experience	Vincent Goss was one of the founders of the HVAC/HPS Groups of Companies in 1988, originally holding the role of Construction Director through to his latest role as Group Managing Director during the group's transaction with the Enerflex Australasia Group. A Civil Engineer with over 35 years' experience in multidiscipline services, Vincent is able to provide businesses with specialist skills in tender design, quality assurance/quality control, safety and environmental systems.
Interest in Shares and Options	Not applicable as no longer a director.
Special Responsibilities	Not applicable as no longer a director.
Directorships held in other listed entities during the three years prior to the current year	Not applicable as no longer a director.

Harveer Singh	Company Secretary and Chief Financial Officer
Qualifications	Certified Practicing Accountant.
Experience	Over 20 years of experience in the areas of financial and commercial management gained over various industries ranging from mining services, logistics and manufacturing. He has combined his financial ability with strong sense of commercial acumen to provide businesses with commercial guidance and financial stewardship. Qualified as a Certified Practising Accountant (CPA) and he holds a Bachelor of Commerce degree.
Interest in Shares	90,316
Interest in Options	Nil
Special Responsibilities	Member of mergers and acquisition committee.
Directorships held in other listed entities during the three years prior to the current year	None.

Meetings of Directors

During the financial year, five meetings of directors, one remuneration and two audit meetings were held. Attendances by each director during the year were as follows:

	Full meetings of directors		Meets of Committee			
			Audit & Risk		Remuneration	
	Held	Attended	Held	Attended	Held	Attended
Stephen Zurhaar	5	5	2	2	1	1
Steve Dropulich	5	5	-	-	-	-
Vincent Goss[1]	5	1	-	-	-	-
Peter McMorrow	5	3			1	1
Stephen Lazarakis	5	5	2	2	-	-

[1] Retired on 31 December 2019.

REMUNERATION REPORT
(AUDITED)

The remuneration report details the key management personnel remuneration arrangements for the consolidated entity, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly, or indirectly, including all directors.

Remuneration Policy

This remuneration report, which forms part of the directors' report, sets out information about the remuneration of Valmec Limited's directors and its senior management for the financial year ended 30 June 2020.

The prescribed details for each person covered by this report are detailed below under the following headings.

- Remuneration policy for directors and senior executives
- Performance based remuneration
- Company Performance, Shareholder Wealth and Directors' and Executives' Remuneration
- Employment Contracts of Directors and Senior Executives
- Elements of Directors and executive remuneration

Remuneration Policy for Directors and Senior Executives

The remuneration policy of Valmec Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific short-term and long-term incentives based on key performance areas affecting the consolidated group's financial results. The board of Valmec Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the consolidated group, as well as create goal congruence between directors, executives and shareholders.

The board's policy for determining the nature and amount of remuneration for board members and senior executives of the consolidated group is as follows:

All executives receive a base salary (which is based on factors such as technical qualifications, experience, industry benchmarking), superannuation, and performance incentives.

The remuneration committee reviews directors and executives packages annually and makes recommendation in line with markets and industry norms.

The performance of executives is measured against criteria agreed annually with each executive and is based predominantly on the consolidated group's profits and shareholders' value. All bonuses and incentives are linked to predetermined performance criteria. The board may, however, exercise its discretion in relation to approving incentives and bonuses and can make changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Participants in the company's equity based remuneration schemes are not permitted to enter into transactions which limit the economic risk of participating in the scheme.

The executives receive a superannuation guarantee contribution required by the government, which is currently 9.50% of base salary up to a legislated maximum, and do not receive any other retirement benefits. Individuals can choose to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to directors and executives is valued at the cost to the Company and expensed.

The board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The remuneration and nominations committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting and is presently set at an aggregate of $500,000 per annum. Fees for non-executive directors are not linked to the performance of the consolidated group. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company.

Voting and comments made at the company's 2019 Annual General Meeting ('AGM')

At the 2019 AGM, 98.82% of the votes received, supported the adoption of the remuneration report for the year ended 30 June 2019. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

Performance Based Remuneration

The Company has two types of Performance Based Remuneration – Short Term Incentives (STI) and Long Term Incentives (LTI). STIs are payable in cash. Outcomes are based on Valmec's financial and operational performance over the financial period, in addition to individual performance measures. Part of the Company's LTIs which may form part of an Executive's package includes the issue of Performance Rights that are subject to the satisfaction of performance hurdles. These LTI instruments are issued to Management for the purposes of aligning their interests with those of shareholders by rewarding long term sustainable shareholder value creation. For the LTI plan, outcomes are based on Earnings per share (EPS) measures.

Company Performance, Shareholder Wealth and Directors' and Executives' Remuneration

The remuneration policy has been tailored to increase goal alignment between shareholders and directors and executives. The total remuneration packages for Directors and Executives may include a combination of the following:

(i) Fixed component – Base salary including superannuation. This is expressed as a specific amount that the executive may take in a form agreed with the Company and is determined based on market reference, the scope and nature of the individual's role, their performance and experience.

(ii) At risk components – The Board considers that the financial and operational performance and prospects of the Company are strongly linked to creating shareholder wealth. Accordingly, the Board has put in place at-risk components to remuneration based on success in delivering on pre-defined targets. At-risk components are in the form of:

a. Short Term Incentive (STI) – payable in cash. Outcomes are based on Valmec's financial and operational performance over the financial period, in addition to individual performance measures;

b. Long Term Incentives (LTI) – may include the issue of Performance Rights that are subject to the satisfaction of performance hurdles. These LTI instruments are issued to Executives for the purposes of aligning their interests with those of shareholders by rewarding long term sustainable shareholder value creation. For the LTI plan, outcomes are based on Earnings Per Share (EPS) measures.

The Company believes this policy will be effective in increasing shareholder wealth over the coming years.

Employment Contracts of Directors and Senior Executives

The employment contracts typically stipulate 1 month resignation periods other than the Managing Director. The Company may terminate the Managing Director's employment contract without cause by providing 3 months written notice, and at the end of that notice period, make a payment equal to the salary payable over a 3 month period. The Company may also at its sole discretion terminate an employment contract immediately by making a payment equal to the salary for the relevant period of notice. There are no employment contracts relating to Non-Executive Directors or the Company Secretary other than those outlined above.

Performance Income as a Proportion of Total Remuneration

The Company issued equity securities as part of performance income during the year, as detailed in the tables below for certain Directors and Specified Executives.

Employment Details of Members of Key Management Personnel

The following table provides employment details of persons who were, during the financial year, members of KMP of the consolidated entity. The table also illustrates the proportion of remuneration that was performance and non-performance based and the proportion of remuneration received in the form of options, performance rights and SARs.

30 June 2020	Position Held and Change during the Year	Contract Details (Duration & Termination)	LTI Proportions of Elements of Remuneration Related to Performance Non-salary cash-based incentives	Shares/Units	SARs/ Options/ Rights	Fixed remuneration Proportions of Elements of Remuneration Not Related to Performance Fixed Salary/ Fees	Total
			%	%	%	%	%
Group KMP							
Stephen Zurhaar	Non-Executive Chairman	N/A	-	-	-	100%	100%
Steve Dropulich	Managing Director	N/A	-	-	15%	85%	100%
Vincent Goss*	Non-Executive Director	N/A	-	-	-	100%	100%
Peter McMorrow	Non-Executive Director	N/A	-	-	-	100%	100%
Stephen Lazarakis	Non-Executive Director	N/A	-	-	-	100%	100%
Harveer Singh	Chief Financial Officer & Company Secretary	N/A	1%	-	-	99%	100%
Mushfiq Rahman**	Executive General Manager	N/A	1%	-	-	99%	100%

* Resigned on 31 December 2019.

** Appointed on 25 May 2020.

30 June 2019							
			%	%	%	%	%
Group KMP							
Stephen Zurhaar	Non-Executive Chairman	N/A	-	-	-	100%	100%
Steve Dropulich	Managing Director	N/A	-	-	10%	90%	100%
Vincent Goss	Non-Executive Director	N/A	-	-	-	100%	100%
Peter Iancov*	Non-Executive Director	N/A	-	-	-	100%	100%
Stephen Lazarakis	Non-Executive Director	N/A	-	-	-	100%	100%
Harveer Singh	Chief Financial Officer & Company Secretary	N/A	1%	-	-	99%	100%

* Resigned on 15 March 2019.

Remuneration Expense Details for the Year Ended 30 June 2020 and 30 June 2019

The following table of benefits and payments represents the components of the current year and comparative year remuneration expenses for each member of KMP of the consolidated entity. Such amounts have been calculated in accordance with Australian Accounting Standards.

