



SYNERTEC

Synertec Corporation Limited

ARBN 161 803 032

**ASX Listing Rule 4.3A.
Appendix 4E Statement**

Preliminary Final Report

**For the Year Ended
30 June 2019**

Current Reporting Period: Year Ended 30 June 2019
Previous Corresponding Period: Year Ended 30 June 2018

Synertec Corporation Limited
Appendix 4E Statement
Year Ended 30 June 2019

1. Company details

Name of entity:	Synertec Corporation Limited
ARBN:	161 803 032
Reporting period:	For the year ended 30 June 2019
Previous period:	For the year ended 30 June 2018

2. Results for announcement to the market

	30 June 2019	30 June 2018	Up/Down	Change	Change
	\$	\$		\$	%
Revenues from ordinary activities	24,149,105	11,432,670	Up	12,716,435	111%
Loss from ordinary activities after tax attributable to the owners of Synertec Corporation Limited	(84,845)	(337,980)	Up	253,135	75%
Loss for the period attributable to the owners of Synertec Corporation Limited	(96,847)	(8,455,239)	Up	8,358,392	99%

Comments – Control gained over entities, basis of preparation and comparative information

For the year ended 30 June 2018 onwards:

Synertec Corporation Limited completed the acquisition of Synertec Pty Ltd on 8 August 2017. As a result of the acquisition, the former shareholders of Synertec Pty Ltd effectively obtained control of the combined entity. Accordingly, under the principles of the International Financial Reporting Standard IFRS 3 ‘Business Combinations’, Synertec Pty Ltd was deemed to be the accounting acquirer in this transaction. The acquisition has been accounted for as a reverse acquisition by which Synertec Pty Ltd acquired the net assets and listing status of Synertec Corporation Limited.

Accordingly, the consolidated financial statements of Synertec Corporation Limited have been prepared as a continuation of the business and operations of Synertec Pty Ltd. As the deemed acquirer, Synertec Pty Ltd has accounted for the acquisition of Synertec Corporation Limited from 8 August 2017.

Comments – Review of Operations

Continuing operations

Profit and Loss performance

Revenue and Costs

In FY19, Synertec Corporation Limited (“Synertec” or the “Group”) achieved record revenue of \$24.1 million (30 June 2018: \$11.4 million), growing 111% on the prior year, as well as an improved earnings performance and continued strong net positive operating cash flows - while continuing its strong track-record as a multidisciplined and integrated business, delivering end-to-end proprietary products and solutions.

This record revenue and growth in FY19 demonstrates the Group’s ability to successfully and simultaneously deliver large projects in target industries across a blue-chip customer base and continue the trend over many years of delivering around 70% of work from repeat clients and improved project diversification.

Review of Operations (continued)

Leading into FY19, the Group anticipated substantial growth in revenue following the award of several large and strategically important projects which were announced to the ASX over the past two years. These projects have delivered advanced integrated control systems, custody transfer solutions and innovative and practical design and construction management, including:

- o Jemena's Northern Gas Pipeline: Design, supply and commission the control safety system.
- o Metro Trains Melbourne: Critical fire and life system upgrade of the Melbourne Underground Rail Loop (MURL)
- o Melbourne's Cross Yarra Partnership (CYP) underground rail infrastructure project: interim design for the Tunnel Ventilation Control System (TVCS) and Building Management System (BMS)
- o Newcastle Shipping Terminal Expansion: Berth pipeline relocation for Koppers Carbon Materials & Chemicals and Stolthaven Terminals Pty Ltd.

Contracted work and services contracts with many long-term customers continued successfully during the year. The design and construction of a large state-of-the-art pharmaceutical manufacturing facility in Victoria, Australia, continues to progress as planned. This customer is one of the largest vaccine manufacturers in the world and this facility represents their Global Centre of Excellence for this product. This complex and highly regulated project is one which Synertec is uniquely positioned to deliver.

From the core growth strategy developed several years ago of deliberately targeting industry segments with high barriers to entry and projects with high risks for clients, the Group continued to invest during the year in further refinement of the strategy and development of skills, solutions and products to more significantly advance delivery of growth to shareholders. In some cases, this investment was deliberately embedded within a project to ensure a commercial approach to innovation and developing know-how which could be leveraged by Synertec across new clients, industries and/or geographies.

Whilst FY19 did not deliver on management's expectations in terms of earnings, it was a significant improvement on the prior year and Synertec's customers, Board and management were pleased and excited by the quality of projects delivered. Margins this year are reflective of the proportion of revenue from Fixed Price Solutions and Engineering Services respectively. Fixed Price Solutions revenue of \$21.1 million (30 June 2018: \$7.9 million) has grown by 2.7 times the revenue produced for this category in the prior year and represents 88% of total revenue. This category incorporates a large proportion of materials procured on behalf of clients for projects and on-charge of these items at a substantially lower selling margin than typical high-end engineering services. Engineering Services revenue was \$3.1 million (30 June 2018: \$3.5 million).

The Group's operations continued to diversify as planned and place the Group in a position to continue expansion over the next few years based on improving market conditions and increasing enquiry for its products and solutions. The Board and management believe this will foster sustainability and improved quality in earnings during this important phase in Synertec's growth.

As Synertec continues to evolve, there remains a few basic principles the Group continues to follow:

- Preserve balance sheet strength;
- Continue sustainable, profitable and strategic delivery;
- Invest in people and capability; and
- Focus on costs at every level in the business.

While the Group has continued to control overheads and the operating cost base of the business has remained relatively stable over the past few years, during the year the Group investigated and invested in several potential high-growth strategic opportunities, the costs of which are included in other expenses. The tax deductibility of some of these costs is required to be apportioned over five years or considered capital in nature for tax purposes, and not deductible in the current financial year.

Strong project delivery capability underpinned by effective processes and systems continue to generate solid gross profit margins. This is especially pleasing as the Group has been awarded more projects in sectors it has been strategically targeting and developing expertise in for the past few years.

Review of Operations (continued)

The solid operating platforms of the business are being optimised to further leverage technology, strengthen project management and accommodate anticipated growth in activity so it can continue to support expansion from current revenue levels.

Earnings

The Group delivered a small operating net loss before tax and net finance costs of \$36 thousand (30 June 2018: \$479 thousand). The total net loss after tax of the Group from its continuing operations for the year was \$85 thousand (30 June 2018: \$5,060 thousand). The 2018 result includes significant costs associated with the acquisition of Synertec Pty Ltd and ASX re-listing process completed in August 2017.

	<i>In Australian dollars (\$'000's)</i>	
	30 June 2019	30 June 2018
Profit / (loss) before tax, net finance costs, depreciation, corporate transaction costs & implementation of new accounting standards	131	(337)
Implementation of new accounting standards	(40)	-
Depreciation	(128)	(95)
Corporate transaction costs	-	(47)
Results from operating activities	(36)	(479)
Net finance (costs) / income	(17)	36
Income tax (expense) / benefit	(31)	105
Loss from operations after tax	(85)	(338)
Listing expense	-	(4,722)
Loss from continuing operations	(85)	(5,060)
Loss from discontinued operations	(12)	(3,395)
Total comprehensive income for the year	(97)	(8,455)

Several new accounting standards became effective for the Group during the year, most notably the implementation of IFRS 15 Revenue from Contracts with Customers, which replaced IFRS 118 Revenue, IFRS 111 Construction Contracts and several revenue-related accounting Interpretations. The impact on the results for this period which would otherwise have been reported, from the implementation of IFRS 15, was a decrease in revenue of \$53 thousand and decrease in profit of \$40 thousand. There was no impact on the Group's cash flows.

Financial Position

The Group's balance sheet remains strong, closing the year with net assets of \$5.2 million (30 June 2018: \$5.3 million), including total cash of \$5.8 million (30 June 2018: \$5.0 million). This includes \$4.3 million in cash available to operations (30 June 2018: \$3.5 million) and \$1.5 million in cash on term deposit (30 June 2018: \$1.5 million) as security for the bank guarantee facility. The business continues to operate with no debt.

It is this fiscal discipline which the Board and management consider important and appropriate for the current engineering environment and to deliver on the strategy and projected growth for the Group.

Net cash generated from operations during the year of \$0.8 million (2018: \$1.0 million) maintains the Group's strong level of working capital. Contracts continue to be structured and working capital managed to ensure future cash flows are well coordinated. This is evident in the contract liabilities balance of \$0.3m (30 June 2018: \$2.7 million) which has reduced by \$2.4 million over the course of the year as planned, with the delivery of large key projects, some of which provided substantial upfront funding for procurement of major components and engagement of key suppliers.

Review of Operations (continued)

Discontinued operations

During the year, the Group completed the formalities required for the dissolution and wind-up of legacy non-core mining-related entities; Synergy Metals Pty Ltd (incorporated in Australia) and SML Resources Limited (incorporated in British Virgin Islands). This completes the Group's corporate reorganisation activities planned as part of the ASX-relisting in 2017, providing an efficient structure for the Group going forward.

Dividends

No dividends were declared, paid or recommended in respect of the current year (pcp: nil).

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>0.02</u>	<u>0.03</u>

4. Control gained over entities

Refer Comments in Section 2 of this Statement.

5. Loss of control over entities

Refer Comments in Section 2 of this Statement.

6. Details of associates and joint venture entities

Not applicable.

Name of associate / joint venture	Reporting entity's percentage holding		Contribution to profit/(loss) (where material)	
	Reporting period %	Previous period %	Reporting period \$'000	Previous period \$'000
There are no associates or joint venture entities.	-	-	-	-

7. Audit qualification or review

Details of audit/review dispute or qualification (if any):

This Statement is based on the consolidated financial statements which were subject to an audit by the auditors and the audit report is attached as part of the Annual Financial Report.

8. Attachments

Details of attachments (if any):

The Annual Report of Synertec Corporation Limited for the year ended 30 June 2019 is attached.

9. Signed



Date: 26 August 2019

Ms. Leeanne Bond
Chair of Board
Melbourne

Synertec Corporation Limited
ARBN 161 803 032

Financial Report
For Financial Year Ended 30 June 2019

Synertec Corporation Limited
Table of Contents
For the year ended 30 June 2019

Corporate Directory	3
Directors' Report	4
Corporate Governance Statement	17
Statement of Profit or Loss and Other Comprehensive Income	18
Statement of Financial Position	19
Statement of Changes in Equity	20
Statement of Cash Flows	21
Notes to the Financial Statements	22
Directors' Declaration	53
Independent Auditor's Report	54

Corporate Directory

Directors	Ms. Leeanne Bond (Chair) Mr. Michael Carroll (Managing Director) Mr. Kiat Poh (Non-executive Director) Mr. Kim Chuan Freddie Heng (Non-executive Director)
Company Secretary	Mr. David Harris Level 1, 57 Stewart Street Richmond, VIC 3121
Principal registered office in Bermuda	Clarendon House 2 Church Street Hamilton HM11 Bermuda
Registered agent office in Australia	Synertec Corporation Limited Level 1, 57 Stewart Street Richmond, VIC 3121 Australia Telephone: +(61 3) 9274 3000
Share registry	Boardroom Pty Limited Grosvenor Place Level 12, 225 George Street Sydney, NSW 2000 Australia Telephone: 1300 737 760 (within Australia) +(61 2) 9290 9600 (outside Australia) Facsimile: +(61 2) 9290 9655
Auditor	Grant Thornton Audit Pty Ltd Collins Square Tower 5 727 Collins Street Melbourne VIC 3008 Australia
Stock exchange listing	Synertec Corporation Limited shares and options are listed on the Australian Securities Exchange (ASX) ASX Code: SOP (fully paid ordinary shares) SOPOA (options)
Website address	www.synertec.com.au

Synertec Corporation Limited
Directors' Report
30 June 2019

The Directors present their report together with the financial statements of the consolidated entity for the year ended 30 June 2019.

