GR Engineering Services Limited

ENGINEERING CONSULTANTS AND CONTRACTORS

ABN 12 121 542 738

ANNUAL REPORT 2012

CONTENTS

CALENDAR

FINAL DIVIDEND:	
EX-DIVIDEND DATE	11 SEPTEMBER, 2012
RECORD DATE	17 SEPTEMBER, 2012
PAYMENT DATE	28 SEPTEMBER, 2012
ANNUAL GENERAL MEETING	30 NOVEMBER, 2012

"Revenue for the year was $152.8 million, an increase of 7.2% over the previous financial year. Net profit after tax for the year was $13.1million."

Dear Shareholder

As Chairman of GR Engineering Services Limited (GR Engineering or Company), it is with pleasure that I present to you the Annual Report of the Company for the year ended 30 June 2012, the Company's first full year of operation as a publically listed entity.

Despite what was in many ways a challenging year, a great deal was achieved by the Company during this period. Most notably, the Company recorded a second consecutive year without one lost time injury. This is indeed an exemplary result and I extend my congratulations to all those concerned. I urge management to maintain a constant focus on occupational health and safety and to improve on an already excellent result.

Also during the year, the Company successfully delivered its largest project to date, being the design and construction of the 750,000 tonne per annum Lead/Zinc processing plant for CBH Resources Limited's Rasp Project. This facility, which is located in New South Wales, was delivered on time and on budget and adds to GR Engineering's excellent reputation as a provider of engineering and construction services with guaranteed client outcomes.

In presenting to shareholders last year's Annual Report, I commented on the Company's strategic objective for organic growth through geographical expansion. I am pleased to say that important foundations for this strategy has been laid with the completion during the year of seven feasibility studies relating to overseas gold and base metal projects and with good progress made on the establishment of a platform for the delivery of design and construction activities in several West African jurisdictions.

Despite these positive outcomes, the year under review was in some respects difficult. Volatility in commodity prices and difficult debt and equity markets contributed to the deferral of several projects. While the Company achieved record turnover, these project deferrals resulted in less than optimum manpower utilisation and proportionately higher overhead costs. In addition GR Engineering undertook works for a number of new clients on a range of greenfields and brownfields projects. These projects were instrumental in demonstrating the Company's capabilities and expertise and were delivered on time and on budget, albeit at slightly lower margins than traditionally achieved.

Revenue for the year was $152.8 million, an increase of 7.2% over the previous financial year. Net profit after tax for the year was $13.1million, a shortfall of $8.0million or 37.9% down on the previous financial year.

While these results were somewhat disappointing, the Company's financial position remained strong. As at 30 June 2012, GR Engineering Services remained materially debt free, held cash of $38.9 million and enjoyed a strong working capital position with a current asset to current liability ratio of 3.83 to 1.00.

Having regard to the Company's profitability for the year and its strong Statement of Financial Position, the Directors have resolved to declare a fully franked dividend of 4.0 cents per share, bringing the full year dividend payment to 8.0 cents per share. The Record Date for this dividend is 17 September 2012 and the proposed Payment Date is 28 September 2012.

As at 30 June 2012 GR Engineering was engaged on 18 feasibility studies, of which 12 relate to projects in Australia. These studies, when combined with those studies already completed provide the basis for a degree of optimism surrounding new contract awards in the 2013 financial year. During the 2012 financial year, professional and professional support staff numbers increased from 189 to 223, providing tangible support for this outlook.

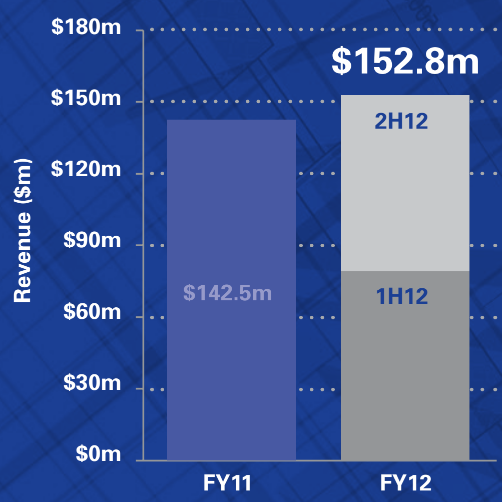
In summary, the 2012 financial year was characterised by difficult operating conditions brought about by project delays as a result of ongoing economic uncertainty and weaker commodity prices. Nevertheless, the Company was able to achieve record revenue and make strong inroads into accessing international markets. Most importantly, GR Engineering was successful in conducting a record level of construction activity while maintaining a strong pipeline of project opportunities.

I would like to thank my fellow Board members for their counsel and assistance throughout the year and extend my gratitude also to the men and women comprising our highly valued workforce. Finally and on behalf of the entire Company, I would also like to express my appreciation to our clients for their business and support.

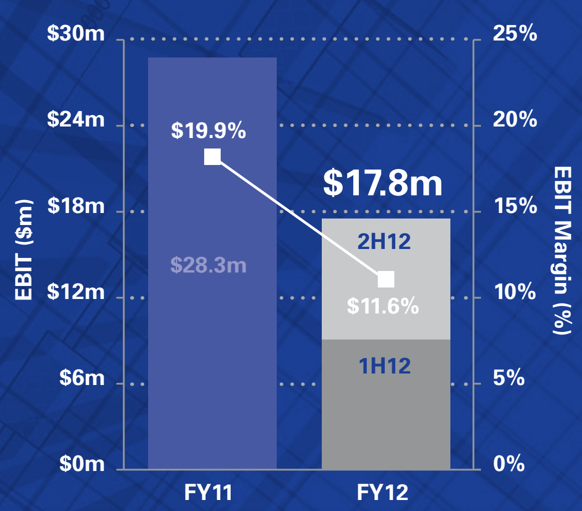
BARRY SYDNEY PATTERSON
Non-Executive Chairman

> "A RECORD LEVEL OF CONSTRUCTION ACTIVITY WHILE MAINTAINING A STRONG PIPELINE OF PROJECT OPPORTUNITIES."

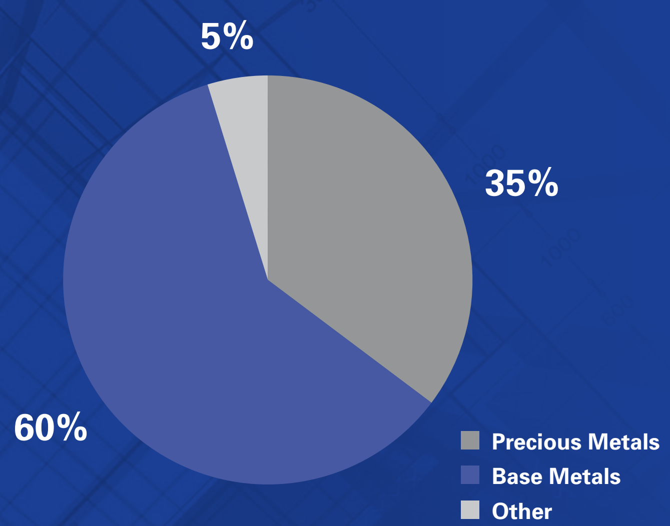
Revenue



EBIT



FY12 Revenue by Commodity



REVIEW OF OPERATIONS

During the year ended 30 June 2012 the Company continued to capitalise on its excellent industry reputation and delivered successful financial and operational outcomes to clients in the gold and base metals sector.

The Company also made good progress on the implementation of its stated strategy of growth through geographical expansion, particularly into West Africa. During the year ended 30 June 2012 GR Engineering established subsidiaries in Ghana, Cote D'Ivoire and Mali and was engaged on detailed design and engineering projects in Mali and Cote D'Ivoire.

In addition the Company is focused on several near term opportunities to deliver EPC and EPCM projects in West Africa subsequent to the completion of feasibility studies on these projects, subject to clients obtaining finance and environmental approvals.

GR Engineering aims to build on its operational presence in West Africa and is confident that these operations will make a significant contribution to earnings during the 2012/2013 financial year and beyond.

In Australia, the Company delivered 7 projects on time and on budget. It is pleasing to report that 4 of these projects were repeat engagements from existing clients.

All completed projects were profitable, continuing GR Engineering's history of having no loss making contracts

Region	Client & Contract	Commodity	Description
Australia	• **Integra Mining Ltd** Randalls Gold Plant Upgrade	• Precious Metals	• GR Engineering was engaged by Integra Mining to undertake the upgrade to 1Mtpa of the Randalls gold processing plant in Western Australia
	• **CBH Resources Ltd** Rasp Mine Processing Plant	• Base Metals	• GR Engineering was engaged by CBH (Toho Zinc) to design and construct the 750Ktpa lead / zinc processing plant for the Rasp Mine at Broken Hill, New South Wales
	• **Newcrest Mining Ltd** Telfer Regrind Project	• Precious Metals	• GR Engineering was engaged by Newcrest to undertake the installation of two ISA mills, for a pyrite and copper circuit as a brownfields expansion at the Telfer Gold Project in Western Australia
	• **Ramelius Resources Ltd** Checker Processing Plant	• Precious Metals	• GR Engineering was engaged by Ramelius to provide EPC services to refurbish the 1.7Mtpa Checker processing plant at Mt Magnet, Western Australia
	• **Newcrest Mining Ltd** Telfer Gold Mine Flotation Upgrade	• Precious Metals	• GR Engineering was engaged by Newcrest to provide EPC services for the installation of vendor supplied Jameson cells as a brownfields expansion at the Telfer Gold Project in Western Australia
	• **Xstrata Nickel** Cosmos Fuel Farm	• Base Metals	• GR Engineering was engaged by Xstrata to provide EPC services for the installation of a fuel farm at the Cosmos nickel mine in Western Australia
	• **First Quantum Minerals Ltd** Ravensthorpe Nickel Project	• Base Metals	• GR Engineering was engaged by First Quantum to provide EPC services for the installation of a nickel concentrate bagging plant at the Ravensthorpe nickel project in Western Australia

Amongst projects delivered during the year was the Rasp Mine lead/zinc processing plant designed and constructed for CBH Resources Limited in New South Wales. This was the single largest project delivered by GR Engineering to date and further demonstrated the Company's capacity to deliver large projects on an EPC basis.

The year under review also saw the consolidation of the Company's Brisbane office as an independent profit centre. Showing steady growth, this office was poised to make contributions to the Company's profitability by the end of the year through engagements secured on projects in Australia, Mexico and Laos.

Professional and support staff numbers continued to grow throughout the 2012 financial year reaching a plateau of approximately 225 by year end. Growth in staff numbers has been integral to the Company's strategy of growth through securing larger projects and geographical expansion. This strategy has been implemented through a period of international economic uncertainty and a general weakening of commodity prices, particularly base metals. This uncertainty resulted in delays and deferrals to projects which had been scheduled to commence during the year. These project delays and deferrals contributed to less than optimal utilisation of staff and therefore reduced margins. The Company was nevertheless able to retain and keep actively engaged its valuable workforce largely due to the historically high volume of study and design engagements.

"Workforce comprising +220 professional and support staff plus direct construction workforce and subcontractors, up 20% from FY11."

During the year ended 30 June 2012, the Company completed over 30 studies and consulting engagements and as at year end was engaged on 18 studies relating to projects with a combined capital value exceeding $850 million. These studies relate primarily to gold projects a number of which are located in West Africa. The Company has strong expertise and a successful track record in the design and construction of gold plants and it will capitalise on this reputation to maintain maximum exposure to opportunities in the gold sector which remains resilient in the face of a persistently strong gold price.

Securing and successfully completing study work and front end engagements remains an integral and important component of the Company's business model as it seeks to develop an intimate knowledge of the related projects and develop strong working relationships with their proponents.

During the year GR Engineering continued to maintain its strong occupational health and safety record. Despite a record amount of construction activity, the Company achieved a Lost Time Injury Frequency Rate of nil for the second consecutive year. **By 30 June 2012 the Company had recorded 734 consecutive days without incurring a lost time injury**. This excellent result demonstrates the Company's firm commitment to its most fundamental corporate objective of protecting the health and safety of its most valuable asset, its employees.

"GR Engineering was successful in conducting a record level of construction activity while maintaining a strong pipeline of project opportunities."

Strategies For Continued Growth

- Capitalise on the Company's strong balance sheet, excellent reputation and track record and high calibre of its human resources to win and execute larger construction and in particular EPC construction projects.
- Continue the expansion into West Africa.
- Develop appropriate remuneration and incentive schemes to attract and retain the highest calibre of professional and skilled labour.
- Maintain the Company's historical strategy of executing front end studies and investigations and converting such studies into construction projects.
- Assess opportunities to acquire other businesses to the extent that they will be consistent with and complimentary to the Company's existing business model.

