



Mitchell
SERVICES



ANNUAL REPORT

2019

Mitchell Services has delivered **record revenue** and **EBITDA growth** as demand for drilling services continued to increase, driving increasing drill rig utilisation.



MITCHELL SERVICES LTD
ACN 149 206 333
ANNUAL REPORT
30 JUNE 2019

Chairman's Report	2
Chief Executive Officer's Report	4
Directors' Report	8
Corporate Governance Statement	21
Auditor's Independence Declaration	27
Consolidated Statement of Profit or Loss and Other Comprehensive Income	28
Consolidated Statement of Financial Position	29
Consolidated Statement of Changes in Equity	30
Consolidated Statement of Cash Flows	31
Notes to the Consolidated Financial Statements	32
Directors' Declaration	62
Independent Auditor's Report	63
Additional Australian Stock Exchange Information	67
Corporate Directory	IBC

CHAIRMAN'S REPORT

For the year ended 30 June 2019



Nathan Andrew Mitchell
Executive Chairman

Dear Shareholders,

The year ending 30 June 2019 was financially transformational for Mitchell Services with the business generating record revenues and earnings following a period of continued utilisation, productivity and pricing improvements.

The growth within the organisation over the past 12 months has been truly remarkable and was driven by a number of new contract wins and material contract extensions including:

- A major contract extension and scope increase in relation to our Underground-In-Seam drilling contract with Anglo American at Grosvenor and Moranbah North,
- A material expansion into the Western Australia market with the award of a major, five-year contract with KCGM, and
- An extension and scope increase of the BHP Olympic Dam contract with Mitchell Services providing up to eight rigs.

This growth has had an extremely positive impact on financial results with the business recording FY19 revenue, EBITDA and net profit after tax of \$120.2m, \$24.1m and \$17.4m respectively, all representing significant increases on FY18 numbers.

In the 2018 Chairman's report, I expressed my view that we were in early stages of a growth phase within the mining services cycle. This remains my view 12 months later.

We are seeing a continual increase in demand for brownfield drilling services relating to most commodities and spanning across most geographies. We are also seeing early signs of more favourable contract terms and conditions including pricing. By contrast, the demand for greenfield drilling services remains relatively subdued – although interest levels have certainly increased in this sector recently, perhaps demonstrating early signs of an improvement.

We will continue to operate within a framework of prudent capital management aimed at **maximising shareholder value and returns.**

In 2018, I wrote (having experienced several industry cycles before) that the growth in the current cycle appeared to be more measured, deliberate and steady. Twelve months later, this is certainly what we are continuing to see. The barriers to entry for new competitors remain high (these include the requirement to have proven track records with regards to safety and operational standards and procedures and the fact that funding for new entrants remains limited). In general, market players have learnt from mistakes made in the past and are behaving in a rational manner amid geopolitical uncertainty. This bodes well for Mitchell Services.

I am once again extremely proud of the various safety and training initiatives that have been implemented in 2019 and of the excellent culture and safety performance that these initiatives have produced. We are a people business and the success of our culture and brand (especially now, in an improving market) is linked to our ability to train, retain and further develop our own drillers. I am delighted that our safety initiatives were recognised by the broader industry through the following awards:

- Winner 2018 Australian Mining Prospects Awards (Safety Advocate Award)
- Finalist 2018 Australian Mining Prospects Awards (Excellence in Mine Safety, OH&S)
- Finalist 2018 Safe Work and Return to Work QLD (Most Significant Improvement to Work Health and Safety Performance and Best Demonstrated Leadership in Work Health and Safety).

The Board's near-term focus at the start of the 2019 financial year was to utilise anticipated surplus cash to reduce debt and then to consider additional capital management options. I am pleased to report that the business generated approximately \$18.2m of cash flow from operating activities, reduced gross debt from \$19.6m at 30 June 2018 to \$9.8m, initiated an on-market share-buyback in March and paid a special dividend of approximately \$1.8m in July 2019.

We will continue to operate within a framework of prudent capital management aimed at maximising shareholder value and returns.

In closing, I would once again like to thank all shareholders for your continued patience and support. I would also like to thank every Mitchell Services employee for their ongoing dedication and commitment, every Mitchell Services supplier for their outstanding service and every Mitchell Services customer for their valuable and much appreciated support.

Our brand is built on the foundations of our people and their success and the mandate that they have to be sure, be safe and continually strive to find a better way. Our brand and culture date back to 1969 and this year celebrated their 50th anniversary.

50 years and spinning.

On behalf of the Board, thank you.

A handwritten signature in dark ink, reading 'Nath Mitchell'.

Nathan Andrew Mitchell
Executive Chairman

CHIEF EXECUTIVE OFFICER'S REPORT

For the year ended 30 June 2019



Andrew Michael Elf
Chief Executive Officer

Dear Shareholders,

I am delighted to provide the following CEO report for the financial year ended 30 June 2019.

As utilisation, productivity, pricing levels and general market conditions continue to improve, Mitchell Services has greatly benefited from past initiatives and strategic acquisitions and delivered significant improvements across operational and financial metrics when comparing FY19 to FY18.

The Group recorded revenue in FY19 of \$120.2m representing an increase of approximately 65% from the FY18 figure of \$72.7m. This significant revenue increase was primarily driven by steep increases in:

1. utilisation with the average number of operating rigs increasing from 37.1 in FY18 to 48.9 in FY19
2. productivity with the average number of shifts per operating rig increasing from 417 in FY18 (for a combined 15,487 shifts) to 455 in FY19 (for a combined 22,266 shifts).

As always, management remains mindful of the diversity of the Group's revenue streams in terms of drilling type (surface drilling vs underground drilling) and commodity (energy vs minerals). It is pleasing to note that of the total \$120m revenue in FY19, \$76m was from coal sites and \$44m was from minerals sites whilst \$53m was from underground drilling and \$67m was from surface drilling, making Mitchell Services one of the most diversified drilling companies in Australia.

The quality of our revenue streams is just as important as their diversity. Quality is defined by our clients, contract term and the stages within the mine lifecycle to which our services relate. A significant majority of Group revenue continues to come from multi-year, multi-rig contracts predominantly on established long life Tier 1 mine sites. These contracts are mostly linked to the production critical resource definition and development

Utilisation, productivity and pricing continue to improve.

FY19 has seen the operating leverage of the business begin to play out.

Everything we do is underpinned by the fact that we are a people business.

stages of the mine lifecycle, as opposed to campaign style greenfield exploration drilling.

FY19 has seen the benefits of the operating leverage within the business begin to play out, with the \$47.5m increase in revenue translating into a \$17.8m increase in Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA) from \$6.3m in FY18 to \$24.1m in FY19.

The Group recorded Earnings before Interest and Tax (EBIT) of \$13.9m in FY19 representing a \$15.3m increase from the FY18 EBIT loss of \$1.4m.

The Group recorded strong operating cashflows as a result of the significant improvement in EBITDA. The Group's cash flow from operating activities was \$18.2m, representing a \$19.5m improvement from FY18 and an FY19 cash conversion ratio of approximately 76%.

Strong profitability and cash generation has allowed the Group to significantly reduce debt which has led to a stronger, more flexible 30 June 2019 balance sheet. In December 2018 the Group repaid \$8.5m in loans that were provided in 2015 by major shareholders Washington H. Soul Pattinson and Company Limited and Mitchell Family Investments (QLD) Pty Ltd. These loans were repaid in full approximately 18 months earlier than the expiry date of July 2020 with no fees or penalties associated with early repayment. Gross debt at 30 June 2019 (of approx. \$9.8m) is comprised entirely of traditional equipment finance facilities with major commercial lenders and represents a reduction of approximately 50% when compared to the gross debt figure of \$19.6m at 30 June 2018.

Everything we do is underpinned by the fact that we are a people business and our industry-recognised safety and risk management systems are based on this simple fact. We implemented numerous safety initiatives during the past 12 months that were based on this principle. These included "safety differently,

seeing our people as a solution rather than a problem" and a continuation of our hugely successful "Operation Home Stretch".

I am extremely proud of our safety culture and FY19 performance and would like to acknowledge the efforts of all of our people in delivering significant operating, financial and safety improvements over the course of the year.

I would like to thank the Board for their ongoing support and guidance. A special thanks too to the many outstanding members of our team that continually go above and beyond to deliver outstanding performance across the business and value for our shareholders.

Andrew Michael Elf
Chief Executive Officer

CURRENT BUSINESS SUMMARY

**VISION: TO BE AUSTRALIA'S LEADING
PROVIDER OF MINING SERVICES TO THE
GLOBAL EXPLORATION, MINING AND
ENERGY INDUSTRIES**

54% net debt
reduction
provides flexibility

Revenue for
2018/19 full year
\$120M up 65%

**Zero Lost Time
Injuries** in FY19

400+
experienced
employees

Declaration of
fully franked
special dividend
in FY19

\$24.1M EBITDA
in 2019 is **3.8 times**
2018 EBITDA

DIRECTORS' REPORT

For the year ended 30 June 2019

The Directors of Mitchell Services Limited submit herewith the financial report of Mitchell Services Limited (**Company**) and its subsidiaries (**Group**) for the year ended 30 June 2019. In order to comply with the provisions of the *Corporations Act 2001*, the Directors' report as follows.

DIRECTORS

The names and particulars of the Directors of the Company during or since the end of the financial year are:

Nathan Andrew Mitchell **(Executive Chairman)**

Mr Mitchell was appointed to the Board on 29 November 2013 and appointed as Executive Chairman on 19 March 2014.

Mr Mitchell has been involved in the drilling industry for virtually his entire life. With a career spanning over 30 years, he has a proven track record as an industry leader in technical development and business growth.

Mr Mitchell is currently Executive Chairman of Mitchell Group including Energy and Equipment. Previously, as CEO of Mitchell Drilling Contractors, Mr Mitchell led the Company through a period of rapid local growth and directed an international expansion into India, China, Indonesia, the United States and southern Africa. Other directorships include Mitchell Drilling International Pty Ltd and Sub 161 Pty Ltd. Mr Mitchell also previously served on the board of Tlou Energy Limited (ASX:TOU) from June 2009 to February 2016.

At the date of this report, Mr Mitchell has relevant interests in 354,108,575 shares.

Peter Richard Miller **(Non-Executive Director)**

Mr Miller was appointed as Director on 8 February 2011.

Mr Miller has been involved in all aspects of the drilling industry for the past 30 years and founded Drill Torque in 1992. His experience encompasses working with all types of drilling rigs, building rigs and managing drilling companies. Having worked in most exploration areas in Australia he is intimately familiar with drilling conditions, equipment requirements and pricing structures to maximise fleet productivity. Mr Miller is widely known and well regarded in the industry.

At the date of this report, Mr Miller has relevant interests in 24,005,045 shares.

Robert Barry Douglas BCom, LLB **(Non-Executive Director)**

Mr Douglas was appointed as Non-Executive Director on 29 November 2013. Mr Douglas has over 20 years of experience in finance and investment banking and is currently an Executive Director of Morgans Financial.

Mr Douglas has experience in all aspects of corporate advisory and equity capital raising for listed public companies and companies seeking to list, including offer structure, prospectus preparation, due diligence, accounts and forecasting, risk management, sales and marketing, logistics and legal requirements. During his career, Mr Douglas has worked extensively with energy and resource companies. Mr Douglas has served on both the Audit and Risk Committee and the Remuneration and Nomination Committee since 20 March 2014 and was Chairman of both Committees between 21 November 2014 and 20 October 2015.

At the date of this report, Mr Douglas has relevant interests in 2,210,537 shares.

Neal Macrossan O'Connor LLB, GAICD **(Non-Executive Director)**

Mr O'Connor was appointed as Non-Executive Director on 21 October 2015 and is also Chairman of the Audit and Risk and Remuneration and Nomination Committees.

Mr O'Connor was formerly General Counsel and Company Secretary and an Executive Committee member of the global Xstrata Copper. He has extensive experience in the resource industry and brings an added focus on Corporate Governance and Risk Management to the Board.

Mr O'Connor currently serves on the Board of Stanmore Coal Limited (ASX: SMR).

At the date of this report, Mr O'Connor has relevant interests in 1,168,875 shares.

Grant Eric Moyle

Mr Moyle was appointed as Alternate Director for Mr Nathan Mitchell on 30 May 2014.

Mr Moyle is the Executive Director of the Mitchell Group in Brisbane. He brings to the Group his management and board experience in International Mining Services, Governance and Strategic Business Growth.

At the date of this report, Mr Moyle has relevant interests in 3,065,286 shares.

CHIEF EXECUTIVE OFFICER

Andrew Michael Elf BCom, FCPA, MBA, GAICD

Andrew was appointed as Chief Executive Officer on 20 March 2014.

Andrew has over 20 years finance, commercial and operational experience working in various senior roles both in Australia and overseas and was a Financial Director in Indonesia for a top 100 ASX listed company before transitioning into the drilling industry in early 2004. Andrew held several senior roles with Boart Longyear before joining Mitchell Group in March 2010, where he spearheaded the growth of the African business.

Andrew has extensive experience in managing drilling companies in various regions around the world which have worked for global Tier 1 mining and energy houses.

CHIEF FINANCIAL OFFICER & COMPANY SECRETARY

Gregory Michael Switala BCom (Hons), CA

Gregory Michael Switala was appointed to the position of Chief Financial Officer and Company Secretary on 1 December 2014.

Greg joined Mitchell Services in 2014 and has led the finance team through a period of substantial growth. Greg has over 10 years' experience in audit and commercial finance roles.

PRINCIPAL ACTIVITIES

The Group provides exploration and mine site drilling services to the exploration, mining, and energy industries, primarily in Australia and is currently headquartered in Seventeen Mile Rocks, Queensland.

The Group specialises in various segments of the drilling market and has a history of innovation in the drilling industry. The Group's offerings include coal exploration, mineral exploration, mine services, large diameter, coal seam gas, directional drilling services, coal mine gas drainage and wireline services.

There were no significant changes in the Group's nature of activities during the year.

CHANGES IN STATE OF AFFAIRS

There was no significant change in the state of affairs of the Group during the financial year.

SUBSEQUENT EVENTS

There has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

LIKELY DEVELOPMENTS

The Group will continue to pursue its principal activities during the next financial year.

ENVIRONMENTAL REGULATIONS

The Group's operations are not subject to any particular and significant environmental regulation under a law of the Commonwealth or a State or Territory. However, the Group does provide services to entities that are licensed or otherwise subject to conditions for the purposes of environmental legislation or regulation. In these instances, the Group undertakes its compliance duties in accordance with the contractor regime implemented by the licensed or regulated entity.

REVIEW OF OPERATIONS

Operational

Rig utilisation and productivity increased significantly in FY19 compared to FY18 as general market conditions continued to improve. These improvements have led to a material increase in rig utilisation and number of shifts as the charts on page 10 demonstrate. The steep increase in operating rigs and shifts worked was driven by continued improvements in general market conditions resulting in increased utilisation and productivity from existing client contracts. The increase was also driven from the Group's ability to secure new, multi-year, multi-rig contracts with major resource companies.