1. Directors

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

Ms. Leeanne Bond
Mr. Michael Carroll
Mr. Kiat Poh
Mr. Kim Chuan Freddie Heng

1.1 Information on Directors

Ms. Leeanne Bond – Non-Executive Director, Chair

Ms. Bond is an executive and professional company director with Board roles in the energy, water and engineering services industries. She has qualifications in engineering and management, and 30 years' experience across a broad range of industrial sectors including energy, minerals, infrastructure and water.

From 1996 to 2006 Ms. Bond held a number of management roles with Worley in Queensland, including General Manager (Qld, NT and PNG), where she negotiated project alliances and supervised contracts and projects with many Australian and international companies. Ms Bond was appointed Executive for Diversity & Inclusion at Downer EDI in December 2017.

Ms. Bond is a non-executive director of Liquefied Natural Gas Limited (ASX: LNG) and Snowy Hydro Limited. She is also a non-executive director of JKTech, a company wholly owned by the University of Queensland and a board member of the Clean Energy Finance Corporation. She is the sole director and owner of Breakthrough Energy Pty Ltd, a project and business development consulting firm.

She has previously held board positions on a number of water and energy businesses, including Tarong Energy and the Queensland Bulk Water Supply Authority (Seqwater) and was Chair of Brisbane Water.

Mr. Michael Carroll – Executive Director

Mr. Carroll is a founding principal and Managing Director of Synertec and a significant beneficial owner of Synertec. He has successfully grown the business of Synertec since it was first established in 1996. His leadership style is "hands on" and visionary, ensuring efficient and robust internal processes that directly support the strategic direction of Synertec.

As Managing Director of Synertec, Mr Carroll has negotiated complex agreements with a range of parties, such as large multinational energy conglomerates, water utilities, defence and pharmaceutical companies. Mr. Carroll has direct experience within the Asian engineering market, having established and sold successful companies in both Singapore and Malaysia.

Mr. Carroll is a member of the Institute of Company Directors and holds a Degree in Applied Science (Applied Chemistry) and a post graduate qualification in Chemical Engineering.

1. Directors (continued)

1.1 Information on Directors (continued)

Mr. Kiat Poh B - Non-Executive Director

Mr. Poh holds a Certified Diploma in Accounting and Finance from ACCA, UK, Diploma in Management Studies from the Singapore Institute of Management, and a Diploma in Civil Engineering from Singapore Polytechnic.

Mr. Poh has over 30 years' experience at senior management level in the construction, real estate development, manufacturing industries and financial markets. Over the years, he also held senior positions in corporate finance and mezzanine capital investment companies in Malaysia specialising in investments as well as mergers and acquisitions.

From 1998 to 2005, Mr. Poh was Managing Director of a Singapore Exchange listed company.

Since 2005, Mr. Poh has been managing a Singapore-based investment advisory company that focuses on participating in strategic stakes in listed companies.

Since May 2008, Mr. Poh has been a non-executive director of Centrex Metals Limited, a company listed on the ASX.

Mr. Kim Chuan Freddie Heng - Non-Executive Director

Mr. Heng is a Chartered Accountant and holds a BSc (Economics) from the London School of Economics. He has worked with an international accounting firm in London and Singapore.

From 1992 to 2000, Mr. Heng was an Executive Director (Finance) in a Singapore Exchange listed company. During that period, he oversaw the structuring of four oil pipeline and storage depot projects in Indonesia. He also oversaw the successful issue of floating rate notes to financial institutions in Asia to fund the first of those projects.

Since 2000, Mr. Heng has pursued his own interests in investments, primarily in listed companies. Mr. Heng is currently a director of Noel Gifts International Limited, a company listed on the Singapore Exchange, TMC Life Sciences Berhad, a company listed on the Kuala Lumpur Exchange and Thomson Medical Group Limited (formerly known as Rowsley Ltd), listed on the Singapore Exchange.

1.2 Directors' interest in shares and options

	Interest in Ordinary Shares	Interest in Options
<i>Non-Executive Directors:</i>		
Leeanne Bond (Chair)	2,185,576	-
Kiat Poh	2,423,417	-
Kim Chuan Freddie Heng	2,176,433	435,287
<i>Executive Directors:</i>		
Michael Carroll (Managing Director)	94,796,992	-

Mr. Michael Carroll is the beneficial owner of 52.1% of the benefits and rights in the Pinnacle (MCGA) Retirement Fund, which in turn owns 100% of the ordinary shares in New Concept Corporation Limited. New Concept Corporation Limited is the registered holder of 94,796,992 shares (43.0% of total shares) in Synertec Corporation Limited.

2. Principal activities

Synertec is a provider of engineering products and solutions which typically incorporate complex automated and highly instrumented systems and processes designed to enhance clients' productivity, efficiency and safety. These services are provided across Australia and overseas through offices in Melbourne and Perth.

3. Significant changes in the state of affairs

No significant changes noted in the year ended 30 June 2019.

During the year ended 30 June 2018, Synertec Corporation Limited completed the acquisition of Synertec Pty Ltd on 8 August 2017. As a result of the acquisition, the former shareholders of Synertec Pty Ltd effectively obtained control of the combined entity. Accordingly, under the principles of the International Financial Reporting Standard (IFRS) IFRS 3 'Business Combinations', Synertec Pty Ltd was deemed to be the accounting acquirer in this transaction.

The acquisition was accounted for as a reverse acquisition by which Synertec Pty Ltd acquired the net assets and listing status of Synertec Corporation Limited. For accounting purposes, the acquisition has been treated as a share-based payment using the reverse acquisition principles of the business combination accounting standard. Accordingly, the consolidated financial statements of Synertec Corporation Limited have been prepared as a continuation of the consolidated financial statements of Synertec Pty Ltd.

4. Review of operations and results of those operations

Profit and Loss performance

Continuing operations

Revenue and Costs

In FY19, Synertec Corporation Limited ("Synertec" or the "Group") achieved record revenue of \$24.1 million (30 June 2018: \$11.4 million), growing 111% on the prior year, as well as an improved earnings performance and continued strong net positive operating cash flows - while continuing its strong track-record as a multidisciplinary and integrated business, delivering end-to-end proprietary products and solutions.

This record revenue and growth in FY19 demonstrates the Group's ability to successfully and simultaneously deliver large projects in target industries across a blue-chip customer base and continue the trend over many years of delivering around 70% of work from repeat clients and improved project diversification.

Leading into FY19, the Group anticipated substantial growth in revenue following the award of several large and strategically important projects which were announced to the ASX over the past two years. These projects have delivered advanced integrated control systems, custody transfer solutions and innovative and practical design and construction management, including:

- o Jemena's Northern Gas Pipeline: Design, supply and commission the control safety system.
- o Metro Trains Melbourne: Critical fire and life system upgrade of the Melbourne Underground Rail Loop (MURL)
- o Melbourne's Cross Yarra Partnership (CYP) underground rail infrastructure project: interim design for the Tunnel Ventilation Control System (TVCS) and Building Management System (BMS)
- o Newcastle Shipping Terminal Expansion: Berth pipeline relocation for Koppers Carbon Materials & Chemicals and Stolthaven Terminals Pty Ltd

4. Review of operations and results of those operations (continued)

Profit and Loss performance (continued)

Continuing operations (continued)

Revenue and Costs (continued)

Contracted work and services contracts with many long-term customers continued successfully during the year. The design and construction of a large state-of-the-art pharmaceutical manufacturing facility in Victoria, Australia, continues to progress as planned. This customer is one of the largest vaccine manufacturers in the world and this facility represents their Global Centre of Excellence for this product. This complex and highly regulated project is one which Synertec is uniquely positioned to deliver.

From the core growth strategy developed several years ago of deliberately targeting industry segments with high barriers to entry and projects with high risks for clients, the Group continued to invest during the year in further refinement of the strategy and development of skills, solutions and products to more significantly advance delivery of growth to shareholders. In some cases, this investment was deliberately embedded within a project to ensure a commercial approach to innovation and developing know-how which could be leveraged by Synertec across new clients, industries and/or geographies.

Whilst FY19 did not deliver on management's expectations in terms of earnings, it was a significant improvement on the prior year and Synertec's customers, Board and management were pleased and excited by the quality of projects delivered. Margins this year are reflective of the proportion of revenue from Fixed Price Solutions and Engineering Services respectively. Fixed Price Solutions revenue of \$21.1 million (30 June 2018: \$7.9 million) has grown by 2.7 times the revenue produced for this category in the prior year and represents 88% of total revenue. This category incorporates a large proportion of materials procured on behalf of clients for projects and on-charge of these items at a substantially lower selling margin than typical high-end engineering services. Engineering Services revenue was \$3.1 million (30 June 2018: \$3.5 million).

The Group's operations continued to diversify as planned and place the Group in a position to continue expansion over the next few years based on improving market conditions and increasing enquiry for its products and solutions. The Board and management believe this will foster sustainability and improved quality in earnings during this important phase in Synertec's growth.

As Synertec continues to evolve, there remains a few basic principles the Group continues to follow:

- o Preserve balance sheet strength;
- o High-quality, timely, sustainable and profitable delivery to our customers;
- o Invest in people, capability and strategic growth opportunities; and
- o Focus on costs at every level in the business.

While the Group has continued to control overheads and the operating cost base of the business has remained relatively stable over the past few years, during the year the Group investigated and invested in several potential high-growth strategic opportunities, the costs of which are included in other expenses. The tax deductibility of some of these costs is required to be apportioned over five years or considered capital in nature for tax purposes, and not deductible in the current financial year.

The solid operating platforms of the business are being optimised to further leverage technology, strengthen project management and accommodate anticipated growth in activity so it can continue to support expansion from current revenue levels.

Earnings

The Group delivered a small operating net loss before tax and net finance costs of \$36 thousand (30 June 2018: \$479 thousand). The total net loss after tax of the Group from its continuing operations for the year was \$85 thousand (30 June 2018: \$5,060 thousand). The 2018 result includes significant costs associated with the acquisition of Synertec Pty Ltd and ASX re-listing process completed in August 2017.

4. Review of operations and results of those operations (continued)

Earnings (continued)

	<i>In Australian dollars (\$'000's)</i>	
	30 June 2019	30 June 2018
Profit / (loss) before tax, net finance costs, depreciation, corporate transaction costs & implementation of new accounting standards	131	(337)
Implementation of new accounting standards	(40)	-
Depreciation	(128)	(95)
Corporate transaction costs	-	(47)
Results from operating activities	(36)	(479)
Net finance (costs) / income	(17)	36
Income tax (expense) / benefit	(31)	105
Loss from operations after tax	(85)	(338)
Listing expense	-	(4,722)
Loss from continuing operations	(85)	(5,060)
Loss from discontinued operations	(12)	(3,395)
Total comprehensive income for the year	(97)	(8,455)

Several new accounting standards became effective for the Group during the year, most notably the implementation of IFRS 15 Revenue from Contracts with Customers, which replaced IFRS 118 Revenue, IFRS 111 Construction Contracts and several revenue-related accounting Interpretations. The impact on the results for this period which would otherwise have been reported, from the implementation of IFRS 15, was a decrease in revenue of \$53 thousand and decrease in profit of \$40 thousand. There was no impact on the Group's cash flows.