Your Directors present their report together with the financial statements of GR Engineering Services Limited ("GR Engineering" or "the Company") for the financial year 1st July 2011 to 30th June 2012 and the independent auditor's report thereon.

The names of the Company's Directors in office during the financial year ended 30th June 2012 and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

DIRECTORS

Barry Sydney PATTERSON (Non-Executive Chairman)	Appointed 3 January 2007
Joseph Mario Paul RICCIARDO (Managing Director)	Appointed 4 September 2006
Tony Marco PATRIZI (Executive Director)	Appointed 4 September 2006
Terrence John STRAPP (Non-Executive Director)	Appointed 10 February 2011
Peter John HOOD (Non-Executive Director)	Appointed 10 February 2011

COMPANY SECRETARY

Giuseppe (Joe) TOTARO (B.Comm, CPA, FTIA)	Appointed 4 September 2006

Joe has been Company Secretary since 4 September 2006 and was appointed Chief Financial Officer on 19 April 2011. Joe co-founded GR Engineering. Joe is a certified practicing accountant (CPA) with over 25 years' experience in commercial and public practice specialising in mining and mining services. Joe was formerly company secretary of and business consultant to JR Engineering. Joe's experience includes corporate advisory services having consulted on and managed numerous corporate transactions involving private and publicly listed companies.

PRINCIPAL ACTIVITIES

During the year the Company's activities have been the provision of high quality process engineering design and construction services to the mining and mineral processing industry.

DIVIDENDS PAID DURING THE YEAR

- Fully franked dividend of 4.00 cents per share paid on 14 November 2011
- Fully franked dividend of 4.00 cents per share paid on 13 March 2012
- Subsequent to 30 June 2012, a fully franked dividend of 4.00 cents per share was recommended by the Directors to be paid on 28 September 2012.

REVIEW OF OPERATIONS AND FINANCIAL PERFORMANCE

During the year ended 30 June 2012 GR Engineering Services Limited (GR Engineering or the Company) achieved record revenue largely from the delivery of 6 design and construction projects, including the 750,000 tonne per annum lead/zinc processing plant for CBH Resources Limited's Rasp Project, the Company largest project to date. This facility, which is located in New South Wales, was delivered on time and on budget and its successful completion further enhanced GR Engineering's excellent reputation as a provider of engineering and construction services with guaranteed client outcomes.

The 2012 financial year also brought with it a record level of study activity. GR Engineering successfully completed over 30 studies and consulting engagements in FY12 and is currently engaged on 18 studies, many for near term projects both in Australia and overseas. The overseas studies provide tangible opportunities to achieve the Company's stated objective of growth through geographical expansion. The Company also made significant progress in FY12 with its strategy to diversify into West Africa by establishing a corporate presence in Ghana, Mali and the Ivory Coast and through the award of work in all of these jurisdictions.

As at 30 June 2012, the Company had a workforce comprising 223 professional and support staff in addition to a direct construction workforce and subcontractors, up 20% from FY11.

Despite the record level of construction activity undertaken, GR Engineering's focus on occupational health and safety was rewarded with the achievement of a second consecutive year with a nil lost time injury frequency rate (LTIFR). GR Engineering will maintain its complete commitment to occupational health and safety and will strive to improve on its already excellent record in this area.

Despite record revenue and good operational outcomes, the year under review was in some respects challenging. Uncertain economic conditions abroad gave rise to a tightening of debt and equity markets. Combined with volatile commodity prices, this economic uncertainty contributed to several project deferrals resulting in proportionately higher overheads and less than optimum manpower utilisation, which also impacted on the Company's margins. In addition, the Company established relationships with new clients on a range of greenfields and brownfields projects. These projects were successfully completed and delivered on time and on budget.

FINANCIAL POSITION

GR Engineering generated record revenue of $152.8 million and net operating cashflow of $16.2 million for the year ended 30 June 2012.

During the year, the Company paid $12 million in fully franked dividends and held cash including term deposits of $38.9 million as at 30 June 2012, an increase of $2.9 million over the previous financial year, taking into account cash held to secure contingent liabilities under the Company's bonding facilities.

GROWTH STRATEGY

- GR Engineering's focus remains on winning larger construction projects
  - Strong balance sheet provides a platform to undertake work of increased scale
  - Focus on quality revenue at acceptable margins will remain
- The Company aims to continue its expansion into West Africa
  - Study activity in West Africa remains strong
  - Build on early success in West African strategy through strong project execution and delivery
- GR Engineering will continue to focus on the conversion of studies into projects in line with historic strategy.
- Attracting and retaining the highest calibre of professionals and skilled labour in the market remains a priority of the Company.
- The Company will continue to seek increased exposure to iron ore.
- Corporate / M&A opportunities will continue to be considered.

SIGNIFICANT CHANGE IN THE STATE OF AFFAIRS

Gold Ridge Mining Limited Arbitration

GR Engineering commenced debt recovery proceedings against Gold Ridge Mining Limited (**GRML**) on 28 June 2011 to recover outstanding costs and associated damages of around $4.5 million relating to a lump sum EPC contract for the expansion and refurbishment of the Gold Ridge Mine in the Solomon Islands.

On 18 May 2012 GRML served GR Engineering with a further amended defence and counterclaim, including a new and further counterclaim for gold losses arising from alleged defects and alleged representations regarding performance.

That value of GRML's counterclaim is currently in the order of $45 million – over $42 million comprised of losses which GR Engineering considers as having no basis, of an ambit nature and in any case are of a consequential and indirect nature and therefore expressly and specifically excluded from the EPC contract between GR Engineering and GRML.

GR Engineering is aggressively protecting its reputation and excellent industry track record through a vigorous defence of GRML's counterclaim.

The Company's insurers have been notified of the counterclaim. An arbitration hearing is scheduled for November 2012 in relation to the debt and the counterclaim. The Directors of the Company consider that GRML's counter claim is an ambit claim and that the Company will continue to vigorously defend its position. Accordingly, no provision has been reflected in the financial statements in relation to the counter claim.

FUTURE DEVELOPMENTS

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

EVENTS AFTER THE BALANCE DATE

On 10 July 2012 GR Engineering Services Limited entered into an agreement with Assetinsure Pty Ltd by which Assetinsure Pty Ltd agreed to provide the consolidated entity with a $10,000,000 performance bond facility. The consolidated entity's contingent obligations under the performance bond facility are secured by a Deed of Indemnity and Guarantee, by which the consolidated entity agrees to indemnify Assetinsure against all and any loss arising from the provision of bonds under the performance bond facility.

On 20 August 2012, the Company declared a fully franked dividend of 4.0 cents per share, an aggregate of $6,000,000. The Record Date of the dividend is 17 September 2012 and the proposed payment date is 28 September 2012.

On 09 October 2012 the Company announced to the Australian Securities Exchange that it had reached agreement with Gold Ridge Mining Limited (GRML) whereby in consideration for a cash payment of $2.65 million to GR Engineering, all legal proceedings in relation to the Company's claim on GRML and GRML's counterclaim on GR Engineering would be brought to an end. This settlement will result in the Company writing off $490,000 over and above the $1,525,000 already provided for in the accounts.

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

BOARD OF DIRECTORS

Barry Sydney PATTERSON – Non-Executive Chairman

ASMM, MIMM, FAICD

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

Barry has served as a director of a number of public companies across a range of industries. He was formerly a non-executive chairman of Sonic Healthcare Limited and Silex Systems Limited.

- Interests in Ordinary shares in GR Engineering Services Limited – 10,500,000
- Interests in Options in GR Engineering Services Limited – None
- Special Responsibilities:
  - Chairman of the Remuneration and Nominations Committee
  - Member of the Audit and Risk Committee
- Directorships in other listed entities in the last 3 years:
  - Sonic Healthcare Limited (ASX:SHL) 1992 – 2010
  - Silex Systems Limited (ASX:SLX) 1993 – 2010

Joseph (Joe) Mario Paul RICCIARDO – Managing Director

BAppSc (Mech Eng)

Joe co-founded GR Engineering. He is a Mechanical Engineer with over 33 years' experience in feasibility studies, design, construction, maintenance and operation of mineral processing facilities.

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

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

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

- Interests in Ordinary shares in GR Engineering Services Limited – 9,025,000
- Interests in Options in GR Engineering Services Limited – None
- Special Responsibilities:
  - Managing Director
- Directorships in other listed entities in the last 3 years:
  - Mineral Resources Limited (ASX:MIN) 2006 – Present

Tony Marco PATRIZI – Executive Director

BE(Mech Eng)

Tony co-founded GR Engineering. Tony is a Mechanical Engineer with over 20 years' experience in the mining and minerals processing industries as a company director, operations manager, project manager and maintenance engineer. Tony was previously the operations manager of JR Engineering which had over 300 personnel and provided workshop, maintenance, engineering and construction services to mining and mineral processing projects in Western Australia and interstate.

- Interests in Ordinary shares in GR Engineering Services Limited – 9,025,000
- Interests in Options in GR Engineering Services Limited – None
- Directorships in other listed entities – None

Terrence (Terry) John STRAPP – Non-Executive Director

CPA, FFin., MAICD

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

Terry is a non-executive director of Ausdrill Limited.

- Interests in Ordinary shares in GR Engineering Services Limited – 300,000
- Interests in Options in GR Engineering Services Limited – None
- Special Responsibilities:
  - Chairman of the Audit and Risk Committee
  - Member of the Remuneration and Nominations Committee
- Directorships in other listed entities in the last 3 years:
  - Ausdrill Limited (ASX:ASL) 2005 – Present

Peter John HOOD – Non-Executive Director

BE(Chem), MAusIMM, FIChemE, FAICD

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

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

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

- Interests in Ordinary shares in GR Engineering Services Limited – 500,000
- Interests in Options in GR Engineering Services Limited – None
- Special Responsibilities:
  - Member of the Audit and Risk Committee
  - Member of the Remuneration and Nominations Committee
- Directorships in other listed entities in the last 3 years:
  - Apollo Gas Ltd 2009 – 2010
  - Matrix Composites & Engineering Limited (ASX:MCE) 2011 – present

MEETINGS OF DIRECTORS

The number of Meetings of the Board of Directors held during the year ended 30 June 2012 and the number attended by each director are as follows:

FULL MEETINGS OF DIRECTORS

	Eligible	Attended
Barry Patterson	13	12
Joe Ricciardo	13	13
Tony Patrizi	13	13
Terrence Strapp	13	13
Peter Hood	13	13

Meetings of the Audit and Risk Committee were held on 22nd August 2011 and 20th February 2012. These meetings were attended by the Chairman of the Audit and Risk Committee Terrence Strapp, members of the Audit and Risk Committee Barry Patterson and Peter Hood, and Chief Financial Officer Joe Totaro. No meeting of the Remuneration and Nominations Committee was held during the year ended 30th June 2012.

OPTIONS

As at the date of this report, the unissued ordinary shares of GR Engineering Services Limited under option are as follows:

Grant Date	Date of Expiry	Exercise Price	No. Under Option
19 April 2011	19 April 2013	$1.25	500,000
19 April 2011	19 April 2014	$1.50	500,000
19 April 2011	19 April 2015	$1.80	750,000
19 April 2011	19 April 2016	$2.10	750,000

The option holder does not have any right to participate in any issues of shares or other interests in the Company or any other entity.

For full particulars of options issued to directors as remuneration, refer to the Remuneration Report.

No shares were issued during the financial year ended 30 June 2011 due to the exercise of options.

INDEMNIFYING OFFICERS OR AUDITORS

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

LEGAL PROCEEDINGS

A summary of the arbitration proceedings between GR Engineering Services Limited and Gold Ridge Mining Limited has been provided in this Directors' Report under the heading *Significant Change in the State of Affairs*.

No person has applied for leave of court to bring any material proceedings on behalf of the Company during the year ended 30 June 2012.

NON AUDIT SERVICES

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

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

During the year ended 30 June 2012 fees amounting to $25,860 were paid to Deloitte Touche Tohmatsu for non-audit services including taxation advice. A further $2,667 was paid to Deloitte Corporate Finance Pty Limited in connection with the Company's Initial Public Offering.

AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration for the year ended 30 June 2012 has been reviewed and can be found at page 23 of the annual financial report.

ENVIRONMENTAL ISSUES

In conducting its business, the Company is required to obtain permits and licences from relevant state environmental protection authorities. It is of paramount importance to management and the Board of Directors that as well as operating within its own Environmental Policies, the Company observes all relevant licences in good standing.

The Company has not been made aware of any areas of non-compliance in this regard.

The Company is not subject to the Energy Efficiency Opportunities Act 2006 as it does not meet the energy use threshold specified in Section 10 of that legislation. The Company's energy consumption will be monitored and will register under the act if and when the energy use threshold is exceeded.

