

The Environmental Group Limited
Appendix 4E
Preliminary final report

1. Company details

Name of entity:	The Environmental Group Limited
ABN:	89 000 013 427
Reporting period:	For the year ended 30 June 2020
Previous period:	For the year ended 30 June 2019

2. Results for announcement to the market

			\$
Revenues from ordinary activities	up	13.4% to	37,425,748
Earnings Before Interest, Tax, Depreciation and Amortisation	down	110.2% to	(128,116)
Earnings Before Interest and Tax	down	243.5% to	(1,418,887)
Loss from ordinary activities after tax attributable to the owners of The Environmental Group Limited	down	269.1% to	(1,315,675)
Loss for the year attributable to the owners of The Environmental Group Limited	down	269.1% to	(1,315,675)

Dividends

	Amount per security Cents	Franked amount per security Cents
Final Dividend for year ended 30 June 2019 was paid on the 5 October 2019	0.060	0.026

The loss for the Group after providing for income tax and non-controlling interest amounted to \$1,315,675 (30 June 2019: profit of \$778,080).

Revenue for the Group was 13.4% above FY19. This was a result of a full year of revenues from the acquisition of Tomlinson Energy Service but the group was significantly impacted by reduced revenues in Baltec IES and subdued revenue in TAPC. EBIT loss before significant items was \$831,518 which included restructuring cost \$433,507 and FX losses \$153,862.

IMPACT OF AASB 16 ON THE COMPONENTS OF PROFIT & LOSS

AASB 16 'Leases' impacted the income statement for the current period. The current loss before income tax expense was increased by \$33,607. This included an increased depreciation and amortisation expense of \$861,850 and increased finance costs of \$133,285, offset by a reduction in other expenses (reclassification of lease expenses) of \$961,528. As at 30 June 2020, net current assets were reduced by \$861,870 (attributable to current lease liabilities) and net assets were reduced by \$103,477 (attributable to right-of-use assets, lease liabilities and deferred tax assets).

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Baltec IES was impacted by a contraction in the Gas turbine market with revenues dropping by 41% against FY19 levels whilst project margins held at 27.6% reduced volumes delivered an EBIT loss of \$326,111 due reduced revenue volumes, reduced labour recovery and restructuring costs.

TAPC revenue was lower than predicted due to significant delays in the commencement of stage two of the Yangibani project. Revenue was consistent with FY19 at \$5,380,067 and an EBIT of \$289,569.

Tomlinson Energy Service delivered solid revenue of \$20,642,973 however margins were impacted by increased costs in a major project. Tomlinson Energy Service delivered an EBIT of \$1,118,564.

During the year, the Group renegotiated new banking facilities with Westpac to fully fund the Tomlinson Energy acquisition, the new facility also includes an increased bonding facility of \$8,000,000 to support future growth.

Baltec has secured orders in excess of \$25,000,000 and will be carry forward in excess of \$18,338,519 of work on hand into FY21 although at reduced margins due to continued strong industry competition. There are significant opportunities for TAPC both in its major projects and service divisions with a strong pipeline. Tomlinson Energy Services continues to deliver solid recurring revenue with growth opportunities in the industrial boiler market.

The COVID 19 pandemic has partially impacted all three business units however at 30 June 2020 the outlook for FY21 remains cautiously positive due the geographical spread of the markets in which the group operates.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>0.32</u>	<u>1.03</u>

ROU assets have been treated as a tangible asset to include the impact of AASB 16 for year ended 30 June 2020.

4. Control gained over entities

Not applicable.

5. Audit qualification or review

The financial statements have been audited and an unqualified opinion has been issued.

6. Attachments

The Annual Report of The Environmental Group Limited for the year ended 30 June 2020 is attached.

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7. Signed

Signed  _____

Date: 28 August 2020

Ms Lynn Richardson
Chairman

The Environmental Group Limited

ABN 89 000 013 427

Annual Report - 30 June 2020

The Environmental Group Limited
Corporate directory
As at 30 June 2020

Directors	Ms Lynn Richardson Chairman (Non-Executive) Mr Ellis Richardson (Executive) Interim-Managing Director Mr Dean Dowie (Non-Executive) Mr David Cartney (Non-Executive) resigned 13 November 2019
Company Secretary	Mr Andrew Bush & Mr Stephen Strubel (Cobblestones Advisory Pty Ltd)
Notice of annual general meeting	The details of the annual general meeting of The Environmental Group Limited are: Quest Notting Hill* 5 Acacia Place Notting Hill Victoria 3168 11.00 AM EST 19 November 2020 *subject to COVID19 restrictions, an alternate virtual meeting will be held if required
Registered office	Level 1 Suite 1 10 Ferntree Place Notting Hill Victoria 3168 Telephone: (03) 9763 6711
Share register	Board Room Pty Ltd Level 12 225 George Street Sydney NSW 2000 Telephone: (02) 9290 9600
Auditor	RSM Australia Partners Level 21 55 Collins Street Melbourne VIC 3000
Solicitors	Baker Jones Level 10 160 Queen Street Melbourne Victoria 3000
Bankers	Westpac Banking Corporation
Stock exchange listing	The Environmental Group Limited shares are listed on the Australian Securities Exchange (ASX code: EGL)
Website	www.environmental.com.au
Corporate Governance Statement	www.environmental.com.au

The Environmental Group Limited
Directors' report
As at 30 June 2020

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of The Environmental Group Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2020.

Directors

The following persons were Directors of The Environmental Group Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Ms Lynn Richardson
 Chairman (Non-Executive)
 Appointed to the Board on 22 May 2015. Appointed Non-Executive Chairman 23 November 2017.

Mr Ellis Richardson
 Director (Executive)
 Appointed to the Board 29 November 2013. Appointed Interim-Managing Director 26 March 2020.

Mr Dean Dowie
 Director (Non-Executive)
 Appointed to the Board 25 May 2017. Managing Director 1 July 2019 - 26 March 2020.

Mr David Cartney
 Director (Non-Executive)
 Appointed to the Board 22 September 2014. Resigned 13 November 2019.

Interests in the shares and options of the Group and related bodies corporate

As at the date of this report, the interests of the Directors in the shares and options of The Environmental Group Limited ('EGL') were:

	Number of Ordinary Shares	Number of Options over Ordinary Shares
Mr Ellis Richardson	100,503,500	-
Ms Lynn Richardson	3,571,429	-
Mr Dean Dowie	310,630	-
Mr David Cartney (resigned 13 November 2019)	1,500,000	-

Dividends

Dividends paid during the financial year were as follows:

	Consolidated	
	2020	2019
	\$	\$
Final dividend for year ended 30 June 2019 was 0.06 cents per share	<u>130,519</u>	<u>129,599</u>

There were no dividends declared for year ended 30 June 2020.

Principal activities

The principal activities during the period ending 30 June 2020 of the entities within the consolidated entity were design, application and servicing of innovative gas and vapour emission control systems, inlet and exhaust systems for gas turbines, engineering services, innovative water treatment and service provider for heat transfer plant and equipment including boilers including 24/7 customer service for mechanical, electrical and automation support to a wide variety of industries.

The Environmental Group Limited
Directors' report
As at 30 June 2020

Review of operations

The loss for the Group after providing for income tax and non-controlling interest amounted to \$1,315,675 (30 June 2019: profit of \$778,080).

Across EGL businesses we have substantial engineering expertise spanning diverse fields of knowledge. Our collaborative approach maximises technological innovation and enables our clients to contribute to improved emission controls and facility efficiency, removing pollutants safely and effectively. Like many companies over the year in review, EGL has faced external challenges due to the pandemic. We were able to action cost reduction measures which decreased our corporate overheads and operational expenditure.

Following the strategic acquisition of Tomlinson Energy Systems revenue increased by 13.4% to \$37,425,748 -for the year (FY19 \$33,003,119). EBIT loss before significant items (restructuring cost \$433,507 and FX losses%153,862) was \$\$831,518. The loss for the Group after providing for income tax and non-controlling interest amounted to \$1,244,255 (30 June 2019: profit of \$735,228).

As previously announced a significant reduction in revenue for Baltec IES resulted in an operating loss for the division combined with subdued results in TAPC has negatively impacted on overall results. The board has taken the decision not to declare a dividend for the full year FY20 but will review in December 2020 based on mid period results. Baltec IES has secured over \$25.5 million in orders since 1 July 2019 including the recent announcement of our largest project this year worth \$7.7 million awarded by Siemens, a long-standing blue-chip customer. Related financial benefits will carry over in excess of \$18 million into FY21, although at reduced margins due to tight market conditions. As previously reported, earlier contraction in the gas turbine market has resulted in a 41% reduction in revenue over FY19 figures for Baltec IES as the impact of this contraction flows through the pipeline. Whilst margins held at 27.6% the reduced volumes delivered an EBIT loss of \$326,111. As evidenced by the increase in secured work over recent months, the long-term market for gas turbine technology is showing renewed invigoration through the complimentary opportunities available with renewable energy.

An important order for Baltec IES (\$0.5 million) is the first sale with a Russian client using world class Baltec IES technology. Russia is one of the world's largest producers of gas and this significant development opens new market opportunities in the direct supply of equipment, partnering on joint ventures and the potential for further licence agreements. Russia has strong financial backing for their projects, and this increases opportunities for Baltec IES to act as agent, given our existing relationships, expertise and reputation, particularly in Southeast Asian markets where we have a strong presence.

TAPC will complete the final steps for stage 1 for Hastings Technology Metals Ltd early in FY21. TAPC flow of work has remained solid over FY20 but was affected by amended project timelines for the commencement of stage 2. TAPC has continued to build new project work in Indonesia and anticipates additional international project work over the coming financial year. Supporting this is TAPC's cross collaboration with other EGL business units, drawing on engineering expertise and project management efficiencies. Revenue was consistent with FY19 at \$5,380,067 (FY19 \$5,119,743) delivering an EBIT of 5.3%.

Tomlinson Energy Service has continued to provide exceptional customer experiences for heat transfer plants and equipment, throughout their operations strategically located across Australia. This includes the awarding of a joint venture project for boiler works and the installation of concrete curing facilities at a manufacturing plant in Benalla (\$1.6 million). Underlying recurring revenue from operations stabilises the cyclical nature of EGL's other business units while continuing to deliver growth opportunities in the industrial boiler market. - Tomlinson Energy Services delivered revenue of \$20,642,972 and a solid EBIT of \$1,118,564.

EGL Water have reached a highly anticipated point in their short history and are one of the most exciting businesses within EGL at this time. EGL Water have achieved excellent test results from their patented process. Additional patent protection will be sought to include a major breakthrough in the removal of PFAS from leachate. The technology is now ready for commercialisation and is expected to generate revenue in FY21. The final stages of the engineering development are focusing on durability and remote-control capabilities, vital considerations in on-site operations.

During the year, EGL negotiated new banking facilities with Westpac to fully fund the Tomlinson Energy Services acquisition and increased bonding facility to \$8 million to support future growth and enable us to take advantage of upcoming projects.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group during the financial year.

The Environmental Group Limited
Directors' report
As at 30 June 2020

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

The impact of the Coronavirus (COVID-19) pandemic is ongoing and while it has not significantly impacted the group up to 30 June 2020, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

Likely developments and expected results of operations

In the opinion of the Directors', no other significant changes, not otherwise disclosed in this report or the consolidated financial statements occurred in the state of affairs of the Group during the financial year under review.

Environmental regulation

The Group's operations may have an environmental impact. Where the Group undertakes site installation work it is typically incumbent upon the Group to address environmental issues in relation to those sites. This usually involves the preparation and implementation of an Environmental Management Plan for the site. Activities of this nature and environmental issues generally are addressed by and carried out under The Environmental Group Management System.

No significant environmental issues were reported or recorded on any EGL sites during the financial year and the Group met all its obligations in this area.

Information on Directors

Ms Lynn Richardson

Chairman (Non-Executive)

Appointed to the Board: 22 May 2015; elected Chairman 23 November 2017.

Lynn is a graduate of the Australian Institute of Company Directors, Lynn holds an MBA from the Australian Graduate School of Entrepreneurship along with qualifications in professional accounting and educational research.

Lynn brings a unique blend of business and academic expertise in the entrepreneurial arena. A varied 20-year career is complemented with Lynn's passion for continuous improvement, which defines her approach to business leadership.