Statement of Profit or Loss and Other Comprehensive Income (Extract)	Amounts under	Adoption of	Amounts under
(Continuing operations)	IFRS 118 & 111	IFRS 15	IFRS 15
<i>In Australian dollars ('000's)</i>			
Revenue	24,202	(53)	24,149
Costs of sales and operating expenses	(24,199)	13	(24,186)
Results from operating activities	3	(40)	(36)
Net finance costs	(17)	-	(17)
Income tax expense	(31)	-	(31)
Total comprehensive loss for the period	(45)	(40)	(85)

4. Review of operations and results of those operations (continued)

Financial position

The Group's balance sheet remains strong, closing the year with net assets of \$5.2 million (30 June 2018: \$5.3 million), including total cash of \$5.8 million (30 June 2018: \$5.0 million). This includes \$4.3 million in cash available to operations (30 June 2018: \$3.5 million) and \$1.5 million in cash on term deposit (30 June 2018: \$1.5 million) as security for the bank guarantee facility. The business continues to operate with no debt.

It is this fiscal discipline which the Board and management consider important and appropriate for the current engineering environment and to deliver on the strategy and projected growth for the Group.

Net cash generated from operations during the year of \$0.8 million (2018: \$1.0 million) maintains the Group's strong level of working capital. Contracts continue to be structured and working capital managed to ensure future cash flows are well coordinated. This is evident in the contract liabilities balance of \$0.3m (30 June 2018: \$2.7 million) which has reduced by \$2.4 million over the course of the year as planned, with the delivery of large key projects, some of which provided substantial upfront funding for procurement of major components and engagement of key suppliers.

Discontinued operations

During the year, the Group completed the formalities required for the dissolution and wind-up of legacy non-core mining-related entities; Synergy Metals Pty Ltd (incorporated in Australia) and SML Resources Limited (incorporated in British Virgin Islands). This completes the Group's corporate reorganisation activities planned as part of the ASX-relisting in 2017, providing an efficient structure for the Group going forward.

5. Litigation

There has been no litigation in the year and to the best of the Directors' knowledge there are no circumstances that would give rise to any potential litigation relating to this same period.

6. Dividends

There were no dividends paid, declared or recommended during the current or previous financial period.

7. Subsequent events

No matter or circumstance has arisen since 30 June 2019 that has significantly affected or may significantly affect the Group's operations, the results from those operations, or the Group's state of affairs in future years.

8. Likely developments

Aside from the subsequent events noted above, it is not foreseen that the Group will undertake any change in its general operations during the coming financial period.

9. Environmental legislations

The Group's operations are not subject to significant environmental regulations under both Commonwealth and State legislation.

10. Company Secretary

Mr. David Harris is Company Secretary and Chief Financial Officer of Synertec Corporation Limited.

Mr. Harris is an Australian Chartered Accountant and fellow of the Financial Services Institute of Australasia and the Governance Institute of Australia, and a member of the Australian Institute of Company Directors. He has strong local and international experience in senior leadership positions for global and ASX-listed companies and is also an experienced Board member and Audit Risk Committee Chair.

11. Directors' Meetings

The number of meetings of the Company's Board of Directors ("the Board") and of each Board committee held during the period 1 July to 30 June 2019, and the number of meetings attended by each Director were:

	Board Meetings		Audit and Risk Committee		Nomination and Remuneration Committee	
	A	B	A	B	A	B
<i>Directors</i>						
Leeanne Bond	8	8	3	3	3	3
Michael Carroll	8	8	3	3	3	3
Kiat Poh	8	8	3	3	3	3
Kim Chuan Freddie Heng	8	8	3	3	3	3
<i>Others</i>						
David Harris - CFO/Company Secretary	8	8	3	3	3	3

Where:

- **column A** is the number of meetings the Director was entitled to attend
- **column B** is the number of meetings the Director attended

12. Unissued shares under option

Under the Prospectus issued by the Company in June 2017, and following the successful execution of the Share Sale Agreement with Synertec Pty Ltd on 8 August 2017, the Company issued 16,175,970 bonus options to existing shareholders (options record date: 26 June 2017). The options have an exercise price of \$0.053 and are exercisable on or before 8 August 2020. No shares have been issued during or since the end of the financial year as a result of the exercise of any options. No other options have been granted or exercised.

13. Remuneration report

The remuneration report details the key management personnel remuneration arrangements for the consolidated entity.

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

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Additional disclosures relating to key management personnel

13. Remuneration report (continued)

Principles used to determine the nature and amount of remuneration

The objective of the consolidated entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for the shareholders. The Board of Directors ("the Board") ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage/alignment of executive compensation
- transparency

The Board has established a Nomination and Remuneration Committee which operates in accordance with its charter as approved by the Board and is responsible for determining and reviewing compensation arrangements for the Directors and the Executive Team.

The Nomination and Remuneration Committee assess the appropriateness of the nature and amount of remuneration on a periodic basis by reference to recent employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and Executive Team.

The Group seeks to remunerate Directors and executives in accordance with the general principles recommended by the ASX. The Group is committed to remunerating executives in a manner that is market-competitive, reflects duties and supports the interests of shareholders.

The reward framework is designed to align executive reward to shareholders' interest. The Board have considered that it should seek to enhance shareholders' interests by:

- focusing on sustained growth in shareholder wealth, consisting of growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value; and
- attracting and retaining high calibre executives.

Additionally, the reward framework should seek to enhance executives' interests by:

- rewarding capability and experience;
- reflecting competitive reward for contribution to growth in shareholder wealth; and
- providing a clear structure for earning rewards.

In accordance with best practice corporate governance, the structure of non-executive directors and executive remuneration is separate.

Non-executive directors' remuneration

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed by the Board as a whole.

ASX Listing rules require that the aggregate non-executive directors' remuneration shall be determined periodically by a general meeting. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting.

Synertec Corporation Limited
Directors' Report
30 June 2019

13. Remuneration report (continued)

Details of remuneration

Amounts of remuneration

Details of remuneration of key management personnel of the consolidated entity are set out in the following tables.

2019	Short-term benefits		Post-employment benefits	Long-term benefits	Total
	Cash salary and fees	Bonus	Super-annuation	Long service leave	
	\$	\$	\$	\$	\$
<i>Non-Executive Directors</i>					
Leeanne Bond*	85,000	-	-	-	85,000
Kiat Poh**	50,000	-	-	-	50,000
Kim Chuan Freddie Heng	50,000	-	-	-	50,000
<i>Executive Directors</i>					
Michael Carroll (Managing Director)	322,240	-	31,415	3,855	357,510
<i>Other Key Management Personnel</i>					
Joern Buelter - COO	174,254	-	16,459	6,142	196,855
David Harris - CFO/Company Secretary***	288,844	-	26,364	2,129	317,337
Total remuneration of key management personnel	970,338	-	74,238	12,126	1,056,702

* This was paid to Breakthrough Energy Pty Ltd

** This was paid to Asiaphere Pty Ltd

*** David Harris was appointed as CFO, on a part time basis in July 2017 and in addition to this role has assumed the role of Company Secretary as from 16 April 2018. Subsequently, David Harris' appointment changed to full time from 1 January 2019.

2018	Short-term benefits		Post-employment benefits	Long-term benefits	Total
	Cash salary and fees	Bonus	Super-annuation	Long service leave	
	\$	\$	\$	\$	\$
<i>Non-Executive Directors</i>					
Leeanne Bond (appointed 08.08.2017)*	76,422	-	-	-	76,422
Kiat Poh**	48,333	-	-	-	48,333
Kim Chuan Freddie Heng	47,392	-	-	-	47,392
Shaw Pao Sze (resigned 08.08.2017)	5,475	-	-	-	5,475
<i>Executive Directors</i>					
Michael Carroll (Managing Director)	320,170	-	28,838	11,147	360,155
<i>Other Key Management Personnel</i>					
Joern Buelter - COO	158,871	-	14,963	5,297	179,131
David Harris - CFO/Company Secretary***	141,763	-	13,467	572	155,802
Total remuneration of key management personnel	798,426	-	57,268	17,016	872,710

13. Remuneration report (continued)

Additional disclosures relating to key management personnel

Shareholding

The number of shares in the company 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 1 July 2018	Received as part of remuneration	Additions/ (Disposals)	Bonus Options	Balance at 30 June 2019
<i>Non-Executive Directors</i>					
Leeanne Bond ¹	-	-	2,185,576	-	2,185,576
Kiat Poh ²	2,423,417	-	-	-	2,423,417
Kim Chuan Freddie Heng ³	2,176,433	-	-	-	2,176,433
<i>Executive Directors</i>					
Michael Carroll (Managing Director) ⁴	98,796,992	-	(4,000,000)	-	94,796,992
<i>Other Key Management Personnel</i>					
Joern Buelter - COO	250,000	-	-	-	250,000
David Harris - CFO/Company Secretary ⁵	-	-	1,384,531	-	1,384,531

Notes:

- Shares held by Bondatron Pty Ltd ATF Bondatron Super Fund A/C.
- Shares/options held by Kiat Poh and joint names under Kiat Poh & Ju-Lynn Poh.
- Shares/options held by HSBC Custody Nominees (Australia) Limited.
- Shares held by New Concept Corporation Limited ("New Concept") in which Michael Carroll is considered to have 52% interest in the shares in New Concept. All the issued share capital of New Concept is beneficially owned by TMF Trustees Singapore Limited as trustee of the Pinnacle (MCGA) Retirement Fund. Mr. Carroll has not disposed of any shares in which he has a direct beneficial interest during the year and up to the date of this report.
- Shares/options held by DDGG Harris Holdings Pty Ltd ATF DDGG Harris Superannuation Fund.

Options held by key management personnel

	Balance at 1 July 2018	Received as part of remuneration	Additions/ (Disposals)	Bonus Options	Balance at 30 June 2019
<i>Non-Executive Directors</i>					
Leeanne Bond	-	-	-	-	-
Kiat Poh ²	484,683	-	(484,683)	-	-
Kim Chuan Freddie Heng ³	435,287	-	-	-	435,287
<i>Executive Directors</i>					
Michael Carroll (Managing Director)	-	-	-	-	-
<i>Other Key Management Personnel</i>					
Joern Buelter - COO	-	-	-	-	-
David Harris - CFO/Company Secretary ⁵	-	-	359,813	-	359,813

A bonus issue of one (1) Option (Bonus Option) for every five (5) Shares held by the Existing Shareholders of Synertec Corporation Ltd (formerly SML Corporation Limited) for nil consideration was issued on 8 August 2017, being the date of completion of the sale transaction between Synertec Corporation Limited (formerly SML Corporation Limited) and Synertec Pty Ltd. Each Bonus Option entitles the holder to subscribe for one Share and is exercisable at \$0.053 on or before 3 years from the date of issue of the Bonus Options (8 August 2020).

13. Remuneration report (continued)

Additional disclosures relating to key management personnel

There were no other transactions with key management personnel during the year.

14. Indemnities given to, and insurance premiums paid for, officers and auditors

Officers

During the year, Synertec Corporation Limited paid a premium to insure officers of the Group. The officers of the Group covered by the insurance policy include all Directors.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else to cause detriment to the Group.