REMUNERATION REPORT – AUDITED

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

Directors

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

Executives

Geoffrey Jones	(Chief Operating Officer)
David Sala Tenna	(General Manager)
Giuseppe Totaro	(Chief Financial Officer & Company Secretary)
Rodney Schier	(Engineering Manager)
Peter Allen	(Manager - Process)

The named persons held their current position for the whole financial year and since the end of the financial year. At the Company's 2011 Annual General Meeting, 96% of eligible shareholders voted in favour of the remuneration report. No specific comments were made regarding the remuneration report at the meeting.

REMUNERATION POLICY

The Company's remuneration policy has been designed to attract and retain high calibre key employees whose personal interests are aligned with success and growth of the Company and therefore shareholders.

This will be achieved by:

- Staying abreast of labour market forces thereby ensuring remuneration offered by the company is competitive and remains so through a process of annual review.
- Devising performance based remuneration programmes.
- Activation of the Company's Employee Share Option Plan.

NON-EXECUTIVE DIRECTORS

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

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

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

EXECUTIVE DIRECTORS

Executive Director pay and reward is comprised of a competitive base salary. To the extent that both executive directors are substantial shareholders in the Company, their personal objectives are aligned with the performance of the Company.

SENIOR EXECUTIVES

Executive remuneration is comprised of a competitive base salary and performance bonuses (at the discretion of the board). The Chief Operating Officer is also incentivised through the issue of performance based options.

All executive remuneration packages are reviewed annually to ensure they remain competitive. Remuneration paid to directors and executives is valued at cost to the Company. Options are valued using the Black Scholes method.

EMPLOYMENT DETAILS OF MEMBERS OF KEY MANAGEMENT PERSONNEL

Name and Title	Contract Details	Non Salary Cash Incentives	Shares/ Units	Options/ Rights	Fixed Salary	Total
Joe Ricciardo Managing Director	Fixed term to 31 Jan 2013. Termination: 3 months notice by the Company or employee	-	-	-	100%	100%
Tony Patrizi Executive Director	Fixed term to 31 Jan 2013. Termination: 3 months notice by the Company or employee	-	-	-	100%	100%
Barry Patterson Non-Executive Chairman	By rotation and re election	-	-	-	100%	100%
Terry Strapp Non-Executive Director	By rotation and re election	-	-	-	100%	100%
Peter Hood Non-Executive Director	By rotation and re election	-	-	-	100%	100%
Geoffrey Jones Chief Operating Officer	Fixed term to 30 June 2016. Termination: 4 months notice by the Company and 3 months notice by the employee	-	-	32.9%	67.1%	100%
David Sala Tenna General Manager	Fixed term to 31 Jan 2013. Termination: 3 months notice by the Company or employee	-	-	-	100%	100%
Joe Totaro Company Secretary / Chief Financial Officer	Fixed term to 31 Jan 2013. Termination: 3 months notice by the Company or employee	-	-	-	100%	100%

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

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

REMUNERATION DETAILS FOR THE YEAR ENDED 30 JUNE 2012 - BOARD OF DIRECTORS

			Short Term Benefits	Post Employment Benefits		Share Based Payments			
	Cash Salary & Fees $	Non Cash Payments ** $	Sub Total $	Super-annuation $	Other* $	Equity $	Options $	Total $	Perfor-mance Based %
Executive Directors									
Joe Ricciardo									
2012	311,926	11,855	323,781	28,073	-	-	-	351,854	0%
2011	242,854	10,440	253,294	21,857	-	-	-	275,151	0%
Tony Patrizi									
2012	311,926	15,482	327,408	28,073	-	-	-	355,481	0%
2011	223,800	13,350	237,150	21,492	-	-	-	258,642	0%
Non-Executive Directors									
Barry Patterson									
2012	87,199	-	87,199	-	-	-	-	87,199	0%
2011	32,532	-	32,532	-	-	-	-	32,532	0%
Terrence Strapp ***									
2012	60,000	-	60,000	5,400	-	-	-	65,400	0%
2011	23,000	-	23,000	2,070	-	-	-	25,070	0%
Peter Hood									
2012	60,000	-	60,000	5,400	-	-	-	65,400	0%
2011	22,385	-	22,385	2,015	-	-	-	24,400	0%
Total Directors									
2012	831,051	27,337	858,388	66,946	-	-	-	925,334	0%
2011	544,571	23,790	568,361	47,434	-	-	-	615,795	0%

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

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

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

EXECUTIVES

			Short Term Benefits	Post Employment Benefits				Share Based Payments	
	Cash Salary & Fees $	Non Cash Payments ** $	Sub Total $	Superannuation $	Other* $	Equity $	Options $	Total $	Performance Based %
Senior Executives									
Geoffrey Jones – Chief Operating Officer									
2012	431,171	20,091	451,262	38,805	-	-	240,212	730,279	32.9%
2011	82,127	-	82,127	7,391	-	-	50,622	140,140	36.1%
David Sala Tenna – General Manager									
2012	348,624	8,500	357,124	31,376	-	-	-	388,500	0%
2011	320,042	11,039	331,081	28,804	-	-	-	359,885	0%
Giuseppe Totaro – Company Secretary & Chief Financial Officer									
2012	211,009	7,737	218,746	18,990	-	-	-	237,736	0%
2011	177,664	5,887	183,551	15,990	-	-	-	199,541	0%
Rodney Schier – Engineering Manager									
2012	275,228	8,357	283,585	24,770	-	-	-	308,355	0%
2011	258,557	4,922	263,479	23,270	-	-	-	286,749	0%
Peter Allen – Manager – Process									
2012	388,673	3,836	392,509	34,980	73,394	-	-	500,883	14.6%
2011	267,388	3,800	271,188	24,064	50,000	-	-	345,252	14.5%
Total Senior Executives									
2012	1,654,705	48,521	1,703,226	148,921	73,394	-	240,212	2,165,753	14.5%
2011	1,105,778	25,648	1,131,426	99,519	50,000	-	50,622	1,331,567	7.6%
GRAND TOTAL									
2012	**2,485,756**	**75,858**	**2,561,614**	**215,867**	**73,394**	**-**	**240,212**	**3,091,087**	**10.1%**
2011	**1,650,349**	**49,438**	**1,699,787**	**146,953**	**50,000**	**-**	**50,622**	**1,947,362**	**5.2%**

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

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

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

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

EXECUTIVES (CONTINUED)

The Company has issued a total of 2,500,000 Options to its Chief Operating Officer, Geoff Jones subject to vesting criteria and terms and conditions, namely that they will lapse if the employee ceases to become an eligible person, for any reason other than a specified reason as outlined in the terms of the Option agreement. Key elements of the Options are summarised in the following table:

Grant Date	Vesting Date	Date of Expiry	Exercise Price	Number	Fair Value at Grant Date
19 April 2011	19 April 2012	19 April 2013	$1.25	500,000	$0.1740
19 April 2011	19 April 2013	19 April 2014	$1.50	500,000	$0.2450
19 April 2011	19 April 2014	19 April 2015	$1.80	750,000	$0.2400
19 April 2011	19 April 2015	19 April 2016	$2.10	750,000	$0.2600

The following grants of share-based payment compensation to directors and senior management relate to the current financial year:

Name	Option series	Number granted	Number vested	% of grant vested	% of grant forfeited	% of compensation for the year consisting of options
Geoff Jones	Issued 19 April 2011	2,500,000	500,000	20%	0%	36.1%

RELATIONSHIP BETWEEN COMPANY PERFORMANCE AND REMUNERATION POLICY

The table below sets out summary information about the Company's earnings and movements in shareholder wealth for the 5 years to 30 June 2012:

	2008	2009	2010	2011	2012
Revenue ($000's)	106,163	79,074	128,217	142,512	152,838
Net profit before tax ($000's)	13,276	22,111	24,427	29,247	19,858
Net profit after tax ($000's)	9,389	15,471	17,836	21,098	13,115
Share Price at year end	N/A	N/A	N/A	$1.95	$0.90
Dividend ($000's)	6,500	11,000	15,000	19,000	12,000
EPS (cents)	7.8	12.9	14.9	16.76	8.74
Diluted EPS (cents)	7.8	12.9	14.9	16.75	8.74

Note that for comparative purposes the number of shares assumed to be on issue for the financial years ended 30 June 2008 to 2009 inclusive is 120.0 million. This period is prior to a share split performed at the time the Company listed in April 2011, which resulted in 120.0 million shares on issue.

The Company's two executive directors, the Non-executive Chairman, two senior executives and four key employees hold significant shareholdings in the Company. As a result the performance of the Company and the personal and financial interest of its executive and management team are aligned.

The Company has issued a series of options to its Chief Operating Officer which are designed to deliver increasing financial reward to the COO with increases in the Company's share price and therefore shareholder wealth.

An Employee Share Option Plan has been adopted by the Company and will be implemented on an as required basis as the Nomination and Remuneration Committee identifies the need to remunerate either existing or future employees, key employees, executives or executive directors on a performance basis.

LONG TERM INCENTIVES

A new long term incentive plan, the GR Engineering Services Limited Equity Incentive Plan (Plan) was adopted by the Board on 28 March 2012. In accordance with the Listing Rules of the Australian Securities Exchange (ASX), shareholder approval of the Plan will be sought at the Company's next Annual General Meeting, to be held on 30 November 2012. Under the ASX Listing Rules, the grant of securities under the Plan to directors will be subject to separate shareholder approval.

At the discretion of the Board, all eligible employees of the Company or eligible consultants may participate in the Plan. Non-executive directors are not eligible to participate in the Plan.

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

It is intended that the following awards will be made to eligible employees and eligible consultants under the Plan:

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

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

No securities were issued under the Plan in financial year 2012.

This marks the end of the remuneration report.

CORPORATE GOVERNANCE

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

On 15 March 2011, the Company's Board of Directors resolved to adopt comprehensive corporate governance policy and manual based on ASX guidelines. It was further resolved by the Board that corporate governance policies would be reviewed and additional structures implemented as the Company's activities develop in size, nature and scope.

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

This Report of the Directors, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors.

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

On behalf of the Directors

JOSEPH MARIO PAUL RICCIARDO
Managing Director

Date: 24 August 2012

Deloitte.

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The Board of Directors
GR Engineering Services Limited
71- 73 Daly Street
BELMONT WA 6104

24 August 2012

Dear Board Members

GR Engineering Services Limited

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

As lead audit partner for the audit of the financial statements of GR Engineering Services Limited for the financial year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Neil Smith

Neil Smith
Partner
Chartered Accountants

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2012

	Notes	Consolidated 2012 $	Consolidated 2011 $
REVENUE	5	152,837,930	142,511,568
Other income	6	2,150,714	1,395,900
Expenses			
Employee benefits expense	6	(38,382,854)	(28,364,268)
Superannuation expense	6	(2,777,017)	(1,922,696)
Depreciation and amortisation expense		(685,665)	(542,424)
Workers compensation expense		(207,197)	(167,500)
Equity based payments		(240,212)	(50,622)
Finance costs	6	(88,133)	(64,057)
Direct materials & subcontractor expenses		(86,542,699)	(77,896,150)
Accountancy & audit fees		(256,888)	(63,588)
Marketing		(168,478)	(118,557)
Doubtful debts		-	(1,525,000)
Occupancy		(1,921,977)	(1,211,631)
Administration		(3,859,463)	(2,733,487)
Profit before income tax expense		19,858,061	29,247,488
Income tax expense	7	(6,742,606)	(8,149,564)
Profit after income tax expense for the year attributable to the owners of GR Engineering Services Limited	19	13,115,455	21,097,924
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year attributable to the owners of GR Engineering Services Limited		13,115,455	21,097,924
		Cents	**Cents**
Basic earnings per share	29	8.74	16.76
Diluted earnings per share	29	8.74	16.75

The accompanying notes form part of these Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2012

	Notes	Consolidated 2012 $	2011 $
ASSETS			
Current Assets			
Cash and cash equivalents	8	33,861,242	33,279,221
Trade and other receivables	9	25,378,835	27,270,864
Inventories	10	578,464	1,673,918
Income tax refund due	7	-	1,202,524
Other	11	231,305	203,460
Total Current Assets		60,049,846	63,629,987
Non-current assets			
Property, plant and equipment	12	2,191,887	1,972,639
Deferred tax	7	1,832,680	3,222,304
Total non-current assets		4,024,567	5,194,943
Total assets		64,074,413	68,824,930
LIABILITIES			
Current liabilities			
Trade and other payables	13	10,258,673	14,760,280
Borrowings	14	246,701	526,904
Income tax	7	694,564	-
Provisions	15	3,872,639	6,486,824
Unearned revenue / Advanced costs / Work in progress	16	6,101,140	5,586,777
Total current liabilities		21,173,717	27,360,785
Non-Current Liabilities			
Borrowings	14	232,335	401,581
Provisions	15	478,500	228,370
Total Non-Current Liabilities		710,835	629,951
TOTAL LIABILITIES		21,884,552	27,990,736
NET ASSETS		42,189,861	40,834,194
EQUITY			
Issued capital	17	28,501,548	28,501,548
Reserves	18	290,834	50,622
Retained profits	19	13,397,479	12,282,024
Total equity		42,189,861	40,834,194