Lynn is also a director of Sustain: The Australian Food Network. She has previously held educational and industry board positions, affording her a range of industry contexts to draw from. Prior to her current position as EGL Chairman, Lynn was a member of the Baltec IES executive committee where her significant strategic leadership contributed to the company's growth.

Mr Dean Dowie

Director (Non-Executive)

Appointed to the Board 25 May 2017; (Managing Director From 1 July 2019 to 26 March 2020)

Dean has more than 15 years international experience driving growth across numerous market sectors in the Environmental, Water and Energy markets. Dean recently returned to Australia after working in Senior Executive roles based out of London and Paris. Dean has previously held the position of Chief Operating Officer with one of the world's largest Environmental management companies. Deans' International experience and global contacts will assist EGL with their growth plans.

Dean holds an MBA from La Trobe University, has studied Corporate Strategy at Harvard Business School and is a Graduate of the Australian Institute of Company Directors.

The Environmental Group Limited
Directors' report
As at 30 June 2020

Mr Ellis Richardson
 Director (Executive)

Appointed to the Board on 29 November 2013; appointed Interim-Managing Director 26 March 2020.

Ellis is a foundation Fellow of The Institute of Company Directors, a member of The Institute of Engineers Australia and a Chartered Engineer. He has over thirty years of business experience including - CEO of Comeng: Australia's premier rolling stock manufacturer producing trams, trains and locomotives; Managing Director of Evans Deakin Industries: producers of rolling stock in addition to power stations and draglines for the mining industry; and later in the venture capital industry.

Mr David Cartney
 Director (Non-Executive)

Appointed to the Board 22 September 2014; resigned 13 November 2019.

David has over 20 years' experience as an independent and non-executive board director and chairman, David provides strong commercial acumen and adds value as an independent director strengthening EGL's Corporate governance, leadership and risk management. David's experience spans electrical contracting and switchboard manufacture, agricultural export, IT maintenance and back up, banking, airlines, surgical hospitals, buying groups, timber processing and wholesale, medico legal, education and financial services.

David is a Fellow of the Australian Institute of Company Directors with the Directors' Diploma from the University of New England and is a member of the Institute of Directors in London. He is a Chartered Accountant in both Scotland and Australia and has a number of qualifications including a Master's degree from the University of St Andrews.

Company Secretary

Mr Andrew Bush has held the role Company Secretary since 1 July 2017. Andrew is a Fellow Certified Practising Accountant, Associate Member of the Institute of Chartered Management Accountants and a Fellow of the Institute Chartered Secretaries and Administrators.

Mr Stephen Strubel (Cobblestones Advisory Pty Ltd) was appointed joint Company Secretary on 5 July 2019. Stephen holds a Masters of Business Administration, Bachelor of Business in Banking & Finance/International Trade, a Graduate Certificate in Business (Finance) and a Certificate in Governance Practice from the Governance Institute of Australia.

Meetings of Directors

The number of meetings of the company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2020, and the number of meetings attended by each Director were:

	Full Board		Nomination and Remuneration Committee		Audit and Risk Committee	
	Attended	Held	Attended	Held	Attended	Held
Ms Lynn Richardson	13	13	2	2	3	3
Mr Dean Dowie	13	13	2	2	3	3
Mr Ellis Richardson	13	13	2	2	3	3
Mr David Cartney	5	5	1	1	1	1

Held: represents the number of meetings held during the time the Director held office or was a member of the relevant committee.

June 2020 board meeting was held 23 July 2020.

Remuneration report (audited)

This Remuneration report outlines the Directors and Executive Key Management Personnel remuneration arrangements of the Group in accordance with the requirements of the Corporations Act 2001 and the Corporate Regulations 2001. For the purposes of this report, Key Management Personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any Director (whether Executive or otherwise).

The Environmental Group Limited
Directors' report
As at 30 June 2020

For the purposes of this report, the term Executive encompasses the Managing Director and Chief Financial Officer of the Group.

Remuneration committee and philosophy

The objective of the Group's remuneration policy is to ensure that Senior Executives of the Group are motivated to pursue the long-term growth and success of the Group within an appropriate control framework and that there is a clear relationship between performance and remuneration.

The remuneration structures offered to Senior Executives are designed to attract and retain suitable qualified candidates, reward the achievement of strategic objectives and achieve the broader outcome of creating value for shareholders. The remuneration structures take into account:

- The capacity and experience of the Senior Executives.
- The Senior Executives' ability to control the performance of areas of the Group's business.
- The Group's performance including earnings and overall returns to shareholders.
- The amount of incentives within each Senior Executives' remuneration.

Executive and Non-Executive Directors remuneration

The Executive and Non-Executive Directors of the Company are entitled to a fee that is determined by the Remuneration Committee on the commencement of the role and on an annual basis thereafter. The Board seeks to set aggregate remuneration at a level that provides the Group with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders based on the size and nature of the company.

Each Non-Executive Director receives a maximum fee of \$48,000 for being a Director of the company. The Chairman of the Board receives a maximum fee of \$150,000. No additional fee is paid to a Director who sits on a Board committee.

The Directors do not receive retirement benefits in excess of their Directors fees, nor do they participate in any incentive programs. The remuneration of Directors for the periods ended 30 June 2020 and 30 June 2019 are detailed in tables 1 and 2 respectively of this report.

Executive remuneration

Total remuneration for Senior Executives is described below:

Fixed remuneration

Fixed remuneration is provided, being a guaranteed salary that is set by reference to market conditions, the scope and nature of the Executive's role and their performance and experience. Market research of both an informal and formal nature is periodically undertaken to determine market salary levels. Group superannuation contributions are included in the fixed remuneration. Executives are given the opportunity to receive their fixed remuneration in a variety of forms including cash and fringe benefits. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Group. The fixed remuneration component of Executives is detailed in table 1 and 2 of this report.

Group performance and Directors and Executives' remuneration

The remuneration policy and practices are aimed at aligning remuneration of key staff with the performance of the Group and with the wealth of shareholders. Other than reflected within the tables below, no short term or long-term incentives have been paid for the 2020 financial year.

Executives

All Executives have rolling contracts. The Group may terminate the Executive's employment agreement by providing three month's written notice or providing payment in lieu of the notice period with the exception of the CFO who has a three month written notice period. The Group may terminate these contracts at any time without notice if serious misconduct has occurred. Where termination with cause occurs, the Executive is only entitled to that portion of remuneration that is fixed and only up to the date of termination.

Amounts of remuneration

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

The Environmental Group Limited
Directors' report
As at 30 June 2020

The key management personnel of the Group including Directors of the Group:

- Ms Lynn Richardson: Non-Executive Chairman (Appointed Chairman 23 November 2017)
- Mr Ellis Richardson: Executive Director (Appointed Interim-Managing Director 26 March 2020)
- Mr Dean Dowie: Non-Executive Director (Managing Director 1 July 2019 - 26 March 2020)
- Mr Andrew Bush: Chief Financial Officer and Company Secretary (Appointed CFO 25 May 2017 and Company Secretary 1 July 2017)
- Mr David Cartney: Non-Executive Director (Appointed to the board 22 September 2014 resigned 13 November 2019)

Table 1: Remuneration report - remuneration for year ended 30 June 2020

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total
	Cash salary and fees	Cash bonus	Non-monetary	Superannuation	Long service leave	Equity-settled	
2020	\$	\$	\$	\$	\$	\$	\$
Non-Executive Directors:							
Ms Lynn Richardson	84,000	-	-	7,980	-	-	91,980
Mr David Cartney (1)	16,000	-	-	-	-	-	16,000
Mr Dean Dowie (2) (Appointed Managing Director from 1 July 2019 to 26 March 2020)	228,900	-	-	-	-	-	228,900
Executive Directors:							
Mr Ellis Richardson (3) (Appointed Managing Director 26 March 2020)	42,000	-	-	-	-	-	42,000
Other Key Management Personnel:							
Mr Andrew Bush	253,333	53,500	-	29,149	-	-	335,982
	<u>624,233</u>	<u>53,500</u>	<u>-</u>	<u>37,129</u>	<u>-</u>	<u>-</u>	<u>714,862</u>

Table 2 - Remuneration report - remuneration for year ended 30 June 2019

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total
	Cash salary and fees	Cash bonus	Non-monetary	Superannuation	Long service leave	Equity-settled	
2019	\$	\$	\$	\$	\$	\$	\$
Non-Executive Directors:							
Ms Lynn Richardson	89,400	-	-	8,493	-	-	97,893
Mr David Cartney (1)	48,000	-	-	-	-	-	48,000
Mr Dean Dowie (2)	48,000	-	-	-	-	-	48,000
Mr Ellis Richardson (3)	48,000	-	-	-	-	-	48,000
Other Key Management Personnel:							
Mr Andrew Bush	236,000	50,000	-	26,559	-	-	312,559
Mr Peter Murray (4)	81,453	16,320	-	7,487	-	-	105,260
	<u>550,853</u>	<u>66,320</u>	<u>-</u>	<u>42,539</u>	<u>-</u>	<u>-</u>	<u>659,712</u>

The Environmental Group Limited
Directors' report
As at 30 June 2020

Notes to tables 1 and 2

- 1) Paid to Cabernet House Pty Ltd in relation to Directors Fees. Resigned 13 November 2019.
- 2) Paid to Dowie International Business Advisors Pty Ltd in relation to Directors Fees.
- 3) Paid to Baltec Inlet and Exhaust Systems Pty Ltd in relation to Directors Fees.
- 4) Appointed as Group General Manager on 24 April 2017. Resigned 30 September 2018.

Share-based compensation

Issue of shares

There were no shares issued to Directors and other key management personnel as part of compensation during the year ended 30 June 2020 (nil-2019).

Options

There were no options over ordinary shares issued to Directors and other key management personnel as part of compensation that were outstanding as at 30 June 2020 (nil-2019).

There were no options over ordinary shares granted to or vested by Directors and other key management personnel as part of compensation during the year ended 30 June 2020 (nil-2019).

Additional information

The following table summarises the Group's financial performance and share price over the past five financial years:

	2016	2017	2018	2019	2020
	\$	\$	\$	\$	\$
Sales revenue	25,726,811	32,684,131	32,186,547	33,003,119	37,425,748
Profit/(Loss) after income tax	21,741	1,696,641	1,551,180	735,228	(1,244,255)
Share price at financial year end (cents)	3.00	1.70	3.60	5.00	2.30
Total dividends declared (cents per share)	-	0.06	0.06	0.06	-
Number of shares issued	215,931,711	215,931,711	215,931,711	217,531,711	217,531,711

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 Group, including their personally related parties are set out below and in Note 38. There were no shares granted during the reporting period as remuneration.

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
Ordinary shares					
Mr Ellis Richardson	100,503,500	-	-	-	100,503,500
Mr David Cartney (resigned 13 November 2019)*	1,300,000	-	200,000	-	1,500,000
Mr Dean Dowie	310,630	-	-	-	310,630
Mr Andrew Bush	831,166	-	-	-	831,166
Ms Lynn Richardson	3,571,429	-	-	-	3,571,429
	<u>106,516,725</u>	<u>-</u>	<u>200,000</u>	<u>-</u>	<u>106,716,725</u>

* Mr David Cartney purchased 200,000 shares subsequent to his resignation as a director.

No shares have been issued during the years ended 30 June 2020 and 30 June 2019 on exercise of compensation option.

The Environmental Group Limited
Directors' report
As at 30 June 2020

Loans to key management personnel and their related parties

In 2020 (2019-nil) no loans were made to Directors of The Environmental Group Limited or other key management personnel of the group, including their personally related parties.

Other transactions with key management personnel and their related parties

In 2020 (2019-nil) no other transactions were made to Directors of The Environmental Group Limited or other key management personnel of the group, including their personally related parties.

Shares under option

There were no unissued ordinary shares of The Environmental Group Limited under option outstanding at the date of this report.

Shares issued on the exercise of options

There were no ordinary shares of The Environmental Group Limited issued on the exercise of options during the year ended 30 June 2020 and up to the date of this report.

Indemnity and insurance of officers

The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the company paid a premium in respect of a contract to ensure the directors and executives of the company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

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

Proceedings on behalf of the company

As noted in last year's Annual Report, the Company successfully defended a claim brought by a former Company employee commenced in May 2017. The Company is presently pursuing its costs of the proceeding, the amount of which has not yet been quantified by the Court.

Non-audit services

There were no non-audit services provided during the financial year by the auditor.