DIRECTORS' REPORT

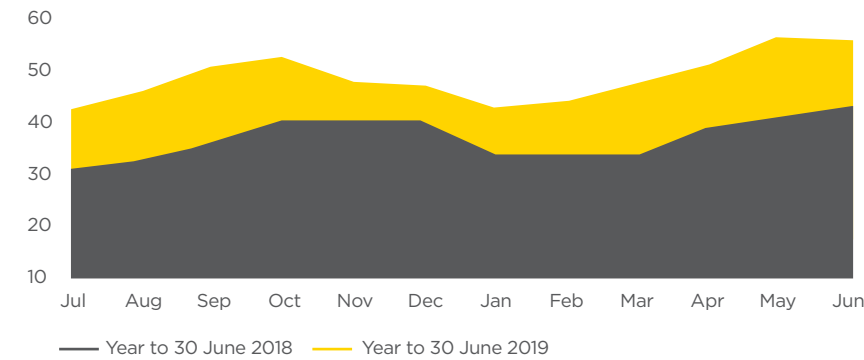
For the year ended 30 June 2019

FY19 highlights in terms of major new contract awards or significant extensions to existing contracts included:

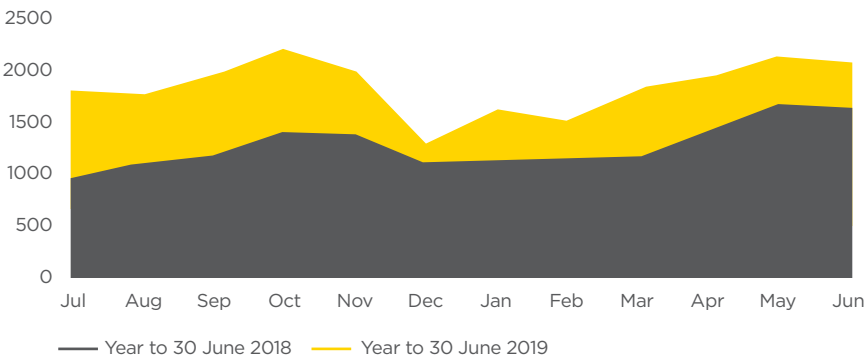
- A major contract extension and scope increase in relation to the Group's Underground-In-Seam (UIS) drilling contract with Anglo American which will see the Group provide up to six UIS rigs at Anglo American sites, Grosvenor and Moranbah North until 31 December 2021.
- A material expansion into the Western Australia market with the award of a five-year contract with Kalgoorlie Consolidated Gold Mines Pty Ltd (KCGM) which is a joint venture between major gold miners, Newmont Australia and Barrick Gold. The Group initially deployed two underground rigs to service the contract (which ends in 2024) with further opportunities to increase rig count pending performance and site requirements.
- The extension and scope increase of the BHP Olympic Dam contract which saw the Group increasing its rig count at Olympic Dam to eight rigs and the contract extending by a further year.

The continual increase in both operating rig count and number of shifts has driven a significant increase in revenue, with a 200% increase since FY17.

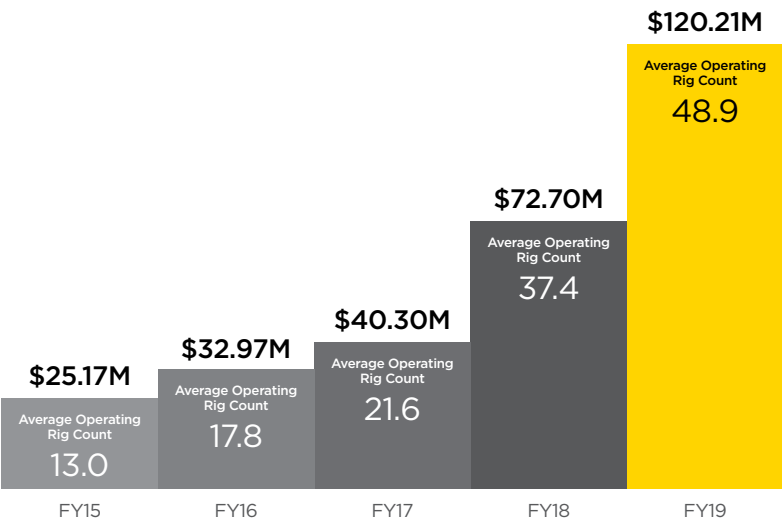
Monthly Number of Rigs Operating (over the past 24 months)



Monthly Number of Shifts Worked (over the past 24 months)



Annual Average Operating Rig Count vs Revenue

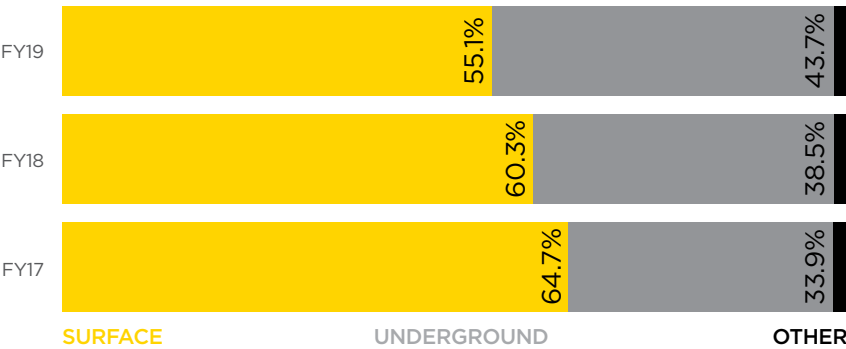


As utilisation, productivity, pricing levels and general market conditions continue to improve, the Group has recorded significant improvements across most operational and financial metrics when comparing FY19 to FY18 as the table illustrates (right).

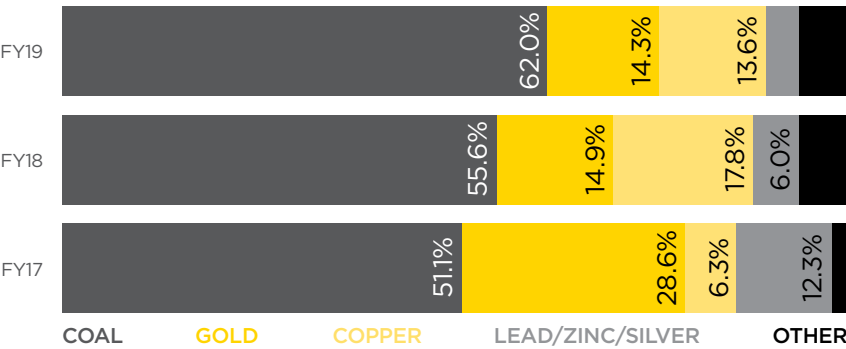
A summary of the diversification that existed within the Group's revenue base over the past two financial years is shown in the charts (below right). The Board and management remain mindful of revenue diversity by commodity and drilling type. As part of this ongoing initiative the Group announced its entry into the drill and blast production drilling market post 30 June 2019 with the award of a new contract with mining services provider SMS Innovative Mining Pty Ltd. Under the three-rig contract, which is worth approximately \$33 million in revenue over its five-year tenure, the Group will provide drill and blast services at the Kirkalocka Gold Project in the mid-west region of Western Australia. The multi-year, multi-rig contract award further strengthens the quality of our revenue base and will result in the Group playing a direct role in the production of the mine. This is a service offering that the Group is strategically focused on growing and the award of this new contract provides a solid platform to do so. The new contract also expands the Group's footprint within Western Australia, adding both service (drilling type) and geographical diversification to the Group's revenue base.

	FY19	FY18	MOVEMENT \$	MOVEMENT %
Average operating rigs	48.9	37.4	11.5	30.74%
Number of shifts	22,266	15,755	6,511	41.33%
Revenue (\$'000s)	120,205	72,700	47,505	65.34%
Annual revenue per rig	2,458	1,943	511	26.30%
EBITDA (\$'000s)	24,112	6,254	17,858	281.15%
EBITDA (%)	20.06	8.60	11.45	133.14%
EBIT (\$'000s)	13,894	(1,361)	15,255	1,120.87%
EBIT (%)	11.55	(1.87)	13.45	717.65%
Cash flow from operating activities (\$'000s)	18,227	(1,274)	19,501	1,530.69%

FY19 Revenue by Drilling Type



FY19 Revenue by Commodity



DIRECTORS' REPORT

For the year ended 30 June 2019

SAFETY

Finishing each day without harm is a core Mitchell Services value and the Group is committed to the safety of its most important asset – its people. The Group is particularly focused (amid improving market conditions) on training to attract, retain and further develop its drillers and support crews to ensure that service levels and the quality of the Mitchell brand remain high.

The Group's safety culture was recognised during the financial year ending 30 June 2019 with the following major accolades:

- Winner 2018 Australian Mining Prospects Awards (Safety Advocate Award)
- Finalist 2018 Australian Mining Prospects Awards (Excellence in Mine Safety, OH&S)
- Finalist 2018 Safe Work and Return to Work QLD (Most Significant Improvement to Work Health and Safety Performance and Best Demonstrated Leadership in Work Health and Safety).

FINANCIAL AND CAPITAL MANAGEMENT

FY19 was financially transformational for the Group.

Revenue from customer contracts increased from \$72.7m in FY18 to \$120.2m in FY19 following increases in utilisation, productivity and pricing amid improving general market conditions. This \$47.5m increase in revenue has seen the benefits of operating leverage within the business begin to play out and has led to a 281% increase in the Group's EBITDA, from \$6.25m in FY18 to \$24.11m in FY19, representing an increase of \$17.86m.

Given the relatively stable nature of the Group's combined depreciation, amortisation and interest expenses over FY18 and FY19, approximately 89% of this \$17.86m year-on-year EBITDA increase has flowed down to the net profit before tax (NPBT) line with NPBT increasing from (\$3.05m) in FY18 to \$12.83m in FY19, representing an increase of \$15.88m.

After adding a \$4.54m tax credit to the reported NPBT (due mainly to the recognition of a deferred tax asset pertaining to historical tax losses not previously recognised), the Group recorded an FY19 net profit after tax of \$17.37m, representing a \$19.71m improvement compared to the FY18 loss of \$2.34m.

The Group recorded strong operating cashflows as a result of the significant improvement in EBITDA. The Group's cash flow from operating activities was \$18.23m, representing a \$19.53m improvement from FY18 and an FY19 cash conversion ratio of approximately 76%.

The strong profitability and cash generation has allowed the Group to significantly reduce debt which has led to a stronger, more flexible 30 June 2019 balance sheet. In December 2018 the Group repaid \$8.50m in loans that were provided in 2015 by major shareholders Washington H. Soul Pattinson and Company Limited and Mitchell Family Investments (QLD) Pty Ltd. These loans were repaid in full approximately 18 months earlier than the expiry date of July 2020 with no fees or penalties associated with early repayment. Gross debt at 30 June 2019 (of approx. \$9.79m) is comprised entirely of traditional equipment finance facilities with major commercial lenders and represents a reduction of approximately 50% when compared to the gross debt figure of \$19.56m at 30 June 2018.

In addition to significantly reducing debt, the following capital management initiatives took place in FY19:

- The Company declared a fully franked special dividend of 0.1 cents per share.
- The Company initiated an on-market share buy-back of up to 10% of the Company's fully paid ordinary shares. The buy-back (which commenced on 18 March 2019) will end no later than 12 months from commencement. In accordance with ASX listing rules, the price paid for the shares purchased under the buy-back will be no more than 5% above the volume weighted average share price of the Company's shares over the 5 days prior trading before the purchase is made.

Further detailed comments on operations and financial performance are included in the Chairman's Report, Chief Executive Officer's Report and Financial Statements in this Annual Report.

DIVIDENDS

On 22 March 2019 the Company declared a fully franked special dividend of 0.1 cents per share. The dividend of \$1,734,966 was paid on 30 July 2019 to all shareholders who were registered at 5pm on 28 June 2019 ("record date"). There were no dividends paid in respect of the year ended 30 June 2018.

SHARES UNDER OPTION

Details of unissued shares or interests under option as at the date of this report are:

GRANT DATE	EXPIRY DATE	EXERCISE PRICE	NUMBER UNDER OPTION
23 May 2016	7 years after vesting	\$0.03950	16,362,395
4 August 2017	7 years after vesting	\$0.05390	11,353,565
14 June 2018	7 years after vesting	\$0.07035	13,337,370
14 June 2019	7 years after vesting	\$0.11	13,342,788
			54,396,118

Options per the above table were granted under the Company's Executive Share and Option Plan (ESOP).

Further details with regard to the ESOP are provided as part of the Remuneration Report on pages 14 to 20.

During the year ended 30 June 2019, there were no shares in Mitchell Services Limited issued on the exercise of options.

INDEMNIFICATION OF OFFICERS AND AUDITORS

During the financial year, the Company has given an indemnity or entered into an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

The Company has paid premiums to insure each of the Directors and Company Officers against liabilities for costs and expenses incurred by them in defending legal proceedings arising from their conduct while acting in the capacity of Director or Officer of the Company other than conduct involving a wilful breach of duty in relation to the Company. The total premiums paid in this regard amounted to \$113,280.

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

DIRECTORS' MEETINGS

The table below sets out the number of Directors' meetings (including meetings of Committees of Directors) held during the financial year and the number of meetings attended by each Director (while they were a Director or Committee Member). During the financial year, 13 Board meetings, 3 Remuneration and Nomination Committee meetings and 3 Audit and Risk Committee meetings were held.

NON-AUDIT SERVICES

There were no amounts paid or payable to the auditor for non-audit services provided during the year by the auditor. Refer to note 25 to the Financial Statements.

AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration is included on page 27 of the Annual Report.

DIRECTORS	BOARD OF DIRECTORS		REMUNERATION AND NOMINATION COMMITTEE		AUDIT AND RISK COMMITTEE	
	Entitled to Attend	Attended	Entitled to Attend	Attended	Entitled to Attend	Attended
N.A. Mitchell	13	13	-	-	-	-
P.R. Miller	13	12	-	-	-	-
R.B. Douglas	13	12	3	3	3	3
N.M. O'Connor	13	13	3	3	3	3

DIRECTORS' REPORT

For the year ended 30 June 2019

REMUNERATION REPORT

This Remuneration Report, which forms part of the Directors' Report, sets out information about the remuneration of the Group's Key Management Personnel (KMP) for the financial year ended 30 June 2019. The term Key Management Personnel refers to those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any Director (whether executive or otherwise) of the Group.

Key Management Personnel

The Directors and other KMP of the Group during or since the end of the financial year were:

Nathan Andrew Mitchell (Executive Chairman)

Peter Richard Miller (Non-Executive Director)

Robert Barry Douglas (Non-Executive Director)

Neal Macrossan O'Connor (Non-Executive Director)

Andrew Michael Elf (Chief Executive Officer)

Gregory Michael Switala (Chief Financial Officer and Company Secretary)

Remuneration Policy

The Remuneration Policy of the Group has been designed to align KMP objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific short-term and long-term incentives to key employees based on key performance areas affecting the Group's financial, operational and safety results. The Board believes the Remuneration Policy to be appropriate and effective in its ability to attract and retain high quality KMP to run and manage the Group.

The Board's policy for determining the nature and amount of remuneration for KMP of the Group is as follows:

- The Remuneration Policy is developed by the Remuneration and Nomination Committee and approved by the Board;
- All KMP receive a base salary (which is based on factors such as length of service and experience), superannuation, and may receive fringe benefits and performance incentives (both short term and long term);
- The extent to which KMP receive performance incentives will depend on the performance of the Group with reference to specific key performance indicators;

- The performance indicators relating to incentives are aligned with the interests of the Group and therefore shareholders;
- The Remuneration and Nomination Committee reviews KMP packages annually by reference to the Group's performance, executive performance and comparable information from industry sectors.

Executive remuneration components

Under the Group's remuneration framework for the year ending 30 June 2019, the following remuneration components were available to executive KMP:

- **Fixed remuneration** that comprises salary and other benefits including superannuation.
- **Short term incentives** that comprise a cash-based performance bonus, the extent of which will depend on the Group's financial and safety performance and is designed to attract the highest calibre of executives and senior managers and reward them for performance results leading to growth in shareholder wealth.
- **Long term incentives** that comprise an equity only component whereby equity instruments are issued (subject to financial, operational and safety performance-based vesting conditions) to executives and senior managers under the Group's Executive Share and Option Plan (ESOP) designed to reward those executives and managers for long term growth in shareholder wealth.

The above structure is designed to provide an appropriate mix of variable and fixed remuneration and to provide an appropriate mix of short-term and long-term incentives to attract and retain high quality KMP and to align incentives with the short-term and long-term objectives of the Group.

Fixed Remuneration

The level of fixed remuneration is determined based on various factors including length of service, experience, qualifications and with reference to remuneration paid by similar sized companies in similar industries and is designed to attract and retain high quality executive KMP. KMP receive a superannuation guarantee contribution required by the government, which is currently 9.5% of the individual's ordinary earnings, and do not receive any other retirement benefits. Some individuals have chosen to sacrifice part of their salary to increase payments towards superannuation. Accrued entitlements are paid to KMP upon cessation of employment. KMP will receive redundancy benefits if applicable.