Table of Benefits and Payments for the Year Ended 30 June 2020 and 30 June 2019:

		Short-term Benefits				Post-employment Benefits		Long-term Benefits		Equity-settled Share-based Payments				
		Salary, Fees and Leave	Profit Share and Bonus	Non-monetary	Other	Super	Other	Incentive Plans	LSL	Shares /Units	Options/ Perfor-mance rights^#	Cash-settled Share-based Payments ^^#	Term Benefits	Total
		$	$	$	$	$	$	$	$	$	$	$	$	$
Group KMP														
Stephen Zurhaar	2020	95,385	-	-	-	9,061	-	-	-	-	-	-	-	104,446
	2019	100,000	-	-	-	9,500	-	-	-	-	-	-	-	109,500
Steve Dropulich	2020	404,371	-	1,510	-	25,000	-	-	-	-	72,665	6,064	-	509,610
	2019	400,000	-	-	-	25,000	-	-	-	-	41,654	7,170	-	473,824
Vincent Goss**	2020	30,923	-	-	-	2,938	-	-	-	-	-	-	-	33,861
	2019	60,000	-	-	-	5,700	-	-	-	-	-	-	-	65,700
Peter McMorrow ***^^^	2020	40,698	-	-	-	3,143	-	-	-	-	-	-	-	43,841
	2019	-	-	-	-	-	-	-	-	-	-	-	-	-
Peter Iancov*	2020	-	-	-	-	-	-	-	-	-	-	-	-	-
	2019	72,500	-	-	-	4,038	-	-	-	-	-	-	-	76,538
Stephen Lazarakis	2020	57,231	-	-	-	5,437	-	-	-	-	-	-	-	62,668
	2019	60,000	-	-	-	5,700	-	-	-	-	-	-	-	65,700
Harveer Singh	2020	290,179	-	1,988	-	25,000	-	-	-	-	-	-	-	317,167
	2019	295,000	22,500	2,222	-	25,000	-	-	-	-	-	-	-	344,722
Mushfiq Rahman ****	2020	24,769	-	143	-	2,353	-	-	-	-	-	-	-	27,265
	2019	-	-	-	-	-	-	-	-	-	-	-	-	-
Total KMP	2020	943,556	-	3,641	-	72,932	-	-	-	-	72,665	6,064	-	1,098,858
	2019	987,500	22,500	2,222	-	74,938	-	-	-	-	41,654	7,170	-	1,135,984

^Options and performance rights granted are expensed over the performance period.
^^SARs granted are expensed over the performance period.
^^^50% of fees are settled in share based payment.
#Equity/cash settled share-based payments as per Corporations Regulation 2M.3.03 (1) item 11. These include negative amounts for SARs, options and performance rights forfeited during the year (if any).
*Resigned as Non-Executive Director on the 15 March 2019.
**Retired on the 31 December 2019.
***Appointed on 1 November 2019.
****Appointed on 25 May 2020.

Share-based Compensation

Performance rights (PRs)

The terms and conditions of each grant of PRs over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

	Number of PRs granted	Grant date	Vesting date and exercisable date	Expiry date	Exercise price	Fair value per PRs at grant date
Name	No.	No.	No.	No.	No.	No.
Steve Dropulich	316,901	29/11/19	30/06/2022	29/11/2024	$nil	$0.1934
Steve Dropulich	105,634	29/11/19	30/06/2021	29/11/2024	$nil	$0.2950
Steve Dropulich	105,634	29/11/19	30/06/2022	29/11/2024	$nil	$0.2950
Steve Dropulich	105,633	29/11/19	30/06/2023	29/11/2024	$nil	$0.2950
Peter McMorrow	103,448	01/11/19	01/11/2020	31/10/2022	$nil	$0.2900

Additional disclosures relating to key management personnel

KMP Options

Details of options held by directors and key management personnel:

2020	Balance 1/07/2019	Received as remuneration	Acquired during the year	Expired during the year	Exercised during the year	Balance 30/06/2020
Directors	No.	No.	No.	No.	No.	No.
Steve Dropulich	875,361	-	-	-	-	875,361
Stephen Zurhaar	-	-	-	-	-	-
Vincent Goss	-	-	-	-	-	-
Peter McMorrow	-	-	-	-	-	-
Stephen Lazarakis	-	-	-	-	-	-
Executives						
Harveer Singh	-	-	-	-	-	-
Mushfiq Rahman	-	-	-	-	-	-
Total	**875,361**	**-**	**-**	**-**	**-**	**875,361**

KMP Shareholdings

Number of shares held by Company directors and key management personnel:

2020	Balance 1/07/2019	Received as remuneration	Option Exercised	Others*	Acquired during the year	Balance 30/06/2020
Directors	No.	No.	No.	No.	No.	No.
Steve Dropulich	6,404,390	-	-	-	175,389	6,579,779
Stephen Zurhaar	19,830,000	-	-	-	685,000	20,515,000
Vincent Goss*	15,486,126	-	-	(15,486,126)	-	-
Peter McMorrow	-	-	-	-	358,326	358,326
Stephen Lazarakis	17,036,444	-	-	-	200,000	17,236,444
Executives						
Harveer Singh	87,829	-	-	-	2,487	90,316
Mushfiq Rahman	-	-	-	137,532	-	137,532
Total	**58,844,789**	**-**	**-**	**(15,348,594)**	**1,421,202**	**44,917,397**

*At date of appointment or resignation.

KMP Share appreciation rights (SARs)

Details of SARs held by directors and key management personnel:

2020	Balance 1/07/2019	Received as Remuneration	Others*	Lapsed during the year	Balance 30/06/2020
Directors	No.	No.	No.	No.	No.
Steve Dropulich	260,127	-	-	-	260,127
Stephen Zurhaar	-	-	-	-	-
Vincent Goss*	-	-	-	-	-
Peter McMorrow	-	-	-	-	-
Stephen Lazarakis	-	-	-	-	-
Executives					
Harveer Singh	-	-	-	-	-
Mushfiq Rahman	-	-	-	-	-
Total	**260,127**	**-**	**-**	**-**	**260,127**

*At date of appointment or resignation.

KMP Performance rights (PRs)

Details of performance rights held by directors and key management personnel:

2020	Balance 1/07/2019	Received as Remuneration	Others*	Lapsed during the year	Balance 30/06/2020
Directors	No.	No.	No.	No.	No.
Steve Dropulich	344,868	633,802	-	-	978,670
Stephen Zurhaar	-	-	-	-	-
Vincent Goss*	-	-	-	-	-
Peter McMorrow	-	103,448	-	-	103,448
Stephen Lazarakis	-	-	-	-	-
Executives					
Harveer Singh	-	-	-	-	-
Mushfiq Rahman	-	-	-	-	-
Total	**344,868**	**737,250**	**-**	**-**	**1,082,118**

*At date of appointment or resignation.

Other Transactions with KMP and/or their Related Parties

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated. The following transactions occurred with related parties:

	2020
(i) Transactions with related parties:	**$000**
Lease liabilities – Tag Pty Ltd [1]	(3,931)
Right-of-use Asset – Tag Pty Ltd [1]	3,720
Interest expenses – Tag Pty Ltd [1]	298
Amortisation expense– Tag Pty Ltd [1]	531
Outgoing expense- – Tag Pty Ltd [1]	184

[1] Stephen Zurhaar and Stephen Lazarakis are directors and shareholders of Tag Pty Ltd.

Additional Information

The earnings of the consolidated entity for the five years to 30 June 2020 are summarised below:

	2020	2019	2018*	2017	2016
	$'000	$'000	$'000	$'000	$'000
Revenue	112,017	110,162	103,197	72,895	50,963
EBITDA	5,104	8,060	7,502	4,104	3,032
EBIT	1,637	6,004	5,440	3,007	1,692
Profit/(loss) after income tax	214	3,535	3,777	1,551	186
Underlying EBITDA	**5,812**	**8,060**	**4,888**	**4,104**	**3,032**

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

	2020	2019	2018*	2017	2016
	$'000	$'000	$'000	$'000	$'000
Share price at financial year end ($)	0.175	0.22	0.31	0.13	0.11
Total dividends declared (cents per share)	-	-	-	-	0.005
Basic earnings/(loss) per share (cents per share)	0.17	2.82	3.72	1.90	0.23
Underlying earnings/(loss) per share (cents per share)	0.73	2.82	1.20	1.90	0.23

Note: Underlying FY20 exclude $708,000 for legal expenses related to John Holland and FY18 excludes $2.6M Gain on APTS acquisition.

[End of Remuneration Report]

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

On behalf of the directors

....

Steve Dropulich, Managing Director
Dated: 27 August 2020

RSM

RSM Australia Partners

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Valmec Limited for the year ended 30 June 2020, 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.

RSM

RSM AUSTRALIA PARTNERS

TUTU PHONG
Partner

Perth, WA
Dated: 27 August 2020

STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2020

	Note	Consolidated 2020	2019
		$000	$000
Continuing operations			
Revenue	3	112,017	110,162
Cost of sales		(95,159)	(90,157)
Gross profit		16,858	20,005
Other income	3	168	258
Depreciation and amortisation expense		(3,467)	(2,056)
Employee benefits expense	4	(7,510)	(7,693)
Finance costs		(1,297)	(1,126)
Occupancy expenses		(805)	(1,908)
Professional fees		(1,167)	(671)
Other expenses	5	(2,441)	(1,931)
Profit before income tax from continuing operations		339	4,878
Income tax expense	6	(125)	(1,343)
Profit after income tax from continuing operations		214	3,535
Other comprehensive income		-	-
Total comprehensive income for the year		214	3,535
Earnings per share			
Basic earnings per share (cents)	9	0.17	2.82
Diluted earnings per share (cents)	9	0.17	2.82

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

	Note	Consolidated 2020	2019
		$000	$000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	10	3,425	3,815
Trade and other receivables	11	11,392	15,918
Contract assets	12	22,916	16,578
Inventories	13	7,754	7,133
Other assets	14	597	575
TOTAL CURRENT ASSETS		46,084	44,019
NON-CURRENT ASSETS			
Property, plant and equipment	16	9,223	10,359
Right-of-use assets	18	5,039	-
Deferred tax assets	6	2,474	2,599
Intangible assets	17	1,980	3,052
TOTAL NON-CURRENT ASSETS		18,716	16,010
TOTAL ASSETS		64,800	60,029
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	19	19,086	23,043
Borrowings	20	7,654	3,998
Lease liabilities	21	802	-
Provisions	23	2,477	2,232
TOTAL CURRENT LIABILITIES		30,019	29,273
NON-CURRENT LIABILITIES			
Borrowings	20	-	824
Lease liabilities	21	4,501	-
Provisions	23	96	55
TOTAL NON-CURRENT LIABILITIES		4,597	879
TOTAL LIABILITIES		34,616	30,152
NET ASSETS		30,184	29,877
EQUITY			
Issued capital	24	16,907	16,907
Reserve	33	415	322
Retained earnings	34	12,862	12,648
TOTAL EQUITY		30,184	29,877