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

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

Auditor's independence declaration

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

Auditor

On 20 May 2020, the Environmental Group accepted the resignation of McIntosh Bishop and appointed RSM Australia Partners as auditors for ratification by members at the Company's next annual general meeting.

The Environmental Group Limited
Directors' report
As at 30 June 2020

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

On behalf of directors



Ms Lynn Richardson
Chairman

28 August 2020

RSM Australia Partners

Level 21, 55 Collins Street Melbourne VIC 3000
PO Box 248 Collins Street West VIC 8007

T +61 (0) 3 9286 8000
F +61 (0) 3 9286 8199

www.rsm.com.au

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of The Environmental Group Limited for the year ended 30 June 2020, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

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



RSM AUSTRALIA PARTNERS



M PARAMESWARAN
Partner

Dated: 28 August 2020
Melbourne, Victoria

The Environmental Group Limited

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As at 30 June 2020

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General information

The financial statements cover The Environmental Group Limited as a Group consisting of The Environmental Group Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is The Environmental Group Limited's functional and presentation currency.

The Environmental Group Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:
Suite 1.01, Level 1,10 Ferntree Place, Notting Hill Vic 3168 Australia

A description of the nature of the Group's operations and its principal activities are included in the Directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 28 August 2020. The Directors have the power to amend and reissue the financial statements.

The Environmental Group Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2020

	Note	Consolidated 2020 \$	2019 \$
Revenue from continuing operations			
Revenue	5	37,425,748	33,003,119
Costs of sales and provisions of services	6	<u>(24,527,766)</u>	<u>(22,371,779)</u>
Gross profit		<u>12,897,982</u>	<u>10,631,340</u>
Expenses			
Employee expenses	7	(8,101,877)	(4,863,311)
Occupancy expenses		(321,766)	(614,874)
Depreciation and amortisation	9	(1,290,771)	(262,692)
Marketing expenses		(763,839)	(456,843)
Travel expenses		(811,109)	(659,980)
Professional fees		(1,408,110)	(1,724,608)
Legal fees	8	(40,714)	(170,000)
Other expenses		<u>(1,578,683)</u>	<u>(890,408)</u>
Operating profit/(loss)		(1,418,887)	988,624
Interest income		2,300	9,791
Interest expense	11	<u>(412,758)</u>	<u>(223,744)</u>
Profit/(Loss) before income tax (expense)/benefit		(1,829,345)	774,671
Income tax (expense)/benefit	12	<u>585,090</u>	<u>(39,443)</u>
Profit/(Loss) after income tax (expense)/benefit for the year		(1,244,255)	735,228
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		<u>(145,110)</u>	-
Other comprehensive income for the year, net of tax		<u>(145,110)</u>	-
Total comprehensive income for the year		<u><u>(1,389,365)</u></u>	<u><u>735,228</u></u>
Profit/(Loss) for the year is attributable to:			
Non-controlling interest		71,420	(42,852)
Owners of The Environmental Group Limited	33	<u>(1,315,675)</u>	<u>778,080</u>
		<u><u>(1,244,255)</u></u>	<u><u>735,228</u></u>
Total comprehensive income for the year is attributable to:			
Owners of The Environmental Group Limited		(1,404,580)	778,080
Non-controlling interest		<u>15,215</u>	<u>(42,852)</u>
		<u><u>(1,389,365)</u></u>	<u><u>735,228</u></u>
		Cents	Cents
Basic earnings per share	47	(0.60)	0.36
Diluted earnings per share	47	(0.60)	0.36

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

The Environmental Group Limited
Statement of financial position
As at 30 June 2020

	Note	Consolidated 2020 \$	2019 \$
Assets			
Current assets			
Cash and cash equivalents	14	763,961	171,135
Trade and other receivables	15	9,325,655	9,201,978
Inventories	16	1,398,977	1,221,268
Other current assets	17	224,324	220,645
Total current assets		<u>11,712,917</u>	<u>10,815,026</u>
Non-current assets			
Deferred tax assets	18	3,409,671	1,994,910
Property, plant and equipment	19	964,605	1,201,351
Intangible assets	20	13,581,354	13,638,307
Right-of-use assets	21	2,345,866	-
Total non-current assets		<u>20,301,496</u>	<u>16,834,568</u>
Total assets		<u>32,014,413</u>	<u>27,649,594</u>
Liabilities			
Current liabilities			
Trade and other payables	22	6,758,801	7,906,555
Contract liabilities	23	3,174,111	-
Financial liabilities	24	600,000	125,000
Employee benefits	25	1,879,056	1,704,167
Lease liabilities	27	861,870	-
Total current liabilities		<u>13,273,838</u>	<u>9,735,722</u>
Non-current liabilities			
Financial liabilities	28	1,950,000	1,863,670
Lease liabilities	31	1,626,723	-
Deferred tax liabilities	29	781,459	56,392
Employee benefits	30	99,299	108,421
Total non-current liabilities		<u>4,457,481</u>	<u>2,028,483</u>
Total liabilities		<u>17,731,319</u>	<u>11,764,205</u>
Net assets		<u>14,283,094</u>	<u>15,885,389</u>
Equity			
Issued capital	32	21,839,819	21,839,831
Retained earnings	33	(7,618,185)	(6,089,592)
Reserves	34	149,204	238,109
Equity attributable to the owners of The Environmental Group Limited		<u>14,370,838</u>	<u>15,988,348</u>
Non-controlling interest	35	(87,744)	(102,959)
Total equity		<u>14,283,094</u>	<u>15,885,389</u>

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

The Environmental Group Limited
Statement of changes in equity
For the year ended 30 June 2020

Consolidated	Share capital \$	Reserves \$	Retained profits \$	Non-controlling interest \$	Total equity \$
Balance at 1 July 2018	21,759,831	59,332	(6,738,113)	(152,310)	14,928,740
Profit/(Loss) after income tax expense for the year	-	-	778,080	(42,852)	735,228
Other comprehensive income for the year, net of tax	-	-	-	-	-
Total comprehensive income for the year	-	-	778,080	(42,852)	735,228
FX currency reserves	-	178,777	-	92,203	270,980
Share issue	80,000	-	-	-	80,000
Transactions with owners in their capacity as owners:					
Dividends paid (note 36)	-	-	(129,559)	-	(129,559)
Balance at 30 June 2019	<u>21,839,831</u>	<u>238,109</u>	<u>(6,089,592)</u>	<u>(102,959)</u>	<u>15,885,389</u>
Consolidated	Share capital \$	Reserves \$	Retained profits \$	Non-controlling interest \$	Total equity \$
Balance at 1 July 2019	21,839,831	238,109	(6,089,592)	(102,959)	15,885,389
Adjustment for correction of error	(12)	-	-	-	(12)
Adjustment for adoption of AASB 16	-	-	(82,399)	-	(82,399)
Balance at 1 July 2019 - restated	21,839,819	238,109	(6,171,991)	(102,959)	15,802,978
Profit/(Loss) after income tax benefit for the year	-	-	(1,315,675)	71,420	(1,244,255)
Other comprehensive income for the year, net of tax	-	(88,905)	-	(56,205)	(145,110)
Total comprehensive income for the year	-	(88,905)	(1,315,675)	15,215	(1,389,365)
Transactions with owners in their capacity as owners:					
Dividends paid (note 36)	-	-	(130,519)	-	(130,519)
Balance at 30 June 2020	<u>21,839,819</u>	<u>149,204</u>	<u>(7,618,185)</u>	<u>(87,744)</u>	<u>14,283,094</u>

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

The Environmental Group Limited
Statement of cash flows
For the year ended 30 June 2020

	Note	Consolidated 2020 \$	2019 \$
Cash flows from operating activities			
Receipts from customers		43,280,246	30,705,058
Payments to suppliers and employees		(42,370,035)	(30,684,876)
		910,211	20,182
Interest received		2,300	9,791
Interest paid	11	(412,758)	(223,744)
JobKeeper payment scheme	5	516,021	-
Payroll tax refund		197,413	-
Income taxes paid		(73,319)	-
Net cash from/(used in) operating activities	46	1,139,868	(193,771)
Cash flows from investing activities			
Payment for purchase of business, net of cash acquired	43	-	(3,087,786)
Net purchases of property, plant and equipment	19	(64,318)	(571,754)
Payments for intangibles	20	(79,930)	(67,112)
Net cash used in investing activities		(144,248)	(3,726,652)
Cash flows from financing activities			
Proceeds from borrowings		1,000,000	2,000,000
Dividends paid	36	(130,519)	(129,559)
Repayment of borrowings		(438,670)	(11,330)
Repayment of lease liabilities		(833,605)	-
Net cash from/(used in) financing activities		(402,794)	1,859,111
Net increase/(decrease) in cash and cash equivalents		592,826	(2,061,312)
Cash and cash equivalents at the beginning of the financial year		171,135	2,232,447
Cash and cash equivalents at the end of the financial year	14	763,961	171,135

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

The Environmental Group Limited
Notes to the financial statements
As at 30 June 2020

Note 1. Corporate Information

This financial report of The Environmental Group Limited ("EGL") for the year ended 30 June 2020 was authorised for issue by the Directors in accordance with a resolution of the Directors on 28 August 2020.

The Environmental Group Limited's registered office is Level 1 Suite 1, 10 Ferntree Place, Notting Hill, Victoria, 3168.

The financial report includes financial statements for EGL and its controlled entities as a consolidated entity ('the Group'). EGL is a public listed company, limited by shares traded on the Australian Security Exchange, incorporated and domiciled in Australia.

For the purposes of preparing the financial statements the Company and Group are for profit entities.

The principal activities during the year of entities within the consolidated entity were design, application and servicing of innovative gas and vapour emission control systems, inlet and exhaust systems for gas turbines and engineering services and innovative water treatment, service and maintenance of commercial boilers and engineering services, to a wide variety of industries.

Note 2. Significant accounting policies

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

New or amended Accounting Standards and Interpretations adopted

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

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

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

AASB 16 Leases

The Group has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion in future disclosures will be disclosed in operating activities and the principal portion of the lease payments will be separately disclosed in financing activities.

Impact on transition

On transition to AASB 16, the Group recognised right-of-use assets and lease liabilities. The impact of adopting AASB 16 has led to a reduction in retained earnings of \$114,483 before tax (tax effect \$31,483).

The Environmental Group Limited
Notes to the financial statements
As at 30 June 2020

Note 2. Significant accounting policies (continued)

	Property Leases \$	Vehicle Leases \$	Total \$
Operating lease commitments as at 1 July 2019 (AASB 117)	1,816,584	895,238	2,711,822
Operating lease commitments discount based on the weighted average incremental borrowing rate of 4.58% (AASB 16)	(208,915)	(57,315)	(266,230)
Impact of principal repayments vs accumulated depreciation as at 1 July 2019	(73,149)	(35,970)	(109,119)
Right-of-use assets (AASB 16)	<u>1,534,520</u>	<u>801,953</u>	<u>2,336,473</u>
Lease liabilities - current (AASB 16)	(356,172)	(381,138)	(737,310)
Lease liabilities - non-current (AASB 16)	(1,256,860)	(456,785)	(1,713,645)
Total lease liabilities (AASB 16)	(1,613,032)	(837,923)	(2,450,955)
Reduction in opening retained profits as at 1 July 2019	<u>(78,513)</u>	<u>(35,970)</u>	<u>(114,483)</u>

When measuring lease liabilities for leases that were previously classified as operating leases, the Group discounted lease payments using a weighted average incremental borrowing rate of 4.58%.

To assist with the understanding of the impact of the application of AASB 16 in this initial period refer to the following summary.

	Property Leases \$	Vehicle Leases \$	Total \$
Right-of-use assets:			
Balance as at 1 July 2019	1,534,520	801,953	2,336,473
Additions	-	871,243	871,243
Depreciation of right-of-use assets	(383,073)	(478,777)	(861,850)
Balance as at 30 June 2020	<u>1,151,447</u>	<u>1,194,419</u>	<u>2,345,866</u>
Lease liabilities:			Total \$
Balance at 1 July 2019			2,450,956
New leases			871,243
Lease repayments			<u>(833,606)</u>
Balance as at 30 June 2020			<u>2,488,593</u>

Comparison of previous AASB 117 accounting treatment and new AASB 16 treatment

The following table has been included to compare the new accounting treatment under AASB 16 with how the same transactions would have been shown under the previous AASB 117 for period 1 July 2019 to 30 June 2020.