The fixed remuneration paid to executive KMP during the 2019 and 2018 financial years is set out below.

EXECUTIVE KMP		SHORT-TERM EMPLOYEE BENEFITS	POST- EMPLOYMENT BENEFITS	NON- MONETARY BENEFITS	TOTAL FIXED REMUNERATION
		Salary \$	Superannuation \$	Motor Vehicles ¹ \$	Total \$
Nathan Andrew Mitchell Executive Chairman	2019	80,000	7,600	-	87,600
	2018	80,000	7,600	-	87,600
Andrew Michael Elf Chief Executive Officer	2019	400,000	38,000	14,862	452,862
	2018	320,000	30,400	14,861	365,261
Gregory Michael Switala Chief Financial Officer and Company Secretary	2019	240,000	22,800	5,109	267,909
	2018	240,000	22,800	4,189	266,989

1. The figures in this column relate to use of a Company motor vehicle to carry out duties as well as reasonable personal use. The amount included in the above remuneration table is the value attributable to such personal use calculated in accordance with the statutory requirements of the Fringe Benefits Tax Act 1986.

Short term incentives

During the 2019 and 2018 financial year the following cash-based, short-term performance bonuses were paid to executive KMP.

EXECUTIVE KMP		PERFORMANCE BONUS	PERCENTAGE OF FIXED REMUNERATION
Andrew Michael Elf Chief Executive Officer	2019	64,000	14.13%
	2018	64,000	17.52%

The performance bonuses paid during the 2019 and 2018 financial year were based on the financial results, safety performance and share price performance of the Group during the 2018 and 2017 financial years respectively. To demonstrate the relationship between the short-term performance bonus payments and Group performance, the table below sets out summary information about the Group's revenue, earnings, share price movements and safety performance between 30 June 2016 and 30 June 2018.

	30 JUN 16	30 JUN 17	30 JUN 18
Revenue (\$000's)	32,970	40,303	72,700
EBITDA (\$000's)	5,22	2,238	6,254
Share price (closing)	1.7c	3.3c	3.9c
Total Recordable Injury Frequency Rate (TRIFR)	16.25	14.89	12.82

DIRECTORS' REPORT

For the year ended 30 June 2019

Long-term employee benefits

Mitchell Services Limited operates an Executive Share and Option Plan (ESOP) for executives and senior employees of the Group. In accordance with the provisions of the plan, as approved by shareholders at a previous Annual General Meeting, the Board may designate a Director or employee of the Company as an eligible participant of the ESOP (Eligible Participant). The Board may offer rights, options or shares to an Eligible Participant under the ESOP. A participant is not required to pay for the grant of any rights or options or for the issue of shares.

The objectives of the ESOP are to:

- Attract and retain a high standard of managerial and technical personnel for the benefit of the Group
- Establish a method by which Eligible Participants can participate in future growth and profitability of the Group
- Provide an incentive and reward for Eligible Participants for their contributions to the Group.

Equity instruments issued under the ESOP are subject to satisfaction of certain vesting conditions (tested two years after the offer date), being:

- EBITDA performance of the Group having regard to respective prior years' EBITDA performance, performance against budgets and general market conditions between the date of the offer and the vesting date
- share price performance between the date of the offer and the vesting date
- safety performance across all operations as determined on a financial year annual TRIFR basis, having regard to respective prior years' TRIFR performance
- operational performance, having particular regard to key operational metrics.

The proportion of the vesting conditions listed above varies according to each Eligible Participant's role, with the following table providing indicative guidelines.

ROLE	(A)	(B)	(C)	(D)
Chief Executive Officer	30%	30%	30%	10%
Corporate Management	40%	40%	20%	
Operational Management			50%	50%

The Board may, at its absolute discretion, vary, add, remove or alter the vesting conditions and indicative proportional allocation for respective Eligible Participant roles in circumstances in which the Board considers that such a change is appropriate to ensure that the vesting conditions and proportional allocation of them continue to represent a fair measure of performance. The vesting conditions are tested two years after the relevant securities are offered to an Eligible Participant.

The ESOP instruments are offered under the following major terms:

In the case of the options:

- Subject to the satisfaction of vesting conditions, each option entitles the holder to purchase one fully paid ordinary share at an agreed purchase price (exercise price) as outlined in the offer.
- The options will expire on a date that is the earlier of:
 - the date upon which it is deemed that the vesting conditions have not been met
 - the date upon which the employee ceases employment
 - seven years after vesting date.
- Options granted do not carry dividend or voting rights.

In the case of the shares:

- Shares issued under the ESOP are held by a designated Corporate Trustee subject to the satisfaction of vesting conditions.
- Upon satisfaction of vesting conditions, shares will be issued for nil consideration.

Offers made under the ESOP in 2019 and 2018

The table below summarises the shares and options offered to KMP pursuant to the ESOP during the 2018 and 2019 financial years. Using a Black-Scholes pricing model for the options and using a 30-day VWAP for the shares, the table also sets out to illustrate the fair value of the ESOP instruments at offer date and the percentage that value represents with reference to the KMP's fixed remuneration. The table also demonstrates that a significant majority of equity instruments granted in each year under the ESOP were in the form of options (as opposed to shares) and that the exercise prices (or "strike prices") of those options were

between 70% and 80% greater than the 30-day VWAP of MSV shares at the date of the offer. This effectively means that for an option issued under the ESOP to be "in the money", shareholder value (in the form of the share price) would need to increase significantly between the offer date and the exercise date.

All instruments offered under the ESOP in 2018 and 2019 and shown in the table below are subject to vesting conditions which will be tested two years after the offer date. That is, vesting conditions will be tested on 4 May 2020 for offers made in 2018 and on 13 May 2021 for offers made in 2019.

KMP	AWARD	OFFER DATE	NUMBER OF INSTRUMENTS	FAIR VALUE PER INSTRUMENT AT OFFER DATE*	FAIR VALUE OF INSTRUMENTS AT OFFER DATE*	PERCENTAGE OF FIXED REMUNERATION	OPTION STRIKE PRICE	DATE AWARD MAY VEST
Andrew Michael Elf	Options	4 May 2018	3,208,350	0.0209	67,055	18.4%	0.0704	4 May 2020
	Shares	4 May 2018	963,755	0.0390	37,586	10.3%	na	4 May 2020
Gregory Michael Switala	Options	4 May 2018	2,406,260	0.0209	50,290	18.8%	0.0704	4 May 2020
	Shares	4 May 2018	722,820	0.0390	28,190	10.6%	na	4 May 2020
Andrew Michael Elf	Options	13 May 2019	3,296,134	0.0269	88,666	19.6%	0.11	13 May 2021
	Shares	13 May 2019	990,126	0.0632	62,575	13.8%	na	13 May 2021
Gregory Michael Switala	Options	13 May 2019	2,251,018	0.0269	60,552	22.6%	0.11	13 May 2021
	Shares	13 May 2019	676,183	0.0632	42,734	16.0%	na	13 May 2021

* For purposes of the above table, the fair value of the shares was determined with reference to the 30-day VWAP of a fully paid ordinary MSV share calculated taking into account the 30 trading days immediately before the offer date. In the case of the options, fair value was determined using a Black-Scholes pricing model with the following key assumptions and inputs in the measurement:

	GRANTED DURING YEAR ENDED 30 JUNE 2018	GRANTED DURING YEAR ENDED 30 JUNE 2019
Share price	\$0.03900	\$0.0632
Exercise price	\$0.07035	\$0.11
Expected volatility	76%	63%
Expected life	5.5 years	5.5 years
Risk-free interest rate	2.79%	1.15%
Dividend yield (assumed no dividends paid)	0%	0%
Fair value per option	\$0.0209	\$0.0269

DIRECTORS' REPORT

For the year ended 30 June 2019

Vesting of 2016 and 2017 ESOP instruments in 2018 and 2019

The table below summarises the equity instruments offered to KMP pursuant to the ESOP during the 2016 and 2017 financial years and the extent of vesting of those instruments in 2018 and 2019.

KMP	AWARD	OFFER DATE	NUMBER OF INSTRUMENTS	VESTED IN FY2018	VESTED IN FY2019	EXERCISABLE AT 30 JUNE 2019	OPTION STRIKE PRICE \$
Andrew Michael Elf	Options	1 March 2016	6,643,133	6,643,133	-	6,643,133	0.0395
	Shares	1 March 2016	1,995,531	1,995,531	-	na	na
Gregory Michael Switala	Options	1 March 2016	4,581,471	4,581,471	-	4,581,471	0.0395
	Shares	1 March 2016	1,376,228	1,376,228	-	na	na
Andrew Michael Elf	Options	29 June 2017	3,824,355	-	3,250,702	3,250,702	0.0539
	Shares	29 June 2017	1,148,805	-	976,484	na	na
Gregory Michael Switala	Options	29 June 2017	2,688,992	-	2,420,093	2,420,093	0.0539
	Shares	29 June 2017	807,754	-	726,979	na	na

In making a determination as to the extent of vesting of the 2016 and 2017 ESOP instruments (in 2018 and 2019 respectively), Directors considered the following in accordance with the ESOP rules:

- EBITDA performance of the Group having regard to respective prior years' EBITDA performance, performance against budgets and general market conditions between the date of the offer and the vesting date
- share price performance between the date of the offer and the vesting date
- safety performance across all operations as determined on a financial year annual TRIFR basis, having regard to respective prior years' TRIFR performance
- operational performance, having particular regard to key operational metrics.

The proportion of the vesting conditions listed above varies according to each Eligible Participant's role, with the following table providing indicative guidelines.

ROLE	(A)	(B)	(C)	(D)
Chief Executive Officer	30%	30%	30%	10%
Corporate Management	40%	40%	20%	
Operational Management			50%	50%

To demonstrate the relationship between the extent of vesting and the Group's performance over the applicable vesting periods, the table below sets out summary information about the EBITDA, share price, safety and operational (revenue) performance between 30 June 2016 and 30 June 2019.

	30 JUN 16	30 JUN 17	30 JUN 18	30 JUN 19
EBITDA (\$000's)	522	2,238	6,254	24,100
Share price (30-day VWAP)	1.56c	3.14c	3.94c	6.32c
Total Recordable Injury Frequency Rate (TRIFR)	16.15	14.89	12.82	14.09
Revenue (\$000's)	32,970	40,303	72,700	120,000

Employment details of members of Key Management Personnel

The employment terms and conditions of KMP are formalised in contracts of employment. A contracted person deemed employed on a permanent basis may terminate their employment by providing the relevant notice period as outlined below.

NOTICE PERIOD	
Andrew Michael Elf	3 months
Gregory Michael Switala	3 months

Non-Executive Director Remuneration

Fees for Non-Executive Directors are set at a level to attract and retain Directors with the necessary skills and experience to allow the Board to have a proper understanding of, and competence to deal with, current and emerging issues. Remuneration for Non-Executive Directors is reviewed by the Remuneration and Nomination Committee and set by the Board, taking into account external benchmarking when required. The Non-Executive remuneration levels reflect the demands and responsibilities of the Directors but also reflect the historical financial position and performance of the Group in recent years following prolonged periods of subdued general market conditions in the broader resources and mining services sectors.

In addition to a cash-based fee (or salary), Non-Executive Directors receive a superannuation guarantee contribution required by the government, which is currently 9.5% of the individual's ordinary earnings, and do not receive any other retirement benefits. Some individuals have chosen to sacrifice part of their salary to increase payments towards superannuation.

The aggregate cap on annual fees paid to Non-Executive Directors is currently \$350,000, as approved by shareholders at the 2010 Annual General Meeting.

The remuneration levels for Non-Executive Directors (including fees for the Chairman of the Audit & Risk Committee and Remuneration and Nominations Committee) is summarised below (exclusive of superannuation).

	FY19	FY18
Non-Executive Director Fees	36,000	36,000
Chairman of the Audit and Risk Committee	12,000	12,000
Chairman of the Remuneration and Nomination Committee	4,000	4,000

DIRECTORS' REPORT

For the year ended 30 June 2019

Remuneration of Key Management Personnel

The compensation of each member of the KMP of the Group is set out on the following page.

		FIXED REMUNERATION PAID	SHORT-TERM EMPLOYEE BENEFITS	POST- EMPLOYMENT BENEFITS	SHORT-TERM INCENTIVES	NON- MONETARY BENEFITS	LONG-TERM EMPLOYEE BENEFITS ²	
			Salary \$	Superannuation \$	Bonus \$	Motor Vehicles ¹ \$	Shares \$	Options \$
Nathan Andrew Mitchell Executive Chairman	2019		80,000	7,600	-	-	-	-
	2018		80,000	7,600	-	-	-	-
Peter Richard Miller Non-Executive Director	2019		36,000	3,420	-	-	-	-
	2018		36,000	3,420	-	-	-	-
Robert Barry Douglas Non-Executive Director	2019		36,000	3,420	-	-	-	-
	2018		36,000	3,420	-	-	-	-
Neal Macrossan O'Connor Non-Executive Director	2019		52,000	4,940	-	-	-	-
	2018		52,000	3,534	-	-	-	-
Andrew Michael Elf Chief Executive Officer	2019		400,000	38,000	64,000	14,862	63,464	90,935
	2018		319,998	30,400	64,000	14,861	73,495	109,527
Gregory Michael Switala Chief Financial Officer and Company Secretary	2019		240,000	22,800	-	5,109	47,399	67,898
	2018		240,000	22,800	-	4,189	51,079	76,239

1. The figures in this column relate to use of a Company motor vehicle to carry out duties as well as reasonable personal use. The amount included in the above remuneration table is the value attributable to such personal use calculated in accordance with the statutory requirements of the Fringe Benefits Tax Act 1986.
2. These amounts were not actually provided to KMP during the financial year. The figures are calculated in accordance with the Australian Accounting Standards and are the amortised AASB fair values of equity instruments (whether vested or not) that have been granted to KMP. Refer to page 17 of this Remuneration Report for information on awards during the financial year and the vesting status of previous year's awards.

This Directors' Report, incorporating the Remuneration Report, is signed in accordance with a resolution of Directors made pursuant to section 298(2) of the *Corporations Act 2001*.

On behalf of the Directors



Nathan Andrew Mitchell
Executive Chairman

Dated at Brisbane this 23rd day of August 2019

CORPORATE GOVERNANCE STATEMENT

For the year ended 30 June 2019

The Board considers there to be a clear and positive relationship between the creation and delivery of long-term shareholder value and high-quality corporate governance. Accordingly, in pursuing its objective, the Board has committed to corporate governance arrangements that strive to foster the values of integrity, respect, trust and openness amongst and between the Board members, management, employees, customers and suppliers.

Unless stated otherwise in this document, the Board's corporate governance arrangements comply with the recommendations of the ASX Corporate Governance Council as outlined in the 3rd edition of the Corporate Governance Principles and Recommendations for the entire financial year ended 30 June 2019.

1. BOARD OF DIRECTORS

1.1. Role of the Board

The Board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, the Board is responsible for the overall corporate governance of the Group including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for Directors and senior executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of risk management, internal control, legal compliance and management information systems. It is also responsible for approving and monitoring financial and other reporting.

The Board has delegated responsibility for operation and administration of the Group to the Chief Executive Officer and Executive Management. Responsibilities are delineated by formal authority delegations.

1.2. Board processes

To assist in the execution of its responsibilities, the Board has established 2 board committees which include a Remuneration and Nominations Committee and an Audit and Risk Committee. Both committees have written charters which are reviewed on a regular basis. The Board has also established a framework for the management of the Group including a system of internal control, a business risk management process and the establishment of appropriate ethical standards.

The full Board currently holds not less than 10 scheduled meetings each year, plus strategy meetings and any extraordinary meetings at such other times as may be necessary to address any specific significant matters that may arise.

The agenda for meetings is prepared by the Company Secretary in conjunction with the Chairman. Standing items include the Chief Executive Officer report, People and Risk report, General Manager's reports, Financial reports, Asset reports and Commercial and Business Development reports. The Board package is provided to all concerned in advance of meetings. Executives are regularly involved in Board discussions and Directors have other opportunities, including visits to business operations, for contact with a wider group of employees.