Details of the amount of the premium paid in respect of insurance policies are not disclosed as such disclosure is prohibited under the terms of the contract.

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

Auditors

The Group has not agreed to indemnify the auditor of the Group and any related entity against a liability incurred by the auditor.

During the financial year, the Group has not paid a premium in respect of a contract to insure the auditor of the Group or any related entity.

15. Auditor

Grant Thornton Audit Pty Ltd continues in office.

16. Officers of the Group who are former audit partners of auditor

There are no officers of the Group who are former audit partners of Grant Thornton Audit Pty Ltd.

17. Non-audit services

During the year, the firm of Grant Thornton, the Group's auditors, performed certain other services in addition to their statutory audit duties.

The Board has considered the non-audit services provided during the year by the auditor and, in accordance with written advice provided by resolution of the Audit and Risk Committee, is satisfied that the provision of those non-audit services during the year is compatible with, and did not compromise, the auditor independence requirements for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Group and have been reviewed by the Audit and Risk Committee to ensure they do not impact upon the impartiality and objectivity of the auditor; and
- the non-audit services do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

Details of the amounts paid to the auditors of the Group, Grant Thornton, and its related practices for audit and non-audit services provided during the year are set out in Note 23 to the financial statements.

18. Proceedings on behalf of the Group

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

This report is made in accordance with a resolution of directors.

For and on behalf of the Directors,



Mr. Michael Carroll
Managing Director
Melbourne
26 August 2019

Synertec Corporation Limited
Corporate Governance Report
30 June 2019

The Board is committed to achieving and demonstrating the highest standards of corporate governance. As such, Synertec Corporation Limited and its controlled entities (the Group) have adopted the third edition of the *Corporate Governance Principles and Recommendations* which was released by the ASX Corporate Governance Council on 27 March 2014 and became effective for financial years beginning on or after 1 July 2014.

The Group's Corporate Governance Statement for the financial year ending 30 June 2019 is dated as at 30 June 2019 and was approved by the Board on 26 August 2019. The Corporate Governance Statement is available on the Synertec Corporation Limited website www.synertec.com.au.

Synertec Corporation Limited

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2019

In Australian dollars

	Note	30 June 2019	30 June 2018
Continuing operations			
Revenue			
Revenue	6	24,149,105	11,432,670
Other income		8,656	-
Expenses			
Materials and service expense		(14,862,341)	(4,394,924)
Employee benefits expense		(6,986,918)	(5,543,144)
Superannuation expense		(579,804)	(470,497)
Depreciation and amortisation expense		(127,562)	(95,199)
Occupancy expenses		(224,051)	(180,829)
Business development expense		(262,272)	(329,460)
IT and telecommunication costs		(187,970)	(136,838)
Legal and professional fees		(114,936)	(169,919)
Other expenses		(652,519)	(371,107)
Loss on disposal of motor vehicles		(10,834)	-
Directors fees		(185,000)	(172,576)
Corporate transaction costs		-	(47,414)
Results from operating activities		(36,446)	(479,237)
Interest income		34,520	64,862
Finance costs		(51,801)	(28,988)
Net finance (costs)/income	7	(17,281)	35,874
Loss before tax		(53,727)	(443,363)
Income tax (expense)/benefit	8(i)	(31,118)	105,383
Loss from operations		(84,845)	(337,980)
Listing expense	20	-	(4,722,112)
Loss for the period from continuing operations		(84,845)	(5,060,092)
Discontinued operations			
Loss from discontinued operations	21	(12,002)	(3,395,147)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		(96,847)	(8,455,239)
Earnings per share (cents)			
Basic loss per share - from continuing operations	19	(0.04)	(2.45)
Diluted loss per share - from continuing operations	19	(0.04)	(2.45)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Synertec Corporation Limited
Consolidated Statement of Financial Position
As at 30 June 2019

In Australian dollars

	Note	30 June 2019	30 June 2018
Assets			
Cash and cash equivalents	9	4,336,500	3,509,672
Trade and other receivables	10	1,541,861	3,515,042
Other assets	11	231,383	162,553
Contract assets	12	1,373,049	1,949,536
Current tax assets		14,188	98,403
Total current assets		7,496,981	9,235,206
Non-current assets			
Net deferred tax assets	8	502,893	435,609
Other assets	11	1,500,000	1,514,552
Property, plant and equipment	13	262,349	409,071
Total non-current assets		2,265,242	2,359,232
Total assets		9,762,223	11,594,438
Liabilities			
Trade and other payables	14	3,548,855	2,929,479
Warranty provision		39,709	-
Employee benefits	15	479,903	513,993
Contract liabilities	16	345,477	2,742,698
Total current liabilities		4,413,944	6,186,170
Non-current liabilities			
Employee benefits	15	99,751	62,893
Total non-current liabilities		99,751	62,893
Total liabilities		4,513,695	6,249,063
Net assets		5,248,528	5,345,375
Equity			
Issued capital	17	641,113	641,113
Retained earnings		4,607,415	4,704,262
Total equity		5,248,528	5,345,375

The above statement of financial position should be read in conjunction with the accompanying notes

Synertec Corporation Limited
Consolidated Statement of Changes in Equity
For the year ended 30 June 2019

In Australian dollars

	Note	Issued capital	Other contributed equity	Retained earnings	Total
		\$	\$	\$	\$
Balance at 1 July 2017		950	132,904	6,648,909	6,782,763
Loss for the year - continued operations		-	-	(5,060,092)	(5,060,092)
Loss for the year - discontinued operations		-	-	(3,395,147)	(3,395,147)
Other comprehensive income		-	-	-	-
Total comprehensive income		-	-	(8,455,239)	(8,455,239)
Issue of share capital to the Vendors for the acquisition of Synertec Pty Ltd		3,235,194	-	-	3,235,194
Shares issued pursuant to the Share Offer		750,000	-	-	750,000
Shares issued to Advisor for services related to the acquisition		650,000	-	-	650,000
Capital raising costs		(413,531)	-	-	(413,531)
Net proceeds paid to Redemption Note holders from Sale of Mining		(3,581,500)	-	-	(3,581,500)
Consolidation of reserves and equity		-	(132,904)	6,510,592	6,377,688
Balance at 30 June 2018		641,113	-	4,704,262	5,345,375
Balance at 1 July 2018		641,113	-	4,704,262	5,345,375
Loss for the year - continued operations		-	-	(84,845)	(84,845)
Loss for the year - discontinued operations		-	-	(12,002)	(12,002)
Other comprehensive income		-	-	-	-
Total comprehensive income		-	-	(96,847)	(96,847)
Balance at 30 June 2019		641,113	-	4,607,415	5,248,528

The above statement of changes in equity should be read in conjunction with the accompanying notes

Synertec Corporation Limited
Consolidated Statement of Cash Flows
For the year ended 30 June 2019

In Australian dollars

	Note	30 June 2019	30 June 2018
Cash flows from operating activities			
Cash receipts from customers		26,850,590	13,389,612
Cash paid to suppliers and employees		(26,045,040)	(11,982,406)
Cash generated from operations		805,550	1,407,206
Interest received		34,520	86,510
Income taxes paid		(14,187)	(501,333)
Net cash from operating activities	9A(i)	825,883	992,383
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		116,220	-
Receipt/(payment) of funds on term deposit		14,552	(839,976)
Tenement rent refunded		-	118,379
Proceeds from disposal of discontinued operations		-	3,500,000
Redemption notes payment		-	(3,581,360)
Acquisition of property, plant and equipment		(129,827)	(135,022)
Net cash from/(used in) investing activities		945	(937,979)
Cash flows from financing activities			
Payment of finance lease liabilities		-	(17,569)
Net cash used in financing activities		-	(17,569)
Net increase in cash and cash equivalents		826,828	36,835
Cash and cash equivalent at beginning of the year	9A(iii)	3,509,672	3,472,837
Cash and cash equivalents at end of the year		4,336,500	3,509,672

The above statement of cash flows should be read in conjunction with the accompanying notes

Synertec Corporation Limited
Notes to the financial statements
For the year ended 30 June 2019

1. General information and statement of compliance

The financial statements cover Synertec Corporation Limited as a consolidated entity consisting of Synertec Corporation Limited (referred as the 'Company' or 'Parent Company') and the entities it controlled at the end of, or during, the year ended 30 June 2019 (together referred to as the 'Group').

Synertec Corporation Limited is the Group's Ultimate Parent Company. It is a public company (limited by shares) incorporated in Bermuda, and listed on the Australian Securities Exchange (ASX:SOP).

Its registered office is: Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

Its registered office in Australia is: Level 1, 57 Stewart Street, Richmond, VIC 3121, Australia.

A description of the nature of the consolidated entity's operations and its principal activities is included in the Directors' Report, which is not part of the financial statements.

The financial statements were approved and authorised for issue, in accordance with a resolution of directors, on 26 August 2019.

2. Changes in significant accounting policies

2.1 New standards adopted as at 1 July 2018

IFRS 15 Revenue from contracts with customers

IFRS 15 replaces IFRS 118 Revenue, IFRS 111 Construction Contracts and several revenue-related Interpretations. The new Standard has been applied to the Group as at 1 July 2018 using the modified retrospective approach. Under this method, the cumulative effect of initial application is recognised as an adjustment to the opening balance of retained earnings at 1 July 2018 and comparatives are not restated. In accordance with the transition guidance, IFRS 15 has only been applied to contracts that are incomplete as at 1 July 2018.

The adoption of IFRS 15 has mainly affected the following areas:

- contracts with multiple performance obligations
- contracts with warranty periods
- contracts with payment upon completion/transfer of goods to client

Contracts with multiple performance obligations

Many of the Group's contracts comprise a variety of performance obligations including, but not limited to, elements of design and customisation, installation and commissioning. Under IFRS 15, the Group has evaluated the separability of the promised goods or services based on whether they are 'distinct'. A promised good or service is 'distinct' if both:

- a) the customer benefits from the item either on its own or together with other readily available resources; and
- b) it is 'separately identifiable' (i.e. the Group does not provide a significant service integrating, modifying or customising it).

Synertec Corporation Limited
Notes to the financial statements
For the year ended 30 June 2019

2. Changes in significant accounting policies (continued)

2.1 New standards adopted as at 1 July 2018 (continued)

IFRS 15 Revenue from contracts with customers (continued)

While this represents significant new guidance, the implementation of this new guidance did not have a significant impact on the timing or amount of revenue recognised by the Group during the period.

Contracts with warranty periods

In the case of projects which contain a warranty obligation (i.e. repair or replace products/services that develop faults within a specified period from the time of sale in accordance with the contract or a statutory requirements), the warranty shall be treated as a separate performance obligation and they are measured and recognised as separate liabilities in accordance with IFRS 137 *Provisions, Contingent Liabilities and Contingent Assets*.

Contracts with payment upon completion/transfer of goods

For revenue recognised at a point in time, IFRS 15 requires the entity to determine that point in time by reference to when control of the goods transfer to the customer, whereas IFRS 118 focuses on the transfer of risks and rewards of the goods.

The tables below highlight the impact of IFRS 15 on the Group's statement of profit or loss and other comprehensive income and the statement of financial position for the year ending 30 June 2019. The adoption of IFRS 15 has not impacted the Group's cash flows.