The accompanying notes form part of these Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2012

	Notes	2012 $	2011 $
Cash flows from operating activities			
Receipts from customers		157,194,026	132,609,565
Payments to suppliers and employees		(139,689,706)	(112,480,692)
Income tax paid		(3,455,894)	(5,524,159)
Interest received		2,191,766	955,789
Net cash flows from operating activities	8	16,240,192	15,560,503
Cash flows from investing activities			
Purchase of property, plant and equipment		(908,324)	(1,081,129)
Proceeds from sale of property, plant and equipment		-	-
Investment in terms deposits		(2,300,398)	(963,166)
Net cash flows used in investing activities		(3,208,722)	(2,044,295)
Cash flows from financing activities			
Proceeds from issue of shares		-	30,000,000
Payment of capital raising costs		-	(2,142,074)
Payment of finance lease liabilities		(450,303)	(134,065)
(Payments) / Proceeds from borrowings		853	411,217
Repayments of borrowings		-	-
Dividends paid		(12,000,000)	(19,000,000)
Net cash flows from/(used in) financing activities		(12,449,450)	9,135,078
Net increase in cash and cash equivalents		582,020	22,651,286
Cash and cash equivalents at beginning of period		33,279,222	10,627,936
Cash and cash equivalents at end of period	8	33,861,242	33,279,222

The accompanying notes form part of these Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2012

	Issued capital $	Reserves $	Retained Earnings $	Total $
Balance as at 1 July 2010	1,000	-	10,184,098	10,185,098
Profit for the year	-	-	21,097,926	21,097,926
Other Comprehensive income for the year	-	-	-	-
Total Comprehensive income for the year	-	-	21,097,926	21,097,926
Declared dividend	-	-	(19,000,000)	(19,000,000)
Issue of capital	30,000,000	-	-	30,000,000
Capital raising costs	(2,142,074)	-	-	(2,142,074)
Deferred tax asset (Capital raising costs)	642,622	-	-	642,622
Share based payments	-	50,622	-	50,622
Balance as at 30 June 2011	28,501,548	50,622	12,282,024	40,834,194
Profit for the year	-	-	13,115,455	13,115,455
Other Comprehensive income for the year	-	-	-	-
Total Comprehensive income for the year	-	-	13,115,455	13,115,455
Declared dividend	-	-	(12,000,000)	(12,000,000)
Share based payments	-	240,212	-	240,212
Balance as at 30 June 2012	28,501,548	290,834	13,397,479	42,189,861

The accompanying notes form part of these Financial Statements

1. GENERAL INFORMATION

The financial report of GR Engineering Services Limited for the year ended 30 June 2012 was authorised for issue in accordance with a resolution of the directors on 24 August 2012.

GR Engineering Services Limited is a limited company incorporated and domiciled in Australia.

The registered office of GR Engineering Services Limited is located at 71-73 Daly Street, Belmont, Western Australia.

2. SIGNIFICANT ACCOUNTING POLICIES

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

New, revised or amending Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

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

Any significant impact on the accounting policies of the consolidated entity from the adoption of these Accounting Standards and Interpretations are disclosed in the relevant accounting policy. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

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

AASB 2010-4 Amendments to Australian Accounting Standards arising from the Annual Improvements Project

AASB 2010-5 Amendments to Australian Accounting Standards

AASB 124 Related Party Disclosures (December 2009)

AASB 2010-6 Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets

Statement of compliance

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

The financial statements comprise the consolidated financial statements of the consolidated entity. For the purposes of preparing the consolidated financial statements, the consolidated entity is a for-profit entity. Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the consolidated entity comply with International Financial Reporting Standards ('IFRS').

Basis of preparation

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

Critical accounting estimates

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

Accounting for Construction Contracts

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

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

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

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of GR Engineering Services Limited ('company' or 'parent entity') as at 30 June 2012 and the results of all subsidiaries for the year then ended. GR Engineering Services Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The effects of potential exercisable voting rights are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries and special purpose entities have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Operating segments

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation

The financial report is presented in Australian dollars, which is GR Engineering Services Limited's functional and presentation currency. The functional currency of each of the subsidiaries of the consolidated entity is United States dollars.

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

Foreign operations
The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximates the rate at the date of the transaction, for the period. All resulting foreign exchange differences are recognised in the foreign currency reserve in equity.

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

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

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

Revenue recognition

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

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

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

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

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

Income tax

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

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

Deferred income tax liabilities are recognised for all taxable temporary differences:

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

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the statement of comprehensive income.

Unearned income

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

Cash and cash equivalents

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

Trade and other receivables

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

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

Inventories

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

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

Property, plant and equipment

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

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

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

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (Continued)

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

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

Impairment losses are recognised in the statement of comprehensive income in the cost of sales line item.

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

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

Leases

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

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

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

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

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

Impairment of non-financial assets

At each reporting date, the consolidated entity assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the consolidated entity makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Trade and other payables

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

Borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised and as well as through the amortisation process.

Provisions

Provisions are recognised when the consolidated entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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

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

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

Employee benefits

Wages and salaries, annual leave and sick leave
A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

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

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

Contributions to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Issued capital

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

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

Dividends

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

Earnings per share

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

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

De-recognition of financial instruments

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

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of GST except where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

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

New Accounting Standards and Interpretations not yet mandatory or early adopted

The following Australian Accounting Standards and Interpretations have recently been issued or amended but are not yet effective and have not been adopted by the consolidated entity for the year ended 30 June 201

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• AASB 9 'Financial Instruments' (December 2009), AASB 2009- 11 'Amendments to Australian Accounting Standards arising from AASB 9' • AASB 9 'Financial Instruments' (December 2010) and AASB 2010-7 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)' *The IASB has amended IFRS 9 to defer the mandatory effective date to annual periods beginning on or after 1 January 2015. It is expected that the AASB will issue similar amendments shortly	1 January 2013*	30 June 2014
• AASB 10 'Consolidated Financial Statements'	1 January 2013	30 June 2014
• AASB 11 'Joint Arrangements'	1 January 2013	30 June 2014
• AASB 12 'Disclosure of Interests in Other Entities'	1 January 2013	30 June 2014
• AASB 127 'Separate Financial Statements' (2011)	1 January 2013	30 June 2014
• AASB 128 'Investments in Associates and Joint Ventures' (2011)	1 January 2013	30 June 2014
• AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'	1 January 2013	30 June 2014
• AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)'	1 January 2013	30 June 2014
• AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'	1 July 2013	30 June 2014
• AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards'	1 January 2013	30 June 2014
• AASB 2011-9 'Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income'	1 July 2012	30 June 2013
• AASB 2012-2 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to AASB 7)'	1 January 2013	30 June 2014
• AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities (Amendments to AASB 132)'	1 January 2014	30 June 2015
• AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle	1 January 2013	30 June 2014

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Standards and Interpretations not yet mandatory or early adopte (Continued)

At the date of authorisation of the financial statements the following IASB Standards and IFRIC Interpretations were also in issue but not yet effective, although Australian equivalent Standards and interpretations have not yet been issued and have not been adopted by the consolidated entity for the year ended 30 June 2012:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• Mandatory Effective Date of IFRS 9 and Transition Disclosures (Amendments to IFRS 9 and IFRS 7)	1 January 2015	30 June 2016
• Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)	1 January 2013	30 June 2014

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

3. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

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

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

The consolidated entity includes a project completion and close out provision (liability) in design and construction project cost forecast reports, nominally being 3% of the project costs. This percentage has been assessed based on management's best estimate.

4. OPERATING SEGMENTS

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

5. REVENUE

	Consolidated	
	2012	**2011**
	$	**$**
Sales revenue		
Rendering of services – construction contracts	152,837,930	142,511,568

6. OTHER INCOME AND EXPENSES

	Consolidated	
	2012	**2011**
Other income and other gains and losses	**$**	**$**
Interest revenue	2,191,766	955,789
Net foreign exchange gain (loss)	(154,467)	(37,343)
Net gain (loss) on disposal of property, plant and equipment	(3,411)	261,708
Subsidies and grants	1,742	22,550
Other revenue	115,084	193,196
Other income	2,150,714	1,395,900

Expenses

Employee benefits expense		
Wages and salaries	38,382,854	28,364,268
Superannuation expense	2,777,017	1,922,696
Finance costs		
Interest charges on finance leases	88,133	64,057

7. INCOME TAX EXPENSE

Major components of income tax expense for the years ended 30 June 2012 and 2011 are:

Income tax recognised in the Consolidated statement of comprehensive income

	Consolidated	
	2012	**2011**
	$	**$**
Current income		
Current income tax charge	5,229,578	3,701,859
Foreign tax on Gold Ridge project	6,517	3,836,762
Foreign tax on other projects	34,180	78,382
Adjustments in respect of current income tax of previous years	82,707	500,359
Deferred income tax		
Relating to origination and reversal of temporary differences	1,389,624	32,202
Income tax expense reported in statement of comprehensive income	6,742,606	8,149,564

A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the consolidated entity's effective income tax rate for the years ended 30 June 2012 and 2011 is as follows:

	2012	2011
Accounting profit before income tax	19,858,061	29,247,488
At the statutory income tax rate of 30% (2010: 30%)	5,957,418	8,774,247
Add:		
Non-deductible expenses	174,424	20,999
Effect of different tax rates on branches operating in different jurisdictions	-	(1,178,242)
Adjustments in respect of previous current income tax	153,264	532,561
Less:		
Adjustments in respect of previous deferred income tax	457,500	-
Non assessable Income	-	-
At effective income tax rate of 27.8% (2010: 26.9%)	6,742,606	8,149,564
Income tax expense reported in statement of comprehensive income	6,742,606	8,149,564

Income tax recognised directly in equity

	2012	2011
Current tax		
Share issue costs	-	-
Deferred tax		
Share issue expenses deductible over five years	-	642,622
	-	642,622

Deferred income tax

Deferred income tax at 30 June relates to the following:

	Consolidated	
	2012	2011
	$	$
Deferred income tax assets		
Accrued employee entitlements	363,646	304,049
Accrued superannuation	212,263	169,850
Accrued audit fees	-	-
Leasing	(47,914)	50,317
Section 40/880 deduction	396,228	530,079
Provision for long service leave	143,550	68,511
Provision for doubtful debts	-	457,500
Provision for project returns	173,995	259,558
Provision for warranty	624,151	1,382,440
Construction Industry long service leave	9,517	-
Tax losses	-	-
	1,875,436	3,222,304
Deferred income tax liabilities:		
Prepayments	(3,613)	-
Accrued interest	(39,143)	-
	(42,756)	-
Net deferred tax asset	1,832,680	3,222,304

Current income tax assets and liabilities

Current tax asset		
Income tax refund due	-	1,202,524
Current tax liabilities		
Income tax payable	694,564	-

8. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

	Consolidated	
	2012	2011
	$	$
Cash on hand	1,000	1,000
Cash at bank	8,835,242	6,278,221
Cash on deposit	25,025,000	27,000,000
	33,861,242	33,279,221

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

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

The fair value of cash and cash equivalents is $33,861,242 (2011: $33,279,221).

Reconciliation of cash

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

	2012	2011
Cash at bank	8,836,242	6,279,222
Cash on deposit	25,025,000	27,000,000
	33,861,242	33,279,221

Reconciliation from the net profit after tax to the net cash flows from operations

	2012	2011
Net Profit after tax	13,115,455	21,097,926
Non-cash items		
Depreciation	685,665	542,423
Profit/loss on sale of asset	3,411	-
Doubtful debt expense	-	1,525,000
Share based employee payments	240,212	50,622
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	4,164,582	(430,445)
(Increase)/decrease in inventories	1,095,454	1,156,202
(Increase)/decrease in deferred tax asset	1,389,624	160,727
(Decrease)/increase in trade and other payables	(4,533,331)	1,766,218
(Decrease)/increase in provisions	(2,332,332)	(1,804,235)
(Decrease)/increase in tax liabilities	1,897,089	2,464,677
Increase in unearned income	514,363	(10,968,612)
Net cash from operating activities	16,240,192	15,560,503

NON-CASH TRANSACTIONS

During the year ended 30 June 2012, the consolidated entity entered into the following non-cash investing and financing activities which are not reflected in the consolidated statement of cash flows:

- the consolidated entity acquired $853 of equipment under finance leases (2011: $411,217)

9. CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

	Consolidated	
	2012	2011
	$	$
Trade receivables	21,220,067	25,923,621
Less: Provision for impairment of receivables	(1,525,000)	(1,525,000)
	19,695,067	24,398,621
	88,441	104,187
Accrued revenue	5,035,260	2,734,862
Term deposits held as security (refer to Note 24)	560,068	33,194
Other receivables	25,378,835	27,270,864

Trade receivables are non-interest bearing and are generally on 30 day terms.