Previous AASB 117 accounting treatment	Statement of Profit & Loss \$	Statement of Cash flows \$
Expenses (lease payments)	(961,528)	-
Cash flows from operating activities	-	(961,528)
	<u>(961,528)</u>	<u>(961,528)</u>

The Environmental Group Limited
Notes to the financial statements
As at 30 June 2020

Note 2. Significant accounting policies (continued)

	Statement of Profit & Loss \$	Statement of Cash flows \$
New AASB 16 accounting treatment		
Interest Expense Lease liability	(133,285)	-
Depreciation right-of-use asset	(861,850)	-
Cash flows from operating activities	-	(133,285)
Cash flows from financing activities	-	(828,242)

Going concern

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

As disclosed in the financial statements the Group incurred a loss after tax of \$1,244,255 and had a working capital deficiency (current assets less than current liabilities) of \$1,560,921.

The Directors believe that it is reasonably foreseeable that the Group will continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of the financial report after consideration of the following:

- the Group's forecast to achieve profitability and positive operating cash flows for the next 12 months, will be managed with the assistance of a \$3,000,000 finance facility, which was fully unused as at 30 June 2020 and will reduce to \$2,000,000 effective 31 October 2020, secured through Westpac Banking Corporation.

Basis of preparation

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

Historical cost convention

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

Critical accounting estimates

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

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 42.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of The Environmental Group Limited ('company' or 'parent entity') as at 30 June 2020 and the results of all subsidiaries for the year then ended. The Environmental Group Limited and its subsidiaries together are referred to in these financial statements as the 'Group'.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

Note 2. Significant accounting policies (continued)

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

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the Group. Losses incurred by the Group are attributed to the non-controlling interest in full, even if that results in a deficit balance.

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

Operating Segments

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

Foreign currency transactions and balances

Functional and presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Exchange differences are recognised in profit or loss.

Foreign operations

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

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

Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Revenue from contracts with customers

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

Note 2. Significant accounting policies (continued)

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

The Group has two operating segments for which revenue is recognised based on a contract with a customer:

Products

Revenue on capital work contracts are recognised when performance obligations are satisfied performance obligations is deemed to be satisfied over a period of time AASB 15. The input method is used for recognising revenue based on costs incurred. Revenue recognised on ongoing capital work contracts in excess of amounts billed to customers is reflected as an asset ("customer contract assets"). Amounts billed to customers in excess of revenue recognised on uncompleted capital work contracts are reflected as a liability ("customer contracts liabilities").

Revenue from sales other than capital work contracts is recorded when goods have been dispatched to a customer pursuant to a sales order and the associated risks of ownership have passed to the customer.

Services

Revenue from the rendering of a service is recognised upon the delivery of the service to the customer.

Interest

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

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Government grants

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Jobkeeper payment scheme:

Jobkeeper payment scheme has been recognised as other income by the Group.

Note 2. Significant accounting policies (continued)

Income tax

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

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

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

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

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

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

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

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

Current and non-current classification

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

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

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

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

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank, cash in hand and other short-term deposits with an original maturity 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.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within other financial liabilities in current liabilities on the statement of financial position.

Note 2. Significant accounting policies (continued)

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due based on 30-90 day terms.

The consolidated entity has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue. Expected credit losses are also assessed on individual debtors with overdue balances for any specific allowance required. Specific expected credit losses are recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor or, default payments are considered objective evidence of possible impairment.

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

Contract assets

Contract assets are recognised when the group has transferred goods or services to the customer, or performance obligations are met but where the group is yet to establish an unconditional right to consideration (that is, billing milestones are not achieved yet). Contract assets are treated as financial assets for impairment purposes.

Inventories

Raw materials and consumables, finished goods and stores

Raw materials and consumables are measured at the lower of cost and net realisable value. Costs are assigned on a first in, first out basis. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

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

Plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. All other repairs and maintenance are recognised in the statement of comprehensive income as incurred.

Depreciation is calculated on either a straight-line or diminishing value basis over the estimated useful life of the specific asset. The expected useful lives as follows:

Leasehold improvements	3-10 years
Plant and equipment	3-10 years

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

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Note 2. Significant accounting policies (continued)

Right-of-use assets

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

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

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

Goodwill and intangibles

Goodwill

Goodwill arises on the acquisition of a business and is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Intangibles other than goodwill

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Research and development costs

Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the consolidated entity is able to use or sell the asset; the consolidated entity has sufficient resources and intent to complete the development; and its costs can be measured reliably. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 5 years.

Software

An intangible asset arising from software purchased or development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefit from the related project.

A summary of the policies applied to the Group's intangible assets is as follows:

	Goodwill	Development costs	Intangibles
Useful lives	Indefinite	5 years	5 years
Method used	Not amortised or revalued	Amortised	Amortised
Internally generated/acquired	Acquired	Internally generated	Acquired/internally generated
Impairment test/recoverable amount testing	Annually and where an indicator of impairment exists	Where an indicator of impairment exists	Annually and where an indicator of impairment exists

Note 2. Significant accounting policies (continued)

Impairment of non-financial assets

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

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a post-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit. Further details on the methodology and assumptions used are outlined in Note 20.

Impairment losses recognised for goodwill are not subsequently reversed.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level consistent with the methodology outlined for goodwill above. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable.

Trade and other payables

Trade and other payables are carried at cost and due to their short-term nature, they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

Contract liabilities

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

Borrowings

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

Lease liabilities

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

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

Borrowing costs

Borrowing costs are recognised as an expense when incurred unless they are attributable to a qualifying asset.

Note 2. Significant accounting policies (continued)

Provisions

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

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date using a discounted cash flow methodology. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability.

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Retirement benefit obligations

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits at the earlier of the following dates: (a) when the group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of AASB 137 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

Contributed equity

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

Earnings per share

Basic earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share is calculated as net profit or loss attributable to members of the parent, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

Potential ordinary shares are treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations.

Note 2. Significant accounting policies (continued)

Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether the equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

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

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

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 tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

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

Comparatives

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2020. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

Note 2. Significant accounting policies (continued)

Conceptual Framework for Financial Reporting (Conceptual Framework)

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

Note 3. Critical accounting judgements, estimates and assumptions

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

Coronavirus (COVID-19) pandemic

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

Allowance for expected credit losses

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and assumptions laid to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience and historical collection rates, the impact of the Coronavirus (COVID-19) pandemic and forward-looking information that is available. The allowance for expected credit losses, is calculated based on the information available at the time of preparation. The actual credit losses in future years may be higher or lower.

Provision for impairment of inventories

The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

Estimation of useful lives of assets

The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Impairment of goodwill

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows as discussed in note 20.

Note 3. Critical accounting judgements, estimates and assumptions (continued)

Impairment of non-financial assets other than goodwill

The Group assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Income tax

The Group is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on the Group's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Recovery of deferred tax assets

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

Lease term

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

Incremental borrowing rate

Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the consolidated entity estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security and economic environment.

Employee benefits provision

As discussed in note 2, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Business combinations

As discussed in note 2, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the Group taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

Note 3. Critical accounting judgements, estimates and assumptions (continued)

Revenue from contracts with customers, contract assets, and contract liabilities

When recognising revenue in relation to capital projects (service revenue), the key performance obligation of the group is considered to be the percentage of the completion for respective projects. Judgement is exercised in determining the percentage of completion of the contract and in reliably estimating the total contract revenue and contract costs to completion.

Contract assets are measured at revenue recognised for each project, net of any provision for anticipated future losses, and in excesses of the amounts billed to the customers based on the underlying contracts. Judgement is exercised in determining the provision for expected future losses, as well as the amount of revenue recognised as explained above, which in turn impacts the contract assets, as well.

Contract liabilities are measured at the amounts billed to the customers based on the underlying contracts, in excess of the revenues recognised for respective projects. Judgement is exercised in determining the amount of revenue recognised as explained above, which in-turn impacts the contract liabilities, as well.

Note 4. Operating segments

Identification of reportable operating segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources. Unless stated otherwise all amounts reported to the Board of Directors, being the chief operating decision makers with respect to operating segments, are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

The Group is managed primarily on the basis of product category and service offerings as the diversification of the Group's operations inherently have notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis. Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- The products sold and / or services provided by the segment.
- The fabrication process.
- The type or class of customer for the products or services.
- The distribution method.
- Any external regulatory requirements.

Types of products and services by segment

Products segment Pollution Control incorporates the operations related to the supply, design, construction and installation services to industry, this segment includes activities related to air pollution control, water purification systems.

Products segment Gas turbines incorporates the operations related to the supply, design, construction and installation services to industry, this segment includes activities related to design, engineering and manufacture of gas turbine equipment and solutions.

Services segment reflects the services and after sales support to industry, this segment includes services to construction, health sector, food processing, manufacturing and many other industrial markets.

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Note 4. Operating segments (continued)

Inter-segment transactions

An internally determined transfer price is set for all inter-segment sales. This price is reset quarterly and is based on what would be realised in the event the sale was made to an external party at arm's length. All such transactions are eliminated on consolidation of the Group's financial statements.

Segment assets

Where an asset is used across multiple segments, the asset is allocated to that segment that receives majority economic value from that asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Segment liabilities

Liabilities are allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

Segment performance

The following table present revenue and profit information and certain asset and liability information regarding business segments for the years ended 30 June 2020 and 30 June 2019.

Operating segment information

	Products Pollution Control \$	Services \$	Products Gas Turbine \$	Other segments \$	Corporate \$	Total \$
Consolidated - 2020						
Revenue						
Sales to external customers	5,190,886	20,352,242	10,956,738	299,864	-	36,799,730
Other revenue	189,468	290,445	138,793	7,312	-	626,018
Total revenue	<u>5,380,354</u>	<u>20,642,687</u>	<u>11,095,531</u>	<u>307,176</u>	<u>-</u>	<u>37,425,748</u>
EBITDA*	<u>370,568</u>	<u>1,986,987</u>	<u>(577,802)</u>	<u>(134,171)</u>	<u>(1,773,698)</u>	<u>(128,116)</u>
Depreciation and amortisation						(1,290,771)
Interest revenue						2,300
Finance costs						(412,758)
Loss before income tax benefit						(1,829,345)
Income tax benefit						585,090
Loss after income tax benefit						<u>(1,244,255)</u>
Assets						
Segment assets	<u>1,391,063</u>	<u>10,507,424</u>	<u>12,631,752</u>	<u>910,025</u>	<u>6,282,131</u>	<u>31,722,395</u>
Intersegment eliminations						(3,117,653)
Unallocated assets:						
Deferred tax asset						3,409,671
Total assets						<u>32,014,413</u>
Liabilities						
Segment liabilities	<u>1,485,092</u>	<u>9,278,096</u>	<u>4,234,803</u>	<u>858,272</u>	<u>4,211,248</u>	<u>20,067,511</u>
Intersegment eliminations						(3,117,651)
Unallocated liabilities:						
Deferred tax liability						781,459
Total liabilities						<u>17,731,319</u>

* Current year EBITDA includes the impact of the adoption of AASB16 changes, but the prior year figure does not. Refer note 2 for further details.

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Note 4. Operating segments (continued)

Consolidated - 2019	Products Pollution Control \$	Services \$	Products Gas Turbine \$	Other segments \$	Corporate \$	Total \$
Revenue						
Sales to external customers	5,795,863	7,854,082	18,567,215	299,378	-	32,516,538
Other revenue	143,667	61,260	237,532	44,122	-	486,581
Total revenue	<u>5,939,530</u>	<u>7,915,342</u>	<u>18,804,747</u>	<u>343,500</u>	<u>-</u>	<u>33,003,119</u>
EBITDA						
	304,688	725,662	1,862,790	(50,528)	(1,591,296)	1,251,316
Depreciation and amortisation						(262,692)
Interest revenue						9,791
Finance costs						(223,744)
Profit before income tax expense						774,671
Income tax expense						(39,443)
Profit after income tax expense						<u>735,228</u>
Assets						
Segment assets	2,306,626	9,457,555	9,529,648	2,008,359	16,721,693	40,023,881
Intersegment eliminations						(14,369,197)
Unallocated assets:						
Deferred tax asset						1,994,910
Total assets						<u>27,649,594</u>
Liabilities						
Segment liabilities	2,320,667	8,047,245	527,716	4,744,605	10,436,777	26,077,010
Intersegment eliminations						(14,369,197)
Unallocated liabilities:						
Deferred tax liability						56,392
Total liabilities						<u>11,764,205</u>

Major Customers

The Group has a number of customers to whom it provides both products and services. The Group supplies to a single external customer in the products segment who accounts for 5.5% of external revenue (2019: 22.4%). The next most significant client accounts for 4.3% (2019: 7.0%) of external revenue.