Statement of Profit or Loss and Other Comprehensive Income (Extract)

	Amounts under IFRS 118 & 111	Adoption of IFRS 15	Amounts under IFRS 15
Revenue	24,201,702	(52,597)	24,149,105
Costs of sales	(19,060,363)	12,888	(19,047,475)
Results from operating activities	3,263	(39,709)	(36,446)
Net finance costs	(17,281)	-	(17,281)
Income tax expense	(31,118)	-	(31,118)
Total comprehensive loss for the period	(45,136)	(39,709)	(84,845)

Statement of Financial Position (Extract)

	Amounts under IFRS 118 & 111	Adoption of IFRS 15	Amounts under IFRS 15
Current Assets			
Contract assets	1,373,049	-	1,373,049
Total Assets	9,762,223	-	9,762,223
Current Liabilities			
Warranty provision/contract liabilities	-	39,709	39,709
Total Liabilities	4,473,986	39,709	4,513,695
Equity			
Retained earnings	4,647,124	(39,709)	4,607,415

Impact of IFRS 15 on opening balance

There was no impact on initial application of IFRS 15 as at 1 July 2018 and for the comparative period ended 30 June 2018 due to the nature, terms and timing of projects in progress at that time.

Synertec Corporation Limited
Notes to the financial statements
For the year ended 30 June 2019

2. Changes in significant accounting policies (continued)

2.1 New standards adopted as at 1 July 2018 (continued)

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IFRS 39 Financial Instruments: Recognition and Measurement requirements. It makes changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for impairment of financial assets.

While this represents significant new guidance, the implementation of new guidance including an expected credit losses model did not have an impact on trade receivables or contract assets. As such, the Group has applied transitional relief and elected not to restate prior periods. No difference was noted in opening retained earnings as at 1 July 2018.

Reconciliation of financial instruments on adoption of IFRS 9 - 1 July 2018

	Measurement category		Carrying Amount		
	Original IFRS 139 Classification	New IFRS 9 Classification	Closing balance 30 June 2018 (IFRS 139)	Adoption of IFRS 9	Opening balance 1 July 2018 (IFRS 9)
Trade and other receivables	Loans and receivables	Amortised cost	\$3,515,042	-	\$3,515,042

2.2 New standards issued not yet effective

IFRS 16 Leases

IFRS 16 replaces IAS 17 Leases and some lease-related interpretations and:

- Requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases
- Provides new guidance on the application of the definition of lease and on sale and lease back accounting
- Largely retains the existing lessor accounting requirements in IAS 17
- Requires new and different disclosures about leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces IAS 17 "Leases" and for lessees will eliminate the classification of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets where an accounting policy choice exists whereby either a 'right-of-use' assets is recognised or lease payments are expensed to profit or loss as incurred.

A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs). In the earlier periods of the lease, the expenses associated with the lease under IFRS 16 will be higher when compared to lease expenses under IAS 17. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by depreciation in profit or loss under IFRS 16.

Based on the entity's assessment, it is expected that the first-time adoption of IFRS 16 for the year ending 30 June 2020 will have a material impact on the transactions and balances recognised in the financial statements, in particular:

2. Changes in significant accounting policies (continued)

2.1 New standards adopted as at 1 July 2018 (continued)

IFRS 16 Leases (continued)

- lease assets and financial liabilities on the balance sheet will increase by \$280,516 and \$280,516 respectively (based on the facts at the date of the assessment)
- there will be a reduction in the reported equity as the carrying amount of lease assets will reduce more quickly than the carrying amount of lease liabilities
- EBIT in the statement of profit or loss and other comprehensive income will be higher as the implicit interest in lease payments for former off balance sheet leases will be presented as part of finance costs rather than being included in operating expenses
- operating cash outflows will be lower and financing cash flows will be higher in the statement of cash flows as principal repayments on all lease liabilities will now be included in financing activities rather than operating activities. Interest can also be included within financing activities

3. Significant Accounting policies

3.1 Basis of accounting

The consolidated general purpose financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Synertec Corporation Limited is a for-profit entity for the purpose of preparing the financial statements.

3.2 Basis of measurement

The financial statements have been prepared on the historical cost basis unless otherwise stated.

3.3 Functional and presentational currency

These financial statements are presented in Australian dollars, which is the Group's functional currency and presentation currency.

3.4 Basis of consolidation

The Group financial statements consolidate those of the Parent Company and all of its subsidiaries as of 30 June 2019. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of 30 June.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies.

Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition; or up to the effective date of disposal, as applicable.

3. Significant Accounting policies

3.5 Acquisition of Synertec Pty Ltd

Synertec Corporation Limited (formerly SML Corporation Limited) completed the acquisition of Synertec Pty Ltd on 8 August 2017. As a result of the acquisition, the former shareholders of Synertec Pty Ltd effectively obtained control of the combined entity. Accordingly, under the principles of IFRS 3 'Business Combinations', Synertec Pty Ltd was deemed to be the accounting acquirer in this transaction. The acquisition has been accounted for as a reverse acquisition by which Synertec Pty Ltd acquired the net assets and listing status of Synertec Corporation Limited. Accordingly, the consolidated financial statements of Synertec Corporation Limited have been prepared as a continuation of the business and operations of Synertec Pty Ltd.

As the deemed acquirer, Synertec Pty Ltd has accounted for the acquisition of Synertec Corporation Limited from 8 August 2017.

The excess of the fair value of Synertec Corporation Limited's shares over the fair value of its net assets (excluding the Mining Assets - refer Note 20) at the acquisition date has been recognised as a listing expense.

3.6 Revenue and other income

The Group's revenue arises from contracts for the design, engineering and/or construction of engineering products and solutions.

Synertec Pty Ltd is involved in providing consulting engineering services on hourly rate, and also fixed rate projects where billing is made on pre-determined project milestones. If the services under a single arrangement are rendered in different reporting periods, then the consideration is allocated on a relative fair value basis between the different services.

Synertec Pty Ltd recognises revenue from fixed price projects in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed based on surveys of work performed. The revenue that is accrued but not yet invoiced is included as contract assets.

Contract revenue includes the initial amount agreed in the contract plus any variations, claims and incentive payments to the extent that it is probable that they will result in revenue and can be measured reliably. Variations are variable consideration that is estimated using either the 'expected value' or the 'most likely amount', and is subject to the constraint that it can only be included in the transaction price if it is highly probable that there will not be a significant revenue reversal.

To determine whether to recognise revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer;
2. Identifying the performance obligations;
3. Determining the transaction price;
4. Allocating the transaction price to the performance obligations; and
5. Recognising revenue when/as performance obligations(s) are satisfied.

The Group is often engaged by customers to provide engineering solutions – known as "Projects". In all Projects, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative value.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

3. Significant accounting policies (continued)

3.6 Revenue and other income (continued)

The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as deferred income in the statement of financial position. Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognises either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

Transfer of Goods

Revenue from the sale of custom products engineered by the Group for a fixed fee is recognised when or as the Group transfers control of the assets to the customer. Invoices for goods transferred are due after receipt of the invoice by the customer.

For sales of engineered products that are not subject to significant integration services, control transfers at the point in time the customer takes undisputed delivery of the goods.

Engineering Services

The Group provides engineering services relating to the design and engineering of customised Process, Chemical, Mechanical Design, Automation, Safety, Electrical and Software Engineering solutions. Revenue from these services is recognised on a time-and-materials basis as the services are provided. Customers are invoiced monthly as work progresses. Any amounts remaining unbilled at the end of a reporting period are presented in the statement of financial position as Work In Progress (asset) as only the passage of time is required before payment of these amounts will be due.

Fixed Price Solutions

The Group enters into contracts for the design, engineering and construction of customised engineering solutions in exchange for a fixed fee and recognises the related revenue over time. Due to the high degree of interdependence between the various elements of these projects, they are accounted for as a single performance obligation. When a contract also includes a warranty period, the total transaction price is allocated to each of the distinct performance obligations identifiable under the contract on the basis of its relative stand-alone selling price.

To depict the progress by which the Group transfers control of the systems to the customer, and to establish when and to what extent revenue can be recognised, the Group measures its progress towards complete satisfaction of the performance obligation by comparing actual costs (hours and purchases) spent to date with the total estimated costs required to design, engineer, and construct each solution. The percentage complete basis provides the most faithful depiction of the transfer of goods and services to each customer due to the Group's ability to make reliable estimates of the total number of costs required to complete the Project, arising from its significant historical experience constructing similar solutions.

Advanced Receipt

When payments received from customers exceed revenue recognised to date on a particular contract, any excess (a contract liability) is reported in the statement of financial position as contract liabilities.

Warranty Period

The Group provides warranty on its engineering solutions. Under the terms of this warranty customers can request rectification or replacement works if the solution provided by the Group fails to perform in accordance with the agreed contract and specifications. These warranties are accounted for under IFRS 137 *Provisions, Contingent Liabilities and Contingent Assets*.

3. Significant accounting policies (continued)

3.7 Operating expenses

Operating expenses are recognised in profit or loss upon utilisation of the service or at the date of their origin.

3.8 Finance income and finance costs

The Group's finance income and finance costs include:

- interest income;
- interest expense; and
- the net gain or loss on financial assets at fair value through profit or loss

Interest income or expense is recognised using the effective interest method.

3.9 Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group at the exchange rates at the dates of the transactions (spot exchange rate).

Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate when the fair value was determined. Foreign currency differences are generally recognised in profit or loss. Non-monetary items that are measured based on historical cost in a foreign currency are not translated.

3.10 Income taxes

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

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates items recognised directly in equity or in other comprehensive income (OCI).

(i) Current tax

Current income tax assets and / or liabilities comprise those obligations to, or claims from, the Australian Taxation Office (ATO) and other fiscal authorities relating to the current or prior reporting periods that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

3. Significant accounting policies (continued)

3.10 Income taxes (continued)

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets are recognised to the extent that it is probable that they will be able to be utilised against future taxable income, based on the Group's forecast of future operating results which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. Deferred tax liabilities are always provided for in full.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if the Group has a right and intention to set-off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognised as a component of tax income or expense in profit or loss, except where they relate to items that are recognised in other comprehensive income (such as the revaluation of land) or directly in equity, in which case the related deferred tax is also recognised in other comprehensive income or equity, respectively.

Synertec Corporation Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

Synertec Holdings Pty Ltd is responsible for recognising the current tax liabilities of the Australian tax consolidated group. The tax consolidated group has entered into an agreement whereby each component in the Group contributes to income tax payable in proportion to their contributions to the taxable profit of the tax consolidated group.

(iii) Non-financial assets

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. They are allocated to reduce the carrying amount of assets in the CGU on a pro rata basis. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised.

3. Significant accounting policies (continued)

3.11 Profit or loss from discontinued operations

A discontinued operation is a component of the entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale

Profit or loss from discontinued operations, including prior year components of profit or loss, are presented in a single amount in the statement of profit or loss and other comprehensive income. This amount, which comprises the post-tax profit or loss of discontinued operations and the post-tax gain or loss resulting from the measurement and disposal of assets classified as held for sale.

3.12 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.

3.13 Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group.

(iii) Depreciation

Depreciation is calculated to write off the cost of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives, and is generally recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives of property, plant and equipment are as follows:

- | | |
|---------------------------|----------|
| • Motor Vehicles | 10 years |
| • Furniture and Equipment | 16 years |
| • Computers | 3 years |

In the case of leasehold improvements, expected useful lives are determined by reference to comparable owned assets or over the term of the lease if shorter.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

3. Significant accounting policies (continued)

3.14 Impairment

(i) Non-derivative financial assets

Financial assets not classified as at fair value through profit or loss, are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security.