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2020

Consolidated	Note	Issued Capital	Reserve	Retained Earnings	Total
		$000	$000	$000	$000
Balance at 1 July 2018		16,627	372	14,491	31,490
Adjustment for change in accounting policy	1	-	-	(5,378)	(5,378)
Balance at 1 July 2018 – restated		16,627	372	9,113	26,112
Profit after income tax expense for the year		-	-	3,535	3,535
Other comprehensive income for the year, net of tax		-	-	-	-
Total comprehensive income for the year		-	-	3,535	3,535
Transactions with owners, in their capacity as owners:					
Options exercised during the year		280	-	-	280
Share based payment		-	(50)	-	(50)
Balance at 30 June 2019		16,907	322	12,648	29,877
Balance at 1 July 2019		16,907	322	12,648	29,877
Profit after income tax expense for the year		-	-	214	214
Other comprehensive income for the year, net of tax		-	-	-	-
Total comprehensive income for the year		-	-	214	214
Transactions with owners, in their capacity as owners:					
Share based payment		-	93	-	93
Balance at 30 June 2020		16,907	415	12,862	30,184

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2020

	Note	Consolidated 2020	2019
		$000	$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		110,317	99,237
Payments to suppliers and employees		(111,304)	(97,941)
Interest received		7	9
Finance costs		(1,297)	(1,126)
Net cash (used in) / provided by operating activities	28a	(2,277)	179
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of plant and equipment		(351)	(1,443)
Proceeds from sale of plant and equipment		128	100
Net cash (used in) investing activities		(223)	(1,343)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of lease liabilities, net		(1,671)	(766)
Proceeds from issue of shares	24	-	280
Net cash (used in) financing activities		(1,671)	(486)
Net (decrease) in cash held		(4,171)	(1,650)
Cash and cash equivalents at beginning of financial year		1,097	2,747
Cash and cash equivalents at end of financial year	10	(3,074)	1,097

The accompanying notes form part of these financial statements.

Note 1: Summary of Significant Accounting Policies

General

The financial report consists of consolidated financial statements for Valmec Limited ("the company") and its subsidiaries ("group" or "consolidated entity"). Valmec Limited is a company limited by shares incorporated in Australia, whose shares are publicly traded on the Australian Stock Exchange.

Basis of Preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

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 1.

Parent Information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in Note 2.

Principles of Consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent, Valmec Limited and all of the subsidiaries (including any structured entities). Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

Equity interests in a subsidiary not attributable, directly or indirectly, to the Group are presented as "non-controlling interests". The Group initially recognises non-controlling interests that are present ownership interests in subsidiaries and are entitled to a proportionate share of the subsidiary's net assets on liquidation at either fair value or at the non-controlling interests' proportionate share of the subsidiary's net assets. Subsequent to initial recognition, non-controlling interests are attributed their share of profit or loss and each component of other comprehensive income. Non-controlling interests are shown separately within the equity section of the statement of financial position and statement of profit or loss and other comprehensive income.

Business combinations

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured in each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to business combinations, other than those associated with the issue of a financial instrument, are recognised as expenses in profit or loss when incurred.

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

Note 1: Summary of Significant Accounting Policies (Cont'd)

Goodwill

Goodwill is carried at cost less any accumulated impairment losses. Goodwill is calculated as the excess of the sum of:

(i) the consideration transferred;

(ii) any non-controlling interest (determined under either the full goodwill or proportionate interest method); and

(iii) the acquisition date fair value of any previously held equity interest;

over the acquisition date fair value of net identifiable assets acquired.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements.

Fair value re-measurements in any pre-existing equity holdings are recognised in profit or loss in the period in which they arise. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

The amount of goodwill recognised on acquisition of each subsidiary in which the Group holds less than a 100% interest will depend on the method adopted in measuring the non-controlling interest. The Group can elect in most circumstances to measure the non-controlling interest in the acquiree either at fair value (full goodwill method) or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets (proportionate interest method). In such circumstances, the Group determines which method to adopt for each acquisition and this is stated in the respective notes to these financial statements disclosing the business combination.

Under the full goodwill method, the fair value of the non-controlling interests is determined using valuation techniques which make the maximum use of market information where available. Under this method, goodwill attributable to the non-controlling interests is recognised in the consolidated financial statements.

Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates.

Goodwill is tested for impairment annually and is allocated to the Group's cash-generating units or groups of cash-generating units, representing the lowest level at which goodwill is monitored being not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity disposed of.

Changes in the ownership interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions and do not affect the carrying amounts of goodwill.

Income Tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

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

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Valmec Limited (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

Note 1: Summary of Significant Accounting Policies (Cont'd)

Income Tax (Cont'd)

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Fair Value Measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on 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; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Inventories

Inventories are measured at the lower of cost and net realisable value on weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Contract assets

Contract assets are recognised when the consolidated entity has transferred goods or services to the customer but where the consolidated entity is yet to establish an unconditional right to consideration. Contract assets are treated as financial assets for impairment purposes.

Customer acquisition costs

Customer acquisition costs are capitalised as an asset where such costs are incremental to obtaining a contract with a customer and are expected to be recovered. Customer acquisition costs are amortised on a straight-line basis over the term of the contract.

Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained or which are not otherwise recoverable from a customer are expensed as incurred to profit or loss. Incremental costs of obtaining a contract where the contract term is less than one year is immediately expensed to profit or loss.

Right of return assets

Right of return assets represents the right to recover inventory sold to customers and is based on an estimate of customers who may exercise their right to return the goods and claim a refund. Such rights are measured at the value at which the inventory was previously carried prior to sale, less expected recovery costs and any impairment.

Contract liabilities

Contract liabilities represent the consolidated entity's obligation to transfer goods or services to a customer and are recognised when a customer pays consideration, or when the consolidated entity recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the consolidated entity has transferred the goods or services to the customer.

Note 1: Summary of Significant Accounting Policies (Cont'd)

Refund liabilities

Refund liabilities are recognised where the consolidated entity receives consideration from a customer and expects to refund some, or all, of that consideration to the customer. A refund liability is measured at the amount of consideration received or receivable for which the consolidated entity does not expect to be entitled and is updated at the end of each reporting period for changes in circumstances. Historical data is used across product lines to estimate such returns at the time of sale based on an expected value methodology.

Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Depreciation

The depreciable amount of all fixed assets including buildings and capitalised lease assets, is depreciated on a straight-line basis over the asset's useful life to the group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:
Plant and equipment- 2.5 to 20 years
Leasehold improvements- 2.5 to 10 years
Motor vehicles – 4 to 5 years
Office equipment – 3 to 10 years

Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the recognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Research and development

Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the consolidated entity is able to use or sell the asset; the consolidated entity has sufficient resources; and intent to complete the development and its costs can be measured reliably. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years.

Patents and trademarks

Significant costs associated with patents and trademarks are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years.

Customer contracts

Customer contracts acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 17 to 36 months.

Software

Significant costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 5 years.

Note 1: Summary of Significant Accounting Policies (Cont'd)

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. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless, an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

Financial assets at fair value through profit or loss

Financial assets not measured at amortised cost or at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss. Typically, such financial assets will be either: (i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit, or a derivative; or (ii) designated as such upon initial recognition where permitted. Fair value movements are recognised in profit or loss.

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income include equity investments which the consolidated entity intends to hold for the foreseeable future and has irrevocably elected to classify them as such upon initial recognition.

Impairment of financial assets

The consolidated entity recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the consolidated entity's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets measured at fair value through other comprehensive income, the loss allowance is recognised within other comprehensive income. In all other cases, the loss allowance is recognised in profit or loss.

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Employee Benefits

Short-term employee benefits

Provision is made for the Group's obligation for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages, salaries and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

The Group's obligations for short-term employee benefits such as wages, salaries and sick leave are recognised as a part of current trade and other payables in the statement of financial position. The Group's obligations for employees' annual leave and long service leave entitlements are recognised as provisions in the statement of financial position.

Other long-term employee benefits

Provision is made for employees' long service leave and annual leave entitlements not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departures and are discounted at rates determined by reference to market yields at the end of the reporting period on government bonds that have maturity dates that approximate the terms of the obligations. Any re-measurements for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the changes occur.

The Group's obligations for long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the Group does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

Note 1: Summary of Significant Accounting Policies (Cont'd)

Employee Benefits (Cont'd)

Retirement benefit obligations

Defined contribution superannuation benefits

All employees of the Group other than those that receive defined benefit entitlements receive defined contribution superannuation entitlements, for which the Group pays the fixed superannuation guarantee contribution to the employee's superannuation fund of choice. All contributions in respect of employees' defined contribution entitlements are recognised as an expense when they become payable. The Group's obligation with respect to employees' defined contribution entitlements is limited to its obligation for any unpaid superannuation guarantee contributions at the end of the reporting period. All obligations for unpaid superannuation guarantee contributions are measured at the (undiscounted) amounts expected to be paid when the obligation is settled and are presented as current liabilities in the statement of financial position.