Impairment of receivables
Movements in the provision for impairment of receivables are as follows:

	2012	2011
Opening balance	1,525,000	-
Additional provisions recognised	-	1,525,000
Closing balance	1,525,000	1,525,000

Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to $5,147,472 as at 30 June 2012 ($79,299 as at 30 June 2011).

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

	2012	2011
0 to 3 months overdue	220,815	48,271
3 to 6 months overdue	280,751	31,028
Over 6 months overdue	4,645,906	-
	5,147,472	79,299

10. CURRENT ASSETS - INVENTORIES

	Consolidated 2012 $	2011 $
Stock on hand - at cost	578,464	1,673,918

11. CURRENT ASSETS - OTHER

	2012 $	2011 $
Prepayments	231,305	203,460

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

	2012 $	2011 $
Plant and equipment - at cost	3,121,811	2,203,916
Less: Accumulated depreciation	(1,568,673)	(992,040)
	1,553,138	1,211,876
Plant and equipment under lease	1,710,209	1,709,356
Less: Accumulated depreciation	(1,071,460)	(948,593)
	638,749	760,763
	2,191,887	1,972,639

Reconciliations

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

	Plant & Equipment Under Lease $	Plant & Equipment $	Total $
Balance at 1 July 2010	572,643	861,290	1,433,933
Additions	411,217	670,332	1,081,549
Depreciation expense	(223,097)	(319,746)	(542,843)
Balance at 30 June 2011	760,763	1,211,876	1,972,639
Additions	86,174	822,150	908,324
Write off of assets	-	(3,411)	(3,411)
Transfers in/(out)	35,091	(35,091)	-
Depreciation expense	(243,279)	(442,386)	(685,665)
Balance at 30 June 2012	638,749	1,553,138	2,191,887

13. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

	Consolidated	
	2012	2011
	$	$
Trade payables	8,075,027	13,017,945
GST payable	592,908	3,864
Accrued expenses	290,901	826,968
Other payables	1,299,837	911,503
	10,258,673	14,760,280

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

Refer to note 21 for further information on financial instruments.

14. BORROWINGS

Borrowings - current liabilities		
Lease liability	246,701	526,904
Borrowings – non-current liabilities		
Lease liability	232,335	401,581

Total secured liabilities

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

Lease liability	479,036	928,485

Assets pledged as security

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

Refer to note 21 for further information on financial instruments.

15. PROVISIONS

	Consolidated 2012 $	2011 $
Provisions – current liabilities		
Provision for annual leave	1,212,153	1,013,497
Provision for warranty and defects liability	2,080,502	4,608,135
Provision for project returns	579,984	865,192
	3,872,639	6,486,824

Movement in provisions		
Provision for annual leave		
Balance at beginning of year	1,013,497	727,519
Additional provisions recognised	1,247,680	961,898
Amounts used	(1,049,024)	(675,920)
Balance at end of year	1,212,153	1,013,497
Provision for warranty and defects liability		
Balance at beginning of year	4,608,135	6,445,789
Reduction in provisions	(2,527,633)	(1,837,654)
Amounts used	-	-
Balance at end of year	2,080,502	4,608,135
Provision for project returns		
Balance at beginning of year	865,192	1,346,121
Additional provisions recognised	1,007,984	1,490,842
Amounts used	(1,293,192)	(1,971,771)
Balance at end of year	579,984	865,192

Provisions – non-current liabilities		
Long service leave	478,500	228,370
Movement in provisions		
Provision for long service leave		
Balance at beginning of year	228,370	-
Additional provisions recognised	250,130	228,370
Amounts used	-	-
Balance at end of year	478,500	228,370

16. CURRENT LIABILITIES – UNEARNED REVENUE / ADVANCED COSTS / WORK IN PROGRESS

	Consolidated	
	2012	2011
	$	$
Unearned Revenue	6,101,140	5,586,777
Contracts in progress		
Progress billings	213,719,843	236,240,367
Construction costs to date plus recognised profits	207,618,703	230,653,590
	6,101,140	5,586,777

17. EQUITY - ISSUED CAPITAL

		Consolidated		Consolidated
	2012	2011	2012	2011
	Shares	Shares	$	$
Ordinary shares - fully paid	150,000,000	150,000,000	28,501,548	28,501,548

Movements in ordinary share capital

Details	No of shares	$
Share split (120,000:1) (i)	120,000,000	1,000
Issue of shares under prospectus (ii)	30,000,000	30,000,000
Less Capital raising costs		(2,142,074)
Deferred tax asset on capital raising costs		642,622
Balance as at 30 June 2011	150,000,000	28,501,548
Balance as at 30 June 2012	150,000,000	28,501,548

i) As approved on 10 February 2011, the board agreed to a share split of 120,000:1, becoming 120,000,000 shares on issue.

ii) Under the prospectus issued by the consolidated entity on 18 March 2011, the consolidated entity issued 30 million shares at $1.00 per share, to raise $30,000,000. The consolidated entity listed on the Australian Securities Exchange on 19 April 2011

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

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

Options

As at 30 June 2012, the unissued ordinary shares of the consolidated entity under option totalled 2,500,000 (as at 30 June 2011: 2,500,000):

Number of shares under option	Grant date	Expiry date	Exercise price
500,000	19/4/2011	19/4/2013	$1.25
500,000	19/4/2011	19/4/2014	$1.50
750,000	19/4/2011	19/4/2015	$1.80
750,000	19/4/2011	19/4/2016	$2.10

18. SHARE BASED PAYMENTS RESERVE

	Consolidated	
	2012	2011
	$	$
Balance at beginning of year	50,622	-
Additional amounts recognised	240,212	50,622
Balance at end of year	290,834	50,622

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

19. EQUITY - RETAINED PROFITS

Retained profits/(accumulated losses) at the beginning of the financial year	12,282,024	10,184,098
Profit after income tax expense for the year	13,115,455	21,097,926
Payment of dividends	(12,000,000)	(19,000,000)
Retained profits at the end of the financial year	13,397,479	12,282,024

20. EQUITY - DIVIDENDS

Dividends		
Year ended 30 June 2011		
Dividend paid 5 July 2010 (fully franked at 30% tax rate): 5 cents per ordinary share		6,000,000
Dividend paid 27 October 2010 (fully franked at 30% tax rate): 7.5 cents per ordinary share		9,000,000
Dividend paid 4 January 2011 (unfranked): 3.33 cents per ordinary share		4,000,000
Year ended 30 June 2012		
Dividend paid 10 November 2011 (fully franked at 30% tax rate): 4 cents per ordinary share	6,000,000	
Dividend paid 13 March 2012 (fully franked at 30% tax rate): 4 cents per ordinary share	6,000,000	
	12,000,000	19,000,000

On 20 August 2012, the consolidated entity declared a fully franked final dividend of 4.0 cents per share, an aggregate of $6,000,000. The Record Date of the dividend is 17 September 2012 and the proposed payment date is 28 September 2012.

Franking credits		
Franking credits available for subsequent financial years based on a tax rate of 30%	1,663,271	208,058

21. FINANCIAL INSTRUMENTS

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

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

	Consolidated 2012 $	Consolidated 2011 $
Financial Assets		
Cash and cash equivalents	33,861,242	33,279,221
Trade and other receivables	25,378,835	27,270,864
Total financial assets	59,240,077	60,550,085
Financial Liabilities		
Trade and other payables	10,258,673	14,760,280
Finance lease liabilities	479,036	928,485
Total financial liabilities	10,737,709	15,688,765

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

Market risk
Foreign currency risk
The consolidated entity is not currently exposed to any material risks in relation to fluctuations in foreign exchange rates.

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

	Effect of increase in interest rate			Effect of decrease in interest rate		
	Increase in interest rate	Effect on profit before tax	Effect on equity	Decrease in interest rate	Effect on profit before tax	Effect on equity
2012						
Interest revenue	1%	435,856	435,856	1%	(435,856)	(435,856)
Interest expense	1%	(206)	(206)	1%	205	205
		435,650	435,650		(435,651)	(435,651)
2011						
Interest revenue	1%	169,310	169,310	1%	(169,575)	(169,575)
Interest expense	1%	(1,238)	(1,238)	1%	1,234	1,234
		168,072	168,072		(168,341)	(168,341)

21. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk management

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

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

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

Liquidity risk management

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

Liquidity and interest rate risk tables

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

Non-derivatives	Weighted average interest rate %	Less than 6 months $	6 to 12 months $	Over 12 months $	Remaining contractual maturities $
2012					
Non-interest bearing	-	10,258,673	-	-	10,258,673
Trade payables					
Interest-bearing - fixed rate					
Lease liability	9.37	136,866	109,835	232,335	479,036
Total non-derivatives		10,395,539	109,835	232,335	10,737,709
2011					
Non-interest bearing					
Trade payables	-	14,760,280	-	-	14,760,280
Interest-bearing - fixed rate					
Lease liability	9.96	355,958	170,946	401,581	928,485
Total non-derivatives		15,116,238	170,946	401,581	15,688,765

Fair value of financial instruments

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

	2012 Carrying amount $	2012 Fair value $	2011 Carrying amount $	2011 Fair value $
Assets				
Cash at bank	8,836,242	8,836,242	6,279,222	6,279,222
Cash on deposit	25,025,000	25,025,000	27,000,000	27,000,000
Trade receivables	25,378,835	25,378,835	27,270,864	27,270,864
	59,240,077	59,240,077	60,550,086	60,550,086
Liabilities				
Trade payables	10,258,673	10,258,673	14,760,280	14,760,280
Lease liability	479,036	479,036	928,485	928,485
	10,737,709	10,737,709	15,688,765	15,688,765

The fair values of financial assets and liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis and approximate their carrying value.

22. KEY MANAGEMENT PERSONNEL DISCLOSURES

Directors

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

Executive directors

Joe Ricciardo (Managing Director)
Tony Patrizi (Executive Director)

Non-executive directors

Barry Patterson (Non-Executive Chairman)
Terrence Strapp (Non-Executive Director)
Peter Hood (Non-Executive Director)

Other key management personnel

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

Executives

Geoffrey Jones (Chief Operating Officer)
David Sala Tenna (General Manager)
Joe Totaro (Chief Financial Officer and Company Secretary)
Rodney Schier (Engineering Manager)
Peter Allen (Manager – Process)

22. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

Remuneration of key management personnel

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

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

	Consolidated 2012 $	Consolidated 2011 $
Short term benefits	2,561,614	1,699,787
Post employment benefits	215,867	146,953
Share based payments	240,212	50,622
Other	73,394	50,000
	3,091,087	1,947,362

Shareholding

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

	Balance at the start of the year	Received as part of remuneration	Additions/ other*	Disposals	Balance at the end of the year
2012					
Ordinary shares					
Joe Ricciardo	12,000,000	-	-	(2,975,000)	9,025,000
Tony Patrizi	12,000,000	-	-	(2,975,000)	9,025,000
Barry Patterson	12,000,000	-	-	(1,500,000)	10,500,000
Terry Strapp	300,000	-	-	-	300,000
Peter Hood	500,000	-	-	-	500,000
Geoffrey Jones	150,000	-	-	-	150,000
David Sala Tenna	16,800,000	-	-	(2,975,000)	13,825,000
Joe Totaro	12,000,000	-	-	(3,000,000)	9,000,000
	65,750,000	-	-	(13,425,000)	52,325,000
2011					
Ordinary shares					
Joe Ricciardo	100	-	11,999,900	-	12,000,000
Tony Patrizi	100	-	11,999,900	-	12,000,000
Barry Patterson	100	-	11,999,900	-	12,000,000
Terry Strapp	-	-	300,000	-	300,000
Peter Hood	-	-	500,000	-	500,000
Geoffrey Jones	-	-	150,000	-	150,000
David Sala Tenna	140	-	16,799,860	-	16,800,000
Joe Totaro	100	-	11,999,900	-	12,000,000
	540	-	65,749,460	-	65,750,000

* Other represents a share split during the year of 120,000:1

Option holding

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

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
2012					
Options over ordinary shares					
Joe Ricciardo	-	-	-	-	-
Tony Patrizi	-	-	-	-	-
Barry Patterson	-	-	-	-	-
Terry Strapp	-	-	-	-	-
Peter Hood	-	-	-	-	-
Geoffrey Jones	2,500,000	-	-	-	2,500,000
David Sala Tenna	-	-	-	-	-
Joe Totaro	-	-	-	-	-
	2,500,000	-	-	-	2,500,000
2011					
Options over ordinary shares					
Joe Ricciardo	-	-	-	-	-
Tony Patrizi	-	-	-	-	-
Barry Patterson	-	-	-	-	-
Terry Strapp	-	-	-	-	-
Peter Hood	-	-	-	-	-
Geoffrey Jones	-	2,500,000	-	-	2,500,000
David Sala Tenna	-	-	-	-	-
Joe Totaro	-	-	-	-	-
	-	2,500,000	-	-	2,500,000

Other transactions with key management personnel

Other than the transactions noted in note 26, there have been no other transactions noted with key management personnel.