(ii) Financial assets measured at amortised cost

The Group considers evidence of impairment for these assets measured at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

(iii) Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than stock on hand and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, 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 or CGU.

3. Significant accounting policies (continued)

3.14 Impairment (continued)

(iii) Non-financial assets (continued)

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. They are allocated to reduce the carrying amount of assets in the CGU on a pro rata basis. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.15 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probably 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 Group expects some or all of a provision to be reimbursed the reimbursement is recognised as a separate but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the unwinding of the discount is recognised as finance cost.

No liability is recognised if an outflow of economic resources as a result of present obligation is not probable. Such situations are disclosed as contingent liabilities, unless the outflow is remote in which case, no liability is recognised.

3.16 Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(iii) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value using high quality corporate bond rates. Remeasurements are recognised in profit or loss in the period in which they arise.

3. Significant accounting policies (continued)

3.17 Leases

Determining whether an arrangement is a lease

At the inception of an arrangement, the Group determines whether the arrangement, is or contains, a lease.

At inception or on reassessment of an arrangement that contains a lease, the Group separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset; subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Group's incremental borrowing rate.

Leased assets

Assets held by the Group under leases that transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Group's statement of financial position.

Lease payments

Payments made under operating leases are recognised in the profit or loss on a straight line basis over the term of the lease.

3.18 Goods and Services Tax

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

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

Cash flows are 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.

3.19 Financial instruments

The Group does not hold derivative financial assets. Where required the Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, and loans and receivables.

The Group classifies non-derivative financial liabilities into the other financial liabilities category.

3. Significant accounting policies (continued)

3.19 Financial instruments (continued)

(i) Non-derivative financial assets and financial liabilities - recognition and derecognition

The Group initially recognises loans and receivables and debt securities issued on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(ii) Non-derivative financial assets - measurement

Loans and receivables

These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents includes bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

(iii) Non-derivative financial liabilities - measurement

Non-derivative financial liabilities are initially recognised at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

(iv) Share capital

Ordinary shares

Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects, are recognised as a deduction from equity.

3. Significant accounting policies (continued)

3.20 Changes to presentation - classification of expenses

Synertec Corporation Ltd decided in the current financial year to modify the classification of its expenses in the consolidated statement of profit or loss to disaggregate some categories of expenses, providing more detailed financial information. We believe this will provide more relevant information to our stakeholders. The comparative information has been reclassified accordingly.

4. Use of judgements and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

4.1 Judgements

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in note [3.6] – Revenue and other income.

4.2 Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the year ended 30 June 2019 are included:

Note 12 - Contract assets - recognition of project revenue

Recognising project revenue requires judgement in determining milestones, actual work performed and/or the estimated costs to complete the work.

Note 13 - Property, Plant and Equipment - useful lives of depreciable assets

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of assets. Uncertainties in these estimates relate to potential obsolescence that may change the utility of certain equipment.

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Further information about the assumptions made in measuring fair values is included in note [24] - financial instruments.

Synertec Corporation Limited
Notes to the financial statements
For the year ended 30 June 2019

5. Operating Segments

The Group has a single reportable segment in which it operates, being engineering services, and this is based on information that is internally provided to the Chief Operating Decision Makers ('CODM') for assessing performance and making operating decisions. Therefore, no additional disclosures in relation to the revenues, profit or loss, assets and liabilities and other material items have been made. The operating entity is based in Australia.

The demand for engineering services is not subject to seasonal fluctuations.

6. Revenue

	<i>Note</i>	30 June 2019	30 June 2018
Engineering services		3,063,731	3,505,920
Fixed price solutions and transfer of goods		21,085,374	7,926,750
		24,149,105	11,432,670

7. Finance income and finance costs

Recognised in profit or loss

Interest income	7(i)	34,520	64,862
Finance income		34,520	64,862
Facility interest & charges		(50,725)	(27,827)
Hire purchase charges		-	(1,161)
Interest expense		(1,076)	-
Finance costs	7(ii)	(51,801)	(28,988)
Net finance income/(costs) recognised in profit or loss		(17,281)	35,874

7(i) The interest income comprised of interest earned on deposits held as security by ANZ.

7(ii) The Group incurred finance costs during the year related to bank guarantees, and hire purchase facilities provided by ANZ.

Synertec Corporation Limited
Notes to the financial statements
For the year ended 30 June 2019

8. Taxes

(i) Tax recognised in profit or loss

	Note	30 June 2019	30 June 2018
Current tax benefit/(expense)			
Current year		-	-
		-	-
Deferred tax benefit			
Origination and reversal of temporary differences		(31,118)	105,383
		(31,118)	105,383
Tax benefit from continuing operations		(31,118)	105,383

The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. The current tax asset is \$14,188 (2018: Tax asset \$98,403).

(ii) Reconciliation of effective tax rate

Loss before tax from continuing operations	(53,727)	(443,363)
Income tax benefit using the Group's domestic tax rate (27.5%)	(14,775)	(121,925)
Non-deductible expenses	30,856	16,542
Carried forward section 40-880 ITAA expenditure not booked in prior year	(29,825)	-
Adjustment in deferred tax on carried forward losses	(53,542)	-
Adjustment to prior year current tax provision	98,403	-
Income tax expense/(benefit)	31,118	(105,383)

(iii) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	30 June 2019	30 June 2018	30 June 2019	30 June 2018	30 June 2019	30 June 2018
Employee benefits	159,405	158,644	-	-	159,405	158,644
Corporate transaction costs	111,473	108,582	-	-	111,473	108,582
Deferred income	(2,901)	(3,998)	-	-	(2,901)	(3,998)
Other payables	63,600	53,449	-	-	63,600	53,449
Carry forward tax losses	171,316	118,932	-	-	171,316	118,932
Net deferred tax assets / (liabilities)	502,893	435,609	-	-	502,893	435,609

Synertec Corporation Limited
Notes to the financial statements
For the year ended 30 June 2019

8. Taxes (continued)

(iv) Movement in deferred tax balances during the year

	Balance 01-Jul-2017	Recognised in profit or loss	Recognised in other compre- hensive income	Balance 30-Jun-2018	Recognised in profit or loss	Recognised in other compre- hensive income	Balance 30-Jun-2019
Employee benefits	161,232	(2,588)	-	158,644	761	-	159,405
Deferred income	11,076	(15,073)	-	(3,998)	1,097	-	(2,901)
Corporate transaction costs	128,241	(19,658)	-	108,583	2,891	-	111,473
Other payables	29,679	23,770	-	53,449	10,151	-	63,600
Carry forward tax losses	-	118,932	-	118,932	52,384	-	171,316
	330,228	105,383	-	435,609	67,284	-	502,893

9. Cash and cash equivalents

	Note	30 June 2019	30 June 2018
Bank balances		4,335,153	3,508,325
Cash on hand		1,347	1,347
Cash and cash equivalents		4,336,500	3,509,672

9A. Cash flow information

(i) Reconciliation of cash flows from operating activities

Cash flows from operating activities			
Loss for the year		(96,847)	(8,455,239)
Adjustments:			
Depreciation	13	127,562	95,199
Net interest (income)/costs	7	17,281	(74,148)
Loss on sale of property, plant and equipment		10,834	-
Listing expense		-	4,722,112
Loss from discontinued operations		6,740	3,237,114
Tax expense/(benefit)	8	31,118	(105,383)
		96,688	(580,345)
Change in contract assets		576,487	(982,088)
Change in other assets		(50,289)	(34,053)
Change in trade and other receivables		1,969,192	(862,778)
Change in trade and other payables		659,085	1,387,899
Change in employee benefits		2,768	39,445
Change in contract liabilities		(2,397,221)	2,452,285
Cash generated from operating activities		856,710	1,420,365
Interest paid net of interest received		(17,281)	35,874
Realised foreign currency gains recognised as investing activities		642	37,477
Income taxes paid		(14,187)	(501,333)
Net cash from operating activities		825,883	992,383

Synertec Corporation Limited
Notes to the financial statements
For the year ended 30 June 2019

9. Cash and cash equivalents (continued)

9A. Cash flow information (continued)

(ii) Credit standby arrangement and loan facilities

The Company has the following credit standby facilities which are subject to bank review annually:

	Note	30 June 2019	30 June 2018
Financial guarantee		1,500,000	1,500,000
Credit Card		155,000	155,000
Total		1,655,000	1,655,000
Utilised			
Financial guarantee		815,267	1,137,043
Credit Card		60,075	70,929
Total		875,342	1,207,972

(iii) Reconciliation of cash and cash equivalents at beginning of year

Synertec Pty Ltd	3,421,837	2,956,694
Synertec Corporation Limited	87,835	309,228
Synergy Metals Pty Ltd	-	206,914
	3,509,672	3,472,836

10. Trade and other receivables

Current

Sundry debtors	-	586
Trade receivables	1,531,311	3,499,917
Other receivables	10,550	14,539
Current	1,541,861	3,515,042

The Company's exposure to credit and market risks, and impairment losses related to trade and other receivables, are disclosed in Note 24.

11. Other assets

Current

Prepayments and other debtors	188,518	118,455
Deposits	30,603	31,836
Stock on hand	12,262	12,262
Current	231,383	162,553

Non-Current

ANZ term deposits ⁽ⁱ⁾	1,500,000	1,514,552
Non-current	1,500,000	1,514,552

(i) The Company has \$1,500,000 in deposits with ANZ held as cash security for the bank guarantee facility.

Synertec Corporation Limited
Notes to the financial statements
For the year ended 30 June 2019

12. Contract assets

	<i>Note</i>	30 June 2019	30 June 2018
Work in progress		1,373,049	1,949,536

Determining when to recognise contract revenue requires a degree of judgement. Contract revenue and expenses are recognised in accordance with the percentage of completion method unless the outcome of the contract cannot be reliably estimated. The percentage of completion is estimated by assessing milestones, actual work performed and the estimated costs to complete the work.

Contract assets have decreased compared to the previous year as work on those projects was completed through the year.

At 30 June 2019, aggregate costs incurred under open contracts and recognised profits earned, net of recognised losses, amounted to \$1,373,049 (2018: \$1,949,536).

13. Property, plant and equipment

	Computers	Furniture and equipment	Leasehold improvements	Motor vehicles	TOTAL
Cost					
Balance at 1 July 2017	425,299	116,933	21,157	376,961	940,350
Additions	50,897	74,125	-	10,000	135,022
Disposals	-	-	-	-	-
Balance at 30 June 2018	476,196	191,058	21,157	386,961	1,075,372
Balance at 1 July 2018	476,196	191,058	21,157	386,961	1,075,372
Additions	82,804	17,023	-	30,000	129,826
Disposals	-	(52,000)	-	(215,865)	(267,865)
Balance at 30 June 2019	559,000	156,081	21,157	201,096	937,333
Accumulated depreciation					
Balance at 1 July 2017	359,209	85,189	18,621	108,082	571,101
Disposals	-	-	-	-	-
Depreciation expense	36,894	11,086	507	46,712	95,199
Balance at 30 June 2018	396,103	96,275	19,128	154,795	666,301
Balance at 1 July 2018	396,103	96,275	19,128	154,795	666,301
Disposals	-	(4,938)	-	(113,940)	(118,878)
Depreciation expense	60,641	17,586	406	48,930	127,562
Balance at 30 June 2019	456,743	108,923	19,534	89,785	674,984
Carrying amounts					
at 1 July 2017	66,090	31,744	2,536	268,879	369,248
at 30 June 2018	80,094	94,783	2,029	232,167	409,071
at 1 July 2018	80,094	94,783	2,029	232,167	409,071
at 30 June 2019	102,257	47,159	1,623	111,310	262,349

Synertec Corporation Limited
Notes to the financial statements
For the year ended 30 June 2019

14. Trade and other payables

	<i>Note</i>	30 June 2019	30 June 2018
Trade payables		2,483,379	1,500,397
Other payables		303,544	814,915
Fixed price project accruals		761,932	614,167
		3,548,855	2,929,479

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 24.