The Company Secretary is accountable directly to the Board, through the Chairman, on all matters to do with the proper functioning of the Board.

1.3. Director and executive education

The Group has an informal induction process to educate new Directors about the nature of the business, current issues, the corporate strategy, the culture and values of the Group, and the expectations of the Group concerning performance of Directors. In addition, Directors are also educated regarding meeting arrangements and Director interaction with each other, senior executives and other stakeholders. Directors also have the opportunity to visit Group facilities and meet with management to gain a better understanding of business operations. Directors are given access to continuing education opportunities to update and enhance their skills and knowledge.

The Group also has an informal process to educate new senior executives upon taking such positions. This involves reviewing the Group's structure, strategy, operations, financial position and risk management policies.

1.4. Independent professional advice and access to Group information

Each Director has the right of access to all relevant Group information and to the Group's Executives and, subject to prior consultation with the Chairman, may seek independent professional advice from a suitably qualified adviser at the Group's expense. The Directors must consult with an adviser suitably qualified in the relevant field and obtain the Chairman's approval of the fee payable for the advice before proceeding with the consultation. A copy of the advice received by the Directors is made available to all other members of the Board.

CORPORATE GOVERNANCE STATEMENT

For the year ended 30 June 2019

1.5. Composition of the Board

The names of the Directors of the Company in office at the date of this report together with their respective mix of skills, experience and length of service are set out in the Directors' Report on page 8 of this report.

The Group believes it is in its best interests to maintain a small but efficient Board. The Board consists of 3 Non-Executive Directors (being Peter Miller, Robert Douglas and Neal O'Connor) and Executive Chairman, Nathan Mitchell. As at the date of this report two of the four board members are considered independent, being Robert Douglas and Neal O'Connor.

The Executive Chairman is Mr Nathan Mitchell. Under the guidelines, Mr Mitchell does not meet the criteria for independence as he is a Director of a substantial shareholder. Peter Richard Miller was previously employed by the Company in an executive capacity and has a material shareholding and does not meet the criteria for independence. Under the guidelines, the majority of the Board should be independent as should the Chair. All Directors are committed to bringing their independent views and judgement to the Board and, in accordance with the Corporations Act 2001, must inform the Board if they have any interest that could conflict with those of the Group. Where the Board considers that a conflict exists, the Director concerned will not be present at the meeting while the item is considered. For these reasons, the Board believes that each of these Directors may be considered to be acting independently in the execution of their duties.

The Board considers the mix of skills and the diversity of Board members when assessing the composition of the Board. The Board assesses existing and potential Directors' skills to ensure they have appropriate industry expertise in the Group's business operations. The Board undertakes appropriate checks before appointing a person as a Director and provides security holders with all material information relevant to a decision on whether or not to elect a Director. The Board's policy is to seek a diverse range of Directors who have a range of skills, ages, genders and ethnicity that complements the environment in which the Group operates and having due regard to the current size of the Group (refer section 8 below on skills and diversity).

2. REMUNERATION AND NOMINATION COMMITTEE

Under the principles and recommendations of the ASX Corporate Governance Council, the Remuneration and Nomination Committee should consist of at least 3 members, each of whom should be a Non-Executive Director. Given the relatively small size of the Board, the Directors are of the opinion that 2 members are sufficient to properly discharge the duties of the Committee. The Chairman of the Committee should be an independent Director. The Committee has 2 distinct roles as follows:

- Remuneration related matters; and
- Nomination related matters.

The members of the Remuneration and Nomination Committee during the year were:

- Mr Neal Macrossan O'Connor – Chairman and Non-Executive Director
- Mr Robert Barry Douglas – Non-Executive Director.

All Directors are invited to Remuneration and Nomination Committee meetings at the discretion of the Committee. The Committee met three times during the year and Committee members' attendance record is disclosed in the table of Directors' meetings on page 13 of this report.

Remuneration related matters

The Committee assists the Board in the general application of the remuneration policy. In doing so, the Committee is responsible for:

- Developing remuneration policies for Directors and Key Management Personnel;
- Reviewing Key Management Personnel packages annually and, based on these reviews, making recommendations to the Board on remuneration levels for Key Management Personnel; and
- Assisting the Board in reviewing Key Management Personnel performance annually.

Executive Directors and Senior Executives are remunerated by way of salary, non-monetary benefits, statutory superannuation, short-term incentive payments and participation in the Mitchell Services Limited Executive Share and Option Plan (ESOP) in accordance with written agreements that set out the terms of their appointments. Non-Executive Directors are remunerated by way of salary and statutory superannuation. There are no schemes for retirement benefits for Directors other than statutory superannuation arrangements. Further disclosure on the policies and practices regarding remuneration is contained in the Remuneration Report of this Annual Report.

Nomination related matters

The Committee assists the Board in ensuring that the Board comprises Directors with a range and mix of attributes appropriate for achieving its objective. The Committee does this by:

- Overseeing the appointment and induction process for Directors;
- Reviewing the skills and expertise of Directors and identifying potential deficiencies;
- Identifying suitable candidates for the Board;
- Overseeing Board and Directors reviews on an annual basis; and
- Establishing succession planning arrangements for the Executive team.

3. AUDIT AND RISK COMMITTEE

The Audit and Risk Committee has a documented charter, approved by the Board. Under the principles and recommendations of the ASX Corporate Governance Council, the Committee should consist of at least 3 members, each of whom should be a Non-Executive Director. Given the relatively small size of the Board, the Directors are of the opinion that 2 members are sufficient to properly discharge the duties of the Committee for the present time. The Chairman of the Committee should be an independent Director and should not be Chairman of the Board. The purpose of the Committee is to assist the Board in the effective discharge of its responsibilities in relation to the external audit function, accounting policies, financial reporting, funding, financial risk management, business risk monitoring and insurance.

The members of the Audit and Risk Committee during the year were:

- Mr Neal Macrossan O'Connor – Chairman and Non-Executive Director
- Mr Robert Barry Douglas – Non-Executive Director.

The external auditors and the Chief Executive Officer are invited to Audit and Risk Committee meetings at the discretion of the Committee. The Committee met three times during the year and Committee members' attendance record is disclosed in the table of Directors' meetings on page 13 of this report.

The Chief Executive Officer and the Chief Financial Officer declared in writing to the Board that the financial records of the Group for the financial year have been properly maintained, the Group's financial reports for the financial year ended 30 June 2019 comply with accounting standards and present a true and fair view of the Group's financial condition and operational results and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively. This statement is required annually.

4. PERFORMANCE EVALUATION

The Remuneration and Nomination Committee is required to annually review the effectiveness of the functioning of the Board, its committees, individual Directors and Senior Executives through internal peer review.

5. RISK MANAGEMENT

The Board considers identification and management of key risks associated with the business as vital to creating and delivering long-term shareholder value.

The main risks that could negatively impact on the performance of the Group's business activities include:

- Safety of employees and contractors;
- Seasonal conditions and business interruptions;
- Dependence on key personnel and labour shortages;
- Obsolescence to certain machinery due to technological advancements or client requirements;
- Customer demand and outlook for the resources industry.

CORPORATE GOVERNANCE STATEMENT

For the year ended 30 June 2019

An assessment of the business' risk profile is undertaken and reviewed by the Board at least annually, covering all aspects of the business from the operational level through to strategic level risks. Executive management has been delegated the task of implementing internal controls to identify and manage risks for which the Board provides oversight. The effectiveness of these controls is monitored and reviewed regularly by management. Executive management has reported on an ongoing basis (via monthly Board meetings) to the Board as to whether the Group's business risks have been effectively managed.

In addition to their regular reporting on business risks, risk management and internal control systems, the Chief Executive Officer and Chief Financial Officer have provided assurance, in writing to the Board:

- That the financial reporting risk management and associated compliance and controls have been assessed and found to be operating effectively; and
- The Group's financial reports are founded on a sound system of risk management and internal compliance and control.

The Board is responsible for the overall internal control framework, but recognises that no cost-effective internal control system will preclude all errors and irregularities. In the absence of an internal audit function, comprehensive practices have been established to ensure:

- Capital expenditure and revenue commitments above a certain size obtain prior Board approval;
- Financial exposures are controlled;
- Health and safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations;
- Business transactions are properly authorised and executed;
- The quality and integrity of personnel;
- Financial reporting accuracy and compliance with the financial reporting regulatory framework. Monthly actual results are reported against budgets approved by the Directors and revised forecasts for the year are prepared regularly; and
- Regulation compliance. The Group's health, safety, environment and sustainability obligations are monitored by all members of the Board.

6. ETHICAL STANDARDS

All Directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Group. Every employee has a nominated supervisor to whom they may refer any issues arising from their employment. The Board reviews its Code of Conduct and Ethics regularly and processes are in place to promote and communicate these policies.

Conflict of interest

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Group. The Board has developed procedures to assist Directors to disclose potential conflicts of interest.

Where the Board believes that a conflict exists the Director concerned will not be present at the meeting while the item is considered. Details of Director related entity transactions with the Group are set out in note 23 to the financial statements.

Code of conduct

The Group has advised each Director, manager and employee that they must comply with the Group's Code of Conduct and Ethics. The code requires all Directors, management and employees to, at all times and with all relevant stakeholders:

- Act honestly and in good faith;
- Exercise due care and diligence in fulfilling the functions of office;
- Avoid conflicts and make full disclosure of any possible conflict of interest;
- Comply with both the letter and spirit of the law;
- Encourage the reporting and investigation of unlawful and unethical behaviour; and
- Comply with the share trading policy.

Share trading policy

The Share Trading Policy restricts Directors and employees from acting on price sensitive information (which is not available to the public) until it has been released to the market and adequate time has been given for this to be reflected in the Company's share price.

Directors and other Key Management Personnel are also prohibited from trading during closed periods. Closed periods are periods other than 6 weeks commencing from:

- The release of the Group's annual result to the ASX;
- The release of the Group's half-yearly result to the ASX; and
- The date of the Annual General Meeting.

7. COMMUNICATION WITH SHAREHOLDERS

The Board provides shareholders with information using a comprehensive Continuous Disclosure Policy and investor relations program which includes identifying matters that may have a material effect on the price of the Company's shares and notifying them to the ASX.

In summary, the Continuous Disclosure Policy operates as follows:

- The Company Secretary (also the Chief Financial Officer) and the Chief Executive Officer are responsible for interpreting the Group's policy and where necessary informing the Board. The Company Secretary is responsible for all communications with the ASX. Such matters are advised to the ASX after they are discovered but are referred to the Board in the first instance.
- The full Annual Report is provided via the Company's website to all shareholders (unless a shareholder has specifically requested to receive a physical copy or not to receive the document). It provides relevant information about the operations of the Group during the year, changes in the state of affairs and details of future developments.
- The half-yearly report contains summarised financial information and a review of the operations of the Group during the period. The half-year reviewed financial report is lodged with the ASX and sent to any shareholder who requests it.
- Proposed major changes in the Group which may impact on share ownership rights are submitted to a vote of shareholders.

- All announcements made to the market can be accessed via the Company's website after they have been released to the ASX.
- The external auditor attends the Annual General Meetings to answer questions concerning the conduct of the audit, the preparation and content of the auditor's report, accounting policies adopted by the Group and the independence of the auditor in relation to the conduct of the audit.

The Board encourages full participation of shareholders at the Annual General Meeting, to ensure a high level of accountability and identification with the Group's strategy and goals. Important issues are presented to the shareholders as single resolutions.

8. SKILLS AND DIVERSITY

Diversity

The Company has an established Equity and Diversity Policy relating to its Board Members, Senior Executives and across the whole organisation with an objective to recruit and manage on the basis of qualification for the position and performance; regardless of gender, age, nationality, race, religious beliefs, cultural background or sexuality.

In summary, the Equity and Diversity Policy operates as follows:

The Company has zero tolerance toward discrimination.

To achieve this, we are committed to:

- Ensuring a working environment that is free of all forms of harassment.
- Valuing the diversity among our employees, and all those with whom we do business.
- Conducting business activities such as the hiring, promotion, and compensation of employees without regard to race, colour, religion, gender, gender identity or expression, sexual orientation, national origin, genetics, disability, or age.
- The employment and development of Indigenous employees in all the areas where we operate.
- Complying with all applicable legislative requirements.

CORPORATE GOVERNANCE STATEMENT

For the year ended 30 June 2019

To achieve this, we will:

- Adhere to the Company Code of Conduct and be guided by the Company's Values.
- Recruit a diverse range of people with a diverse range of talents to help us achieve our goals.
- Employ the best person for the job regardless of race, colour, religion, gender, gender identity or expression, sexual orientation, national origin, genetics, disability, or age.
- Select on the principles of merit and fairness in all employment practices.
- Ensure that all reports of workplace discrimination are treated seriously, promptly and fairly with due regard to the principles of procedural fairness, natural justice and confidentiality.
- Take appropriate action against individuals engaging in discriminatory conduct.
- Build relationships and promote opportunities for Indigenous peoples throughout all of our operations, while encouraging cultural awareness and respect amongst our staff.
- Make confidential counselling and support available to employees to assist with any workplace issues that may arise.

The proportion of women employees in the whole organisation is detailed below:

	2019		2018	
	No.	%	No.	%
Women on the Board	-	-	-	-
Women in senior management roles ¹	1	11.11	1	11.11
Women in head office roles	16	55.56	11	52.38
Women employees in the Group	18	4.15	11	5.28

1. The Company has defined senior management roles as those roles which are responsible for a key business function and that report directly to either the Chief Executive Officer or Chief Financial Officer.

Skills matrix

The Company aims to maintain a diverse, multi-skilled Board with a range of different skills and expertise. At a minimum, these skills and expertise include:

- Capital management and corporate finance experience
- Experience at both executive and non-executive levels
- An understanding of the drilling industry and mining services sector
- Exceptional leadership skills
- Experience in workplace health and safety
- An understanding of technological advances in the mining services industry
- Financial acumen and strategic capabilities
- Environment and sustainability experience
- An understanding of risk management.



AUDITOR’S INDEPENDENCE DECLARATION UNDER S 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF MITCHELL SERVICES LIMITED

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2019, 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.