Termination benefits

When applicable, the Group recognises a liability and expense for termination benefits at the earlier of: (a) the date when the Group can no longer withdraw the offer for termination benefits; and (b) when the Group recognises costs for restructuring pursuant to AASB 137: Provisions, Contingent Liabilities and Contingent Assets and the costs include termination benefits. In either case, unless the number of employees affected is known, the obligation for termination benefits is measured on the basis of the number of employees expected to be affected. Termination benefits that are expected to be settled wholly before 12 months after the annual reporting period in which the benefits are recognised are measured at the (undiscounted) amounts expected to be paid. All other termination benefits are accounted for on the same basis as other long-term employee benefits.

Equity-settled compensation

The company operates an employee performance right plan. The fair value of performance rights is determined using an appropriate pricing model. The number of performance rights expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

Provisions

Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits available on demand with banks, other short-term highly liquid investments with original maturities of 12 months or less, and bank overdrafts. Bank overdrafts are reported within short-term borrowings in current liabilities in the statement of financial position.

Revenue Recognition

Revenue from contracts with customers

Revenue is recognised at an amount that reflects the consideration to which the consolidated entity is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the consolidated entity: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are initially recognised as deferred revenue in the form of a separate refund liability.

Sale of goods

Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery.

Rendering of services

Revenue from a contract to provide services is recognised over time as the services are rendered based on either a fixed price or an hourly rate.

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.
All revenue is stated net of the amount of goods and services tax.

Note 1: Summary of Significant Accounting Policies (Cont'd)

Employee Benefits (Cont'd)

Trade and Other Receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The consolidated entity has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

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

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

Right-of Use Assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Lease Liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Rounding of Amounts

The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Note 1: Summary of Significant Accounting Policies (Cont'd)

Critical Accounting Estimates and Judgments

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.

Goodwill and other indefinite life intangible assets

The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Revenue from contracts with customers involving sale of goods

When recognising revenue in relation to the sale of goods to customers, the key performance obligation of the consolidated entity is considered to be the point of delivery of the goods to the customer, as this is deemed to be the time that the customer obtains control of the promised goods and therefore the benefits of unimpeded access.

Determination of variable consideration

Judgement is exercised in estimating variable consideration which is determined having regard to past experience with respect to the goods returned to the consolidated entity where the customer maintains a right of return pursuant to the customer contract or where goods or services have a variable component. Revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised under the contract will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Allowance for expected credit losses

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience and historical collection rates.

Lease term

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the consolidated entity's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The consolidated entity reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the consolidated entity based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the consolidated entity operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the consolidated entity unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

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 the Company, 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.

Note 1: Summary of Significant Accounting Policies (Cont'd)

Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Foreign currency translation

The financial statements are presented in Australian dollars, which is Valmec 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.

Issued capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

New and revised AASB's affecting amounts reported and/or disclosures in the financial statements

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations has not resulted in a significant or material change to the consolidated entity's accounting policies.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 16 Leases

The consolidated entity has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

Impact of adoption

AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. The impact of adoption on opening retained earnings as at 1 July 2019 was as follows:

	1 July 2019
	$000
Operating lease commitments as at 1 July 2019 (AASB 117)	3,290
Add: assessment to extend operating lease option	4,463
Finance lease commitments as at 1 July 2019 (AASB 117)	1,765
Operating lease commitments discount based on the weighted average incremental	
borrowing rate of 7.50% (AASB 16)	(1,729)
Finance lease assets already recognised on statement of financial position	(1,765)
Accumulated depreciation as at 1 July 2019 (AASB 16)	-
Right-of-use assets (AASB 16)	(6,024)
Lease liabilities – current (AASB 16)	(721)
Lease liabilities – non-current (AASB 16)	(5,303)
Total lease liabilities	(6,024)
Changes to opening retained earnings as at 1 July 2019	-

Note 1: Summary of Significant Accounting Policies (Cont'd)

When adopting AASB 16 from 1 July 2019, the consolidated entity has applied the following practical expedients:

- applying a single discount rate to the portfolio of leases with reasonably similar characteristics;
- accounting for leases with a remaining lease term of 12 months as at 1 July 2019 as short-term leases;
- excluding any initial direct costs from the measurement of right-of-use assets; and
- using hindsight in determining the lease term when the contract contains options to extend or terminate the lease.

New Accounting Standards for Application in Future Periods

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated group for the annual reporting period ended 30 June 2018. The consolidated group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the group, are set out below.

Conceptual Framework for Financial Reporting (Conceptual Framework)

The revised Conceptual Framework is applicable to annual reporting periods beginning on or after 1 January 2020 and early adoption is permitted. The Conceptual Framework contains new definition and recognition criteria as well as new guidance on measurement that affects several Accounting Standards. Where the consolidated entity has relied on the existing framework in determining its accounting policies for transactions, events or conditions that are not otherwise dealt with under the Australian Accounting Standards, the consolidated entity may need to review such policies under the revised framework. At this time, the application of the Conceptual Framework is not expected to have a material impact on the consolidated entity's financial statements.

Note 2: Parent Information

	2020	2019
	$000	$000
The following information has been extracted from the books and records of		
the parent entity- Valmec Limited		
Statement of Financial Position:		
ASSETS		
Current assets	60	156
Non-current assets	8,705	9,441
TOTAL ASSETS	8,765	9,597
LIABILITIES		
Current liabilities	607	595
Non-current liabilities	162	77
TOTAL LIABILITIES	769	672
EQUITY		
Issued capital	18,811	18,811
Reserve	467	375
(Accumulated losses)	(11,282)	(10,261)
TOTAL EQUITY	7,996	8,925
Statement of Profit or Loss and Other Comprehensive Income:		
(Loss) for the year	(1,021)	(1,823)
Other Comprehensive income for the year	-	-
Total comprehensive loss for the year	(1,021)	(1,823)

Contingent Liabilities and Capital expenditure

There are no contingent liabilities for the parent entity for both financial years ended 30 June 2020 and 30 June 2019 apart from those already disclosed in Note 26.

The parent entity did not have capital expenditure commitments for the acquisition of property, plant and equipment contracted but not provided for both financial years 30 June 2020 and 30 June 2019.

Guarantees

Valmec Limited has entered into a deed of cross guarantee with its subsidiaries, Valmec Australia Pty Ltd, Valmec Services Pty Ltd, APTS Pty Ltd and Valmec Plant and Equipment Pty Ltd. Refer to Note 15b for further details.

Note 3: Revenue and Other Income

	2020	2019
	$000	$000
Revenue from contracts with customers		
Sale of goods	17,208	14,760
Rendering of services	94,809	95,402
	112,017	110,162
Other revenue:		
• Interest received	7	10
• Gain on disposal of plant and equipment	51	8
• Other revenue	110	240
Total other income	168	258

Disaggregation of revenue

The disaggregation of revenue from contracts with customers is as follows:

Consolidated - 30 June 2020	Energy Construction	Services	Total
	$000	$000	$000
Sectors			
Oil and Gas	73,574	38,443	112,017
	73,574	38,443	112,017
Geographical regions			
Australia	73,574	38,443	112,017
	73,574	38,443	112,017
Timing of revenue recognition			
Goods transferred at a point in time	-	17,208	17,208
Services rendered over time	73,574	21,235	94,809
	73,574	38,443	112,017

Consolidated - 30 June 2019	Energy Construction	Services	Total
	$000	$000	$000
Sectors			
Oil and Gas	64,199	45,963	110,162
	64,199	45,963	110,162
Geographical regions			
Australia	64,199	45,963	110,162
	64,199	45,963	110,162
Timing of revenue recognition			
Goods transferred at a point in time	-	14,760	14,760
Services rendered over time	64,199	31,203	95,402
	64,199	45,963	110,162

Note 4: Employee benefits expenses

	2020	2019
	$000	$000
Salaries and wages	6,223	6,146
Superannuation	535	470
Other employee benefits & provisions	752	1,077
	7,510	7,693

Note 5: Other expenses

	2020	2019
	$000	$000
Other expenses mainly comprises of the following:		
• Insurance expenses	602	307
• Office and computer software	577	392
• Travel and accommodation	693	636

Note 6: Tax Expense

a. Income tax recognised in statement of comprehensive income

	2020	2019
	$000	$000
Tax expense comprises:		
• Current tax expense	-	-
• Deferred tax-origination and reversal of temporary differences	136	1,439
• Adjustment recognised for prior periods	(11)	(96)
Aggregate income tax expense	125	1,343

b. Numerical reconciliation of income tax expense and tax at the statutory rate

	2020	2019
	$000	$000
Profit before income tax expense	339	4,878
Tax at the statutory tax rate of 30%	102	1,463
Add: tax effect of:		
• Non-deductible / Non-allowable items	34	(24)
• Adjustment to prior year deferred tax asset	(11)	(96)
Income tax expense	125	1,343

Note 6: Tax Expense (Cont'd)

c. Recognised deferred tax assets and liabilities

	2020	2020	2019	2019
	$000	$000	$000	$000
	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities	Deferred tax assets
Opening balance	(2,331)	4,930	(2,655)	4,292
Charged to profit and loss	11	(136)	324	(1,667)
Adjustment on adoption of AASB 15	-	-	-	2,305
Closing balance	(2,320)	4,794	(2,331)	4,930

	2020	2019
	$000	$000
	Deferred tax liabilities	Deferred tax liabilities
Amounts recognised on the consolidated statement of financial position:		
Deferred tax asset	4,794	4,930
Deferred tax liability	(2,320)	(2,331)
	2,474	2,599
(i) Deferred tax assets		
Provisions	1,004	693
Income tax losses	3,709	3,983
Trade creditors	-	254
Others	81	-
Total	4,794	4,930
(ii) Deferred tax liabilities		
Inventories	(1,318)	(1,031)
Property, plant and equipment	(899)	(960)
Intangibles	-	(317)
Others	(103)	(23)
Total	(2,320)	(2,331)
Net deferred tax assets	2,474	2,599