Geographical information

	Sales to external customers		Geographical non-current assets	
	2020	2019	2020	2019
	\$	\$	\$	\$
Australia	28,125,024	14,528,766	16,886,458	15,147,264
Rest of the World	8,674,610	17,987,772	5,368	30,083
	<u>36,799,634</u>	<u>32,516,538</u>	<u>16,891,826</u>	<u>15,177,347</u>

The geographical non-current assets above are exclusive of, where applicable, financial instruments and deferred tax assets.

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Note 5. Revenue from continuing operations

	Consolidated	
	2020	2019
	\$	\$
Revenue		
From external customers	36,799,634	32,516,538
R&D Tax Offset	(13,370)	406,578
Export Market Development Grant	123,484	80,003
JobKeeper payment scheme	516,000	-
	<u>37,425,748</u>	<u>33,003,119</u>

Disaggregation of revenue

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

	Consolidated	
	2020	2019
	\$	\$
Major product lines		
Engineering and Fabrication Solutions	13,360,917	19,021,665
Service	20,960,261	9,957,454
Parts	2,478,456	3,537,419
	<u>36,799,634</u>	<u>32,516,538</u>
Geographical regions		
Australia	28,125,024	14,528,766
Rest of the World	8,674,610	17,987,772
	<u>36,799,634</u>	<u>32,516,538</u>
Timing of revenue recognition		
Goods transferred at a point in time	2,478,456	2,651,064
Services transferred over time	34,321,178	29,865,474
	<u>36,799,634</u>	<u>32,516,538</u>

Note 6. Cost of sales

	Consolidated	
	2020	2019
	\$	\$
Cost of sales	<u>24,527,766</u>	<u>22,371,779</u>

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Note 7. Employee expenses

	Consolidated	
	2020	2019
	\$	\$
Wages and salaries	5,567,328	2,649,988
Superannuation expense	1,014,914	695,522
Other employee benefits expense	1,519,635	1,517,801
	<u>8,101,877</u>	<u>4,863,311</u>
Employee expenses total	<u>8,101,877</u>	<u>4,863,311</u>

Other employee benefits is net of \$197,413 payroll tax refunded and waived by Victoria & Western Australia State Revenue office's for year ended 30 June 2020.

Note 8. Legal fees

	Consolidated	
	2020	2019
	\$	\$
Legal proceedings	40,714	170,000
	<u>40,714</u>	<u>170,000</u>

As noted in last year's Annual Report, the Company successfully defended a claim brought by a former Company employee commenced in May 2017. The Company is presently pursuing its costs of the proceeding, the amount of which has not yet been quantified by the Court.

Note 9. Depreciation and amortisation

	Consolidated	
	2020	2019
	\$	\$
Depreciation of Property, Plant & Equipment	294,748	186,203
Amortisation of Intangibles	134,173	76,489
Depreciation of ROU Assets	861,850	-
	<u>1,290,771</u>	<u>262,692</u>
Depreciation and amortisation total	<u>1,290,771</u>	<u>262,692</u>

Note 10. Foreign exchange (gains)/losses

	Consolidated	
	2020	2019
	\$	\$
Foreign exchange (gains)/losses	153,862	(242,139)
	<u>153,862</u>	<u>(242,139)</u>

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Note 11. Interest expense

	Consolidated	
	2020	2019
	\$	\$
Finance cost on borrowings	279,473	223,744
AASB 16 finance cost	133,285	-
	<u>412,758</u>	<u>223,744</u>

Note 12. Income tax expense/(benefit)

	Consolidated	
	2020	2019
	\$	\$
Income tax expense/(benefit)		
Deferred tax - origination and reversal of temporary differences	(658,411)	(592,135)
Adjustment recognised for prior periods	73,321	10,088
Adjustment recognised for current periods	-	621,490
	<u>(585,090)</u>	<u>39,443</u>
Deferred tax included in income tax expense/(benefit) comprises:		
Increase in deferred tax assets (note 18)	(1,383,478)	(628,507)
Increase in deferred tax liabilities (note 29)	725,067	36,372
Deferred tax - origination and reversal of temporary differences	(658,411)	(592,135)
Numerical reconciliation of income tax expense/(benefit) and tax at the statutory rate		
Profit/(Loss) before income tax (expense)/benefit	(1,829,345)	774,671
Tax at the statutory tax rate of 27.5% (2019: 30%)	(503,070)	232,401
Adjustment recognised for prior periods	73,321	10,088
Prior year temporary differences not recognised now recognised	(104,842)	(876,891)
Difference in overseas tax rates	(25,083)	10,713
Adjustment to deferred tax balances as a result of change in statutory tax rate	30,605	-
Adjustment recognised for current period	-	621,490
Sundry items	(56,021)	41,642
	<u>(585,090)</u>	<u>39,443</u>

Tax losses

	Consolidated	
	2020	2019
	\$	\$
Amounts credited directly to equity		
Deferred tax assets (note 18)	(31,283)	-
Unused tax losses for which no deferred tax asset has been recognised	1,539,852	817,016
Potential tax benefit at 30%	461,955	245,105

The Environmental Group Limited
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As at 30 June 2020

Note 12. Income tax expense/(benefit) (continued)

No deferred tax asset has been recognised for these tax losses as they relate to pre-consolidated losses transferred in from subsidiaries and are subject to available fraction calculations.

There were no tax liabilities for the year, as losses carried forward have been utilised.

Note 13. Discontinued operations

Mine Assist Mechanical Pty Ltd (formerly Moranbah Mechanical Services Pty Ltd)

On 24 April 2014 the EGL Board of Directors resolved to cease funding the loss-making operations of Mine Assist Mechanical Pty Ltd ("MMS"), a wholly owned subsidiary of the Group.

In prior periods all assets of MMS were written-off, and all the liabilities were fully settled. MMS did not have any operations during the current period.

The company is dormant.

Note 14. Current assets - cash and cash equivalents

	Consolidated	
	2020	2019
	\$	\$
Cash at bank	696,123	115,489
Cash on deposit	67,838	55,646
	<u>763,961</u>	<u>171,135</u>

Cash at bank

Cash at bank is non-interest bearing overdraft facility that currently bears interest at 3.49% per annum. As of 30 June 2020, the bank overdraft was unutilised.

Cash on deposit

As part of the bank facility, cash on deposit held as security for bonds issued by financial institutions are no longer required.

Note 15. Current assets - trade and other receivables

	Consolidated	
	2020	2019
	\$	\$
Trade receivables	9,111,513	7,345,182
Other receivables	214,142	384,932
Customer contract assets	-	1,471,864
	<u>214,142</u>	<u>1,856,796</u>
	<u>9,325,655</u>	<u>9,201,978</u>

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Note 15. Current assets - trade and other receivables (continued)

Allowance for expected credit losses

Trade receivables are non-interest bearing vary between 30 to 90day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. Amounts are included in other expenses in the statement of profit and loss and other comprehensive income.

The group has increased its monitoring of debt recovery as there is an increased probability of customers delaying payment or being unable to pay, due to the Coronavirus (COVID-19) pandemic. However, no particular collectability issues noted as the result of this increased monitoring.

As at 30 June 2020, the ageing of trade receivables is as follows:

	Consolidated	
	2020	2019
	\$	\$
Current	8,327,336	6,549,068
30 Days	274,040	328,599
60 Days past due not impaired	184,122	123,168
90+ Days past due not impaired	326,015	344,347
	<u>9,111,513</u>	<u>7,345,182</u>

Receivables past due but not considered impaired as at 30 June 2020 \$326,015 (2019: \$344,347). Payment terms on these amounts have not been re-negotiated however credit is being monitored until full payment is made. Each business unit has been in direct contact with the relevant debtor and is satisfied that payment will be received in full.

Fair value and credit risk

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value. The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security, nor is it the Group's policy to transfer (on-sell) receivables to special purpose entities.

Note 16. Current assets - inventories

	Consolidated	
	2020	2019
	\$	\$
Stock on hand - at cost	<u>1,398,977</u>	<u>1,221,268</u>

Inventory write-down

Write-down of inventories to net realisable value amounted to \$19,264 for the year ended 30 June 2020 (2019: \$25,191). As a result, there is no provision for impairment.

Note 17. Current assets - Other current assets

	Consolidated	
	2020	2019
	\$	\$
Prepayments	213,445	165,511
Other current assets	10,879	55,134
	<u>224,324</u>	<u>220,645</u>

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Note 18. Non-current assets - Deferred tax assets

	Consolidated	
	2020	2019
	\$	\$
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Leases	684,363	-
Fixed Assets	84,108	50,475
Accruals	56,330	349,520
Provisions	643,471	580,349
Other	-	46,444
Tax losses	1,941,399	968,122
Deferred tax asset	<u>3,409,671</u>	<u>1,994,910</u>
Movements:		
Opening balance	1,994,910	1,366,420
Credited to profit or loss (note 12)	1,383,478	628,507
Credited to equity (note 12)	31,283	-
Adjustment to opening balance correction	-	(17)
Closing balance	<u>3,409,671</u>	<u>1,994,910</u>

Note 19. Non-current assets - property, plant and equipment

	Consolidated	
	2020	2019
	\$	\$
Plant and equipment - at cost	2,010,178	2,010,097
Less: Accumulated depreciation	<u>(1,045,573)</u>	<u>(808,746)</u>
	964,605	1,201,351
Motor vehicles - at cost	150,916	150,916
Less: Accumulated depreciation	<u>(150,916)</u>	<u>(150,916)</u>
	-	-
Balance at 30 June 2020	<u>964,605</u>	<u>1,201,351</u>

The Environmental Group Limited
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Note 19. Non-current assets - property, plant and equipment (continued)

Reconciliations

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

Consolidated	Land & Buildings \$	Leasehold Improvements \$	Plant and Equipment \$	Motor Vehicles \$	Total \$
Balance at 1 July 2018	-	1,038	814,762	-	815,800
Additions	-	-	326,054	-	326,054
Additions through business combinations (note 43)	-	-	246,738	-	246,738
Write off of assets	-	(1,038)	-	-	(1,038)
Depreciation expense	-	-	(186,203)	-	(186,203)
Balance at 30 June 2019	-	-	1,201,351	-	1,201,351
Additions	-	-	64,317	-	64,317
Write off of assets	-	-	(6,315)	-	(6,315)
Depreciation expense	-	-	(294,748)	-	(294,748)
Balance at 30 June 2020	-	-	964,605	-	964,605

Note 20. Non-current assets - Intangible assets

	Consolidated	
	2020	2019
	\$	\$
Goodwill - at cost	13,292,821	13,292,821
Patents and trademarks - at cost	-	2,710
Software - at cost	499,195	419,265
Less: Accumulated amortisation	(210,662)	(76,489)
	288,533	342,776
	<u>13,581,354</u>	<u>13,638,307</u>

Consolidated	Goodwill \$	Trademark \$	Software \$	Total \$
Balance at 1 July 2018	9,180,127	2,710	352,153	9,534,990
Additions	-	-	67,112	67,112
Additions through business combinations (note 43)	4,112,694	-	-	4,112,694
Amortisation expense	-	-	(76,489)	(76,489)
Balance at 30 June 2019	13,292,821	2,710	342,776	13,638,307
Additions	-	-	79,929	79,929
Write off of assets	-	(2,710)	-	(2,710)
Amortisation expense	-	-	(134,172)	(134,172)
Balance at 30 June 2020	<u>13,292,821</u>	<u>-</u>	<u>288,533</u>	<u>13,581,354</u>

The Environmental Group Limited
Notes to the financial statements
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Note 20. Non-current assets - Intangible assets (continued)

Impairment testing

Goodwill acquired through business combinations and licences have been allocated to the relevant cash generating units as summarised in the table below:

	EGL Pollution Control	EGL Gas Turbine	EGL Service	EGL Total
Goodwill	5,328,297	4,007,647	3,956,877	13,292,821

EGL Pollution Control Cash Generating Unit

The recoverable amount of the EGL Pollution Control Cash Generating Unit has been determined using a value in use calculation which is based on the following key assumptions:

- 15.5% post-tax discount rate;
- 10% per annum projected revenue and cost of sales growth rate after year 2;
- 5% per annum increase in overhead; and
- 2% projected indefinite nominal growth in the terminal value.