JESSUPS

Paul Sapelli
Director

Level 1, 19 Stanley Street, Townsville QLD 4810

Dated this 23rd day of August 2019

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Limited liability by a scheme approved under professional standards legislation.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2019

		2019	2018
	Note	\$	\$
Continuing operations			
Revenue	3	120,205,145	72,700,410
Gain/(loss) on sale of assets		268,158	862,024
Gain on bargain purchase		-	350,663
Advertising		(214,742)	(93,798)
Drilling consumables		(16,072,180)	(10,618,674)
Employee and contract labour expenses		(56,431,873)	(38,593,882)
Fuel and oil		(2,120,608)	(1,432,915)
Freight and couriers		(1,249,917)	(1,062,070)
Hire of plant and equipment		(4,104,613)	(3,230,693)
Insurances		(1,078,441)	(1,054,585)
Legal and consultant fees		(839,854)	(739,970)
Rent		(1,134,945)	(992,045)
Service and repairs		(6,073,461)	(3,823,823)
Travel expenses		(4,991,364)	(3,202,602)
Change in fair value of asset held for sale		-	(419,312)
Other expenses		(2,049,137)	(2,394,500)
EBITDA		24,112,168	6,254,228
Depreciation expense		(8,228,411)	(6,724,594)
Amortisation of intangibles		(1,989,629)	(890,371)
EBIT		13,894,128	(1,360,737)
Finance expenses		(1,065,169)	(1,687,257)
Profit/(loss) before tax		12,828,959	(3,047,994)
Income tax benefit	14	4,539,231	708,217
Profit/(loss) for the period from continuing operations		17,368,190	(2,339,777)
Discontinued operations			
Profit/(loss) for the period from discontinued operations		-	-
Profit/(loss) for the period		17,368,190	(2,339,777)
Other comprehensive income, net of income tax			
Other comprehensive income for the period, net of income tax		-	-
Total comprehensive income for the period		17,368,190	(2,339,777)
Profit attributable to:			
Owners of the parent		17,368,190	(2,339,777)
Total comprehensive income attributable to:			
Owners of the parent		17,368,190	(2,339,777)
Earnings per share			
From continuing and discontinued operations			
Basic (cents per share)	27	1.00	(0.14)
Diluted (cents per share)	27	0.99	(0.14)
From continuing operations			
Basic (cents per share)	27	1.00	(0.14)
Diluted (cents per share)	27	0.99	(0.14)

The accompanying notes are an integral part of these financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 30 June 2019

		2019	2018
	Note	\$	\$
ASSETS			
Current assets			
Cash and cash equivalents	4(a)	1,596,676	1,863,738
Trade and other receivables	5	22,775,835	17,608,675
Other assets	6	2,350,016	1,222,328
Inventories	7	2,994,947	2,274,563
Intangibles	8	-	1,989,629
Assets held for sale	12	-	2,560,050
Total current assets		29,717,474	27,518,983
Non-current assets			
Property, plant and equipment	13	35,273,397	30,740,385
Deferred tax asset	15	5,027,750	-
Other assets	6	178,383	33,278
Total non-current assets		40,479,530	30,773,663
Total assets		70,197,004	58,292,646
LIABILITIES			
Current liabilities			
Bank overdraft	4(b)	-	-
Trade and other payables	9	16,241,168	13,163,681
Dividend payable		1,734,966	-
Other financial liabilities	10	4,890,434	6,071,669
Current tax liability	15	-	1,164,958
Provisions	11	3,602,646	2,724,543
Total current liabilities		26,469,214	23,124,851
Non-current liabilities			
Other financial liabilities	10	5,717,699	13,877,025
Provisions	11	416,727	256,306
Total non-current liabilities		6,134,426	14,133,331
Total liabilities		32,603,640	37,258,182
Net assets		37,593,364	21,034,464
EQUITY			
Issued capital	16	58,245,137	58,245,137
Share issue costs	17	(2,726,220)	(3,070,575)
Retained earnings	18	(17,925,553)	(34,140,098)
Total equity		37,593,364	21,034,464

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2019

		ISSUED CAPITAL	RETAINED EARNINGS	ATTRIBUTABLE TO OWNERS OF THE PARENT	TOTAL
	Note	\$	\$	\$	\$
Balance at 30 June 2017		46,933,211	(32,288,242)	14,644,969	14,644,969
Comprehensive income					
Profit/(loss) for the period	18	-	(2,339,777)	(2,339,777)	(2,339,777)
Other comprehensive income for the period		-	-	-	-
Total comprehensive income for the period		-	(2,339,777)	(2,339,777)	(2,339,777)
Issue of ordinary shares	16	8,790,759	-	8,790,759	8,790,759
Share issue costs	17	(549,408)	-	(549,408)	(549,408)
Recognition of share-based payments	19	-	487,921	487,921	487,921
Balance at 30 June 2018		55,174,562	(34,140,098)	21,034,464	21,034,464
Comprehensive income					
Profit/(loss) for the period	18	-	17,368,190	17,368,190	17,368,190
Other comprehensive income for the period		-	-	-	-
Total comprehensive income for the period		-	17,368,190	17,368,190	17,368,190
Issue of ordinary shares	16	-	-	-	-
Share issue costs	17	344,355	-	344,355	344,355
Dividend declared		-	(1,734,966)	(1,734,966)	(1,734,966)
Recognition of share-based payments	19	-	581,321	581,321	581,321
Balance at 30 June 2019		55,518,917	(17,925,553)	37,593,364	37,593,364

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2019

		2019	2018
	Note	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		111,535,759	64,342,703
Payments to suppliers and employees		(90,729,017)	(63,696,562)
Interest received		71	13,378
Interest paid		(1,271,220)	(1,712,393)
Income tax paid		(1,309,121)	(221,444)
Net cash provided by/(used in) operating activities	20	18,226,472	(1,274,318)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		202,430	2,339,325
Payment for property, plant and equipment		(8,328,732)	(5,660,946)
Payment for purchase of Radco, net of cash acquired		-	(4,251,263)
Net cash provided by/(used in) investing activities		(8,126,302)	(7,572,884)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		-	8,790,759
Payments for share issue costs		-	(549,408)
Proceeds from borrowings		1,771,155	7,000,000
Repayment of borrowings		(12,138,387)	(4,811,922)
Net cash provided by/(used in) financing activities		(10,367,232)	10,429,429
Net increase/(decrease) in cash and cash equivalents		(267,062)	1,582,227
Cash and cash equivalents at the beginning of the period		1,863,738	281,511
Cash and cash equivalents at the end of the period	4(c)	1,596,676	1,863,738

The accompanying notes are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

1. SIGNIFICANT ACCOUNTING POLICIES

(a) General information

Mitchell Services Ltd (**Company**) is a limited company incorporated in Australia. The addresses of its registered office and principal place of business are disclosed in the Corporate Directory of this Annual Report. The principal activities of the Company and its subsidiaries (**Group**) involve the provision of exploration and mine site drilling services to the mining industry.

(b) Statement of compliance

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

The financial statements comprise the consolidated financial statements of the Group. For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Group comply with International Financial Reporting Standards (IFRS).

The financial statements were authorised for issue by the Directors on the date shown in the Directors' Declaration.

(c) Basis of preparation

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

(d) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expense of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control are accounted for as equity transactions. The carrying amounts of the Group's interest's and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at re-valued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable Standards).

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under AASB 139 "Financial Instruments: Recognition and Measurement" or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

(e) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date (i.e. when control is transferred to the Group). Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

(f) Intangibles

Goodwill and Impairment

Goodwill arising on an acquisition of a business is carried at cost as established at the date of the acquisition of the business less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Customer contracts

Customer contracts acquired are initially recognised at fair value and are subsequently carried at fair value less accumulated amortisation and accumulated impairment losses. These costs are amortised to profit or loss using the straightline method over the contract period or estimated useful life, whichever is shorter.

(g) Revenue recognition

Revenue is recognised for the major business activities as follows:

Revenue from contracts with customers

The Group provides drilling services to the exploration, mining and energy industries pursuant to service contracts with a variety of clients in those sectors. The revenue associated with these drilling contracts is recognised in accordance with AASB15, that is in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Revenue from customer contracts is recognised upon satisfaction of a performance obligation under those contracts either over time in accordance with specified units of production (for example meters drilled or hours worked) or at a point in time when risks and rewards pass to the customer under those contracts (for example the sale or hire of certain items including consumables).

Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Other revenue is recognised when the right to receive the revenue has been established.

All revenue is stated net of the amount of goods and services tax (GST).

(h) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(i) Employee benefits

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

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

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

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

(j) Income taxes

The Company and its wholly-owned Australian resident entities are part of a tax-consolidated group. As a consequence, all members of the tax-consolidated group are taxed as a single entity. The head entity within the tax-consolidated group is Mitchell Services Ltd.

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

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

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities and assets are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(k) Property, plant and equipment

Recognition and measurement

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

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the assets to a working condition for their intended use.

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

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with the expenditure will flow to the Group. On-going repairs and maintenance are expensed as incurred.

Depreciation

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

Depreciation is calculated to write off the cost of property, plant and equipment using both the diminishing value basis or straight-line basis over their estimated useful lives. Depreciation is generally recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The depreciation rates used for the current and comparative years of significant items of property, plant and equipment are as follows:

CLASSES OF FIXED ASSET	
Buildings	2.5%
Plant & Equipment	6.67% – 40%
Motor Vehicles	12.50% – 50%
Office Equipment, Furniture & Fittings	10% – 67.67%

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

Impairment of property, plant and equipment

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a re-valued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a re-valued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(I) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs.

(m) Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(n) Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions to the instrument. For financial assets, this is the date that the Group commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments (except for trade receivables) are initially measured at fair value plus transaction costs, except where the instrument is classified “at fair value through profit or loss”, in which case transaction costs are expensed to profit or loss immediately. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Trade receivables are initially measured at the transaction price if the trade receivables do not contain a significant financing component or if the practical expedient was applied as specified in AASB 15.63.

Financial assets

Financial assets are subsequently measured at:

- amortised cost;
- fair value through other comprehensive income; or
- fair value through profit or loss.

Measurement is on the basis of the two primary criteria:

- the contractual cash flow characteristics of the financial asset; and
- the business model for managing the financial assets.

A financial asset is subsequently measured at amortised cost if it meets the following conditions:

- the financial asset is managed solely to collect contractual cash flows; and
- the contractual terms within the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates.

A financial asset is subsequently measured at fair value through other comprehensive income if it meets the following conditions:

- the contractual terms within the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates; and
- the business model for managing the financial asset comprises both contractual cash flows collection and the selling of the financial asset.

By default, all other financial assets that do not meet the measurement conditions of amortised cost and fair value through other comprehensive income are subsequently measured at fair value through profit or loss.

The Group initially designates a financial instrument as measured at fair value through profit or loss if:

- it eliminates or significantly reduces a measurement or recognition inconsistency (often referred to as “accounting mismatch”) that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases;
- it is in accordance with the documented risk management or investment strategy and information about the groupings was documented appropriately, so that the performance of the financial liability that was part of a group of financial liabilities or financial assets can be managed and evaluated consistently on a fair value basis;
- it is a hybrid contract that contains an embedded derivative that significantly modifies the cash flows otherwise required by the contract.

The initial designation of the financial instruments to measure at fair value through profit or loss is a one-time option on initial classification and is irrevocable until the financial asset is derecognised.

Equity instruments

At initial recognition, as long as the equity instrument is not held for trading or not a contingent consideration recognised by an acquirer in a business combination to which AASB 3: Business Combinations applies, the Group may make an irrevocable election to measure any subsequent changes in fair value of the equity instrument in other comprehensive income, while the dividend revenue received on underlying equity instruments investment will still be recognised in profit or loss.

Regular way purchases and sales of financial assets are recognised and derecognised at settlement date in accordance with the Group’s accounting policy.

Derecognition

Derecognition refers to the removal of a previously recognised financial asset or financial liability from the statement of financial position.

Derecognition of financial liabilities

A liability is derecognised when it is extinguished (i.e. when the obligation in the contract is discharged, cancelled or expires). An exchange of an existing financial liability for a new one with substantially modified terms, or a substantial modification to the terms of a financial liability is treated as an extinguishment of the existing liability and recognition of a new financial liability.

The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Derecognition of financial assets

A financial asset is derecognised when the holder’s contractual rights to its cash flows expires, or the asset is transferred in such a way that all the risks and rewards of ownership are substantially transferred.

All of the following criteria need to be satisfied for derecognition of financial assets:

- the right to receive cash flows from the asset has expired or been transferred;
- all risk and rewards of ownership of the asset have been substantially transferred; and
- the Group no longer controls the asset (i.e. the Group has no practical ability to make a unilateral decision to sell the asset to a third party).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of a debt instrument classified at fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

On derecognition of an investment in of equity which was elected to be classified as at fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Impairment

The Group recognises a loss allowance for expected credit losses on:

- financial assets that are measured at amortised cost or fair value through other comprehensive income;
- lease receivables;
- contract assets;
- loan commitments that are not measured at fair value through profit or loss; and
- financial guarantee contracts that are not measured at fair value through profit or loss.

Loss allowance is not recognised for:

- financial assets measured at fair value through profit or loss; or
- equity instruments measured at fair value through other comprehensive income.

Expected credit losses are the probability-weighted estimate of credit losses over the expected life of a financial instrument. A credit loss is the difference between all contractual cash flows that are due and all cash flows expected to be received, all discounted at the original effective interest rate of the financial instrument.

The Group uses the following approaches to impairment, as applicable under AASB 9: Financial Instruments:

- the general approach; and
- the simplified approach;

General approach

Under the general approach, at each reporting period, the Group assesses whether the financial instruments are credit-impaired, and if:

- the credit risk of the financial instrument has increased significantly since initial recognition, the Group measures the loss allowance of the financial instruments at an amount equal to the lifetime expected credit losses; or
- there is no significant increase in credit risk since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

Simplified approach

The simplified approach does not require tracking of changes in credit risk at every reporting period, but instead requires the recognition of lifetime expected credit loss at all times.

This approach is applicable to:

- trade receivables or contract assets that result from transactions within the scope of AASB 15: Revenue from Contracts with Customers and that contain a significant financing component; and
- lease receivables.

In measuring the expected credit loss, a provision matrix for trade receivables was used, taking into consideration various data to get to an expected credit loss (i.e. diversity of its customer base, appropriate groupings of its historical loss experience etc).

Recognition of expected credit losses in financial statements

At each reporting date, the Group recognises the movement in the loss allowance as an impairment gain or loss in the statement of profit or loss and other comprehensive income.

The carrying amount of financial assets measured at amortised cost includes the loss allowance relating to that asset.

Assets measured at fair value through other comprehensive income are recognised at fair value, with changes in fair value recognised in other comprehensive income. Amounts in relation to change in credit risk are transferred from other comprehensive income to profit or loss at every reporting period.

Financial liabilities

Financial liabilities are subsequently measured at:

- amortised cost; or
- fair value through profit or loss.

A financial liability is measured at fair value through profit or loss if the financial liability is:

- a contingent consideration of an acquirer in a business combination to which AASB 3: Business Combinations applies;
- held for trading; or
- initially designated as at fair value through profit or loss.

All other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest expense in profit or loss over the relevant period.

The effective interest rate is the internal rate of return of the financial asset or liability; that is, it is the rate that exactly discounts the estimated future cash flows through the expected life of the instrument to the net carrying amount at initial recognition.

A financial liability is held for trading if:

- it is incurred for the purpose of repurchasing or repaying in the near term;
- part of a portfolio where there is an actual pattern of short-term profit taking; or
- a derivative financial instrument (except for a derivative that is in a financial guarantee contract or a derivative that is in an effective hedging relationship).

Any gains or losses arising on changes in fair value are recognised in profit or loss to the extent that they are not part of a designated hedging relationship.

The change in fair value of the financial liability attributable to changes in the issuer's credit risk is taken to other comprehensive income and are not subsequently reclassified to profit or loss. Instead, they are transferred to retained earnings upon derecognition of the financial liability.

If taking the change in credit risk in other comprehensive income enlarges or creates an accounting mismatch, then these gains or losses should be taken to profit or loss rather than other comprehensive income.

A financial liability cannot be reclassified.

(o) Trade and other receivables

Trade and other receivables include amounts due from customers for goods and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Refer to note 1(n) for further discussion on the determination of impairment losses.

(p) Trade and other payables

Trade and other payables represent the liabilities for goods and services received by the Group that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days after the end of the month in which they were initially recognised as a liability.

(q) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO), it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the ATO is classified within operating cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

(r) Investment property

Investment property is property held to earn rentals or for capital appreciation or both, rather than for either use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business.

The Group uses the fair value model for investment property.

The Group's investment property is assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected. An impairment loss is recognised immediately in profit or loss, unless the investment property is carried at a re-valued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the investment property is increased to the revised estimate of its recoverable amount, but so that the increased amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the investment property in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a re-valued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(s) Capital management

Management controls the capital of the Group in order to maintain an appropriate debt to equity ratio, generate long-term shareholder value and ensure that the Group can fund its operations and continue as a going concern.

The Group's debt and capital include ordinary share capital, and financial liabilities, supported by financial assets.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year.

(t) Assets held for sale

The Group recognises assets as held for sale when the sale of the asset is approved by the Board and is actively marketed at a reasonable price for immediate sale that is probable within 12 months.

After these conditions are met, the Group measures the assets held for sale at the lower of carrying amount and fair value less costs to sell and are not depreciated.

Any reduction in value on initial recognition or any reduction in fair value less costs to sell after initial recognition shall be recognised as impairment in the profit and loss. A gain for any subsequent increase in fair value less costs to sell shall be recognised in the profit or loss to the extent that it is not in excess of the cumulative impairment loss.