Note 7: Key Management Personnel Compensation

Compensation

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

	2020	2019
	$000	$000
Short-term employee benefits	947	1,012
Post-employment benefits	73	75
Share-based payments	79	49
Total KMP compensation	1,099	1,136

Note 8: Auditors' Remuneration

	2020	2019
	$000	$000
During the financial year the following fees were paid or payable for services provided		
by RSM Australia Partners, the auditor of the company		
• Audit or review of the financial statements	93	90
• Taxation services	40	31
• Other	5	-
	138	121

Note 9: Earnings per Share (EPS)

	2020	2019
	$000	$000
Profit after income tax	214	3,535
Profit after income tax attributable to the owners of Valmec Limited	214	3,535
	No.	No.
a. Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	125,718,708	125,144,900
Weighted average number of dilutive options/performance rights outstanding	-	-
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	125,718,708	125,144,900

	Cents	Cents
Basic earnings per share	0.17	2.82
Diluted earnings per share	0.17	2.82

Note 10: Cash and Cash Equivalents

	Note	2020	2019
		$000	$000
Cash at bank and on hand		3,425	3,815
Reconciliation of cash Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:			
Cash at bank and on hand		3,425	3,815
Bank overdraft	19	(6,499)	(2,718)
Cash and cash equivalents		(3,074)	1,097

Note 11: Trade and Other Receivables

Trade receivables	11,392	15,918
Less: Allowance for expected credit losses	-	-
	11,392	15,918

Allowance for expected credit losses

No expected credit losses have been recognised by the consolidated entity for the year ended 30 June 2020.

The ageing of the receivables for above are as follows:

			Past Due but Not Impaired (Days Overdue)				
	Gross Amount	Past Due & Impaired	< 30	31-60	61-90	> 90	Within Initial Trade Terms
	$000	$000	$000	$000	$000	$000	$000
2020							
Trade and other receivables	11,392	-	3,365	617	154	285	6,971
Total	11,392	-	3,365	617	154	285	6,971
2019							
Trade and other receivables	15,918	-	1,807	542	246	188	13,135
Total	15,918	-	1,807	542	246	188	13,135

Note 12: Contract assets

	2020	2019
	$000	$000
Contract assets	22,916	16,578
Reconciliation		
Reconciliation of the written down values at the beginning and end of the current and previous financial year are set out below:		
Opening balance	16,578	16,170
Additions	22,689	16,402
Impact on adoption of AASB 15	-	(7,683)
Transfer to trade receivables	(16,351)	(8,311)
Closing balance	22,916	16,578

Note 13: Inventories

CURRENT		
At cost:		
Raw materials and stores	3,972	3,997
Work in progress	3,782	3,136
	7,754	7,133

Note 14: Other Assets

CURRENT		
Prepayments	514	492
Deposits	83	83
	597	575

Note 15: Interests in Subsidiaries

a. Information about Principal Subsidiaries

The subsidiaries listed below have share capital consisting solely of ordinary shares which are held directly by the Group. The proportion of ownership interests held equals the voting rights held by the Group. Each subsidiary's principal place of business is also its country of incorporation.

		Ownership Interest Held by the Group	
Name of Subsidiary	Principal Place of Business	2020 %	2019 %
Valmec Australia Pty Ltd	Australia	100	100
Valmec Plant & Equipment Pty Ltd (formerly Core Plant & Equipment Pty Ltd)	Australia	100	100
Valmec Services Pty Ltd	Australia	100	100
APTS Pty Ltd	Australia	100	100
Connxion Networks Limited	Hong Kong – dormant	100	100

Subsidiary financial statements used in the preparation of these consolidated financial statements have also been prepared as at the same reporting date as the Group's financial statements.

b. Deed of Cross Guarantee

Valmec Limited has entered into a deed of cross guarantee with its wholly owned subsidiaries being Valmec Australia Pty Ltd, Valmec Services Pty Ltd, Valmec Plant & Equipment Pty Ltd and APTS Pty Ltd. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare financial statements and directors' report under Corporations Instrument 2016/785 issued by the Australian Securities and Investments Commission. The above companies represent a 'Closed Group' for the purposes of the Corporations Instrument, and as there are no other parties to the deed of cross guarantee that are controlled by Valmec Limited, they also represent the 'Extended Closed Group'. The financial information required (being the statement of profit or loss and other comprehensive income, statement of changes in equity and the statement of financial position) for the Deed of Cross Guarantee note are materially the same as the information contained in this consolidated financial report.

Note 16: Property, Plant and Equipment

	2020	2019
	$000	$000
Leasehold improvement		
At cost	982	977
Accumulated depreciation	(444)	(330)
Total	538	647
Plant and equipment		
At cost	21,106	21,224
Accumulated depreciation	(12,972)	(12,126)
Total	8,134	9,098
Motor vehicles		
At cost	1,011	1,064
Accumulated depreciation	(801)	(812)
Total	210	252
Office equipment		
At cost	1,557	1,498
Accumulated depreciation	(1,216)	(1,136)
Total	341	362
Total property, plant and equipment	9,223	10,359

(i) Movements in Carrying Amounts

Movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

	Leasehold improvement	Plant and Equipment	Motor Vehicles	Office Equipment	Total
	$000	$000	$000	$000	$000
Consolidated entity:					
Balance at 1 July 2018	344	9,539	325	398	10,606
Additions	368	921	-	49	1,338
Disposals	-	(93)	-	-	(93)
Depreciation expense	(66)	(1,269)	(72)	(85)	(1,492)
Balance at 30 June 2019	646	9,098	253	362	10,359
Additions	6	242	-	58	306
Disposals	-	(86)	-	-	(86)
Depreciation expense	(114)	(1,120)	(43)	(79)	(1,356)
Balance at 30 June 2020	538	8,134	210	341	9,223

Note 17: Intangible Assets

	2020	2019
	$000	$000
Goodwill:		
Cost	1,829	1,829
Accumulated impairment losses	-	-
Net carrying amount	1,829	1,829
Computer software:		
Cost	219	165
Accumulated amortisation	(68)	(40)
Net carrying amount	151	125
Customer contracts:		
Cost	2,333	2,333
Accumulated amortisation	(2,333)	(1,235)
Net carrying amount	-	1,098
Total	1,980	3,052

Movements in Carrying Amounts

Movements in the carrying amounts for each class of intangible assets between the beginning and the end of the current financial year:

	Computer software	Goodwill	Customer contracts	Total
	$000	$000	$000	$000
Consolidated entity:				
Balance at 1 July 2018	34	1,829	1,647	3,510
Additions	107	-	-	107
Disposals	-	-	-	-
Amortisation expense	(15)	-	(549)	(564)
Balance at 30 June 2019	125	1,829	1,098	3,052
Additions	54	-	-	54
Disposals	-	-	-	-
Amortisation expense	(28)	-	(1,098)	(1,126)
Balance at 30 June 2020	151	1,829	-	1,980

Note 17: Intangible Assets (Cont'd)

Impairment disclosures

Goodwill is allocated to cash-generating units which are based on the Group's reporting segments:

	2020	2019
	$000	$000
Services to the oil, gas and resources sectors segment	1,829	1,829
Total	1,829	1,829

The recoverable amount of each cash-generating unit above is determined based on value-in-use calculations. Value-in-use is calculated based on the present value of cash flow projections over a 5-year period with a terminal value.

The following key assumptions were used in the value-in-use calculations:

	Pre-tax discount Rate
Services to the oil, gas and resources sectors segment	15.2%

Management has based the value-in-use calculations on budgets for the reporting segment, inclusive of a terminal value. These budgets incorporate a 29% revenue growth rate in year 1. Revenues then remain consistent from year 2 to 5. As compared to historical gross margin, the forecasted gross profit margin has been decreased by 3% in year 1 and then remain consistent in year 2 to 5 to reflect the likely market conditions. Discount rates are pre-tax and are adjusted to incorporate risks associated with a particular segment.

No reasonable change in any of the key assumptions would result in an impairment.

Sensitivity

As disclosed in Note 1, the directors have made judgements and estimates in respect of impairment testing of goodwill. Should these judgements and estimates not occur the resulting goodwill carrying amount may decrease. The sensitivities are as follows:

(a) EBITDA would need to decrease by more than $5.8 million before goodwill would need to be impaired, with all other assumptions remaining constant.

(b) The discount rate would be required to increase to 29% (pre-tax) before goodwill would need to be impaired, with all other assumptions remaining constant.

Management believes that other reasonable changes in the key assumptions on which the recoverable amount of goodwill is based would not cause the cash-generating unit's carrying amount to exceed its recoverable amount.

If there are any negative changes in the key assumptions on which the recoverable amount of goodwill is based, this would result in a further impairment charge for the goodwill.

Note 18: Right-of-use Assets

	2020	2019
	$000	$000
Land and buildings – right-of-use	6,024	-
Less: Accumulated depreciation	(985)	-
	5,039	-

The consolidated entity leases land and buildings for its offices and warehouses under agreements of between three to seven years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

The consolidated entity leases office equipment under agreements which are either short-term or low-value. These costs of these leases have been expensed as incurred and not capitalised as right-of-use assets.