In addition to above, the first two year forecasts is based on prior years performance plus expected project wins. This takes into account a significant project commencing which will bring in revenue of circa \$7.5 million to \$8.5 million over the FY21 and FY22.

Based on the above, there was no impairment of goodwill.

Sensitivity.

As disclosed in note 3, the Directors have made judgements and estimates in respect of impairment testing of goodwill. Should these judgements and estimates not occur the resulting goodwill carrying amount may decrease. The following sensitivities that would result in a material impairment is as follows:

- The significant project noted above does not commence due to delays or cancellation and is not replaced by other wins with all other assumptions remaining constant; or
- The revenue growth rate after year 2 falls below 5% with all other assumptions remaining constant.

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

EGL Gas Turbine Cash Generating Unit

The recoverable amount of the EGL Gas Turbine Cash Generating Unit has been determined using a value in use calculation which is based on the following key assumptions:

- 15.5% post-tax discount rate;
- \$26 million projected revenue for next year;
- 10% (2019: 10%) per annum projected revenue and cost of sales growth rate;
- 5% (2019: 5%) per annum increase in overhead; and
- 2% (2019: 2%) projected indefinite nominal growth in the terminal value.

Based on the above, there is no impairment of goodwill.

For an impairment to occur, Baltec IES sales for next year would have to be circa \$14 million and only achieve 3% revenue and cost of sales growth rate after year 1 (with overhead costs to grow in line with inflation of 2%).

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Note 20. Non-current assets - Intangible assets (continued)

EGL Service Cash Generating Unit

The recoverable amount of the EGL Service Cash Generating Unit has been determined using a value in use calculation which is based on the following key assumptions:

- 15.5% post-tax discount rate;
- 10% per annum projected revenue and cost of sales growth rate;
- 10% (2019: 5%) per annum increase in overhead; and
- 2% (2019: 2%) projected indefinite nominal growth in the terminal value.

Based on the above, there is no impairment of goodwill.

Key assumptions used in value in use calculations

The calculation of value in use for each of the Cash Generating units is most sensitive to assumptions made concerning projected revenues, cost of sales, and overheads, projected gross margins for the first year, discount rates, and growth rates used to extrapolate cash flows beyond the budget period.

Gross margins are based on the values achieved in recent years preceding the start of the budget period. Discount rates reflect management's estimate of the time value of money and the risks specific to each unit that are not already reflected in the cash flows. In determining the appropriate discount rates, regard has been given to the weighted average cost of capital of the entity as a whole and adjusted for business risk specific to each unit. Growth rate estimates reflect recent past experience.

Note 21. Non-current assets - right-of-use assets

	Consolidated	
	2020	2019
	\$	\$
Land and buildings - right-of-use	1,534,520	-
Less: Accumulated depreciation	(383,073)	-
	<u>1,151,447</u>	<u>-</u>
Motor vehicles - right-of-use	1,673,196	-
Less: Accumulated depreciation	(478,777)	-
	<u>1,194,419</u>	<u>-</u>
	<u><u>2,345,866</u></u>	<u><u>-</u></u>

The Group leases land and buildings for its offices and warehouses under agreements of between one to seven years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated. The Group also leases motor vehicles with agreements of four years.

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Note 21. Non-current assets - right-of-use assets (continued)

Reconciliations

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

Consolidated	Property Leases \$	Vehicle Leases \$	Total \$
Balance at 1 July 2018	-	-	-
Balance at 1 July 2019	1,534,520	801,953	2,336,473
Additions	-	871,243	871,243
Depreciation expense	(383,073)	(478,777)	(861,850)
Balance at 30 June 2020	<u>1,151,447</u>	<u>1,194,419</u>	<u>2,345,866</u>

Note 22. Current liabilities - trade and other payables

	Consolidated	
	2020	2019
	\$	\$
Trade payables	4,928,854	5,910,184
Other payables	1,829,947	1,996,371
	<u>6,758,801</u>	<u>7,906,555</u>

Refer to note 37 for further information on financial risk management.

Note 23. Current liabilities - contract liabilities

	Consolidated	
	2020	2019
	\$	\$
Contract liabilities	<u>3,174,111</u>	<u>-</u>

Reconciliation

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

Opening balance	-	-
Payments received in advance	12,665,364	-
Transfer to revenue - included in the opening balance	(9,491,253)	-
Closing balance	<u>3,174,111</u>	<u>-</u>

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Note 23. Current liabilities - contract liabilities (continued)

Unsatisfied performance obligations

The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied at the end of the reporting period was \$27,736,747 as at 30 June 2020 (\$4,284,843 as at 30 June 2019) and is expected to be recognised as revenue in future periods as follows:

	Consolidated	
	2020	2019
	\$	\$
Within 6 months	11,056,761	4,284,843
6 to 12 months	9,091,011	-
12 to 18 months	3,035,590	-
18 to 24 months	3,035,590	-
After 24 months	1,517,795	-
	<u>27,736,747</u>	<u>4,284,843</u>

Accounting policy for contract liabilities

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

Note 24. Current liabilities - Financial liabilities

	Consolidated	
	2020	2019
	\$	\$
Bank Bill Business Loan	<u>600,000</u>	<u>125,000</u>

Refer to note 26 for further details.

Note 25. Current liabilities - employee benefits

	Consolidated	
	2020	2019
	\$	\$
Annual leave	1,081,945	1,029,211
Long service leave	797,111	674,956
	<u>1,879,056</u>	<u>1,704,167</u>

The Environmental Group Limited
Notes to the financial statements
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Note 26. Current liabilities - borrowings

Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit:

	Consolidated	
	2020	2019
	\$	\$
Total facilities		
Bank overdraft	3,000,000	2,000,000
Bank Bill Business Loan	3,000,000	2,000,000
Trade Guarantee and Standby Letters of Credit Facility	8,000,000	7,000,000
	<u>14,000,000</u>	<u>11,000,000</u>
Used at the reporting date		
Bank overdraft	-	-
Bank Bill Business Loan	2,550,000	2,000,000
Trade Guarantee and Standby Letters of Credit Facility	6,387,048	4,933,395
	<u>8,937,048</u>	<u>6,933,395</u>
Unused at the reporting date		
Bank overdraft	3,000,000	2,000,000
Bank Bill Business Loan	450,000	-
Trade Guarantee and Standby Letters of Credit Facility	1,612,952	2,066,605
	<u>5,062,952</u>	<u>4,066,605</u>

On 16 September 2019 the Group negotiated new and improved banking facilities with the Westpac Banking Corporation. The new facility incorporates a \$8,000,000 Trade Guarantee and Standby Letter of Credit facility, a \$3,000,000 Bank Bill Business Loan current rate 2.68% and \$2,000,000 Bank overdraft facility at a current rate 3.49%.

On 23 April 2020 the Group negotiated with Westpac Banking Corporation a temporary 6 months increase working capital overdraft facility by \$1,000,000 temporarily increasing the Overdraft facility to \$3,000,000.

Due to the current challenging economic environment and in recognition of the strong relationship with Westpac, the Group proactively obtained agreement that testing requirement of the following covenants to be waived prior to the 30 June 2020:

- 12 month rolling Debt Service Cover ratio
- 12 month rolling Financial Leverage ratio

Other ratios tested were Equity ratio and bank guarantee ratio.

As well as the agreement to waiver the covenants, an increase to the Groups bank overdraft facility of \$1,000,000 for 6 months was also negotiated and approved.

Bank Bill Business loan is repayable over a five-year period with quarterly repayment instalments.

Trade Guarantee and Standby Letter of Credit facility is used by the group to issue performance bonds and bank guarantees which are disclosed as contingent liability.

Note 27. Current liabilities - lease liabilities

	Consolidated	
	2020	2019
	\$	\$
Lease liability	<u>861,870</u>	<u>-</u>

Refer to note 37 for further information on financial risk management.

The Environmental Group Limited
Notes to the financial statements
As at 30 June 2020

Note 28. Non-current liabilities - Financial liabilities

	Consolidated	
	2020	2019
	\$	\$
Bank Bill Business Loan	1,950,000	1,863,670

Note 29. Non-current liabilities - Deferred tax liabilities

	Consolidated	
	2020	2019
	\$	\$
Deferred tax liability comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Right of Use assets	645,113	-
Other	136,346	56,392
Deferred tax liability	<u>781,459</u>	<u>56,392</u>
Movements:		
Opening balance	56,392	20,020
Charged to profit or loss (note 12)	725,067	36,372
Closing balance	<u>781,459</u>	<u>56,392</u>

Note 30. Non-current liabilities - employee benefits

	Consolidated	
	2020	2019
	\$	\$
Long service leave	99,299	108,421

Note 31. Non-current liabilities - lease liabilities

	Consolidated	
	2020	2019
	\$	\$
Lease liability	<u>1,626,723</u>	<u>-</u>

Refer to note 37 for further information on financial risk management.

Accounting policy for lease liabilities

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

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Notes to the financial statements
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Note 31. Non-current liabilities - lease liabilities (continued)

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

Note 32. Equity - issued capital

	2020 Shares	2019 Shares	2020 \$	2019 \$
Ordinary shares - fully paid	<u>217,531,711</u>	<u>217,531,711</u>	<u>21,839,819</u>	<u>21,839,831</u>

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$
Balance	1 July 2018	215,931,711		21,759,831
Baltec East Asia Pty Ltd	17 October 2018	<u>1,600,000</u>	\$0.05	<u>80,000</u>
Balance	30 June 2019	217,531,711		21,839,831
Prior year adjustment		<u>-</u>	\$0.00	<u>(12)</u>
Balance	30 June 2020	<u>217,531,711</u>		<u>21,839,819</u>

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held.

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

Share buy-back

There is no current on-market share buy-back. The group has a substantial number of holdings that are unmarketable parcels. To reduce registry and administrative cost the Group intends to reduce the number of unmarketable parcel holders by sale of small holdings or minimum holding buy-back within the next 12 months.

Capital risk management

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

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

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

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

The Group is subject to certain financing covenants and meeting these is given priority in all capital risk management decisions. The Group's banker waived the testing of the two below listed financial covenants as at 30 June 2020.

- 12 month rolling Debt Service Cover ratio
- 12 month rolling Financial Leverage ratio

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Note 32. Equity - issued capital (continued)

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

Ordinary shares are classified as equity.

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

Note 33. Equity - retained earnings

	Consolidated	
	2020	2019
	\$	\$
Accumulated losses at the beginning of the financial year	(6,089,592)	(6,439,975)
Adjustment for reclassification	-	(298,138)
Adjustment for adoption of AASB 16	(82,399)	-
	<u>(6,171,991)</u>	<u>(6,738,113)</u>
Accumulated losses at the beginning of the financial year - restated	(6,171,991)	(6,738,113)
Profit/(Loss) after income tax (expense)/benefit for the year	(1,315,675)	778,080
Dividends paid (note 36)	(130,519)	(129,559)
	<u>(7,618,185)</u>	<u>(6,089,592)</u>

Note 34. Equity - reserves

	Consolidated	
	2020	2019
	\$	\$
General reserve	<u>149,204</u>	<u>238,109</u>

Reserves

There was a movement in reserves during the financial year relating to currency translation on a foreign subsidiary totalling a loss of \$88,905 (2019: loss - \$178,777).

Note 35. Equity - non-controlling interest

	Consolidated	
	2020	2019
	\$	\$
Issued capital	24,659	24,659
Reserves	(37,208)	(57,731)
Retained profits/(accumulated losses)	(75,195)	(63,480)
	<u>(87,744)</u>	<u>(96,552)</u>

The non-controlling interest has a 20% (2019: 20%) equity holding in PT Baltec Exhaust and Dan Inlet System Indonesia

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Note 36. Equity - dividends

Dividends

Dividends paid during the financial year were as follows:

	Consolidated	
	2020	2019
	\$	\$
Final dividend for year ended 30 June 2019 was 0.06 cents per share	130,519	129,599

There were no dividends declared for year ended 30 June 2020.