23. REMUNERATION OF AUDITORS

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

	2012 $	2011 $
Audit services - Deloitte Touche Tohmatsu		
Audit or review of the financial statements	129,137	67,000
Other services - Deloitte Touche Tohmatsu		
Tax compliance	25,860	30,230
Investigating Accountants' Report	-	60,100
	25,860	90,330
	154,997	157,330
Other services - Deloitte Corporate Finance Pty Ltd		
Professional services in relation to Initial Public Offering	2,667	136,828
	2,667	136,828

24. CONTINGENT LIABILITIES

The consolidated entity has bank guarantees in place as at 30 June 2012 of $9,002,427 (2011: $6,734,862).

The consolidated entity has a bank guarantee facility with the National Australia Bank to provide bank guarantees to support project performance in favour of certain clients of the consolidated entity. The facility has an approved limit of $4,000,000, with an expiry date of 30 November 2012. The facility is secured by a fixed and floating charge over all the assets of the consolidated entity and a term deposit letter of set-off over a $5,035,260 term deposit (2011: $2,734,862).

Certain claims arising out of engineering and construction contracts have been made by or against the consolidated entity in the ordinary course of business, some of which involve litigation or arbitration.

The consolidated entity commenced debt recovery proceedings against Gold Ridge Mining Limited (GRML) on 28 June 2011 to recover outstanding costs and associated damages of around $4.5 million relating to a lump sum EPC contract for the expansion and refurbishment of the Gold Ridge Mine in the Solomon Islands.

On 18 May 2012 GRML served GR Engineering with a further amended defence and counterclaim, including a new and further counterclaim for gold losses arising from alleged defects and alleged representations regarding performance.

That value of GRML's counterclaim is currently in the order of $45 million – over $42 million comprised of losses which GR Engineering considers as having no basis, of an ambit nature and in any case are of a consequential and indirect nature, and therefore expressly and specifically excluded from the EPC contract between GR Engineering and GRML.

An arbitration hearing is scheduled for November 2012 in relation to the debt and the counterclaim. The Directors of the consolidated entity consider that GRML's counter claim is an ambit claim and that the consolidated entity will continue to vigorously defend its position. Accordingly, no provision has been reflected in the financial statements in relation to the counter claim.

25. COMMITMENTS

The consolidated entity has leased certain of its office equipment under finance leases. The average lease term is 3 years (2011: 3 years). The consolidated entity has options to purchase the equipment for a nominal amount at the end of the lease terms. The consolidated entity's obligations under finance leases are secured by the lessors' title to the leased assets.

	Consolidated	
	2012	2011
	$	$
Finance Leases		
Not longer than 1 year	281,914	591,456
Longer than 1 year and not longer than 5 years	250,013	443,762
Longer than 5 years	-	-
Minimum lease payments	531,927	1,035,218
Less: future finance charges	(52,891)	106,733
Present value of minimum lease payments	479,036	928,485

The consolidated entity has operating leases that relate to leases of office buildings with lease terms of between 2 and 5 years. All operating lease contracts contain clauses for market rental reviews.

	2012	2011
	$	$
Non-cancellable Operating Lease Commitments		
Not longer than 1 year	1,727,652	1,409,799
Longer than 1 year and not longer than 5 years	2,872,652	3,016,766
Longer than 5 years	-	-
Total lease payments	4,600,304	4,426,565

26. RELATED PARTY TRANSACTIONS

During the year ended 30 June 2012 the consolidated entity leased office space at 71-73 Daly Street from Ashguard Pty Ltd. Directors of the consolidated entity, namely Joe Ricciardo, Tony Patrizi, and Barry Patterson, each have a non controlling interest in Ashguard Pty Ltd. Total payments to Ashguard Pty Ltd in the year ended 30 June 2012 amounted to $286,497 including GST (2011: $279,066). The balance payable at 30 June 2012 was $21,482 (2011: $20,877).

During the year ended 30 June 2012 the consolidated entity provided engineering services and procurement of materials for Crushing Services International Pty Ltd (a subsidiary of Mineral Resources Limited), a company in which Joe Ricciardo is a non-executive director. The total amount invoiced to Crushing Services International Pty Ltd in the year ended 30 June 2012 was $3,679,173 including GST (2011: $1,595,425). The balance outstanding at 30 June 2012 was $336,519 (2011: $32,453).

In previous financial years the consolidated entity provided engineering services to Mineral Resources Limited, a company in which Joe Ricciardo is a non-executive director. In the year ended 30 June 2012 there were zero transactions with Mineral Resources Limited (2011: $83,600). The balance outstanding at 30 June 2012 was nil (2011: nil).

In previous financial years the consolidated entity provided engineering services to Optiro Pty Ltd, a company in which Joe Ricciardo and Tony Patrizi each hold non-controlling interests. In the year ended 30 June 2012 there were zero transactions with Optiro Pty Ltd (2011: $29,593). The balance outstanding at 30 June 2012 was nil (2011: nil).

27. PARENT ENTITY INFORMATION

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

	Consolidated	
	2012	2011
	$	$
Statement of comprehensive income		
Profit after income tax	13,115,455	21,097,924
Total comprehensive income	13,115,455	21,097,924
Statement of financial position		
Total current assets	60,049,846	63,629,987
Total assets	64,074,413	68,824,930
Total current liabilities	21,173,717	27,360,785
Total liabilities	21,884,552	27,990,736
Equity		
Issued capital	28,501,548	28,501,548
Equity-based payments reserve	290,834	50,622
Retained profits	13,397,479	12,282,024
Total equity	42,189,861	40,834,194

28. EVENTS AFTER THE REPORTING PERIOD

On 10 July 2012 GR Engineering Services Limited entered into an agreement with Assetinsure Pty Ltd by which Assetinsure Pty Ltd agreed to provide the consolidated entity with a $10,000,000 performance bond facility. The consolidated entity's contingent obligations under the performance bond facility are secured by a Deed of Indemnity and Guarantee, by which the consolidated entity agrees to indemnify Assetinsure against all and any loss arising from the provision of bonds under the performance bond facility.

On 20 August 2012, the consolidated entity declared a fully franked dividend of 4.0 cents per share, an aggregate of $6,000,000. The Record Date of the dividend is 17 September 2012 and the proposed payment date is 28 September 2012.

No other matter or circumstance has arisen since 30 June 2012 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

29. EARNINGS PER SHARE CAPITAL MANAGEMENT

	Consolidated 2012 $	Consolidated 2011 $
Profit after income tax attributable to the owners of GR Engineering Services Limited	13,115,455	21,097,924
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	150,000,000	125,917,808
Adjustments for calculation of diluted earnings per share:		
Weighted average number of employee share options issued	-	14,252
Weighted average number of ordinary shares used in calculating diluted earnings per share	150,000,000	125,932,060
	Cents	**Cents**
Basic earnings per share	8.74	16.76
Diluted earnings per share	8.74	16.75

Note: the options outstanding at 30 June 2012 are out of the money and therefore excluded from the weighted average number of ordinary shares for the purpose of diluted earnings per share.

NOTE 30. SHARE BASED PAYMENTS

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

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

The following equity based payment arrangements existed at 30 June 2012:
The consolidated entity has issued a total of 2,500,000 Options to its Chief Operating Officer, which confer the right of one ordinary share for every option held. These options have exercise conditions attached, whereby they will lapse if the employee ceases to become an eligible person, for any reason other than a specified reason as outlined in the terms of the option.

Number of shares under option	Grant date	Vesting date	Expiry date	Exercise price	Fair Value at Grant Date
500,000	19/4/2011	19/4/2012	19/4/2013	$1.25	$0.1740
500,000	19/4/2011	19/4/2013	19/4/2014	$1.50	$0.2450
750,000	19/4/2011	19/4/2014	19/4/2015	$1.80	$0.2400
750,000	19/4/2011	19/4/2015	19/4/2016	$2.10	$0.2600

NOTE 30. SHARE BASED PAYMENTS (CONTINUED)

Set out below are summaries of options granted under the plan:

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year	Exercisable
2012								
19/4/2011	19/4/2013	$1.25	500,000	-	-	-	500,000	500,000
19/4/2011	19/4/2014	$1.50	500,000	-	-	-	500,000	-
19/4/2011	19/4/2015	$1.80	750,000	-	-	-	750,000	-
19/4/2011	19/4/2016	$2.10	750,000	-	-	-	750,000	-
			2,500,000	-	-	-	750,000	500,000
Weighted average exercise price			1.72	-	-	-	1.72	1.25
2011								
19/4/2011	19/4/2013	$1.25	-	500,000	-	-	500,000	-
19/4/2011	19/4/2014	$1.50	-	500,000	-	-	500,000	-
19/4/2011	19/4/2015	$1.80	-	750,000	-	-	750,000	-
19/4/2011	19/4/2016	$2.10	-	750,000	-	-	750,000	-
			-	2,500,000	-	-	2,500,000	-
Weighted average exercise price			-	1.72	-	-	1.72	-

	Tranche 1	Tranche 2	Tranche 3	Tranche 4
Share price at grant date	$1.00	$1.00	$1.00	$1.00
Exercise price	$1.25	$1.50	$1.80	$2.10
Expected volatility	50.00%	50.00%	50.00%	50.00%
Dividend yield	4.00%	4.00%	4.00%	4.00%
Risk-free interest rate	3.10%	3.10%	3.10%	3.10%
Fair value at grant date	$0.174	$0.245	$0.240	$0.260

NOTE 31. SUBSIDIARIES

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

Name of subsidiary	Country of incorporation	Equity holding 2012 %	Equity holding 2011 %
GR Engineering Services (Indonesia) Pty Limited	Australia	100	0
GR Engineering Services (Argentina) Pty Limited	Australia	100	0
PT GR Engineering Services Indonesia*	Indonesia	100	0
GR Engineering Services (Africa)	Mauritius	100	0
GR Engineering Services (UK)	United Kingdom	100	0
GR Engineering Services (Ghana) Limited**	Ghana	100	0
GR Engineering Services (Côte D'Ivoire)**	Côte D'Ivoire	100	0
GR Engineering Services (Mali)**	Mali	100	0

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

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

All of the above subsidiaries have been incorporated during the current financial year and are currently dormant.

DIRECTORS' DECLARATION

The directors declare that:

(a) In the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

(b) In the directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 2 (b) to the financial statements;

(c) In the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Company; and

(d) The directors have been given the declarations required by s.295A of the Corporations Act 2001

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

On behalf of the Directors

JOSEPH MARIO PAUL RICCIARDO
Managing Director

Date: 24th August 2012

Deloitte.

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

Report on the Financial Report

We have audited the accompanying financial report of GR Engineering Services Limited, which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 19 to 58.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the company's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Deloitte.

Auditor's Independence Declaration

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

Opinion

In our opinion:

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

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

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

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

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 11 to 16 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of GR Engineering Services Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Neil Smith
Partner
Chartered Accountants
Perth, 24 August 2012

GR Engineering Services Ltd ("**the Company**") has adopted comprehensive systems of control and accountability as the basis for the administration of corporate governance. The Board is committed to administering the policies and procedures with openness and integrity, pursuing the true spirit of corporate governance commensurate with the Company's needs. To the extent they are applicable, the Company has adopted the Corporate Governance Principles and Recommendations ("**Principles & Recommendations**") as published by the ASX Corporate Governance Council.

A summary of the Company's corporate governance practices is set out below.

Summary of Board Charter

The role of the Board is to provide leadership for and supervision of the Company's senior management. The Board provides the strategic direction of the Company and regularly measures the progression by senior management of that strategic direction. The Board is responsible for promoting the success of the Company through its oversight role. The Board also reviews the Company's policies on risk oversight and management, internal compliance and control, its Code of Conduct, and legal compliance. There are mechanisms in place so that the Board can satisfy itself that senior management has developed and implemented a sound system of risk management and internal control in relation to financial reporting risk and material business risk. The Board monitors and reviews senior management's performance and implementation of strategy.

The Board Charter also sets out quantitative and qualitative materiality thresholds.

The Board delegates to senior management the responsibility of the day-to-day activities in fulfilling the Board's responsibility. Senior executives are responsible for supporting the Managing Director and assisting the Managing Director in the running of the general operations and financial business of the Company, in accordance with the delegated authority of the Board.

Senior executives are responsible for reporting all matters which fall within the Company's materiality thresholds at first instance to the Managing Director or, if the matter concerns the Managing Director then directly to the Chair or the lead independent Director, as appropriate.