Note 19: Trade and Other Payables

	Note	2020	2019
		$000	$000
CURRENT			
Trade payables		4,540	10,836
Import trade amount payable*	20	9,029	6,874
Sundry payables and accrued expenses		5,517	5,333
		19,086	23,043

* Import trade amount payable attracts an interest charge of BBSY plus 1.5% margin.

Note 20: Borrowings

	2020	2019
	$000	$000
CURRENT		
Bank overdraft – secured	6,499	2,718
Lease liability- secured	824	941
Other borrowings (i)- unsecured	331	339
Total current borrowings	7,654	3,998
NON-CURRENT		
Lease liability – secured	-	824
Total non-current borrowings	-	824
Total borrowings	7,654	4,822

(i) Relates to credit card balances and insurance premium funding.

Collateral provided:

The facilities are secured over the first registered general securities interest over the Group's assets. Covenants imposed by the bank require the following (calculated on quarterly basis):

- All debts do not exceed 50% of the aggregate value of stock on hand and an amount equal to all account receivables which at that time have been outstanding less than 90 days.

- At all times the Cumulative Debt Service Cover Ratio is to be greater than or equal to 1.30 times.

Note 20: Borrowings (Cont'd)

Financing agreement	Note	2020	2019
		$000	$000
Total facilities			
Bank Overdraft		18,604	11,555
Bank Guarantee		15,435	15,435
Import Trade Facility		9,956	7,010
Asset Finance facility		2,800	3,300
Credit Cards		300	200
		47,095	37,500
Used at reporting date			
Bank Overdraft		6,499	2,717
Bank Guarantee		9,772	7,881
Import Trade Facility	19	9,029	6,874
Asset Finance facility		845	1,860
Credit Cards		110	174
		26,255	19,506
Unused at reporting date			
Bank Overdraft		12,106	8,838
Bank Guarantee		5,663	7,553
Import Trade Facility		926	136
Asset Finance facility		1,955	1,440
Credit Cards		190	26
		20,840	17,993

Note 21: Lease liability

	2020	2019
	$000	$000
CURRENT		
Lease liabilities		
	802	-
NON-CURRENT		
Lease liabilities		
	4,501	-

Note 22: Dividends

No Dividends were paid/payable during the financial year.

Franking credits		
Franking credits available for subsequent financial years based on a tax rate of 30%	658	658

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- Franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date.
- Franking debits that will arise from the payment of dividends recognised as a liability at the reporting date.
- Franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

Note 23: Provisions

	Note	2020	2019
		$000	$000
Employees benefits		2,471	2,203
Others		102	84
		2,573	2,287

Employee benefits

Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the Group does not have an unconditional right to defer settlement. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

The following amounts reflect leave that is not expected to be taken within the next 12 months:

Employee benefits obligation expected to be settled after 12 months		
	96	55

Provision for employee benefits represents amounts accrued for annual leave and long service leave.

The current portion for this provision includes the total amount accrued for annual leave entitlements and the amounts accrued for long service leave entitlements that have vested due to employees having completed the required period of service. Based on past experience, the Group does not expect the full amount of annual leave or long service leave balances classified as current liabilities to be settled within the next 12 months. However, these amounts must be classified as current liabilities since the Group does not have an unconditional right to defer the settlement of these amounts in the event employees wish to use their leave entitlement.

The non-current portion for this provision includes amounts accrued for long service leave entitlements that have not yet vested in relation to those employees who have not yet completed the required period of service.

In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits have been discussed in Note 1.

Others		
Opening balance at July	84	41
Additional provisions	102	84
Amounts used	(84)	(41)
Balance at June	102	84

Analysis of total provisions		
Current	2,477	2,232
Non-current	96	55
	2,573	2,287

Note 24: Issued Capital

		2020	2019	2020	2019
		No.	No.	$000	$000
Ordinary shares- fully paid		125,718,708	125,718,708	16,907	16,907
Movements in ordinary share capital					
Details	**Date**		**Shares**	**Issue price**	**$000**
Balance	1 July 2018		124,598,708		16,627
Options exercised	7 January 2019		1,120,000	$0.25	280
Balance	30 June 2019		125,718,708		16,907
Options exercised			-		-
Balance	30 June 2020		125,718,708		16,907

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

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.

Share buy-back

There is no current on-market share buy-back.

Capital Risk Management

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current company's share price at the time of the investment.

The Group is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions.

The capital risk management policy remains unchanged from the 30 June 2019 Annual Report.

Note 25: Commitments

	Note	2020	2019
		$000	$000
a. Finance Lease Commitments			
Payable – minimum lease payments:			
– not later than 1 year		-	1,014
– between 2 and 5 years		-	845
Minimum lease payments		-	1,859
Less future finance charges		-	(94)
Present value of minimum leave payments		-	1,765
b. Operating Lease Commitments			
Non-cancellable operating leases contracted for but not recognised in the financial statements			
Payable – minimum lease payments:			
– not later than 1 year		-	916
– between 2 and 5 years		-	2,374
– later than 5 years		-	-
		-	3,290

Operating lease commitments includes contracted amounts for various warehouses and offices under non-cancellable operating leases expiring within one to seven years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

Finance lease commitments includes contracted amounts for various plant and equipment secured under finance leases expiring within one to five years. Under the terms of the leases, the Group has the option to acquire the leased assets for predetermined residual values on the expiry of the leases.

Note 26: Contingent Liabilities and Contingent Assets

The Group has given bank guarantees/insurance bonds as at 30 June 2020 of $9,772,382 (2019: $7,881,000) to various customers.

Other than the above, there were no material contingent liabilities or assets as at 30 June 2020 and 30 June 2019.

Note 27: Operating Segments

Management has determined the operating segments based on reports reviewed by the Board of Directors for making strategic decisions. The current Board of Directors monitors the business based on operational and geographic factors, and has determined that there is only one relevant business segment.

For the year ended 30 June 2020, the Energy Construction division contributed revenue of $74.5 million (2019: $64.7 million) and the Services division contributed revenue of $38.4 million (2019: $46 million). Included in these amounts is $1 million (2019: $0.7 million) of inter-entity revenue, which is eliminated on consolidation. The operating divisions are exposed to similar risks and rewards from operations and are only segmented to facilitate appropriate management structure.

The directors believe that the aggregation of the operating divisions is appropriate for segment reporting purposes as they:

- perform similar services for the same industry sector;
- provide a diversified range of similar services to a large number of common clients;
- utilise a centralised pool of assets and shared services in their service delivery models; and
- operate predominately in one geographical area, namely Australia

The consolidated entity is domiciled in Australia. All revenue from external customers is generated from Australia only. Segment revenues are allocated based on the country in which the customer is located.

Note 28: Cash Flow Information

	Note	2020	2019
		$000	$000
a. Reconciliation of profit after income tax to net cash from operating activities			
Profit after Income Tax		214	3,535
Non-cash flows in profit:			
– share based payment		93	(50)
– depreciation and amortisation		3,467	2,056
– net gain on disposal of plant and equipment		(51)	(8)
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:			
– trade and other receivables		7,862	(3,074)
– contract assets		(9,673)	(8,091)
– inventories		(621)	(4)
– other assets		(22)	27
– trade payables and accruals		(3,957)	4,041
– provisions		286	404
– deferred tax assets		125	1,343
Cash flow (used in) / provided by operating activities		(2,277)	179
b. Non-cash Financing and Investing Activities			
Acquisition of plant and equipment by means of finance leases		-	-
c. Changes in liabilities arising from financing activities			

	Insurance funding	Lease liabilities	Total
Consolidated	**$000**	**$000**	**$000**
Balance at 30 June 2018	195	2,675	2,870
Net cash from/ (used) in financing activities	144	(909)	(765)
Balance at 30 June 2019	339	1,766	2,105
Leases recognised on the adoption of AASB 16	-	6,024	6,024
Net cash used in financing activities	(8)	(1,663)	(1,671)
Balance at 30 June 2020	331	6,127	6,458

Note 29: Share-based Payments

Share appreciation rights (SARs)

	2020	2019
	$000	$000
Employees benefit expense	6	21
Reversal of forfeited rights expense	-	(61)
	6	(40)
Carrying amount of liabilities:		
At grant date	27	21
At 30 June	27	21

During the year, the board granted nil (2019: nil) share appreciation rights (SARs). The SARs entitle the employees to cash payment after meeting the vesting conditions.

Performance rights (PRs)

	2020	2019
	$000	$000
Employee benefit expense	70	13
Reversal of forfeited rights	-	(38)
	70	(25)

The establishment of the Valmec Limited Employee Performance Rights Plan was approved by shareholders at the 2019 annual general meeting. The Employee Performance Right Plan is designed to provide long-term incentives for senior management and above (including executive directors) to deliver long-term shareholder returns. Under the plan, participants are granted performance rights which only vest if certain performance standards are met. Participation in the plan is at the board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

The amount of PRs that will vest depends on the following key performance indicators ("KPI"):

- Valmec Limited's relative total return to shareholders (RTSR) KPI measured against S&P small ordinaries index for the relevant performance period. 50% shall vest at the 50th percentile and 100% shall vest at or above the 85th percentile and/or,
- earnings per share (EPS) KPI measured by absolute EPS compounded growth of 10% or greater per annum.

Performance rights are granted under the plan for no consideration and carry no dividend or voting rights.

30 June 2020

Below are details of PRs granted in previous financial year.

The PRs only vested and be capable of being exercised at the following rate:

Date of vesting (granted on 29/11/2019):		Date of vesting (granted on 01 November 2019):	
Date of vesting	Rate of vesting	Date of vesting	Rate of vesting
30 June 2021	1/3	01 Nov 2020	100%
30 June 2022	1/3		
30 June 2023	1/3		

Note 29: Share-based Payments (Cont'd.)