Franking credits

	Consolidated	
	2020	2019
	\$	\$
Franking credits available at the reporting date based on a tax rate of 27.5% (2019: 30%)	1,666,052	1,721,577
Franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date based on a tax rate of 27.5%	(55,936)	(55,525)
Franking credits available for subsequent financial years based on a tax rate of 27.5% (2019: 30%)	<u>1,610,116</u>	<u>1,666,052</u>

Note 37. Financial risk management

Financial risk management objectives

The Group's principal financial instruments comprise receivables, payables, cash and short term deposits, bank loans, and leases.

The Group manages its exposure to key financial risks, including interest rate and currency risk with the objective of supporting the delivery of the Group's financial targets whilst protecting future financial security.

The main financial risks that arise in the normal course of business for the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. Liquidity risk is monitored through the development of future rolling cash flow forecasts. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk.

The Board has continued the policy that no speculative trading in financial instruments be undertaken.

Details of the significant accounting policies and methods adopted, including criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of financial instruments are disclosed in note 2 to the financial statements.

Financial instruments

Set out below by category are the carrying amounts of all of the Group's financial instruments recognised in the financial statements. The carrying amounts approximate their fair value.

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Note 37. Financial risk management (continued)

	Consolidated	
	2020	2019
	\$	\$
Financial assets		
Cash and cash equivalents	763,961	171,135
Trade and other receivables	9,325,655	9,201,978
	<u>10,089,616</u>	<u>9,373,113</u>
Financial liabilities		
Trade and other payables	6,758,801	7,906,555
Bank Loan	2,550,000	1,988,670
	<u>9,308,801</u>	<u>9,895,225</u>

Foreign currency risk

The Group has transactional currency exposure arising from those sales and purchases which are denominated in United States dollars and Euros. From time to time the Group hold cash denominated in United States dollars and Euros. Currently the Group has no foreign exchange hedge programmes in place. Transaction exposures, where possible, are netted off across the Group to reduce volatility and provide a natural hedge.

The financial assets denominated in United States dollars and Euros at reporting date are as follows:

	2020 USD A\$	2020 EURO A\$	2019 USD A\$	2019 EURO A\$
Cash at bank and on hand	6,891	-	511,921	140,179
Trade and other receivables	3,528,741	1,640,688	2,149,642	816,866
Trade and other payables	2,181,627	69,086	2,567,989	314,676

At current exchange rates sourced from the Reserve Bank of Australia, and based on foreign denominated payables and receivables at reporting date, if the Australian dollar was 5% higher, the impact on before tax profit, with all other variables held constant, would be a decrease of \$139,315 (2019: decrease of \$35,045), directly impacting the equity in the Group. If the Australian dollar was 10% lower, the impact on before tax profit, with all other variables held constant, would be an increase of \$325,067 (2019: increase of \$81,771), directly impacting the equity in the Group.

The Environmental Group Limited
Notes to the financial statements
As at 30 June 2020

Note 37. Financial risk management (continued)

Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from interest bearing financial assets and liabilities that are used. Interest bearing assets are predominantly short term liquid assets, such as bank deposits and interest bearing current accounts.

The group's bank loans outstanding, totalling \$2,550,000 (2019: \$1,988,670), with an average interest rate of 2.68% (2019: 5.86%), are principal and interest payment loans. Monthly cash outlays of approximately \$5,695 (2019: \$9,711) per month are required to service the interest payments. The group's term deposits, totalling \$25,000 (2019: \$25,000) earn an interest rate of 1.1% (2019: 1.1%). At current interest rates and based on amounts at reporting date, over the course of a full year, a movement of 100 basis points in borrowing rates, considered reasonable in respective of current market conditions, with an accompanying change in deposit rates would have decrease on pre-tax profit for the Group of \$25,500 (2019: \$19,886), directly impacting the equity in the Group.

Credit risk

Credit risk arises from the financial assets of the Group which comprise cash and cash equivalents, trade and other receivables, term deposit and bank bills. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at reporting date is addressed in each applicable note.

The Group trade only with creditworthy third parties. The credit risk for cash and cash equivalents is considered negligible, since the counter parties are reputable banks with high quality external credit ratings. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The liquidity position of the Group is managed to ensure sufficient liquid funds are available to meet all financial commitments in a timely and cost-effective manner. The Group constantly reviews the liquid position including cash flow forecasts to determine the forecast liquidity position and maintain appropriate liquidity levels.

The remaining contractual maturities of the Group's financial liabilities are:

	Consolidated 2020 \$	Consolidated 2019 \$
6 months or less	8,687,564	6,476,612
6 - 12 months	1,129,554	587,040
1 - 5 years	4,195,664	3,885,746
	<u>14,012,782</u>	<u>10,949,398</u>

Financing arrangements

Unused borrowing facilities at the reporting date:

	Consolidated 2020 \$	Consolidated 2019 \$
Bank overdraft	3,000,000	2,000,000
Bank Bill Business Loan	450,000	-
Trade Guarantee and Standby Letters of Credit Facility	1,612,952	2,066,605
	<u>5,062,952</u>	<u>4,066,605</u>

The Environmental Group Limited
Notes to the financial statements
As at 30 June 2020

Note 37. Financial risk management (continued)

Remaining contractual maturities

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

	Weighted average interest rate %	Floating Interest Rate \$	Non-Interest Bearing \$	Remaining contractual maturities \$
Consolidated - 2020				
Non-derivatives				
Non-interest bearing				
Trade and other payables	-	-	6,758,801	6,758,801
Interest-bearing				
Lease liability	4.85%	2,488,593	-	2,488,593
Financial liabilities	2.68%	2,550,000	-	2,550,000
Total non-derivatives		<u>5,038,593</u>	<u>6,758,801</u>	<u>11,797,394</u>
Consolidated - 2019				
Non-derivatives				
Non-interest bearing				
Trade and other payables	-	-	7,906,555	7,906,555
Interest-bearing				
Financial liabilities	5.86%	1,988,670	-	1,988,670
Total non-derivatives		<u>1,988,670</u>	<u>7,906,555</u>	<u>9,895,225</u>

Note 38. Key management personnel disclosures

Directors

The following persons were Directors of The Environmental Group Limited during the financial year:

Ms Lynn Richardson
Mr Ellis Richardson
Mr Dean Dowie
Mr David Cartney (resigned 13 November 2019)

Other key management personnel

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

Mr Andrew Bush

The Environmental Group Limited
Notes to the financial statements
As at 30 June 2020

Note 38. Key management personnel disclosures (continued)

Compensation

The aggregate compensation made to Directors and other members of key management personnel of the Group is set out below:

	Consolidated	
	2020	2019
	\$	\$
Short-term employee benefits	677,733	617,173
Post-employment benefits	37,129	42,539
	714,862	659,712
	714,862	659,712

Options

No options were granted in the year ended 30 June 2020 (nil-2019).

Shareholdings of key management personnel

Ordinary shares held in The Environmental Group Limited by key management personnel are shown in below tables:

2020	Balance at start of year	Received during year on exercise of options	Other changes during the year	Balance at end of year
Directors and key management personnel				
Mr Ellis Richardson	100,503,500	-	-	100,503,500
Mr David Cartney *	1,300,000	-	200,000	1,500,000
Ms Lynn Richardson	3,571,429	-	-	3,571,429
Mr Dean Dowie	310,630	-	-	310,630
Mr Andrew Bush	831,166	-	-	831,166

* Mr David Cartney purchased 200,000 shares subsequent to his resignation as a director.

2019	Balance at start of year	Received during year on exercise of option	Other changes during year	Balance at end of year
Directors and key management personnel				
Mr Ellis Richardson	100,503,500	-	-	100,503,500
Mr David Cartney	1,300,000	-	-	1,300,000
Mr Lynn Richardson	3,571,429	-	-	3,571,429
Mr Dean Dowie	16,809	-	293,821	310,630
Mr Andrew Bush	831,166	-	-	831,166

Details relating to key management personnel are included in the Remuneration Report.

The Environmental Group Limited
Notes to the financial statements
As at 30 June 2020

Note 39. Remuneration of auditors

	Consolidated	
	2020	2019
	\$	\$
Audit services - RSM Australia Partners (2019: McIntosh Bishop)		
Audit or review of the financial statements	57,500	65,000
Review of the financial statements - McIntosh Bishop	22,000	-
	<u>79,500</u>	<u>65,000</u>

Note 40. Contingent liabilities

Standby Letter of Credit

The Groups bank has given guarantees to unrelated parties in respect of performance bonds and guarantees. No liability is expected to arise from these guarantees and accordingly no provision has been recognised in these financial statements. The total performance bonds and guarantees for the Group at 30 June 2020 are \$6,485,910 (2019: \$4,993,395).

Legal Proceedings

As noted in last year's Annual Report, the Company successfully defended a claim brought by a former Company employee commenced in May 2017. The Company is presently pursuing recovery of its costs of the proceeding, the amount of which has not yet been quantified by the Court.

Note 41. Related party transactions

Parent entity

The Environmental Group Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 44.

Key management personnel

Disclosures relating to key management personnel are set out in note 38 and the remuneration report included in the Directors' report.

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

There were no trade loans from or to related parties at the current and previous reporting date.

Note 42. Parent entity information

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

Statement of profit or loss

	Consolidated	
	2020	2019
	\$	\$
Financial performance		
Profit after income tax	<u>(1,556,047)</u>	<u>(1,630,273)</u>

The Environmental Group Limited
Notes to the financial statements
As at 30 June 2020

Note 42. Parent entity information (continued)

Statement of financial position

	2020 \$	2019 \$
Assets		
Current assets	7,967,314	11,784,683
Non-current assets	<u>3,114,373</u>	<u>1,367,029</u>
Total assets	<u><u>11,081,687</u></u>	<u><u>13,151,712</u></u>
	2020 \$	2019 \$
Liabilities		
Current liabilities	1,419,290	376,558
Non-current liabilities	<u>2,690,770</u>	<u>1,989,133</u>
Total liabilities	<u><u>4,110,060</u></u>	<u><u>2,365,691</u></u>
Net assets	6,971,628	10,786,021
	2020 \$	2019 \$
Equity		
Equity attributable to the ordinary equity holders of the company		
Contributed equity	21,789,816	21,789,816
Accumulated losses	<u>(14,818,188)</u>	<u>(11,003,795)</u>
Total equity	<u><u>6,971,628</u></u>	<u><u>10,786,021</u></u>

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity guaranteed lease obligations and bank guarantees for its subsidiaries totalling \$55,673

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2020 and 30 June 2019.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2020 and 30 June 2019.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 2.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in associates are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Note 43. Business combinations

2020
There were no additional amounts paid for either the Baltec East Asia or the RCR Energy Service acquisitions.

The Environmental Group Limited
Notes to the financial statements
As at 30 June 2020

Note 43. Business combinations (continued)

There were no business combinations for the period ending 30 June 2020.

2019

On 7 January 2019 EGL acquired assets of RCR Energy Service Pty Ltd for the cash consideration of \$3,000,000. The goodwill of \$3,956,878 represents the difference of the fair value assets acquired to consideration paid. The values identified in relation to the acquisition of RCR Energy Service Pty Ltd are final as at 30 June 2019. Revenue during the period was \$7,915,341. Contribution before corporate overheads and acquisition costs from ordinary activities before interest and tax during the period was \$1,010,842.

RCR Energy Service is a leading service provider for heat transfer plant and equipment and operates from facilities around Australia. It provides 24/7 customer service including mechanical, electrical and automation support. The company was renamed to Tomlinson Energy Service Pty Ltd as the business has a long history through its heritage as Tomlinson Boilers.

The acquisition is part of EGL's strategy to establish a footprint in each Australian state and build an environmental business to improve air quality, reduce carbon emissions, enhance waste to energy production and lift water quality. In particular, Tomlinson Energy Service Pty Ltd is an essential link in our strategy to build a Bio/waste to energy platform as part of the technology acquired enables a combination of gasses and waste energy sources to be used to produce electrical power or steam. In addition, the acquisition provides an opportunity to leverage EGL's existing suite of products to Tomlinson Energy Service Pty Ltd customers and to develop increased engineering capabilities and knowhow.