(u) Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key estimates – impairment

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value in use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

(v) New Accounting Standards in future periods

The AASB has issued a number of new and amended Accounting Standards that have mandatory application dates for future reporting periods, some of which are relevant to the Group. The Directors have decided not to early-adopt any of the new and amended pronouncements. The following sets out their assessment of the pronouncements that are relevant to the Group but applicable in future reporting periods.

AASB 16: Leases (applicable to annual reporting periods beginning on or after 1 January 2019)

The Group has chosen not to early-adopt AASB 16. However, the Group has conducted a preliminary assessment of the impact of this new Standard, as follows:

A core change resulting from applying AASB 16 is that most leases will be recognised on the balance sheet by lessees as the standard no longer differentiates between operating and financing leases. An asset and a financial liability are recognised in accordance with this new Standard. There are, however, two exceptions allowed: short-term and low-value leases.

Basis of preparation

The accounting for the Group's operating leases will be primarily affected by this new Standard.

AASB 16 will be applied by the Group from its mandatory adoption date of 1 July 2019. The comparative amounts for the year prior to first adoption will not be restated, as the Group has chosen to apply AASB 16 retrospectively with cumulative effect. While the right-of-use assets for property leases will be measured on transition as if the new rules had always been applied, all other right-of-use assets for property leases will be measured at the amount of the lease liability on adoption (after adjustments for any prepaid or accrued lease expenses).

The Group's non-cancellable operating lease commitments amount to \$1,164,138 as at the reporting date.

The Group has performed a preliminary impact assessment and has estimated that on 1 July 2019, the Group expects to recognise the right-of-use assets and lease liabilities of approximately \$2,823,937 (after adjusting for prepayments and accrued lease payments recognised as at 30 June 2019).

2. NEW AND AMENDED ACCOUNTING POLICIES

INITIAL APPLICATION OF AASB 15: REVENUE FROM CONTRACTS WITH CUSTOMERS

The Group has adopted AASB 15: Revenue from Contracts with Customers with an initial application date of 1 July 2018. As a result, the Group has changed its accounting policy revenue recognition as follows.

The Group has applied AASB 15 using the cumulative effect method; that is, by recognising the cumulative effect of initially applying AASB 15 as an adjustment to the opening balance of equity at 1 July 2018. Therefore, the comparative information has not been restated and continues to be reported under AASB 118: Revenue.

However, a review of the Group's accounting policies in light of AASB 15 indicated that the Group's existing accounting policies were not materially different and as such no adjustment to the opening balance of equity at 1 July 2018 was required.

In the comparative period

Revenue was measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed.

Revenue from sale of goods was recognised at the point of delivery, as this corresponds to the transfer of significant risks and rewards of ownership of goods and the cessation of all involvement in those goods.

Revenue from rendering of services was recognised in proportion to the stage of completion of the work performed at the reporting date.

Revenue was categorised based on major business activities as follows:

- Drilling revenue
- Interest Income
- Rental Income

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

In the current period

The Group has adopted AASB 15: Revenue from Contracts with Customers with an initial application date of 1 July 2018. Following the adoption of AASB 115, the Group's total revenue can now be categorised as follows:

- Revenue from contracts with customers
- Interest Income
- Rental Income

Revenue from contracts with customers relates to those revenue sources previously classified as drilling revenue. The revised accounting policy is detailed below.

The Group provides drilling services to the exploration, mining and energy industries pursuant to service contracts with a variety of clients in those sectors. The revenue associated with these drilling contracts is recognised in accordance with AASB15, that is in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Revenue from customer contracts is recognised upon satisfaction of a performance obligation under those contracts either over time in accordance with specified units of production (for example meters drilled or hours worked) or at a point in time when risks and rewards pass to the customer under those contracts (for example the sale or hire of certain items including consumables).

INITIAL APPLICATION OF AASB 9: FINANCIAL INSTRUMENTS

The Group has adopted AASB 9 with a date of initial application of 1 July 2018. As a result, the Group has changed its financial instruments accounting policies as follows.

There were no financial assets/liabilities which the Group had previously designated as fair value through profit or loss under AASB 139: Financial Instruments: Recognition and Measurement that were subject to reclassification/elected reclassification upon the application of AASB 9. There were no financial assets/liabilities which the Group has elected to designate as at fair value through profit or loss at the date of initial application of AASB 9.

The Group applied AASB 9 and the related consequential amendments to other Standards. New requirements were introduced for the classification and measurement of financial assets and financial liabilities as well as for impairment. The date of initial application was 1 July 2018.

The Directors of the Group determined the existing financial assets as at 1 July 2018 based on the facts and circumstances that were present, and determined that the initial application of AASB 9 had the following effects:

- Financial assets as loans and receivables that were measured at amortised cost continue to be measured at amortised cost under AASB 9, as they are held to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

Impairment

As per AASB 9, an expected credit loss model is applied and not an incurred credit loss model as per AASB 139. To reflect changes in credit risk, this expected credit loss model requires the group to account for expected credit loss since initial recognition.

A simple approach is followed in relation to trade receivables, as the loss allowance is measured at lifetime expected credit loss.

The Group reviewed and assessed the existing financial assets on 1 July 2018. The assessment was undertaken to test the impairment of these financial assets using reasonable and supportable information that is available to determine the credit risk of the respective items at the date they were initially recognised and compared that to the credit risk as at 1 July 2017 and 1 July 2018. The assessment was performed without undue cost or effort in accordance with AASB 9.

The Group's financial assets only comprise trade and other receivables. The Group applied the expected credit loss model using a provision matrix which resulted in an insignificant expected credit loss allowance which has not been brought to account on the basis of materiality.

FINANCIAL ASSETS TO WHICH THE IMPAIRMENT PROVISIONS APPLY	ATTRIBUTES OF CREDIT RISK	LOSS ALLOWANCE RECOGNISED ON	
		1 JUL 17	1 JUL 18
Trade and other receivables	The Group uses the simplified approach and recognises lifetime expected credit loss.	-	-

The following table represents the classification and measurement of financial assets and financial liabilities under AASB 9 and AASB 139 at the date of initial application, 1 July 2018.

FINANCIAL INSTRUMENT CATEGORY			CARRYING AMOUNT		
	AASB 139 ORIGINAL	AASB 9 NEW	AASB 139 ORIGINAL	AASB 9 RECOGNITION OF ADDITIONAL LOSS ALLOWANCE	AASB 9 NEW
			\$	\$	\$
Financial assets					
Current and non-current					
Trade and other receivables	Loans and receivables (amortised cost)	Financial assets at amortised cost	17,608,675	-	17,608,675
Cash and cash equivalents	Loans and receivables (amortised cost)	Financial assets at amortised cost	1,863,738	-	1,863,738
Financial liabilities					
Current and non-current					
Trade and other payables	Amortised cost	Financial liabilities at amortised cost	13,163,681	-	13,163,681
Equipment finance and loans	Amortised cost	Financial liabilities at amortised cost	19,948,694	-	19,948,694

3. REVENUE

3(a) INCOME FROM CONTINUING OPERATIONS

	2019	2018
	\$	\$
Revenue from contracts with customers	119,561,886	72,097,433
Interest received	71	13,378
Rental income	215,345	303,314
Other	427,843	286,285
	120,205,145	72,700,410

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

3(b) DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

The Group disaggregates revenue from contracts with customers by commodity, drilling type and client type, as this appropriately depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

	2019	2018
	\$	\$
Commodity		
Coal	74,581,316	40,413,166
Gold	17,129,932	10,851,483
Copper	16,342,739	12,929,057
Lead/zinc/silver	5,252,339	4,334,092
Other	6,255,560	3,569,635
	119,561,886	72,097,433
Drilling type		
Surface drilling	66,280,899	43,847,025
Underground drilling	52,474,777	28,014,308
Other revenue	806,210	236,100
	119,561,886	72,097,433
Client type		
Tier-1 clients	110,317,395	65,226,703
Other clients	9,244,491	6,870,730
	119,561,886	72,097,433
Timing of revenue recognition		
Services transferred over time	103,646,389	57,408,416
Goods transferred at a point in time	15,915,497	14,689,017
	119,561,886	72,097,433

4. CASH AND CASH EQUIVALENTS

For the purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents include cash on hand and in banks, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the year shown in the consolidated statement of cash flows can be reconciled to the related items in the consolidated statement of financial position as follows.

4(a) In funds accounts		
Bank balances	1,596,676	1,863,738
4(b) Bank overdraft		
Bank overdraft	-	-
4(c) Net cash at bank	1,596,676	1,863,738

5. TRADE AND OTHER RECEIVABLES

	2019	2018
	\$	\$
Trade debtors	22,604,062	17,596,306
Less provision for doubtful debts	-	-
Bonds and deposits	171,773	12,369
	22,775,835	17,608,675

5(a) CREDIT RISK AND AGEING OF TRADE DEBTORS

The class of assets described as "trade debtors" is considered to be the main source of credit risk related to the Group. The Group does not hold any collateral over these balances. A single counterparty made up of 25.88% of the total trade receivables at 30 June 2019. \$2,327,137 of the balance included in the total trade and other receivables at 30 June 2019 from this counterparty has not been received as at the date of this report, all outstanding amounts are within payment terms. The ageing of trade debtors (financial assets) is as follows:

	2019	2018
	\$	\$
< 1 month	16,376,521	13,244,810
1 to 3 months	6,222,628	4,273,715
3 to 6 months	4,913	77,781
	22,604,062	17,596,306

6. OTHER ASSETS

	2019	2018
	\$	\$
Current		
Borrowing costs	111,196	68,251
Prepayments	2,238,820	1,154,077
	2,350,016	1,222,328
Non-current		
Borrowing costs	178,383	15,278
Property held for sale	-	18,000
	178,383	33,278

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

7. INVENTORIES

	2019	2018
	\$	\$
Finished goods	2,994,947	2,274,563
	2,994,947	2,274,563

The cost of inventories recognised as an expense during the year in respect of continuing operations was \$16,072,180 (2018: \$10,618,674).

8. INTANGIBLES

	2019	2018
	\$	\$
Customer Contracts		
Opening balance	1,989,629	-
Acquired in business combination	-	2,880,000
Amortisation	(1,989,629)	(890,371)
Closing balance	-	1,989,629

The customer contracts intangible asset was originally recognised as part of the acquisition of Radco Drilling in 2018. These intangibles were subsequently amortised on a straight line basis over the remaining tenure of the contracts which expired on 31 December 2018 and 30 April 2019.

9. TRADE AND OTHER PAYABLES

	2019	2018
	\$	\$
Current		
Trade creditors	10,481,825	7,889,377
Accrued expenses	5,042,488	3,482,965
GST payable	716,855	1,791,339
	16,241,168	13,163,681

9(a) AGEING OF TRADE PAYABLES

	2019	2018
	\$	\$
The ageing of trade creditors (financial liabilities) is as follows:		
< 1 month	4,432,726	5,982,408
1 to 3 months	5,600,993	1,893,043
> 3 months	448,106	13,926
	10,481,825	7,889,377

10. OTHER FINANCIAL LIABILITIES

	2019	2018
	\$	\$
Current		
Equipment finance leases	4,074,157	2,968,319
Property loan	-	2,713,115
Premium funding	816,277	390,235
	4,890,434	6,071,669
Non-current		
Equipment finance leases	5,717,699	5,377,025
Shareholder loan	-	8,500,000
	5,717,699	13,877,025

10(a) FINANCE LEASES

	2019	2018
	\$	\$
Current	4,074,157	2,968,319
Non-current	5,717,699	5,377,025
	9,791,856	8,345,344

Minimum future lease payments

Not later than 1 year	4,484,239	3,304,383
Later than 1 year and not later than 5 years	6,019,600	5,691,709
Minimum future lease payments	10,503,839	8,996,092
Less future finance charges	(711,983)	(650,748)
	9,791,856	8,345,344

Present value of minimum future lease payments

Not later than 1 year	4,074,157	2,968,319
Later than 1 year and not later than 5 years	5,717,699	5,377,025
	9,791,856	8,345,344

Equipment finance leases

The Group leases certain items of equipment under finance leases. The average term is 3.53 years (2018: 3.67 years). The Group's obligations under finance leases are secured by lessor's title to goods under finance lease.

The Group's exposure to interest rate risk has been mitigated in that interest rates have been fixed for the duration of the finance period. Effective interest rates payable under finance leases are between 3.04% and 8.33% (2018: 4.09% and 8.50%).

The fair value of the finance lease liabilities is approximately equal to the carrying amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

Property loan facility

On 20 August 2018, the Group fully repaid the \$2.7m loan which was provided in April 2018 by National Australia Bank. This loan facility was originally obtained to assist in funding the Group's acquisition of Radco Drilling. The loan, which was secured by way of a registered mortgage over the Group's Townsville investment property was repaid following the sale of that property in August 2018 (see Note 12).

Shareholder loan facility

On 11 December 2018, the Group fully repaid the \$8.5m loans that were provided in 2015 by major shareholders Washington H. Soul Pattinson and Company Limited and Mitchell Family Investments (QLD) Pty Ltd. These loans were repaid 18 months earlier than their original expiry date of July 2020 with no fees or penalties applicable for the early repayment.

10(b) LOANS

A summary of borrowing arrangements applicable to all loans is included in note 21(a). Security pledged under these borrowing arrangements is detailed in note 13(a).

10(c) RECONCILIATION OF OTHER FINANCIAL LIABILITIES

	NON CASH CHANGES				
	2018	CASH FLOWS	NEW LEASES	NET SETTLEMENT	2019
Equipment finance leases	8,345,344	(1,626,218)	3,072,730	-	9,791,856
Property loan	2,713,115	(241,014)	-	(2,472,101)	-
Premium funding	390,235	426,042	-	-	816,277
Shareholder loan	8,500,000	(8,500,000)	-	-	-
	19,948,694	(9,941,190)	3,072,730	(2,472,101)	10,608,133

10(d) CREDIT STANDBY ARRANGEMENTS WITH BANKS

	TOTAL	USED	UNUSED
	\$	\$	\$
NAB business overdraft facility	5,000,000	-	5,000,000
NAB leasing facility	25,000,000	4,267,692	20,732,308
NAB corporate card	100,000	86,014	13,986

11. PROVISIONS

	2019	2018
	\$	\$
Annual leave provision - current		
Opening balance	2,650,651	1,213,220
Movement	854,986	1,437,431
Closing balance	3,505,637	2,650,651
Long service leave provision - current		
Opening balance	73,892	27,958
Movement	23,117	45,934
Closing balance	97,009	73,892
Total current provisions	3,602,646	2,724,543
Long service leave provision - non-current		
Opening balance	256,306	181,175
Movement	160,421	75,131
Closing balance	416,727	256,306
Total non-current provisions	416,727	256,306

The above provisions represent annual leave and long service leave entitlements accrued by the Group's employees.