Performance rights (PRs) (Cont'd.)

Below are summaries of PRs granted under the plan.

	2020		2019	
	Weighted Average Exercise Price	Number	Weighted Average Exercise Price	Number
At beginning of year	-	344,868	-	738,594
Granted during the year	-	737,250	-	-
Exercised during the year	-	-	-	-
Forfeited during the year	-	-	-	(393,726)
At end of year	-	1,082,118	-	344,868
Vested	-	-	-	-

PRs outstanding at the end of the year have the following expiry date and exercise prices.

Grant date	Expiry date	Exercise price	Performance rights 30 June 2020
30 November 2015	30 Nov 2020*	Nil	122,118
31 August 2017	31 August 2022*	Nil	222,750
29 November 2019	29 Nov 2024*	Nil	633,802
1 November 2019	31 October 2022**	Nil	103,448

* Expired 5 years from grant date.

** Expired 3 years from grant date.

The following table sets out the assumptions made in determining the fair value of the PRs granted during the previous financial year:

30 June 2020	Performance rights (RTSR)* Granted 29/11/2019	Performance rights (EPS) Granted 29/11/2019	Performance rights (EPS) Granted 29/11/2019	Performance rights (EPS) Granted 29/11/2019
Expected volatility (%)	65	65	65	65
Risk free interest rate (%)	0.74	0.74	0.74	0.74
Weighted average expected life (years)	2.58	1.58	2.58	3.58
Expected dividends	Nil	Nil	Nil	Nil
Exercise price (cents)	-	-	-	-
Share price at grant date (cents)	29.5	29.5	29.5	29.5
Fair value (cents)	19.34	29.5	29.5	29.5
Number of performance rights	316,901	105,634	105,634	105,633
Expiry date	29 November 2024	29 November 2024	29 November 2024	29 November 2024

The PRs issued are subject to the following performance criteria:

- Relative total shareholder return shall be measured against the S&P Small Ordinaries Index for the relevant performance period and 50% of the Performance Rights shall vest at the 50th percentile and 100% shall vest at or above the 85th percentile.

- Earnings per share shall be measured by absolute Earnings per share compounded growth of 10% or greater per annum.

Note 29: Share-based Payments (Cont'd.)

Performance rights (PRs) (Cont'd.)

The fair value of the PRs granted on 1 November 2019 is $0.29. The vesting condition for the PRs is to remain as director of the company for a period of 12 months from the appointment date.

Employee Option Plan - Performance Based

	2020	2019
	$000	$000
Employee benefit expense	23	28
Reversal of forfeited rights	-	(53)
	23	(25)

The establishment of the Valmec Limited Employee Option Plan was approved by shareholders at the 2014 annual general meeting. The Employee Option Plan is designed to provide long-term incentives for senior management and above (including executive directors) to deliver long-term shareholder returns. Under the plan, participants are granted options which only vest if certain performance standards are met. Participation in the plan is at the board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

The amount of options that will vest depends on:

- Valmec Limited's relative total return to shareholders (RTSR) measured against S&P small ordinaries index for the relevant performance period. 50% shall vest at the 50th percentile and 100% shall vest at or above the 85th percentile.

- earnings per share (EPS) measured by absolute EPS compounded growth of 10% or greater per annum.

Options are granted under the plan for no consideration and carry no dividend or voting rights.

30 June 2020:

No options issued during the year.

30 June 2019:

No options issued during the year.

Below are summaries of option granted under the plan.

	2020		2019	
	Weighted Average Exercise Price	Number	Weighted Average Exercise Price	Number
At beginning of year	$0.30	875,361	$0.30	2,616,390
Granted during the year	-	-	-	-
Exercised during the year	-	-	-	-
Forfeited during the year	-	-	$0.30	(1,741,029)
At end of year	-	875,361		875,361
Vested and exercisable	$0.30	-	$0.30	-

Share option outstanding at the end of the year have the following expiry date and exercise prices.

Grant date	Expiry date	Exercise price	Share options 30 June 2020
30 November 2015	30 September 2020	$0.30	330,861
31 August 2017	30 June 2022	$0.30	544,500

Note 29: Share-based Payments (Cont'd.)

Employee Option Plan - Performance Based

	2020	2019
	$000	**$000**
Employee benefit expense	-	-

30 June 2020:
No options issued during the year.

30 June 2019:
No options issued during the year.

Employee Option Plan - Non-Performance Based

A summary of the movements of all company employee options issues is as follows:

	Number	Weighted Average Exercise Price
Options outstanding as at 1 July 2018	1,250,000	0.25
Granted	-	-
Forfeited	(130,000)	0.25
Exercised	(1,120,000)	0.25
Expired	-	-
Options outstanding as at 30 June 2019	-	-
Options outstanding as at 1 July 2019 and 30 June 2020	-	-

Note 30: Events after the Reporting Period

The impact of the Coronavirus (COVID-19) pandemic is ongoing and it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

Other than the above, there have been no other matters or circumstances occurring subsequent to the end of the financial year 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.

Note 31: Related Party Transactions

Related Parties

a. The Group's main related parties are as follows:

(i) Entities exercising control over the Group:

The ultimate parent entity that exercises control over the Group is Valmec Limited, which is incorporated in Australia.

(ii) Key management personnel:

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity, are considered key management personnel.

For details of disclosures relating to key management personnel, refer to Note 7.

(iii) Entities subject to significant influence by the Group:

(iv) An entity that has the power to participate in the financial and operating policy decisions of an entity, but does not have control over those policies, is an entity which holds significant influence. Significant influence may be gained by share ownership, statute or agreement.

For the years ended 30 June 2020 and 30 June 2019, there are no entities which are subject to significant influence by the Group.

(v) Other related parties:

Other related parties include entities controlled by the ultimate parent entity and entities over which key management personnel have joint control.

b. Transactions with related parties:

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated. The following transactions occurred with related parties:

	2020	2019
(i) Liability at reporting date	**$000**	**$000**
Lease liability – Tag Pty Ltd [1]	(3,931)	-
(ii) Asset at reporting date		
Right-of Use Assets – Tag Pty Ltd [1]	3,720	-
(iii) Transactions with related parties:		
Other related parties:		
Interest expense paid – Tag Pty Ltd [1]	298	-
Rental expense – Tag Pty Ltd [1]	-	793
Amortisation expense – Tag Pty Ltd [1]	531	-
Outgoing expense – Tag Pty Ltd [1]	184	-

[1] Stephen Zurhaar and Stephen Lazarakis are directors and shareholders of Tag Pty Ltd.

Note 32: Financial Risk Management

Financial risk management objectives

The Board of Directors has responsibility for, amongst other issues, monitoring and managing financial risk exposures of the Group. The Board monitors the Group's financial risk management policies and exposures and approves financial transactions within the scope of its authority. It also reviews the effectiveness of internal controls relating to currency risk, financing risk and interest rate risk.

The Board's overall risk management strategy seeks to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

a. Credit risk

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligations resulting in the Group incurring a financial loss. This usually occurs when debtors or counter-parties to derivative contracts fail to settle their obligations owing to the Group.

There is no concentration of credit risk with respect to current and non-current receivables as the Group has a number of large customers which are Australian listed as well as internationally dispersed. Group policy is that sales are only made to customers that are credit worthy. The credit risk on liquid funds is limited because the counter-parties are banks with high credit-ratings assigned by international credit-rating agencies.

The carrying amount of financial assets recognised in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk.

Credit risk related to balances with banks and other financial institutions is managed by the Board in accordance with approved board policy. Such policy requires that surplus funds are only invested with counter-parties with a Standard & Poor's rating of at least AA. The following table provides information regarding the credit risk relating to cash and money market securities based on Standard & Poor's counter-party credit ratings.

	Note	2020	2019
		$000	$000
Cash and cash equivalents			
- AA rated	10	3,425	3,815
		3,425	3,815

b. Liquidity risk

A liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows, investing surplus cash with major financial institutions and by matching the maturity profiles of financial assets and liabilities.

Financing arrangements

Refer to Note 19 for unused borrowing facilities at the reporting date.

The table below reflects an undiscounted contractual maturity analysis for financial liabilities. Financial guarantee liabilities are treated as payable on demand since the Group has no control over the timing of any potential settlement of the liabilities.

Note 32: Financial Risk Management (Cont'd.)

Financial liability and financial asset maturity analysis:

	Within 1 Year		1 to 5 Years		Over 5 Years		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
	$000	$000	$000	$000	$000	$000	$000	$000
Consolidated entity **Financial liabilities due for payment**								
Others	331	339	-	-	-	-	331	339
Trade and other payables	19,086	23,043	-	-	-	-	19,086	23,043
Lease liability	802	-	3,687	-	814	-	5,303	-
Finance lease liabilities	824	941	-	824	-	-	824	1,765
Total contractual outflows	21,043	24,323	3,687	824	814	-	25,544	25,148
Add bank overdrafts	6,499	2,718	-	-	-	-	6,499	2,718
Total expected outflows	27,542	27,041	3,687	824	814	-	32,043	27,865
Financial assets - cash flows realisable								
Cash and cash equivalents	3,425	3,815	-	-	-	-	3,425	3,815
Trade, term and loan receivables							-	-
– contractual inflows	34,308	32,496	-	-	-	-	34,308	32,496
Total anticipated inflows	37,733	36,311	-	-	-	-	37,733	36,311
Net (outflow)/ inflow on financial instruments	10,191	9,270	(3,687)	(824)	(814)	-	5,690	8,446

c. Market risk

Market risk arises from the use of interest bearing, tradeable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk).

d. Price risk

The consolidated entity is not exposed to any significant price risk.

e. Interest rate risk

Exposure to interest rate risk arises on financial assets and liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect cash flows or the fair value of fixed rate financial instruments.