Details of the acquisition are as follows:

	Fair value \$
Inventories	1,100,561
Plant and equipment	227,477
Employee benefits	(1,483,739)
Deferred revenue	<u>(801,177)</u>
Net liabilities acquired	(956,878)
Goodwill	<u>3,956,878</u>
Acquisition-date fair value of the total consideration transferred	<u><u>3,000,000</u></u>
Representing:	
Cash paid or payable to vendor	<u><u>3,000,000</u></u>
Acquisition costs expensed to profit or loss	<u><u>309,022</u></u>

The Environmental Group Limited
Notes to the financial statements
As at 30 June 2020

Note 43. Business combinations (continued)

On 9 October 2018 EGL purchased Baltec East Asia Pty Ltd (trading as Baltec Australia) which was a strategic purchase. It was successfully completed at the agreed purchase value of \$240,000. This was secured by 33.3% cash, 33.3% by an EGL share issue and 33.4% earn out. This amount excluded working capital of \$7,786 which was also paid on 9 October 2018.

Teams from both EGL and Baltec Australia have already been working closely to provide an enhanced service offering to our Electrostatic Precipitator (ESP) customers along with augmented business development activities in both Australia and the broader Asia Pacific region.

EGL's strong balance sheet and net debt position has been developed to facilitate EGL's growth through strategic alliances and acquisitions with the board actively seeking additional investment opportunities.

The goodwill of \$155,816 represents the difference of the fair value assets acquired to consideration paid. The values identified in relation to the acquisition of Baltec East Asia Pty Ltd are final as at 30 June 2019. Revenue during the period was \$819,786. Contribution before corporate overheads from ordinary activities before interest and tax during the period was \$19,621.

Details of the acquisition are as follows:

	Fair value \$
Prepayments	7,775
Plant and equipment	9,105
Employee benefits	<u>(4,908)</u>
Net assets acquired	11,972
Goodwill	<u>155,816</u>
Acquisition-date fair value of the total consideration transferred	<u><u>167,788</u></u>
Representing:	
Cash paid or payable to vendor	80,000
The Environmental Group Limited shares issued to vendor	80,000
Additional payment for net assets	<u>7,786</u>
	<u><u>167,786</u></u>
Acquisition costs expensed to profit or loss	<u><u>4,336</u></u>

The Environmental Group Limited
Notes to the financial statements
As at 30 June 2020

Note 44. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2020 %	2019 %
The Environmental Group Share Plans Pty Limited	Australia	100.00%	100.00%
Environmental Group (Operations) Pty Limited (formerly Environmental Systems Pty Limited)	Australia	100.00%	100.00%
Total Air Pollution Control Pty Limited	Australia	100.00%	100.00%
Mine Assist Mechanical Pty Limited (formerly Moranbah Mechanical Services Pty Limited)	Australia	100.00%	100.00%
Bridge Management Services Pty Limited (formerly Bowen Basin Pipe Services Pty Limited)	Australia	100.00%	100.00%
Baltec IES Pty Limited	Australia	100.00%	100.00%
PT. Baltec Exhaust and Dan Inlet System Indonesia	Indonesia	80.00%	80.00%
EGL Water Pty Limited	Australia	100.00%	100.00%
Baltec Australia trading as Total Air Pollution Control Pty Limited	Australia	100.00%	100.00%
Tomlinson Energy Service Pty Limited	Australia	100.00%	100.00%

Note 45. Events after the reporting period

No matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

The impact of the Coronavirus (COVID-19) pandemic is ongoing and while it has not significantly impacted the group up to 30 June 2020, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

The Environmental Group Limited
Notes to the financial statements
As at 30 June 2020

Note 46. Reconciliation of profit/(loss) after income tax to net cash from/(used in) operating activities

	Consolidated	
	2020	2019
	\$	\$
Profit/(Loss) after income tax (expense)/benefit for the year	(1,244,255)	735,228
Adjustments for:		
Depreciation and amortisation	1,290,771	262,692
Foreign exchange differences	153,862	(242,139)
Write-off of tangible and intangible assets	9,025	-
Change in operating assets and liabilities:		
Increase in trade and other receivables	(277,553)	(2,386,492)
Increase in inventories	(176,908)	(1,053,126)
Increase in deferred tax assets	(1,414,761)	(628,490)
Increase in prepayments	(3,679)	(88,364)
(Decrease)/increase in trade and other payables	2,026,357	1,778,073
Increase in deferred tax liabilities	725,067	36,372
Increase in other provisions	165,769	1,392,475
Opening retain earnings adjustment related to adoption of AASB 16	31,283	-
Other - OCI allocation to operating accounts	(145,110)	-
Net cash from/(used in) operating activities	<u>1,139,868</u>	<u>(193,771)</u>

Note 47. Earnings per share

	Consolidated	
	2020	2019
	\$	\$
Profit/(Loss) after income tax	(1,244,255)	735,228
Non-controlling interest	(71,420)	42,852
Profit/(Loss) after income tax attributable to the owners of The Environmental Group Limited	<u>(1,315,675)</u>	<u>778,080</u>
	Cents	Cents
Basic earnings per share	(0.60)	0.36
Diluted earnings per share	(0.60)	0.36
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>217,531,711</u>	<u>217,058,286</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>217,531,711</u>	<u>217,058,286</u>

The Environmental Group Limited
Directors' declaration
As at 30 June 2020

In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

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

On behalf of the Directors



Ms Lynn Richardson
Chairman

28 August 2020

RSM Australia Partners

Level 21, 55 Collins Street Melbourne VIC 3000
PO Box 248 Collins Street West VIC 8007

T +61(0) 3 9286 8000

F +61(0) 3 9286 8199

www.rsm.com.au

INDEPENDENT AUDITOR'S REPORT To the Members of The Environmental Group Limited

Opinion

We have audited the financial report of The Environmental Group Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- (i) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Opinion

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

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

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

Key Audit Matters

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

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed this matter
Impairment of Goodwill Refer to Note 20 in the financial statements	
<p>At 30 June 2020, The Group had goodwill with a carrying value of \$13,292,821, which represents approximately 42% of the Group's total assets.</p> <p>As required under AASB 136, management have tested goodwill for impairment. As goodwill does not generate cashflows that are largely independent from other assets, its recoverable amount was determined by calculating the recoverable amount of the cash generating unit ("CGU") to which it belongs. This recoverable amount was then compared to the CGU's carrying amount. In this instance, the recoverable amount was determined to be its value in use.</p> <p>We determined the impairment review of goodwill to be a Key Audit Matter because of the materiality of the Goodwill balance, and because of the significant management judgments and assumptions used to determine the value in use of the CGU which contains it.</p> <p>Namely, the calculation of the recoverable amount of the CGU involves judgements about the future underlying cashflows of the CGU, estimated growth rates for the CGU for the next 5 years as well as in perpetuity, and judgments of an appropriate discount rate to apply to the estimated cashflows.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> • Assessing the reasonableness of management's determination that the goodwill should be allocated to three CGUs based on the nature of the Group's business; • Assessing the valuation methodology used to determine the recoverable amount; • Challenging the reasonableness of key assumptions, including the following: <ul style="list-style-type: none"> ○ Cash flow projections; ○ Future growth rates; ○ Discount rates; ○ Terminal value; • Performing sensitivity analysis over the key assumptions used in the models; • Checking the mathematical accuracy of the cashflow model and reconciling input data to supporting evidence, such as approved budgets, and considering the reasonableness of the evidence (such as budgets); and • Assessing the appropriateness and accuracy of the disclosures included in the financial report.
Revenue recognition Refer to Note 5 in the financial statements	
<p>Revenue for the year ended 30 June 2020 was \$37,425,748. The primary revenue streams are:</p> <ul style="list-style-type: none"> • Engineering and Fabrication Solutions • Provision of services • Sales of parts <p>Revenue is considered to be a Key Audit Matter because of:</p> <ul style="list-style-type: none"> • the identification of performance obligations, • the method of recognition of revenue (over time or at a point in time); and • revenue is generated from varying income sources, with different recognition patterns requiring significant management estimates. 	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> • Assessing whether the Group's revenue recognition policies are in compliance with AASB 15 Revenue with Contracts with Customers; • Evaluating the operating effectiveness of management's controls related to revenue recognition; • For a sample of revenue transactions, substantiating transactions by agreeing to supporting documentation, including customer contracts and ensuring accounting in line with revenue recognition policy; • Assessing revenue transactions before and after year-end to ensure that revenue is recognised in the correct period; and • Performing substantive analytical review procedures on the different revenue streams.

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed this matter
Adoption of AASB 16 Leases Refer to Note 2 in the financial statements	
<p>From 1 July 2019 AASB 117 was replaced by AASB 16. This changes the recognition, measurement, presentation and disclosure of leases. EGL adopted AASB 16 Leases ("AASB 16") on 1 July 2019, using a modified retrospective approach, which has resulted in changes to accounting policies. This has resulted in recognition of right-of-use assets of \$2.345 million and lease liability of \$2.488 million as at 30 June 2020.</p> <p>We determined the adoption of this standard to be a key audit matter because of the material nature of the leases on the financial report and the significant judgements applied and the estimates made by management, including the lease term and the incremental borrowing rates.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> • Understanding transitional decisions and practical expedients selected on adoption by the Group; • Obtaining the AASB 16 leasing model from management; • On a sample basis, verify key inputs, including the inception date, commencement date, and initial contractual expense to underlying lease documentation; • Critically evaluating the key assumptions made, including the incremental borrowing rate used for calculation of the lease liability and whether option to extend leases was made; • Verifying the mathematical accuracy of the underlying model by recalculating the resulting lease liability and right of use asset initially recognised, and the interest and depreciation charges recognised in the statement of profit and loss in the period; and • Assessing the appropriateness of disclosures in the financial report.

Other Information

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

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

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

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

Responsibilities of the Directors for the Financial Report

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

Responsibilities of the Directors for the Financial Report (Continued)

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

Report on the Remuneration Report

Opinion on the Remuneration Report

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

In our opinion, the Remuneration Report of The Environmental Group Limited, for the year ended 30 June 2020, complies with section 300A of the Corporations Act 2001.

Responsibilities

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



RSM AUSTRALIA PARTNERS



M PARAMESWARAN

Partner

Dated: 28 August 2020
Melbourne, Victoria

The Environmental Group Limited
Shareholder information
As at 30 June 2020

The shareholder information set out below was applicable as at 17 August 2020.

Distribution of equitable securities

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

	Number of holders of ordinary shares	Number of holders of options over shares
1 to 1,000	1,270	-
1,001 to 5,000	296	-
5,001 to 10,000	110	-
10,001 to 100,000	226	-
100,001 and over	88	-
	<u>1,990</u>	<u>-</u>
Holding less than a marketable parcel	<u>1,750</u>	<u>-</u>

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities as at 17 August 2020 are listed below:

	Number held	Ordinary shares % of total shares issued
Mrs Denise Richardson	45,293,334	20.82
Mr Ellis Richardson	45,293,334	20.82
Allabah Pty Ltd	23,999,259	11.03
Baltec Inlet & Exhaust Systems	9,916,832	4.56
Ace Property Holdings Pty Ltd	9,000,000	4.14
Carrier International Pty Ltd	6,300,955	2.90
Build Assist NSW Pty Ltd	5,750,918	2.64
CJ & RS Kelly Pty Ltd	5,372,090	2.47
Doldory Pty Ltd	5,022,182	2.31
Cannington Corporation Pty Ltd	4,906,390	2.26
Richmarsh Investments Pty Ltd	3,571,429	1.64
Chucky Pty Ltd	2,794,886	1.28
TAPC (Holdings) Pty Ltd	2,339,506	1.08
Mr John Ditria	2,250,567	1.03
Red Beetroot Pty Ltd	2,000,000	0.92
Kailva Pty Ltd	2,000,000	0.92
Satug Investments PTY Ltd	1,966,923	0.90
Baltec East Asia Pty Ltd	1,600,000	0.74
Maxlek Pty Ltd	1,550,000	0.71
Ms Leigh Dayton	1,500,000	0.69
	<u>182,428,605</u>	<u>83.86</u>

The Environmental Group Limited
Shareholder information
As at 30 June 2020

Options over ordinary shares

There are no options over ordinary shares.

Unquoted equity securities

There are no unquoted equity securities.

As at 17
August 2020 %

Substantial Shareholders

Substantial shareholders of ordinary shares in the company are set out below:

Mrs Denise Richardson	45,293,334	20.82%
Mr Ellis Richardson	45,293,334	20.82%
Allabah Pty Ltd	23,999,259	11.03%

Voting rights

The voting rights attached to ordinary shares are set out below options do not carry a right to vote.

Ordinary shares

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

There are no other classes of equity securities.