The Board Charter describes the division of responsibilities between the Chair, the lead independent Director and the Managing Director.

The role of non-executive and independent directors is also set out in the Board Charter.

Summary of Audit Committee Charter

The role of the audit committee is to monitor and review the integrity of the financial reporting of the Company and to review significant financial reporting judgments. The audit committee is also to review the Company's internal financial control system and risk management systems and to monitor, review and oversee the external audit function.

The audit committee has the power to conduct or authorise investigations into any matters within the audit committee's scope of responsibilities. The audit committee has the authority, as it deems necessary or appropriate, to retain independent legal, accounting or other advisors.

The audit committee also assesses whether external reporting is consistent with audit committee members' information and knowledge and is adequate for shareholder needs and assesses the management processes supporting external reporting.

Summary of Nomination Committee Charter

The role of the nomination committee is to effectively examine the selection and appointment practices of the Company. The nomination committee regularly reviews the size and composition of the Board and makes recommendations to the Board on any appropriate changes. The nomination committee identifies and assesses necessary and desirable Director competencies with a view to enhancing the Board.

The nomination committee also regularly reviews the time required from non-executive Directors and whether non-executive Directors are meeting that requirement.

Initial Director appointments are made by the Board. Any new Director will be required to stand for election at the Company's next annual general meeting following their appointment.

Summary of Remuneration Committee Charter

The function of the remuneration committee is to review and make appropriate recommendations on remuneration packages of executive Directors, non-executive Directors and senior executives. The remuneration committee is also responsible for reviewing any employee incentive and equity-based plans, including the appropriateness of performance hurdles and total payments proposed.

Summary of Remuneration Policy

Emoluments of Directors and senior executives are set by reference to payments made by other companies of similar size and industry, and by reference to the skills and experience of the Directors and executives.

The Company's policy is to remunerate non-executive Directors at a fixed fee for time, commitment and responsibilities. Remuneration for non-executive Directors is not linked to individual performance. This policy is subject to annual review. From time to time, and subject to obtaining the relevant approvals, the Company may grant options to non-executive Directors. The grant of options is designed to recognise and reward efforts as well as to provide non-executive Directors with additional incentive to continue those efforts for the benefit of the Company.

Executive pay and reward consists of a base salary and performance incentives. Long term performance incentives may include options granted at the discretion of the Board and subject to obtaining the relevant regulatory and shareholder approvals. The grant of options is designed to recognise and reward efforts as well as to provide additional incentive and may be subject to the successful completion of performance hurdles.

Executives are prohibited from entering into transactions or arrangements which limit the economic risk of participating in unvested entitlements.

Summary of Code of Conduct

The Code of Conduct sets out the principles and standards which the Board, management and employees of the Company are encouraged to strive towards when dealing with each other, shareholders, other stakeholders and the broader community.

The Company is to comply with all legislative and common law requirements which affect its business. The Company will deal with others in a way that is fair and will not engage in deceptive practices.

The Code of Conduct sets out directives for Directors, management and staff relating to conflicts of interests, protection of the Company's assets and confidentiality.

Summary of Policy and Procedure for Selection and (Re)Appointment of Directors

In considering new candidates, the nomination committee evaluates the range of skills, experience and expertise of the existing Board. In particular, the nomination committee is to identify the particular skills that will best increase the Board's effectiveness. In this process, consideration is also given to the balance of independent Directors on the Board, while reference is made to the Company's size and operations as they evolve from time to time. Any appointment made by the Board is subject to ratification by shareholders at the next general meeting.

All Directors are required to consider the number and nature of their directorships and calls on their time from other commitments.

Shareholders shall be informed of the names and details of candidates submitted for election as Directors, in order to enable shareholders to make an informed decision regarding the election.

Summary of Process for Performance Evaluation

The Chair evaluates the performance of the Board by way of an informal round-table discussion with all directors and through questionnaires completed by each director.

The Chair reviews the performance of the committees of the Board by way on an informal round-table discussion with all directors and through questionnaires completed by each director who is a member of the committee being evaluated.

Individual director's performance evaluations are completed by the Chair. The Chair meets with each individual director and reviews questionnaires completed by each director.

The Managing Director's performance evaluation is conducted by the Chair. The Chair conducts a performance evaluation of the Managing Director by way of meeting with the Managing Director and with an informal round-table discussion with all directors, and by reference to the Managing Director's key performance indicators which are set by the Nomination Committee.

The Managing Director reviews the performance of the senior executives. The Managing Director conducts a performance evaluation of the senior executives by way of on-going informal monitoring throughout each financial year and at an annual formal interview.

Summary of Policy for Trading in Company Securities

The Board has adopted a policy which prohibits dealing in the Company's securities by directors, officers, specified employees (including connected persons) and, contractors when those persons possess inside information. The policy also contains a blackout period within which directors, officers and employees are prohibited from trading. The policy prohibits short term or speculative trading of the Company's securities. Trading may be permitted in a blackout period in certain exceptional circumstances subject to obtaining prior written clearance. Directors, officers and specified employees are required to obtain clearance prior to trading at all times.

Summary of Diversity Policy

The Board has adopted a Diversity Policy which describes the Company's commitment to ensuring a diverse mix of skills and talent exists amongst its directors, officers and employees, to enhance Company performance. The Diversity Policy addresses equal opportunities in the hiring, training and career advancement of directors, officers and employees. The Diversity Policy outlines the process by which the Board will set measurable objectives to achieve the aims of its Diversity Policy. The Board is responsible for monitoring Company performance in meeting the Diversity Policy requirements, including the achievement of any diversity objectives.

Women comprise approximately 23% of the Company's total workforce and approximately 11% of the Company's professionally qualified personnel. Women are not represented in the Company's senior executive team.

The Board recognises the under representation by women in its professional and executive workforce. Therefore and subject to identifying female candidates with the requisite qualifications and experience, it is the Board's objective to improve on this percentage and if possible increase it to 15% by 30 June 2014.

The Company will continue to facilitate flexible working hours to enable all employees to meet ongoing training and education and in particular in enable female staff members to balance their professional and domestic commitments. This is an important element of the Company's strategy of attracting more professionally qualified women to its workforce.

The Company listed on ASX in April 2011 after an exhaustive search for Board members of suitable skills, experience and qualifications. The Board is comprised of three male non-executive and two male executive directors. The Board recognises that it would be beneficial to have on its Board an independent female non-executive director to widen the Board's skill set and to add experience and broadened perspective to the assessment of information and decision making. However, the Company has not sought to expand its Board during the year under review and therefore has not sought candidates for any Board position.

Subject to the Company achieving this strategy for growth, the Board will identify a suitable candidate for an additional non-executive directorship. Consistent with its policy on gender diversity the Company will consider a female for this position provided that the appointment satisfies Board composition requirements at the time.

Summary of Compliance Procedures

The Board has adopted Compliance Procedures to assist it to comply with the Listing Rules disclosure requirements. Under the Compliance Procedures, a responsible officer is appointed who is primarily responsible for ensuring the Company complies with its disclosure obligations. The duties of the responsible officer are set out in the Compliance Procedures. The Compliance Procedures provide guidelines as to the type of information that needs to be disclosed and encourages thorough recording of disclosure decision making. The Compliance Procedures contain information on avoiding a false market, safeguarding confidentiality of corporate information, and information on external communication for the purpose of protecting the Company's price sensitive information. The Compliance Procedures also provide guidance relating to potential disclosure material.

Summary of Procedure for the Selection, Appointment and Rotation of External Auditor

The Board is responsible for the initial appointment of the external auditor and the appointment of a new external auditor when any vacancy arises, as per the recommendations of the Audit Committee.

Candidates for the position of external auditor of the Company must be able to demonstrate complete independence from the Company and an ability to maintain independence through the engagement period.

The Audit Committee will review the performance of the external auditor on an annual basis and make any recommendations to the Board.

Summary of Shareholder Communication Strategy

The Board aims to ensure that the shareholders are informed of all major developments affecting the Company. The Company provides shareholder materials directly to shareholders through electronic means. A shareholder may request a hard copy of the Company's annual report to be posted to them. The Company maintains a website on which the Company makes certain information available on a regular basis.

Summary of Risk Management Policy

The Board has adopted a Risk Management Policy. Under the policy, the Board delegates day-to-day management of risk to the Managing Director, with the assistance of senior management as required. The Policy sets out the role and accountabilities of the Managing Director. It also contains the Company's risk profile and describes some of the policies and practices the Company has in place to manage specific business risks.

The Managing Director is required to report on the progress of, and on all matters associated with risk management. The Managing Director is to report to the Board as to the effectiveness of the Company's management of its material business risks at least annually.

The Board is responsible for approving the Company's policies on risk oversight and management and satisfying itself at least annually that management has developed and implemented a sound system of risk management and internal control.

As the Company's activities develop in size, nature and scope, the size of the Board and the implementation of additional corporate governance structures will be given further consideration.

ASX CORPORATE GOVERNANCE COUNCIL PRINCIPLES AND RECOMMENDATIONS

The Board sets out below its "if not, why not" report. Where the Company's corporate governance practices follow a recommendation, the Board has made appropriate statements reporting on the adoption of the recommendation. Where, after due consideration, the Company's corporate governance practices depart from a recommendation, the Board has offered full disclosure and a reason for the adoption of its own practice, in compliance with the "if not, why not" regime.

The Company has not made an early transition to the amended 2nd edition Principles & Recommendations and the following "if not, why not" report reflects this. The Company will report against the 2nd edition Principles & Recommendations for its financial year commencing 1 July 2011.

Recommendation	ASX P & R[1]	If not, why not[2]	Recommendation	ASX P & R[1]	If not, why not[2]
1.1	✓		4.1	✓	
1.2	✓		4.2	✓	
1.3[3]	n/a	n/a	4.3	✓	
2.1	✓		4.4[3]	n/a	n/a
2.2	✓		5.1	✓	
2.3	✓		5.2[3]	n/a	n/a
2.4	✓		6.1	✓	
2.5	✓		6.2[3]	n/a	n/a
2.6[3]	n/a	n/a	7.1	✓	
3.1	✓		7.2	✓	
3.2	✓		7.3	✓	
3.3	✓		7.4[3]	n/a	n/a
3.4	✓	✓	8.1	✓	
3.5	n/a		8.2	✓	
			8.3[3]	n/a	n/a

1 Indicates where the Company has followed the Principles & Recommendations.

2 Indicates where the Company has provided "if not, why not" disclosure.

3 Indicates an information based recommendation. Information based recommendations are not adopted or reported against using "if not, why not" disclosure – information required is either provided or it is not.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Recommendation 1.1: Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.

Disclosure:

The Company has established the functions reserved to the Board and those delegated to seniors executives and has set out these functions in its Board Charter, summarised above in the section titled "Summary of Board Charter".

Recommendation 1.2: Companies should disclose the process for evaluating the performance of senior executives.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT (CONTINUED)

Disclosure:

Refer to the section titled "Summary of Process for Performance Evaluation" above.

Recommendation 1.3: Companies should provide the information indicated in the *Guide to reporting on Principle 1.*

Disclosure:

A summary of the Company's Board Charter is noted above under the section titled "Summary of Board Charter" and will also be made publicly available on the Company's website at www.gres.com.au under the section marked Corporate Governance.

The Company will from time to time conduct performance evaluations of its senior executives in accordance with the Company's Process for Performance Evaluation.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

Recommendation 2.1: A majority of the board should be independent Directors.

Disclosure:

The Board has a majority of Directors who are independent.

The independent Directors of the Company are Peter Hood, Terrence Strapp and Barry Patterson (deemed independent).

The Board deems Barry Patterson to be an independent director notwithstanding his substantial shareholding in the Company because he is not a member of management and is otherwise free of any business or other relationship (including those referred to in Box 2.1 of the Principles & Recommendations and the Company's Policy on Assessing the Independence of Directors) that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of his judgment. Furthermore, Barry Patterson's interests as a major shareholder are considered by the Board to be in line with the interests of all other shareholders.

The non independent Directors of the Company are Joseph Ricciardo and Tony Patrizi.

Recommendation 2.2: The Chair should be an independent Director.

Disclosure:

The independent Chair of the Board is Barry Patterson.

Recommendation 2.3: The roles of Chair and Chief Executive Officer should not be exercised by the same individual.

Disclosure:

The Managing Director is Joe Ricciardo who is not currently Chair of the Board.

Recommendation 2.4: The Board should establish a Nomination Committee.

Disclosure:

The Board has established a Nomination Committee.

Recommendation 2.5: Companies should disclose the process for evaluating the performance of the Board, its committees and individual Directors.

Disclosure:

Refer to the section titled "Summary of Process for Performance Evaluation" above.

Recommendation 2.6: Companies should provide the information indicated in the Guide to Reporting on Principle 2.