15. Employee benefits

Annual leave	286,120	273,577
Long service leave	193,783	240,416
Current	479,903	513,993
Long service leave	99,751	62,893
Non-Current	99,751	62,893

16. Contract liabilities

Billing in advance of work completed	345,477	2,742,698
	345,477	2,742,698

Where progress billings and recognised losses exceed costs incurred plus recognised profits earned, the Group recognises these amounts as billing in advance of work completed.

Contract liabilities have decreased compared to the previous year as work on those projects was completed through the year. As a result, the amount of contract liabilities included in the revenue for the year ended 30 June 2019 was \$2,397,221.

Synertec Corporation Limited
Notes to the financial statements
For the year ended 30 June 2019

17. Issued capital

	30 June 2019	30 June 2018	30 June 2019	30 June 2018
	Shares	Shares	\$	\$
Ordinary shares - fully paid	220,701,277	220,701,277	641,113	641,113
	220,701,277	220,701,277	641,113	641,113

Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

18. Operating leases

Leases as the lessee

At the end of the reporting period, the future minimum lease payments under non-cancellable operating leases are payable as follows:

	30 June 2019	30 June 2018
Less than one year	240,414	200,303
Between one and five years	176,274	159,912
	416,688	360,215

The Group leased the head office and other rental properties under operating leases during the year. The head office lease has been extended for another year to December 2020. Lease payments are increased every year as indexed to CPI.

During the year \$256,319 was recognised as an expense in profit or loss in respect of operating leases (2018: \$170,014).

Synertec Corporation Limited
Notes to the financial statements
For the year ended 30 June 2019

19. Earnings per share (from continuing operations)

Both the basic and diluted earnings per share have been calculated using the profit attributable to shareholders of the Parent Company as the numerator (i.e. no adjustments to profit were necessary in 2019 or 2018).

In accordance with the principles of reverse acquisition accounting, the weighted average number of ordinary shares outstanding during the year ended 30 June 2019 has been calculated as:

- (a) the weighted average number of ordinary shares of Synertec Pty Ltd outstanding during the period before acquisition multiplied by the exchange ratio established in the acquisition accounting, and
- (b) the actual number of ordinary shares of Synertec Corporation Limited outstanding during the period after acquisition.

The basic earnings per share for the comparative period before the acquisition date presented in the consolidated statements following a reverse acquisition is calculated by dividing (a) by (b):

- (a) the profit or loss of Synertec Corporation Limited attributable to ordinary equity holders of the Company in the period.
- (b) Synertec Corporation Limited's historical weighted average number of ordinary shares outstanding multiplied by the exchange ratio established in the acquisition accounting.

In accordance with IFRS 33 'Earnings Per Share', as potential ordinary shares may only result in a situation where their conversion results in an increase in loss per share or decrease in profit per share from continuing operations, no dilutive effect has been taken into account.

	30 June 2019	30 June 2018
Earnings per share from continuing operations		
Loss after income tax (in Australian dollars)	(84,845)	(5,060,092)
Weighted average number of ordinary shares used in calculating basic earnings per share	220,701,277	206,144,526
Weighted average number of ordinary shares used in calculating diluted earnings per share	220,701,277	206,144,526
Basic loss per share (cents per share)	(0.04)	(2.45)
Diluted loss per share (cents per share)	(0.04)	(2.45)

There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

The 16,175,970 options granted on 8 August 2017 are not included in the calculation of diluted earnings per share because they are antidilutive for the year ended 30 June 2019. These options could potentially dilute basic earnings per share in the future.

Synertec Corporation Limited
Notes to the financial statements
For the year ended 30 June 2019

20. Acquisition Accounting

For the year ended 30 June 2018

On 8 August 2017, Synertec Corporation Limited (formerly known as SML Corporation Limited) acquired 100% of the issued shares of Synertec Pty Ltd. As a result of the acquisition, the former shareholders of Synertec Pty Ltd effectively obtained control of the combined entity. At the date of the transaction, it was determined that Synertec Corporation Limited was not a business. For accounting purposes, the acquisition has been treated as a share-based payment using the reverse acquisition principles of the business combination accounting standard. Accordingly, the consolidated financial statements of Synertec Corporation Limited have been prepared as a continuation of the consolidated financial statements of Synertec Pty Ltd.

As the deemed acquirer, Synertec Pty Ltd has accounted for the acquisition of Synertec Corporation Limited from 8 August 2017. The comparative information for the 12 months ended 30 June 2017 and the statement of financial position at 30 June 2017 presented in the consolidated financial statements are that of Synertec Pty Ltd. Where necessary, comparative information has been reclassified and repositioned for consistency with current period disclosures.

The excess of the fair value of Synertec Corporation Limited's shares over the fair value of its net assets (excluding the Mining Assets - refer Notes 21) at the acquisition date has been recognised as a listing expense.

Under the acquisition, Synertec Corporation Limited (formerly SML Corporation Limited) acquired all the shares in Synertec Pty Ltd by issuing 107,142,857 shares in Synertec Corporation Limited and paying \$5.0 million to the Synertec Pty Ltd shareholders.

The value of the Synertec Corporation Limited shares provided was determined by reference to the capital raising offer price, which was deemed to be \$3.2 million (calculated as 80,879,849 existing shares at the share offer price of \$0.04 each in the public Share Offer).

The net assets acquired and the amount recognised as an ASX listing expense, are as follows:

	Acquiree's carrying value before acquisition \$
Net assets acquired	
Cash and cash equivalents	4,162,547
Trade and other receivables	5,049
Other assets	2,704
Assets held for sale	6,855,238
Trade and other payables	(7,218)
	<u>11,018,320</u>
Sale of the Mining Assets	(6,855,238)
Cash consideration to Synertec Pty Ltd	(5,000,000)
Net asset deficiency acquired	<u>(836,918)</u>
Fair value of Synertec Corporation Limited consideration shares	3,235,194
Net asset deficiency acquired (see above)	836,918
	<u>4,072,112</u>
Corporate advisory fees (shares issued in lieu of cash for services)	650,000
	<u>4,722,112</u>
Amount recognised as ASX Listing expense upon acquisition	4,722,112

Synertec Corporation Limited
Notes to the financial statements
For the year ended 30 June 2019

21. Discontinued operations

For the year ended 30 June 2019

During the year, the Group completed the formalities required for the dissolution and wind-up of legacy non-core mining-related entities; Synergy Metals Pty Ltd (incorporated in Australia) and SML Resources Limited (incorporated in British Virgin Islands). This completes the Group's corporate reorganisation activities planned as part of the ASX-relisting in 2017, providing an efficient structure for the Group going forward.

Net operating costs from mining subsidiaries of \$12,002 (2018: \$158,033) has been included in the loss from Discontinued operations. These costs relate to the dissolution of the mining subsidiaries.

	30 June 2019	30 June 2018
Net operating costs from mining subsidiaries	12,002	158,033
Loss on disposal of Mining Assets	-	3,237,114
Net loss from discontinued operations	12,002	3,395,147

For the year ended 30 June 2018

The Mining Assets were sold for \$3.5 million and net proceeds of \$3.6 million were distributed to Redemption Note holders (in accordance with the former Prospectus dated 23 June 2017 on 15 January 2018. The Sale of the Mining Assets resulted in a loss on sale of those assets of \$3.2 million, recognised as the result from Discontinuing operations.

An amount equal to the Net Sale Proceeds of the sale of the Mining Assets was distributed to those shareholders of the Group who were registered in the Group's register of shareholders as a holder of shares in the Group as at 5.00pm (AEST) on 26 June 2017 (Eligible Shareholders); such distribution was made to Eligible Shareholders on a pro rata basis via the Redemption Notes issued to them by the Group. The net sale proceeds paid to each Redemption Note was determined by dividing the net sale proceeds by the number of Redemption Notes issued.

In determining the Net Sale Proceeds, all direct costs and taxes payable have been deducted from the gross sale proceeds. The Group was able to obtain a refund of some tenement rental costs from Government authorities and a refund of a bank deposit placed in support of a tenement bond. There was also bank interest earned on the cash consideration placed as a term deposit. As a result, the Net Sale Proceeds exceeded the cash consideration received for the Mining Assets.

Upon completion of the warranties and determining the Net Sale Proceeds for the sale of the Mining Assets in December 2017, a loss on sale of the Mining Assets of \$3.2 million was calculated and recognised in the financial statements of Synertec Corporation Limited as at 30 June 2018 as a loss from discontinued operations. At the same time, a liability to return this capital to Redemption Note holders was also recognised.

Net operating costs from mining subsidiaries \$158,033 has been included in the loss from Discontinued operations. These costs relate to the Sale of Mining Assets, execution of Redemption Note obligations and winding up of the mining subsidiaries.

Synertec Corporation Limited
Notes to the financial statements
For the year ended 30 June 2019

22. Related parties

The key management personnel compensation comprised:

	Note	30 June 2019	30 June 2018
Short-term employee benefits		781,446	602,820
Post-employment benefits		74,237	57,268
Other long-term employment benefits		111,417	92,686
		967,100	752,774

Compensation of the Company's key management personnel includes salaries, accrued leave balances, non-cash benefits and contributions to an employee defined contribution plan.

23. Auditor's remuneration

Audit and review services

Auditors of the Company - Grant Thornton Audit Pty Ltd			
Audit and review of financial statements		72,000	72,000
		72,000	72,000

Other services

Auditors of the Company - Grant Thornton Australia Limited			
In relation to taxation		10,000	10,000
In relation to other services		27,593	-
		109,593	82,000

24. Financial instruments

Financial risk management

Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Risk management framework

The Group's Directors have overall responsibility for the establishment and oversight of the risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through their training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(i) Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the end of the reporting period was as follows:

		Carrying amount	
	Note	30 June 2019	30 June 2018
Trade and other receivables	10	1,541,861	3,515,042
Cash and cash equivalents	9	4,336,500	3,509,672
ANZ deposit	11	1,500,000	1,514,552
Deposits	11	30,603	31,836
		7,408,964	8,571,102

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk. As the Group provides services under contract, each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered.

The Group historically has had negligible bad debts, and as such does not establish an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments.

Synertec Corporation Limited
Notes to the financial statements
For the year ended 30 June 2019

24. Financial instruments (continued)

(i) Credit risk (continued)

The Group does not require collateral in respect of trade and other receivables. The maximum exposure to credit risk for trade and other receivables at the reporting date by type of counterparty was as follows.