12. ASSETS HELD FOR SALE

On 20 August 2018, the Group sold its investment property located in Townsville for \$2.62m. The investment property previously generated cash flows through rental income and was not used for core business activities. In April 2018 the property was offered as security as part of a \$2.7m property loan obtained from National Australia Bank and proceeds from the sale were used to repay this loan (see Note 10).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

13. PROPERTY, PLANT AND EQUIPMENT

	LAND AND BUILDINGS	PLANT AND EQUIPMENT	MOTOR VEHICLES	FURNITURE AND FITTINGS	TOTAL
	\$	\$	\$	\$	\$
At 1 July 2018					
Cost or fair value	101,473	41,212,515	14,241,390	578,693	56,134,071
Accumulated depreciation	(50,628)	(15,395,839)	(9,680,939)	(266,280)	(25,393,686)
Net book amount	50,845	25,816,676	4,560,451	312,413	30,740,385
Year ended 30 June 2019					
Opening net book amount	50,845	25,816,676	4,560,451	312,413	30,740,385
Additions	-	12,165,160	1,104,977	103,752	13,373,889
Disposals	-	(543,299)	(69,167)	-	(612,466)
Depreciation	(16,299)	(6,964,181)	(1,121,186)	(126,745)	(8,228,411)
	34,546	30,474,356	4,475,075	289,420	35,273,397
At 30 June 2019					
Cost or fair value	101,473	52,568,077	15,120,021	682,445	68,472,016
Accumulated depreciation	(66,927)	(22,093,721)	(10,644,946)	(393,025)	(33,198,619)
Net book amount	34,546	30,474,356	4,475,075	289,420	35,273,397
At 1 July 2017					
Cost or fair value	101,473	35,418,170	14,692,236	361,506	50,573,385
Accumulated depreciation	(32,474)	(13,273,830)	(10,254,128)	(80,574)	(23,641,006)
Net book amount	68,999	22,144,340	4,438,108	280,932	26,932,379
Year ended 30 June 2018					
Opening net book amount	68,999	22,144,340	4,438,108	280,932	26,932,379
Additions	-	7,121,038	1,506,085	122,493	8,749,616
Acquired in Radco Acquisition	-	3,936,883	79,500	5,453	4,021,836
Transfer from Inventory	-	163,773	-	-	163,773
Disposals	-	(2,187,820)	(214,805)	-	(2,402,625)
Depreciation	(18,154)	(5,361,538)	(1,248,437)	(96,465)	(6,724,594)
	50,845	25,816,676	4,560,451	312,413	30,740,385
At 30 June 2018					
Cost or fair value	101,473	41,212,515	14,241,390	578,693	56,134,071
Accumulated depreciation	(50,628)	(15,395,839)	(9,680,939)	(266,280)	(25,393,686)
Net book amount	50,845	25,816,676	4,560,451	312,413	30,740,385

Plant and equipment and motor vehicles comprise mainly of drilling rigs and associated vehicles and equipment. Directors and management continually monitor both domestic and overseas markets on new and used drill rig pricing and availability and as a result are of the opinion that the net written down book value of the Group's property, plant and equipment is less than its recoverable amount.

13(a) ASSETS PLEDGED AS SECURITY

The following has been pledged as security in relation to the Group's bank overdraft and other financial liabilities.

Bank overdraft – National Australia Bank

The advances made under this \$5m facility are secured by a first ranking general security interest over all present and after acquired property of each of the subsidiaries within the Group.

Equipment finance leases – National Australia Bank

The Group has access to a combined \$25 million equipment finance facility with National Australia Bank (NAB). Any outstanding principle balances that exist under this facility is secured over the assets to which the equipment finance facility relates and a first ranking general security charge over the interest over all present and after acquired property of each of the subsidiaries within the Group.

Equipment finance leases – other lenders

The Group has entered into various equipment finance lease arrangements with a range of lenders. Under the terms of these facilities, security is limited to the assets to which the facility relates.

14. INCOME TAX BENEFIT

	2019	2018
	\$	\$
Income tax benefit recognised in profit/(loss)		
Income tax expense comprises		
Current tax	-	-
Deferred tax	4,648,258	(712,068)
Derecognition of deferred tax relating to Radco Drilling acquisition	-	(708,217)
Adjustments recognised in current year in relation to tax of prior years	232,410	-
Recognition of prior year deferred tax asset	(9,419,899)	-
Derecognised tax losses and tax losses not recognised in current year	-	712,068
	(4,539,231)	(708,217)
The income tax benefit for the year can be reconciled to the accounting profit as follows:		
Profit/(loss) before tax from continuing operations	12,828,959	(3,047,994)
Income tax expense calculated at 30%	3,848,688	(914,398)
Effect of expenses that are not deductible in determining taxable profit	799,570	202,330
Derecognition of deferred tax relating to Radco Drilling acquisition	-	(708,217)
Adjustments recognised in current year in relation to tax of prior years	232,410	-
Recognition of prior year deferred tax asset	(9,419,899)	-
Derecognised tax losses and tax losses not recognised in current year	-	712,068
	(4,539,231)	(708,217)

The tax rate used for 2019 and 2018 reconciliations above is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

15. TAX ASSETS AND LIABILITIES

	2019	2018
	\$	\$
Tax assets – current		
Income tax receivable	-	-
Tax assets – non-current		
Deferred tax asset	5,027,750	-
Tax liabilities – current		
Current tax liability	-	1,164,958

15(a) UNRECOGNISED AMOUNTS

	2019	2018
	\$	\$
Unused tax losses	1,724,942	28,006,427
Other unrecognised temporary differences	-	3,848,283
Franking account balance	2,506,249	1,196,734

16. ISSUED CAPITAL

	2019	2018
	\$	\$
Fully paid ordinary shares		
Balance at the beginning of the period	58,245,137	49,454,378
Issue of shares – rights issue	-	6,274,759
Issue of shares – placement	-	2,516,000
Issue of shares – share based payments	-	-
	58,245,137	58,245,137

	2019	2018
	Number of shares	Number of shares
Fully paid ordinary shares		
Balance at the beginning of the period	1,734,965,826	1,471,498,968
Issue of shares – rights issue	-	184,551,759
Issue of shares – placement	-	74,000,000
Vesting of ESOP shares	-	4,915,099
	1,734,965,826	1,734,965,826

17. SHARE ISSUE COSTS

	2019	2018
	\$	\$
Balance at the beginning of the period	(3,070,575)	(2,521,167)
Share issue costs	-	(549,408)
Recognition of deferred tax asset	344,355	-
	(2,726,220)	(3,070,575)

18. RETAINED EARNINGS

	2019	2018
	\$	\$
Balance at the beginning of the period	(34,140,098)	(32,288,242)
Profit/(loss) attributable to owners of the company	17,368,190	(2,339,777)
Dividend declared	(1,734,966)	-
Share based payment transactions (refer note 19)	581,321	487,921
	(17,925,553)	(34,140,098)

On 22 March 2019, the Company declared a fully franked special dividend of 0.1 cents per share. The dividend of \$1,734,966 was paid on 30 July 2019 to all shareholders who were registered at 5pm on 28 June 2019 (record date). There were no dividends paid in respect of the year ended 30 June 2018.

19. SHARE BASED PAYMENT TRANSACTIONS

	2019	2018
	\$	\$
Expense recognised in profit or loss		
<i>Equity-settled share-based payment transactions</i>		
Executive share and option plan	581,321	487,921
Total expense/(income) recognised for equity-settled share-based payment	581,321	487,921

Executive share and option plan

The Group accounts for instruments that are still in their vesting period issued under the Executive Share and Option Plan (ESOP) by recognising the fair value of the relevant equity instruments as an expense over the vesting period.

The fair value of the equity instruments is calculated at each reporting period and vesting conditions are taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount so that, ultimately, the amount recognised for goods or services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

Measurement of fair values

The calculated fair value of the shares issued during the years ended 30 June 2018 and 30 June 2019 under the ESOP was \$212,736 and \$212,076 respectively at 30 June 2019 and has been determined with reference to the closing price of the Company's fully paid ordinary shares.

The calculated fair value at 30 June 2019 of the Options granted during the years ended 30 June 2018 and 30 June 2019 was \$288,087 and \$204,145 respectively and has been determined using the Black-Scholes option pricing model. Expected volatility is estimated by considering historical volatility of comparable company share prices.

The inputs in the measurement of the fair value at 30 June 2019 of the equity-settled share-based payment plans granted during the years ended 30 June 2018 and 30 June 2019 were as follows:

	GRANTED DURING YEAR ENDED 30 JUNE 2018	GRANTED DURING YEAR ENDED 30 JUNE 2019
Share price	\$0.05900	\$0.05900
Exercise price	\$0.07035	\$0.11000
Expected volatility	63%	63%
Time to maturity	8 years	9 years
Risk-free interest rate	1.15%	1.15%
Dividend yield (assumed no dividends paid)	0%	0%
Fair value per option	\$0.0240	\$0.0170
Number of options	13,337,370	13,342,788
Total fair value of options	\$288,087	\$204,145

The calculated fair value of the shares that vested under the ESOP during the year ended 30 June 2019 (which were issued under the ESOP in 2017) was \$179,351 as at the vesting date of 29 June 2019 and has been determined with reference to the closing price of the Company's fully paid ordinary shares.

The calculated fair value of the options that vested under the ESOP during the year ended 30 June 2019 (which were granted under the ESOP in 2017) was \$287,397 as at the vesting date of 29 June 2019 and has been determined using the Black-Scholes option pricing model. Expected volatility is estimated by considering historical volatility of comparable company share prices.

The inputs in the measurement of the fair value at vesting date of the options were as follows:

Share price	\$0.05900
Exercise price	\$0.05390
Expected volatility	63%
Time to maturity	7 years
Risk-free interest rate	1.15%
Dividend yield (assumed no dividends paid)	0%
Fair value per option	\$0.0284
Number of options	10,119,610
Total fair value of options	\$287,397

20. RECONCILIATION OF PROFIT/(LOSS) FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	2019	2018
Profit/(loss) for the year	17,368,190	(2,339,777)
Adjustments for:		
Depreciation and amortisation	10,218,040	7,614,965
Profit on sale of assets	(313,583)	(996,254)
Loss on sale of assets	45,425	134,230
Gain on Bargain Purchase	-	(350,663)
Change in fair value of asset held for sale	-	419,312
Income tax benefit	(4,539,231)	(708,217)
Change in trade and other receivables	(5,039,770)	(10,565,660)
Change in other assets	(1,272,793)	(356,052)
Change in inventories	(720,384)	(981,363)
Change in trade payables and accruals	1,743,811	4,953,692
Change in insurance premium funding balance	426,042	76,496
Change in provisions	1,038,524	1,558,496
Recognition of share based payment	581,322	487,921
Income tax paid	(1,309,121)	(221,444)
	18,226,472	(1,274,318)

21. FINANCIAL RISK MANAGEMENT

The Group's financial instruments mainly consist of deposits with banks, trade receivables and payables and borrowings and leases from financial institutions. The Board of Directors are responsible for monitoring and managing the financial risks. They monitor these risks through regular meetings with the Group's management. The Group does not enter into derivative financial instruments and does not speculate in any type of financial instrument.

Specific financial risk exposures and management thereof

The main risks the Group is exposed to through its financial instruments are interest rate risk, liquidity risk and credit risk. There have been no substantive changes in the types of risks the Group is exposed to, how these risks arise, or the Board's objectives, policies and processes for managing or measuring the risks from the previous reporting period.

21(a) Interest rate risk

Exposure to interest rate risk arises on financial assets and liabilities recognised at reporting date whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group is also exposed to earnings volatility on floating rate instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

The following tables set out the Group's exposure to interest rate risk.

		EXPECTED DURATION UNTIL REPAYMENT				
2019		WITHIN 1 YEAR	1 TO 2 YEARS	2 TO 3 YEARS	MORE THAN 3 YEARS	TOTAL
		\$	\$	\$	\$	\$
Bank overdraft	(a)	-	-	-	-	-
Equipment finance leases	(b)	4,074,157	2,870,835	2,792,943	53,921	9,791,856
Premium insurance	(c)	816,277	-	-	-	816,277
Shareholder loan		-	-	-	-	-
Property loan		-	-	-	-	-
		4,890,434	2,870,835	2,792,943	53,921	10,608,133

- a. Interest rate is variable and calculated at NAB's business overdraft indicator rate (currently 7.12%) less a customer discount of 2.77%.
- b. Interest rates are commercial lease finance rates and are fixed for the duration of the loan period.
- c. Interest rate is fixed at a flat rates of 3.09% and 3.30% of the amount initially financed.

		EXPECTED DURATION UNTIL REPAYMENT				
2018		WITHIN 1 YEAR	1 TO 2 YEARS	2 TO 3 YEARS	MORE THAN 3 YEARS	TOTAL
		\$	\$	\$	\$	\$
Bank overdraft	(a)	-	-	-	-	-
Equipment finance leases	(b)	2,968,319	3,393,685	1,808,376	174,965	8,345,344
Premium insurance	(c)	390,235	-	-	-	390,235
Shareholder loan	(d)	-	-	8,500,000	-	8,500,000
Property loan	(e)	2,713,115	-	-	-	2,713,115
		6,071,669	3,393,685	10,308,376	174,965	19,948,694

- a. Interest rates are fixed at a flat rate of 6.30% of drawn funds.
- b. Interest rates are commercial lease finance rates and are fixed for the duration of the loan period.
- c. Interest rate is fixed at a flat rates of 3.30% and 2.69% of the amount initially financed.
- d. Interest is fixed at 10.00% for the duration of the loan period.
- e. Interest rates have varied between 6.050% and 6.085% per annum.

21(b) Liquidity risk

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

The Group manages this risk through the following mechanisms:

- ensuring that there is access to adequate capital;
- preparing forward looking cash flow analyses in relation to its operational, investing and financial activities;
- monitoring undrawn credit facilities;
- obtaining funding from a variety of sources;
- maintaining a reputable credit profile;
- managing credit risk related to financial assets;
- investing surplus cash only with major financial institutions; and
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

The table below reflects an undiscounted contractual maturity analysis for financial liabilities, compared with financial assets. Bank overdrafts have been excluded from the analysis below as management does not consider that there is any material risk that the bank will terminate such facilities.

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflect the earliest contractual settlement dates and do not reflect management's expectations that banking facilities will be rolled forward. The deficiency identified in the table will be met from cash flows generated by the Group's normal operations.

Financial liability and financial asset maturity analysis

	WITHIN 1 YEAR		1 TO 7 YEARS		TOTAL	
	2019	2018	2019	2018	2019	2018
	\$	\$	\$	\$	\$	\$
Financial liabilities due for payment						
Trade and other payables (excluding estimated employee entitlements)	16,241,168	13,163,681	-	-	16,241,168	13,163,681
Dividend payable	1,734,966	-	-	-	1,734,966	-
Financial liabilities	4,890,434	6,071,669	5,717,699	13,877,025	10,608,133	19,948,694
Total contractual outflows	22,866,568	19,235,350	5,717,699	13,877,025	28,584,267	33,112,375
Total expected outflows	22,866,568	19,235,350	5,717,699	13,877,025	28,584,267	33,112,375
Financial assets – cash flows realisable						
Cash and cash equivalents	1,596,676	1,863,738	-	-	1,596,676	1,863,738
Trade and other receivables	22,775,835	17,608,675	-	-	22,775,835	17,608,675
Total anticipated inflows	24,372,511	19,472,413	-	-	24,372,511	19,472,413
Net (outflow)/inflow on financial instruments	1,505,943	237,063	(5,717,699)	(13,877,025)	(4,211,756)	(13,639,962)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

21(c) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade and other receivables from customers. The Group has adopted a policy of only dealing with creditworthy counterparties and uses publicly available financial information and its own trading records to rate its customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored to mitigate financial loss. The maximum exposure to credit risk by class of recognised financial assets at balance date, excluding the value of any collateral or other security held, is equivalent to the carrying value and classification of those financial assets (net of any provisions) as presented in the Consolidated Statement of Financial Position.

Details with respect to credit risk of trade and other receivables is provided in note 5(a).

All trade and other receivables (whether due or past due) are considered to be of high credit quality. Aggregates of such amounts are detailed at note 5(a).

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

22. NET FAIR VALUES

Fair value estimation

The carrying values of financial assets and financial liabilities as detailed in the Consolidated Statement of Financial Position and these notes approximate their fair values at reporting date.

23. RELATED PARTY TRANSACTIONS

23(a) Related parties

The Group's main related parties are as follows.

(i) Entities exercising control over the Group

The ultimate parent entity that exercises control over the Group is Mitchell Services Ltd ACN 149 206 333. The subsidiary companies in the Group are:

ENTITY NAME	ACN	OWNERSHIP INTEREST HELD BY THE GROUP
Notch Holdings Pty Ltd	009 271 461	100%
Well Drilled Pty Ltd	123 980 343	100%
Mitchell Operations Pty Ltd	165 456 066	100%
Notch No. 2 Pty Ltd	606 170 138	100%
Mitchell Services Share Plan Pty Ltd	610 901 221	100%
Radco Technologies Pty Ltd	137 688 227	100%
Radco Group Australia Pty Ltd	137 688 745	100%

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

(ii) Key management personnel

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

Disclosures relating to Key Management Personnel are set out in the Remuneration Report.

(iii) Other related parties

Other related parties include entities over which KMP have control or joint control.