The net effective variable interest rate borrowings (i.e. Unhedged debt) exposes the Group to interest rate risk which will impact future cash flows and interest charges and is indicated by the following floating interest rate financial liabilities.

Note 32: Financial Risk Management (Cont'd.)

The Group monitors its interest rate exposure continuously.

Interest rate risk Analysis

	Weighted average effective interest rate	Less than 1 year	1 - 5 years	Over 5 years	Total
	%	$000	$000	$000	$000
30 June 2020					
Financial assets					
Cash and cash equivalents	1.5%	3,425	-	-	3,425
Non-interest bearing- trade and other receivables	-	34,308	-	-	34,308
		37,733	-	-	37,733
Financial liabilities					
Non-interest bearing- trade and other payables	-	10,057	-	-	10,057
Interest bearing- trade and other payables	2.07%	9,029	-	-	9,029
Borrowings	7.00%	7,654	-	-	7,654
Lease liability	7.5%	802	3,718	783	5,303
		27,542	3,718	783	32,043
30 June 2019					
Financial assets					
Cash and cash equivalents	1.5%	3,815	-	-	3,815
Non-interest bearing- trade and other receivables	-	32,496	-	-	32,496
		36,311	-	-	36,311
Financial liabilities					
Non-interest bearing- trade and other payables	-	16,169	-	-	16,169
Interest bearing- trade and other payables	3.20%	6,874	-	-	6,874
Borrowings	6.49%	3,998	824	-	4,822
		27,041	824	-	27,865

The interest rate sensitivity
The effect on profit and equity as a result of changes in interest rates on net financial assets is immaterial.

Fair Values
The fair values of financial assets and financial liabilities are equal to their carrying amounts as presented in the statement of financial position.

Note 33: Equity - Reserve

	Note	2020	2019
		$000	$000
Reserve		415	323

Reserve:
The reserve is used to accumulate amounts received on the issue of options/performance rights and records items recognised as expenses on valuation of incentive based share options/performance rights.

Note 34: Equity - Retained earnings

	Note	2020	2019
		$000	$000
Balance at beginning of the year		12,648	14,491
Profit after income tax for the year		214	3,535
Impact on adoption Australian Accounting Standard (AASB 15)		-	(5,378)
Balance at end of the year		12,862	12,648

Note 35: Company Details

The registered office of the company is:

17 Ballantyne Road
Kewdale WA 6105

The principal place of business is:

17 Ballantyne Road
Kewdale WA 6105

DIRECTORS' DECLARATION

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 1 to the financial statements;

- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its performance for the financial year ended on that date;

- 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

- at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 15(b) to the financial statements.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

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

On behalf of the directors

Director ....

Steve Dropulich

Dated this 28 day of August 2020

RSM

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
VALMEC LIMITED

Opinion

We have audited the financial report of Valmec Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2020, 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 2020 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 of 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.

Key Audit Matter	How our audit addressed this matter
Recognition of Revenue Refer to Note 3 in the financial statements	
The Group earns revenue by providing products and services to its customers. The primary revenue streams are: - Energy and construction; and - Services. Revenue was considered a key audit matter because it is the most significant account balance in the consolidated statement of profit or loss and other comprehensive income and the process of revenue recognition is complex due to multiple revenue streams for services and products rendered. The revenue recognition of each revenue stream is subject to a high degree of management judgment and estimation including: • the determination of the Group's accounting policy in relation to each revenue stream; and • the determination that revenue is recognised at an amount reflecting the consideration to which the Group is expected to be entitled in exchange for transferring goods or services to a customer.	Our audit procedures included: • Obtaining a detailed understanding of each of the revenue streams and the process for calculating and recording revenue; • Assessing whether the Group's revenue recognition policies are in compliance with Australian Accounting Standards; • Performing substantive testing on each revenue stream on a sample basis. The substantive testing included agreeing transactions to approved pricing used by the Group, and agreeing the delivery of products and services to source documentation; • Reviewing the contract assets calculation for revenue that has not yet been invoiced by the Group; • Performing sample testing of the contract sum and any contract variations and claims to approved variation orders; • Performing sample testing of project costs incurred to supporting documents; • Evaluating management's assessment of any expected losses for contracts in progress at the reporting date; • Evaluating the effectiveness of management's processes for estimating the cost to complete projects by comparing a sample of contracts completed during the year to the estimated result for the previous period; • Reviewing the transactions before and after year-end to ensure that revenue is recognised in the correct financial period; and • Reviewing the appropriateness of disclosures in the financial statements.

Key Audit Matter	How our audit addressed this matter
Impairment of Goodwill Refer to Note 17 in the financial statements	
The Group has consolidated goodwill of $1.829 million relating to its acquisition of its subsidiaries in prior years. Management performs an annual impairment test on the recoverability of the goodwill as required by Australian Accounting Standards. We determined this area to be a key audit matter due to the size of the goodwill balance and because the directors' assessment of the 'value in use' of the cash generating unit ("CGU") involves judgement about the probability of future contracts to be secured, their profit margin and the discount rates applied.	Our audit procedures included: • Assessing management's determination that the goodwill should be allocated to a single CGU based on the nature of the Group's business and the manner in which results are monitored and reported; • Assessing the valuation methodology used; • Challenging the reasonableness of key assumptions, including the cash flow projections, expected revenue growth rates, the discount rate, and sensitivities used; • Reviewing management's sensitivity analysis over the key assumptions used in the model; • Checking the mathematical accuracy of the value in use model and reconciling input data to supporting evidence, such as approved budgets and considering the reasonableness of these budgets; and • Reviewing the appropriateness of disclosure in the financial statements.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2020, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do 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 and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the 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 have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/auditors_responsibilities/ar2.pdf. This description forms part of our auditor's report.

RSM

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included within the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Valmec Limited, for the year ended 30 June 2020, 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.

RSM

RSM AUSTRALIA PARTNERS

TUTU PHONG
Partner

Perth, WA
Dated: 27 August 2020

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

The following information is current as at 27 August 2020:

1. Shareholding

a. Distribution of Shareholders

	Number
Category (size of holding)	Ordinary
1- 1,000	3,871
1,001 - 5,000	379,808
5,001 - 10,000	813,835
10,001 - 100,000	11,061,148
100,001 and over	113,460,046
	125,718,708

b. The number of shareholdings held in less than marketable parcels is 100.

c. The names of the substantial shareholders listed in the holding company's register are:

	Number
Shareholder:	Ordinary
1. Stephen Zurhaar & associated entities	20,515,000
2. Stephen Lazarakis & associated entities	17,236,444
3. Mecon Pty Ltd & associated entities	15,486,126
4. Annash Pty Ltd	10,259,375
5. Rocket Science Pty Ltd & associated entities	7,800,229
6. Steve Dropulich & associated entities	6,579,779

d. Voting Rights

The voting rights attached to ordinary shares are governed by the Constitution of the Company. On a show of hands every person present who is a Member or representative of a Member shall have one vote on a poll, every Member present in person or by proxy or by attorney or duly authorised representative shall have one vote for each share held. None of the options have any voting rights.

e. 20 Largest Shareholders – Ordinary Shares

		Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1	STELDAN INVESTMENTS PTY LTD	16,036,251	12.76%
2	Z CORP PROPERTY GROUP PTY LTD	15,400,000	12.25%
3	MECON (WA) PTY LTD	13,368,131	10.63%
4	ANNASH PTY LTD	10,259,375	8.16%
5	CORE EQUITIES PTY LTD	5,115,000	4.07%
6	ROCKET SCIENCE PTY LTD	4,684,162	3.73%
7	CORTINA HOLDINGS PTY LTD	4,543,130	3.61%
8	UBS NOMINEES PTY LTD	3,837,010	3.05%
9	NATIONAL NOMINEES LIMITED	3,740,403	2.98%
10	JH NOMINEES AUSTRALIA PTY LTD	3,116,067	2.48%
11	JANT NOMINEES PTY LTD	1,861,649	1.48%
12	MR SIMON ROBERT EVANS & MR KATHRYN MARGARET EVANS	1,800,000	1.43%
13	BAILUP PASTORAL CO PTY LTD	1,539,587	1.22%
14	MRS CHRISTINE QUYE	1,300,000	1.03%
15	ELLRI INVESTMENTS PTY LTD	1,250,000	0.99%
16	MAST FINANCIAL PTY LTD	1,209,132	0.96%
17	SHANN SUPERANNUATION NOMINEES PTY LTD	1,116,459	0.89%
18	B F A PTY LTD	1,000,053	0.80%
19	REDBROOK NOMINEES PTY LTD	1,000,000	0.80%
19	JET INVEST PTY LTD	1,000,000	0.80%
20	MOAT INVESTMENTS PTY LTD	937,500	0.75%
		94,113,909	**74.86%**

CORPORATE DIRECTORY

DIRECTORS

Mr Stephen Zurhaar
Non-Executive Chairman

Mr Steve Dropulich
Managing Director

Mr Peter McMorrow
Non-Executive Director

Mr Stephen Lazarakis
Non-Executive Director

COMPANY SECRETARY

Mr Harveer Singh

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Facsimile: +61 8 9493 2787

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VMX

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PERTH WA 6000

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Facsimile: 1300 704 211

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CORPORATE GOVERNANCE STATEMENT

www.valmec.com.au/investors/corporate-governance/

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