	Note	Carrying amount	
		30 June 2019	30 June 2018
Australia		1,541,861	3,515,042
		1,541,861	3,515,042

The Group's most significant balance outstanding to a single customer, accounts for \$881,323 of the trade and other receivables carrying amount at 30 June 2019 (2017: \$1,420,430). The amount was received subsequent to year end.

Impairment losses

The aging of the trade and other receivables balance at the end of the reporting period that were not impaired was as follows.

Neither past due nor impaired	1,297,196	2,414,693
Past due 1 - 30 days	234,115	879,899
Past due 31 - 90 days	-	205,325
Past due 91 - 120 days	-	586
	1,531,311	3,500,503

Cash and cash equivalents (including deposits)

The Group held cash and cash equivalents of \$4,336,500 at 30 June 2019 (2018: \$3,509,672) which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with a reputable bank and financial institution counterparties. The Group has \$1,500,000 (2018: \$1,514,552) on deposit with ANZ being held as security for the performance guarantee bond facility which was only partially utilised at 30 June 2019.

(ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group uses detailed project plans, which assists it in monitoring cash flow requirements and optimising its cash return on projects delivered. The Group aims to maintain the level of its cash and cash equivalents at an amount in excess of expected cash outflows on financial liabilities (other than trade payables) over the succeeding 60 days. The Group also monitors the level of expected cash inflows on trade and other receivables together with expected cash outflows on trade and other payables. At 30 June 2019, the expected cash flows from trade and other receivables maturing within two months are \$1,254,703 (2018: \$3,399,506). This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

24. Financial instruments (continued)

(ii) Liquidity risk (continued)

The following are the remaining contractual maturities at the end of the reporting period of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

30 June 2019

Non-derivative financial liabilities	Carrying amount	Total	Contractual cashflows		
			0-1 years	1-2 years	2-5 years
Trade payables	3,548,855	3,548,855	3,548,855	-	-
	3,548,855	3,548,855	3,548,855	-	-

30 June 2018

Non-derivative financial liabilities	Carrying amount	Total	Contractual cashflows		
			0-1 years	1-2 years	2-5 years
Trade payables	2,929,479	2,929,479	2,929,479	-	-
	2,929,479	2,929,479	2,929,479	-	-

(iii) Market risk

Market risk is the risk that changes in market prices – such as foreign exchange rates and interest rates– will affect the Group’s income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Group is exposed to currency risk to the extent that there is a mismatch between the currencies in which sales and purchases and cash and cash equivalents are denominated. The currencies in which these transactions are primarily denominated are AUD, GBP, EUR and USD.

At any point in time, the Group holds EUR, GBP and USD in anticipation of future purchase orders. The Group reviews the market regularly to evaluate if the cost of obtaining derivatives outweighs the risk of currency movement. They have not invested in any derivative financial assets. The Group has reviewed contract terms with customers where significant currency risk on purchase orders may occur, and have enforceable provisions protecting them from adverse currency movements.

Synertec Corporation Limited
Notes to the financial statements
For the year ended 30 June 2019

24. Financial instruments (continued)

(iii) Market risk (continued)

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group's policy is to ensure that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

Exposure to currency risk

The summary quantitative data about the Group's exposure to currency risk as reported to the management of the Group is as follows.

	30 June 2019			30 June 2018		
	USD	GBP	EURO	USD	GBP	EURO
Trade and other receivables	-	-	-	434,926	-	-
Cash and cash equivalents	1,248,893	159,643	19,313	695,401	-	19,372
Financial assets	1,248,893	159,643	19,313	1,130,327	-	19,372
Trade and other payables	-	-	-	-	-	87,841
Financial liabilities	-	-	-	-	-	87,841
Net exposure	1,248,893	159,643	19,313	1,130,327	-	107,213

Currency risk sensitivity analysis for currencies in which monetary assets are held

A reasonably possible change of 10% in exchange rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes an increase/(decrease) in the value of the Australian dollar against the currencies shown below.

	Profit or loss, net of tax		Equity, net of tax	
	10% increase	10% decrease	10% increase	10% decrease
30 June 2019				
USD	(79,475)	97,136	(79,475)	97,136
GBP	(10,159)	12,417	(10,159)	12,417
Euro	(1,229)	1,502	(1,229)	1,502
Currency exchange risk (net)	(90,863)	111,055	(90,863)	111,055
30 June 2018				
USD	(44,253)	54,087	(44,253)	54,087
GBP	-	-	-	-
Euro	(1,233)	1,507	(1,233)	1,507
Currency exchange risk (net)	(45,486)	55,594	(45,486)	55,594

Exposure to interest rate risk

The interest rate profile of the Group's interest-bearing financial instruments as reported to the management of the Group is as follows.

	Nominal amount	
	30 June 2019	30 June 2018
Variable rate instruments		
ANZ interest expense	18.99%	18.99%
Interest on ANZ deposits	2.10%-2.35%	2.10%-2.35%

Synertec Corporation Limited
Notes to the financial statements
For the year ended 30 June 2019

24. Financial instruments (continued)

(iii) Market risk (continued)

Cash flow sensitivity analysis for variable rate instruments

A reasonably possible change of 1% in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit or loss		Equity, net of tax	
	1% increase	1% decrease	1% increase	1% decrease
30 June 2019				
Variable rate instruments	10,500	(10,500)	10,500	(10,500)
Cash flow sensitivity (net)	10,500	(10,500)	10,500	(10,500)
30 June 2018				
Variable rate instruments	10,602	(10,602)	10,602	(10,602)
Cash flow sensitivity (net)	10,602	(10,602)	10,602	(10,602)

Capital Management

The board's policy is to maintain a strong capital base to sustain future development of the business. Capital consists of total equity. The Directors monitor the return on capital as well as the level of dividends to ordinary shareholders. The Directors seek to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

There were no changes in the Group's approach to capital management during the year.

Accounting classifications and fair values vs carrying amount

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position are as follows. The carrying amounts for financial assets and liabilities approximates fair value.

	Note	Loans and receivables	Other financial assets	Other financial liabilities	Total carrying amount
30 June 2019					
Cash and cash equivalents	9	4,336,500	-	-	4,336,500
Trade and other receivables	10	1,541,861	-	-	1,541,861
ANZ deposits	11	-	1,500,000	-	1,500,000
Deposits	11	-	30,603	-	30,603
		5,878,361	1,530,603	-	7,408,964
Trade and other payables	14	-	-	3,548,855	3,548,855
		-	-	3,548,855	3,548,855

Synertec Corporation Limited
Notes to the financial statements
For the year ended 30 June 2019

24. Financial instruments (continued)

(iii) Market risk (continued)

Accounting classifications and fair values vs carrying amount (continued)

	<i>Note</i>	Loans and receivables	Other financial assets	Other financial liabilities	Total carrying amount
30 June 2018					
Cash and cash equivalents	9	3,509,672	-	-	3,509,672
Trade and other receivables	10	3,515,042	-	-	3,515,042
ANZ deposits	11	-	1,514,552	-	1,514,552
Deposits	11	-	31,836	-	31,836
		7,024,714	1,546,388	-	8,571,102
Finance lease liabilities		-	-	-	-
Trade and other payables	14	-	-	2,929,479	2,929,479
		-	-	2,929,479	2,929,479

25. Interest in subsidiaries

Composition of the Group

Name of subsidiary	Country of incorporation / principle place of business	Principal activity	Group proportion of ownership interests	
			30 June 2019	30 June 2018
Synertec Holdings Pty Ltd	Australia	Holding company	100%	100%
Synertec Pty Ltd	Australia	Consultancy and Engineering	100%	100%
SML Resources Ltd	British Virgin Islands / Australia	Holding company	-	100%
Synergy Metals Pty Ltd	Australia	Mining	-	100%

Synergy Metals Pty Ltd was liquidated on 14 December 2018 and SML Resources Ltd was liquidated on 29 April 2019.

26. Contingent liabilities

The consolidated entity does not have any contingent liabilities at reporting date.

27. Subsequent events

No matter or circumstance has arisen since 30 June 2019 that has significantly affected or may significantly affect the consolidated entity's operations, the results from those operations, or the consolidated entity's state of affairs in future years.

Directors' Declaration

1. In the opinion of the Directors of Synertec Corporation Limited ("the Group"):
 - (a) the financial statements and notes thereto, set out on pages 18 to 52:
 - (i) present fairly the financial position of the Group as at 30 June 2019 and its performance, as represented by the results of its operations and its cash flows, for the year ended on that date;
 - (ii) comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 3 to the financial statements; and
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. In respect of the year ended 30 June 2019, the persons performing the roles of Chief Executive Officer and Chief Financial Officer have declared that the Company has:
 - (a) kept such accounting records as correctly record and explain its transactions and financial position;
 - (b) kept its accounting records such that financial statements of the Group that are presented fairly can be prepared from time to time; and
 - (c) kept its accounting records accordingly so that the financial statements of the Company can be conveniently and properly audited.

Signed in accordance with a resolution of the Directors:

Dated at 26 August 2019



Mr. Michael Carroll
Director

Independent Auditor's Report

To the Members of Synertec Corporation Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Synertec Corporation Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of the Group gives us a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the year ended on that date and in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for opinion

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

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

Key audit matters

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

Key audit matter**How our audit addressed the key audit matter****Revenue Recognition**

Synertec Corporation Limited recognised a large portion of their revenue using the percentage completion method for fixed price projects. Revenue in respect to hourly rate projects are recognised as the associated labour expense is incurred. As these projects may be ongoing at year end, there is significant estimation required when recognising the associated contract asset or contract liability or deferred revenue. There is a risk in ensuring that an appropriate amount of revenue has been recognised under IFRS 15 *Contracts with Customers*.

The engagement team has identified this area as a significant risk due to the significant judgement involved in using the percentage completion method for fixed price projects and in appropriately capturing the time and material costs for the hourly rate projects to recognise revenue under IFRS 15.

Due to the significant estimation involved, the engagement team has determined this as a Key Audit Matter.

Our procedures included, amongst others:

- Documenting the processes and controls over revenue recognition;
- Evaluating management's assessment of the adoption of IFRS 15 and related revenue recognition policies;
- Obtaining a revenue listing by projects at an invoice level and selecting a sample over which the following procedures were performed:
 - 1) Agreeing the total contract price per the listing to the contract and variations (if applicable) and reading through the contract to assess against the criteria of IFRS 15;
 - 2) Agreeing the invoice amount to evidence of cash received. Where no payment had been received, confirmation was sought from the customer;
 - 3) Where projects were incomplete at 30 June 2019, obtaining the year end contract asset and contract liabilities reconciliation and agreeing to the financial report;
 - 4) Obtaining the expense listing for projects costs recognised during the financial year and agreeing to the contract asset and contract liabilities report at 30 June 2019;
 - 5) Testing a sample of project expenditures by agreeing to supporting documentation (invoices and timesheets) to evaluate accuracy of project expenditure as this is an input to the percentage completion of the project and the resulting revenue recognition; and
 - 6) Holding discussions with management to understand the project's stage of completion and have assessed amounts billed post year end to assess appropriateness of revenue recognition;
- Performing cut-off testing by selecting a sample of transactions close to year end and assessing the recognition period for appropriateness;
- Performing revenue and cost of sales analytics between FY2019 and FY2018 results and the FY2019 budget and discussing with management the results outside expectations; and
- Assessing the adequacy of financial statement disclosures.

Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

Responsibilities of the Directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants



A C Pitts
Partner – Audit & Assurance

Melbourne, 26 August 2019