23(b) Transactions with related parties

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

Manutech Engineering and Maintenance

The Group engages Manutech Engineering and Maintenance to purchase parts and in some instances perform repair and maintenance type services. Manutech Engineering and Maintenance is an entity controlled by Peter Miller. The amount incurred during the reporting period in relation to these services was \$385,867 including GST. Amounts were billed on normal market rates for such services and were due and payable under normal payment terms. An amount of \$74,076 remains owing to this related entity at the end of the reporting period.

Equipment Hub Pty Ltd

Nathan Mitchell is a significant shareholder of Equipment Hub Pty Ltd. In order to satisfy specific contract requirements, the Group hired plant and equipment not available in its fleet from Equipment Hub. Equipment Hub also provide other ancillary services to the Group from time to time. Net hire of plant and equipment from this related entity for the reporting period amounted to \$845,167 including GST and was based on normal market rates and under normal payment terms. Fees for other services amounted to \$1,950 including GST. An amount of \$147,256 remains owing to this related entity at the end of the reporting period.

MEH Equipment Hire Pty Ltd

On 5 October 2016, the Group entered into a vendor finance asset sale agreement with MEH Equipment Hire Pty Ltd (which at the time was an entity controlled by Nathan Mitchell) for the purchase of a Schramm T685 truck-mounted drill rig for \$798,600 including GST. The purchase price was determined based on normal market rates and the interest rate on outstanding amounts is 5% per annum. On 5 October 2018, the Group fully repaid the loan.

Mitchell Family Investments (QLD) Pty Ltd

Mitchell Family Investments (QLD) Pty Ltd is an entity controlled by Nathan Mitchell. The Group leases the majority of the premises located at 112 Bluestone Circuit, Seventeen Mile Rocks Brisbane, which is owned by Mitchell Family Investments (QLD) Pty Ltd. The rental associated with this property for the reporting period amounted to \$298,920 net of applied rental reductions associated with the revised lease. An amount of \$83,805 remains owing to this related entity at the end of the reporting period.

On 6 July 2015, the Group entered into a 5 year debt facility agreement of \$3.5million with Mitchell Family Investments (QLD) Pty Ltd at an interest rate of 10%. On 11 December 2018, the Group fully repaid the loan with no fees or penalties for early repayment.

As part of an asset optimisation strategy (that included a comprehensive public sales and marketing campaign), the Group sold surplus assets during the reporting period including assets with a written down value of \$85,197 sold to Mitchell Family Investments for \$110,000, representing current market value.

Mitchell Group Pty Ltd

Mitchell Group Pty Ltd is an entity controlled by Nathan Mitchell. On 30 November 2016, the Group entered into a licence deed with Mitchell Group for the use by Mitchell Group of a designated area within 112 Bluestone Circuit, Seventeen Mile Rocks Brisbane. There are no rental charges associated with this property and Mitchell Group used the designated area under the licence deed for the duration of the reporting period.

Mitchell Family Superannuation Fund

Mitchell Family Superannuation Fund is an entity controlled by Nathan Mitchell. On 30 November 2016, the Group entered into a licence deed with Mitchell Family Superannuation Fund for the use by the Group of 119 Thomas Mitchell Drive, Muswellbrook to facilitate the Group's expansion into NSW. There are no rental charges associated with this property and The Group used occupied this property under the licence deed for the duration of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

24. KEY MANAGEMENT PERSONNEL

Refer to the Remuneration Report contained in the Directors' Report for details of the remuneration paid or payable to each member of the Group's KMP for the year ended 30 June 2019.

25. AUDITORS REMUNERATION

During the year, the following fees were paid or payable for services provided by the auditor or its related practices:

	2019	2018
	\$	\$
Audit and review of financial statements	106,655	96,825
Other	-	-
	106,655	96,825

26. COMMITMENTS

26(a) OPERATING LEASE COMMITMENTS

Operating leases relate to leases of land and buildings with varying lease terms not exceeding five (2018: five) years. Some lease contracts contain provision for market rental reviews within the remaining lease term.

Non-cancellable operating lease commitments:

	2019	2018
	\$	\$
Not later than 1 year	605,853	495,436
Between 1 and 3 years	558,285	734,587
Later than 3 years	-	155,950
	1,164,138	1,385,973

26(b) CAPITAL COMMITMENTS

As at 30 June 2019, the Group had outstanding capital commitments of approximately \$4.0m relating to the acquisition of three drilling rigs.

27. EARNINGS PER SHARE

	2019	2018
	\$	\$
Basic earnings per share		
From continuing operations	1.00	(0.14)
Diluted earnings per share		
From continuing operations	0.99	(0.14)

Basic earnings per share is calculated using earnings and weighted average number of ordinary shares as follows:

	2019	2018
	\$	\$
Profit/(loss) for the year attributable to owners	17,368,190	(2,339,777)
Weighted average number of ordinary shares	1,734,965,826	1,640,334,238

Diluted earnings per share is calculated using earnings and weighted average number of ordinary shares as follows:

	2019	2018
	\$	\$
Profit/(loss) for the year attributable to owners	17,368,190	(2,339,777)
Weighted average number of ordinary shares	1,751,328,221	1,640,334,238

28. SUPERANNUATION CONTRIBUTIONS

The Group contributes superannuation on behalf of qualifying employees to superannuation funds. The Group is required to make specified contributions in accordance with contractual employment and statutory obligations. The total expense recognised in the statement of profit or loss and other comprehensive income of \$4,448,847 (2018: \$2,937,554) represents the contributions payable by the Group to these plans in accordance with contractual employment and statutory obligations. As at 30 June 2019, contributions of \$1,007,565 due in respect of the 2019 reporting period (2018: \$842,568) had not been paid over to the plans. These amounts were paid subsequent to the end of the 2019 reporting period.

29. OPERATING SEGMENTS

29(a) The Group operates primarily within Australia, providing services wholly to a discrete industry segment (provision of drilling services to the mining industry). These geographic and operating segments are considered based on internal management reporting and the allocation of resources by the Group's chief decision makers (Board of Directors). On this basis, the financial results of the reportable operating and geographic segments are equivalent to the financial statements of the Group as a whole and no separate segment reporting is disclosed in these financial statements.

29(b) The Group generates revenue from external customers who individually account for greater than 10% of the Groups total revenue. The below table sets out the applicable revenue percentage generated from each of these customers.

	2019	2018
	\$	\$
External Customer 1	30.88%	22.05%
External Customer 2	17.92%	7.67%
External Customer 3	14.48%	16.36%
External Customer 4	10.85%	23.30%

30. EVENTS AFTER THE REPORTING DATE

There has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Mitchell Services Limited, the Directors of the company declare that:

- the financial statements and notes, as set out on pages 28 to 61, are in accordance with the *Corporations Act 2001* and:
 - comply with Australian Accounting Standards applicable to the Group, which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards; and
 - give a true and fair view of the financial position as at 30 June 2019 and of the performance for the year ended on that date of the consolidated group;
- in the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- the Directors have been given the declarations required by s 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer.



Nathan Mitchell
Executive Chairman

Dated at Brisbane this 23rd day of August 2019



INDEPENDENT AUDITOR'S REPORT TO THE OWNERS OF MITCHELL SERVICES LIMITED (ABN 31 149 206 333) AND CONTROLLED ENTITIES

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

OPINION

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

In our opinion the accompanying financial report of Mitchell Services Limited and Controlled Entities is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended; and
- complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

BASIS FOR OPINION

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

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Limited liability by a scheme approved under professional standards legislation.

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 for the year ended 30 June 2019. 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.

Revenue Recognition

This is a key audit matter given that it is material to the Group's results and the rates at which revenue is charged to customers is complex and varies depending on the type of drilling service performed and whether the drilling service is coal or minerals based.

Our audit procedures to address the risk of material misstatement relating to the determination and recognition of drilling service revenue included:

- We reviewed the Group's revised accounting policies in light of the newly adopted AASB 15: *Revenue from Contracts with Customers* to ensure that these policies were consistent with that Standard.
- We obtained a detailed understanding of the revenue streams and the processes for calculating and recording revenue ensuring that these were consistent with the newly adopted AASB 15: *Revenue from Contracts with Customers*. We also gained an understanding of the key internal controls in place to ensure that recorded revenue had occurred and was accurate and that revenue had been completely recorded. We tested these controls on a sample basis to ensure that they were operating effectively throughout the year.
- We tested a sample of revenue transactions to the daily drilling reports (which are signed by the customer), to signed contracts (ensuring rates charged were accurate) and to receipt of funds in the Group's bank account.
- We tested a sample of revenue earning activities from the daily drilling reports to customer invoices ensuring that revenue earned had been recorded as revenue.
- We reviewed credit notes raised after year end to ensure that relevant adjustments were made to 2019 financial year revenues where required.
- We performed analytical review procedures to determine key movements in revenue and corroborated these movements against supporting documentation.

Deferred Tax Asset Recoverability

The Group derecognised its deferred tax asset during the 2015 financial year in accordance with AASB 112: *Income Taxes*. During the 2019 financial year, the Group undertook a reassessment in this regard and decided to recognise its previously unrecognised deferred tax asset on the basis that it had become probable that future taxable profit would allow the deferred tax asset to be recovered.

Our audit procedures to address the risk of material misstatement relating to the recognition of the deferred tax asset included:

- Ensuring that the Group's carry forward tax losses satisfied the relevant income tax legislation tests that allow those losses to be utilised as a deduction in future income tax years (noting that this is an ongoing process which is assessed to the end of the income year in which the loss is recouped).
- Reviewing the Group's compliance with the recognition requirements as set out in AASB 112: *Income Taxes* relating to the recognition of a previously unrecognised deferred tax asset.

- We performed relevant testing on the Group's deferred tax calculations to ensure their accuracy and completeness.
- We reviewed the Group's 2020 financial year budget (including statement of profit or loss, statement of financial position and statement of cash flows) to support the Group's decision that it had become probable that future taxable profit would allow the deferred tax asset to be recovered. In particular, we:
 - Discussed all assumptions and risks within the budget with the Group and critically assessed these in light of other audit evidence obtained and our understanding of the business and industry over the short-term.
 - We satisfied ourselves as to the revenue projection within the budget with respect to contracted revenue.
 - We satisfied ourselves as to the budgeted gross profit margin included in the budget with respect to margins achieved during the 2019 financial year.
 - We reviewed budgeted overhead expenditures in light of the 2019 financial year adjusted for future plans and intentions to ensure they were reasonable.

INFORMATION OTHER THAN THE FINANCIAL REPORT AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon. Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon. In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL REPORT

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL REPORT

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



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

REPORT ON THE REMUNERATION REPORT

We have audited the remuneration report included in pages 14 – 20 of the directors' report for the year ended 30 June 2019.

In our opinion, the remuneration report of Mitchell Services Limited, for the year ended 30 June 2019, complies with s 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 s 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.

JESSUPS

Paul Sapelli
Director

Level 1, 19 Stanley Street, Townsville QLD 4810

Dated this 23rd day of August 2019

ADDITIONAL AUSTRALIAN STOCK EXCHANGE INFORMATION

The following information is current as at 9 August 2019.

MSV QUOTED ORDINARY SHARES

SPREAD OF HOLDINGS	NUMBER OF HOLDERS	SHARES	% OF TOTAL CAPITAL ISSUED
1 – 1,000	20	2,619	0.00%
1,001 – 5,000	19	57,121	0.00%
5,001 – 10,000	74	666,970	0.04%
10,001 – 100,000	1,132	52,750,024	3.03%
Greater than 100,000	803	1,688,905,947	96.93%
Total	2,048	1,742,382,681	100.00
Holding less than a marketable parcel	49	130,678	0.01%

THE TWENTY LARGEST LISTED SECURITY HOLDERS COMPRISE:

RANK	SHAREHOLDER	ORDINARY SHARES	% OF TOTAL CAPITAL ISSUED
1	Mitchell Group Holdings Pty Ltd	198,883,930	11.41
2	Mitchell Family Investments (Qld) Pty Ltd	153,842,569	8.83
3	Washington H Soul Pattinson And Company Limited	129,546,612	7.44
4	HSBC Custody Nominees (Australia) Limited	116,318,490	6.68
5	CVC Limited	80,914,147	4.64
6	J P Morgan Nominees Australia Pty Limited	77,557,208	4.45
7	Farjoy Pty Ltd	63,129,050	3.62
8	Washington H Soul Pattinson And Company Limited	38,795,655	2.23
9	Banjo Superannuation Fund Pty Ltd	21,907,500	1.26
10	Sonya Miller	19,816,810	1.14
11	Peter Miller	19,816,809	1.14
12	Australian Executor Trustees Limited	18,831,469	1.08
13	Mrs Tracey Lee Cunningham	16,506,002	0.95
14	Douglas Financial Consultants Pty Ltd	14,823,552	0.85
15	Patricia Property Investments Pty Ltd	13,000,000	0.75
16	Carinda Pty Ltd	12,000,000	0.69
17	Mr Simon Robert Evans & Mrs Kathryn Margaret Evans	11,753,464	0.67
18	Safari Capital Pty Ltd	11,400,000	0.65
19	Berne No 132 Nominees Pty Ltd	11,239,284	0.65
20	Mr Angus Douglas	11,000,000	0.63
Total		1,041,082,551	59.76

ADDITIONAL AUSTRALIAN STOCK EXCHANGE INFORMATION

UNQUOTED AND RESTRICTED SECURITIES

The following options granted as part of the Employee Share and Option Plan are on issue. The exercise of these options is subject to vesting conditions. For more information, refer to the Directors’ Report.

CLASS	NUMBER OF OPTIONS
Management options	54,396,118

SUBSTANTIAL SHAREHOLDERS

The following is a summary of the current substantial shareholders pursuant to notices lodged with the ASX in accordance with section 671B of the Corporations Act:

NAME	DATE OF NOTICE	ORDINARY SHARES ⁽¹⁾	% OF TOTAL CAPITAL ISSUED ⁽²⁾
Mitchell Group Holdings Pty Ltd and associates	26 Oct 2015	292,888,177	20.74%
Washington H Soul Pattinson and Company Limited	14 Jun 2019	170,342,267	9.78%
Brickworks Limited and subsidiaries	18 Jun 2019	170,342,267	9.78%
CVC Limited	26 Apr 2018	102,644,147	5.92%

(1) As disclosed in the most recent notice lodged with the ASX by the substantial shareholder
(2) The percentage set out in the notice lodged with the ASX is based on the total share capital at the date of interest

VOTING RIGHTS

Ordinary shares

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

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.

No other classes of securities have voting rights.

CORPORATE DIRECTORY

BOARD OF DIRECTORS

Executive Chairman
Nathan Andrew Mitchell

Directors
Peter Richard Miller
Robert Barry Douglas
Neal Macrossan O’Connor

Chief Executive Officer
Andrew Michael Elf

Chief Financial Officer and Company Secretary
Gregory Michael Switala

REGISTERED OFFICE

Mitchell Services Ltd
ABN 31 149 206 333
112 Bluestone Circuit
Seventeen Mile Rocks Qld 4073

PRINCIPAL PLACE OF BUSINESS

112 Bluestone Circuit
Seventeen Mile Rocks Qld 4073

PO Box 3250
Darra Qld 4076

P: 07 3722 7222
F: 07 3722 7256
W: mitchellservices.com.au

SHARE REGISTRY

Link Market Services
10 Eagle Street
Brisbane Qld 4000

P: 07 3320 2200
F: 02 9287 0309
W: linkmarketservices.com.au

AUDITORS

Jessups
Level 1, 19 Stanley Street
Townsville Qld 4810

P: 07 4755 3330
F: 07 4721 4513
W: jessupsnq.com.au

TAXATION ADVISORS

PricewaterhouseCoopers
480 Queen Street
Brisbane Qld 4000

P: 07 3257 5000
F: 07 3257 5999
W: pwc.com.au

BANKERS

National Australia Bank
Level 17, 259 Queen Street
Brisbane Qld 4000

P: 13 2265
F: 1300 882 536
W: nab.com.au



Mitchell
SERVICES