Disclosure:

A profile of each Director containing their skills, experience, expertise and term of office is set out in the Directors Report.

As noted above, the independent Directors of the Company are Peter Hood, Terrence Strapp and Barry Patterson (deemed independent). These directors are independent as they are non executive Directors who are not members of management and who are free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgement.

Independence is measured having regard to the relationships listed in Box 2.1 of the Principles & Recommendations and the Company's materiality thresholds.

To assist Directors with independent judgement, it is the Board's policy that if a Director considers it necessary to obtain independent professional advice to properly discharge the responsibility of their office as a Director then, provided the Director first obtains approval for incurring such expense from the Chair, the Company will pay the reasonable expenses associated with obtaining such advice.

The Board has established a Nomination Committee. Barry Patterson (chair), Peter Hood, Terrence Strapp and Joe Ricciardo are members of the Nomination Committee. The Company's Nomination Committee Charter is summarised above in the section titled "Summary of Nomination Committee Charter."

Performance evaluations of the Board, its Committees and the Directors will be conducted from time to time in accordance with the Company's Process for Performance Evaluation.

In determining candidates for the Board, the Nomination Committee (or equivalent) follows a prescribed procedure summarised in the section titled "Summary of Policy and Procedure for Selection and (Re)Appointment of Directors" above.

The Board recognises that Board renewal is critical to performance and the impact of Board tenure on succession planning. Each director other than the Managing Director, must not hold office (without re-election) past the third annual general meeting of the Company following the Director's appointment or three years following that Director's last election or appointment (whichever is longer). However, a Director appointed to fill a casual vacancy or as an addition to the Board must not hold office (without re-election) past the next annual general meeting of the Company. At each annual general meeting a minimum of one director or a third or the total number of Directors must resign. A Director who retires at an annual general meeting is eligible for re-election at that meeting. Re-appointment of Directors is not automatic.

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

Recommendation 3.1: Companies should establish a Code of Conduct and disclose the code or a summary of the code as to the practices necessary to maintain confidence in the company's integrity, the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders and the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

Disclosure:

The Company has established a Code of Conduct as to the practices necessary to maintain confidence in the Company's integrity, practices necessary to take into account their legal obligations and the expectations of their stakeholders and responsibility and accountability of individuals for reporting and investigating reports of unethical practices. The Code of Conduct is summarised above in the section titled "*Summary of Code of Conduct*".

Recommendation 3.2: Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measureable objectives for achieving gender diversity for the Board to assess annually both the objectives and progress in achieving them.

Disclosure:

A summary of the Company's Diversity Policy is summarised above in the Section titled "*Summary of Diversity Policy*".

Recommendation 3.3: Companies should disclose in each annual report the measureable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.

Disclosure:

A summary of the Company's Diversity Policy containing measureable objectives for achieving gender diversity is summarised above in the section titled "*Summary of Diversity Policy*".

Recommendation 3.4: Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.

Disclosure:

A summary of the Company's Diversity Policy disclosing the proportion of women employees in the organisation, women in senior executive positions and women on the Board is summarised above in the section titled *Summary of Diversity Policy*.

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING (CONTINUED)

Recommendation 3.5: Companies should provide the information indicated in the Guide to reporting on Principal 3.

Disclosure:

A summary of the Company's Gender Diversity Policy is summarised above under the section "*Summary of Diversity Policy*".

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Recommendation 4.1: The Board should establish an Audit Committee.

Disclosure:

The Company has established an Audit Committee

Recommendation 4.2: The Audit Committee should be structured so that it:

- consists only of non-executive directors
- consists of a majority of independent directors
- is chaired by an independent Chair, who is not Chair of the Board
- has at least three members

Disclosure:

The Audit Committee comprises three directors, Terrence Strapp (Chair), Peter Hood and Barry Patterson all of whom are independent non-executive Directors.

Recommendation 4.3: The Audit Committee should have a formal charter.

Disclosure:

The Company has adopted an Audit Committee Charter, which is summarised above in the section titled "*Summary of Audit Committee Charter*".

Recommendation 4.4: Companies should provide the information indicated in the Guide to reporting on Principle 4.

Disclosure:

As noted above, the Company has established a separate Audit Committee. The Audit Committee is comprised of the following members Terrence Strapp (chair), Peter Hood and Barry Patterson. The Company's Audit Committee Charter is summarised above in the section titled "*Summary of Audit Committee Charter.*"

Details of each of the Director's qualifications are set out in the Directors Report.

The Company has established procedures for the selection, appointment and rotation of its external auditor. These are summarised under the section titled "*Summary of Procedure for the Selection, Appointment and Rotation of External Auditor*" above.

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURES

Recommendation 5.1: Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

Disclosure:

The Company has established written policies designed to ensure compliance with ASX Listing Rule disclosure and accountability at a senior executive level for that compliance. These are summarised under the section titled "*Summary of Compliance Procedures*" above.

Recommendation 5.2: Companies should provide the information indicated in the Guide to reporting on Principle 5.

Disclosure:

A summary of the Company's policy to guide compliance with ASX Listing Rule disclosure is included above under the section titled "*Summary of Compliance Procedures.*"

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

Recommendation 6.1: Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.

Disclosure:

The Company has designed a communications policy for promoting effective communication with shareholders and encouraging shareholder participation at general meetings. This is summarised under the section titled "*Summary of Shareholder Communication Strategy*" above.

Recommendation 6.2: Companies should provide the information indicated in the Guide to reporting on Principle 6.

Disclosure:

A summary of the Company's shareholder communication strategy is included above in the section titled "*Summary of Shareholder Communication Strategy.*"

It is the Company's policy to require the external auditor to attend its annual general meeting and be available to respond to shareholder questions.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

Recommendation 7.1: Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

Disclosure:

The Board has adopted a Risk Management Policy, which sets out the Company's risk profile. This policy is summarised under the section titled "*Summary of Risk Management Policy*" above.

Recommendation 7.2: The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.

Disclosure:

The Board has required management to design, implement and maintain risk management and internal controls systems to manage the Company's material business risks. The Board also requires management to report to in confirming that those risks are being managed effectively.

Recommendation 7.3: The Board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Disclosure:

The Board will require the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) to provide a declaration to the Board in accordance with section 295A of the Corporations Act and to assure the Board that such declaration is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Recommendation 7.4: Companies should provide the information indicated in the Guide to reporting on Principle 7.

Disclosure:

0A summary of the Company's Risk Management Policy is included above in the section titled "Summary of Risk Management Policy."

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

Recommendation 8.1: The Board should establish a Remuneration Committee.

Notification of departure:

The Company has established a Remuneration Committee.

Recommendation 8.2: The Remuneration Committee should be structured so that it consists of a majority of independent directors, is chaired by an independent chair and has at least three members.

Disclosure:

The Company has established a Nomination and Remuneration Committee. The Remuneration Committee is comprised of Barry Patterson (Chair), Terrence Strapp, Peter Hood and Joe Ricciardo. Messrs Patterson, Strapp and Hood are independent directors.

Recommendation 8.3: Companies should clearly distinguish the structure of non-executive Directors' remuneration from that of executive Directors and senior executives.

Disclosure:

Refer to the section titled "Summary of Remuneration Policy" above.

Recommendation 8.4: Companies should provide the information indicated in the Guide to reporting on Principle 8.

Disclosure:

As noted above, the Company has established a separate Remuneration Committee. The Remuneration Committee is comprised of the following members Barry Patterson (Chair), Terrence Strapp, Peter Hood and Joe Ricciardo. The Company's Remuneration Committee Charter is summarised above in the section titled "*Summary of Remuneration Committee Charter.*"

There are no termination or retirement benefits for non-executive Directors (other than for superannuation).

The Company's Remuneration Committee Charter includes a statement of the Company's policy on prohibiting transactions in associated products which limit the risk of participating in unvested entitlements under any equity based remuneration schemes.

The shareholder information set out below was applicable as at 11 October 2012:

- the twenty largest shareholders held 87.4% of the ordinary shares; and
- there were 1,167 ordinary shareholders

Distribution of securities

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

Range	Total	Units	% shares issued
1 - 1,000	74	44,590	0.03
1,001 - 5,000	423	1,333,483	0.89
5,001 - 10,000	285	2,360,652	1.57
10,001 - 100,000	339	10,571,540	7.05
100,001 - 1,000,000	30	9,352,585	6.24
1,000,001 - 9,999,999,999	16	126,337,150	84.22
Rounding			0.00
Total	**1,167**	**150,000,000**	**100.00**

The number of shareholders holding less than a marketable parcel of ordinary shares is 38.

Equity security holders

Top 20 Shareholders as at 11 October 2012:

Name		Number of shares held	% of shares issued
1.	Mr David Joseph Sala Tenna + Ms Jane Frances Sala Tenna	13,825,000	9.22
2.	Joley Pty Ltd	12,000,000	8.00
3.	Polly Pty Ltd	10,500,000	7.00
4.	Quintal Pty Ltd	10,500,000	7.00
5.	Citicorp Nominees Pty Ltd	10,096,492	6.73
6.	Paksian Pty Ltd	9,798,578	6.53
7.	Kingarth Pty Ltd	9,795,000	6.53
8.	Mr Giuseppe Totaro	9,500,000	6.66
9.	Ms Barbara Ann Woodhouse	8,150,000	5.43
10.	Ms Beverley June Schier	8,100,000	5.40
11.	National Nominees Limited	7,858,573	5.24
12.	Ledgking Pty Ltd	6,000,000	4.00
13.	Mr Stephen Paul Kendrick	4,875,000	3.25
14.	JP Morgan Nominees Australia Limited	2,880,209	1.92
15.	HSBC Custody Nominees (Australia) Limited	2,443,582	1.63
16.	Sandhurst Trustees Ltd <Harper Bernays Ltd A/C>	1,334,000	0.90
17.	Mr Cono Antonio Angelo Ricciardo	856,862	0.57
18.	Mr Cono Antonio Angelo Ricciardo + Mr Brett Alan Turner	772,109	0.51
19.	Hotlake Pty Ltd	675,000	0.45
20.	BNP Paribas Noms Pty Ltd	628,562	0.42
		130,588,967	**87.39**

Substantial Shareholders

Name		Number of shares held	% of shares issued
1.	Mr David Joseph Sala Tenna + Ms Jane Frances Sala Tenna	13,825,000	9.22
2.	Joley Pty Ltd	12,000,000	8.00
3.	Polly Pty Ltd	10,500,000	7.00
4.	Quintal Pty Ltd	10,500,000	7.00
5.	Citicorp Nominees Pty Ltd	10,096,492	6.73
6.	Paksian Pty Ltd	9,798,578	6.53
7.	Kingarth Pty Ltd	9,795,000	6.53
8.	Mr Giuseppe Totaro	9,500,000	6.66
9.	Ms Barbara Ann Woodhouse	8,150,000	5.43
10.	Ms Beverley June Schier	8,100,000	5.40
11.	National Nominees Limited	7,858,573	5.24

Voting Rights

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

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

Options over ordinary shares
There are no voting rights attached to Options over the Company's shares.

Options of issue

The following options over ordinary shares are on issue to Mr Geoffrey Jones, the Company's Chief Operating Officer:

Number	Grant Date	Expiry Date	Exercise Price
500,000	19 April 2011	19 April 2013	$1.25
500,000	19 April 2011	19 April 2014	$1.50
750,000	19 April 2011	19 April 2015	$1.80
750,000	19 April 2011	19 April 2016	$2.10

Performance Rights on Issue

The following performance rights over ordinary shares have been issued pursuant to the GR Engineering Services Limited equity incentive plan:

Number	Grant Date	Vesting Date
2,215,000	21 September 2012	21 September 2015
50,000	4 October 2012	4 October 2015

Company Secretary
Mr Giuseppe (Joe) Totaro

Registered Office
71-73 Daly Street
BELMONT WA 6104

Principal Place of Business
179 Great Eastern Highway
BELMONT WA 6104
Telephone: (61 8) 6272 6000
Facsimile: (61 8) 6272 6001

Share Registry
Computershare Investor Services Pty Limited
Level 2, 45 St Georges Terrace
PERTH WA 6000

On-Market Buyback
The Company has no current on-market buy back scheme.

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

CORPORATE DIRECTORY

GR ENGINEERING SERVICES LIMITED

ACN 121 542 738
ABN 12 121 542 738

DIRECTORS

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

COMPANY SECRETARY & CHIEF FINANCIAL OFFICER

Giuseppe (Joe) Totaro

REGISTERED OFFICE

71-73 Daly Street
BELMONT WA 6104

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ASX CODE

GNG

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SOLICITORS TO THE COMPANY

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SHARE REGISTRY

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PERTH WA 6000

GR Engineering Services Limited
ENGINEERING CONSULTANTS AND CONTRACTORS

www.gres.com.au