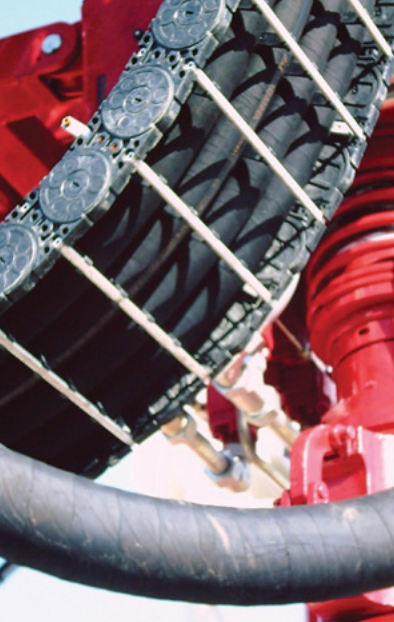




Mitchell  
SERVICES



# ANNUAL REPORT

2014



**Mitchell**  
SERVICES

**MITCHELL SERVICES LTD**

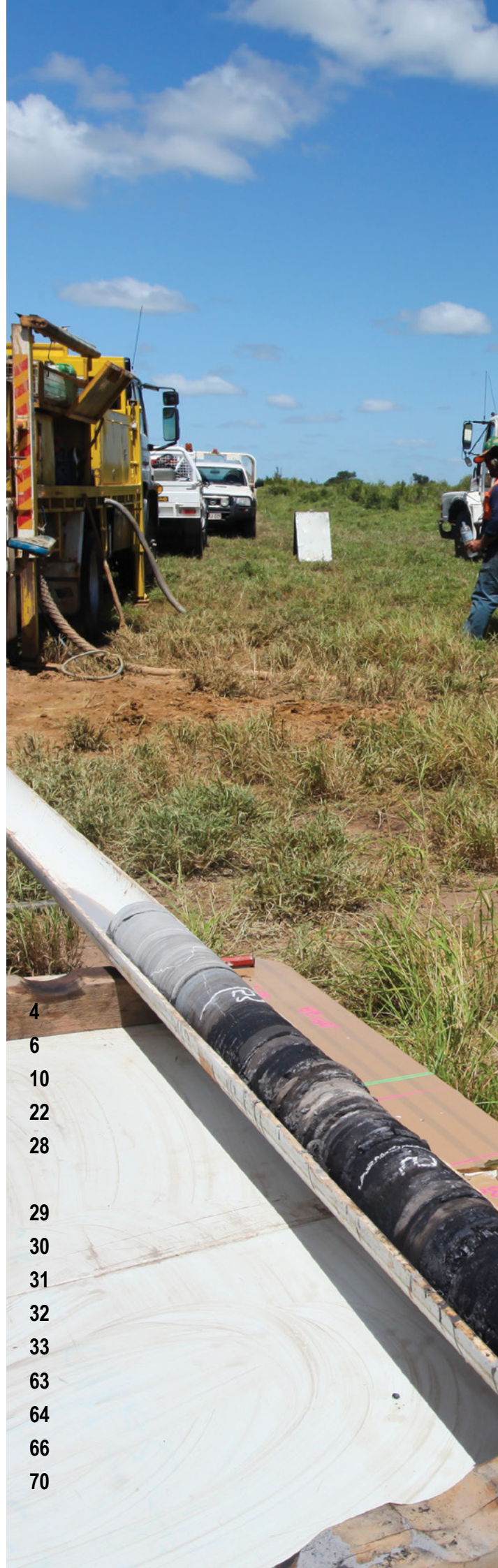
**ACN 149 206 333**

ANNUAL REPORT

30 JUNE 2014

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# ANNUAL REPORT 2014



## CHAIRMAN'S REPORT

I am pleased to present the annual report for the year ended 30 June 2014.



**Nathan Andrew Mitchell**  
Executive Chairman

The Drill Torque board embarked on a 'change program' from May 2013 during which a number of proposals were considered. The Mitchell Group proposal was considered to be the best option to deliver shareholder value over time and was approved by shareholders at the Annual General Meeting on 29 November 2013, culminating in the creation of Mitchell Services Limited.

*'Mitchell Services Limited evolved from the merger of two different businesses and pioneering drilling families, which have specialised in various segments of the drilling market'*

On 22 August 2014 the company announced to the market that it had entered into a sale agreement to acquire 29 drill rigs and ancillary equipment from the receivers of Tom Browne Drilling Services and had commenced a capital raising of circa \$20.2m (fully underwritten) to fund the proposed acquisition and provide additional working capital.

Previously, it took Mitchell Drilling Contractors nearly forty years to grow to 30 rigs which led to the sale of that business for \$150m in 2008. The current acquisition of Tom Browne Drilling Services' assets will double our rig count to 58, significantly increasing Mitchell Services' capability. This is a compelling bottom-of-the market investment with significant upside if general market conditions improve.

Building the foundations of Mitchell Services, although costly, has led to successfully winning a number of new contracts, including Tier 1 clients which were previously out of reach of the company. We have diligently built a world class management and operational team, who are focused on reaching our growth objectives. Through the successful recent capital raising, we have attracted a number of sizeable institutional investors into our shareholder base, broadening support for further growth opportunities.

*'Mitchell Services Limited is building a strong foundation for future growth'*



A cyclical market presents opportunity: this is why I decided to re-enter the Australian marketplace after the expiry of a five-year non-compete period. As the market was at a low point I believed it was the right time to invest. As this is the bottom of a cycle, the year ended 30 June 2014 represented a difficult year for the company as subdued general market conditions persisted in the exploration and mining industries. These conditions, combined with many one off costs associated with the transformation of the business, are reflected in the financial performance for the year ended 30 June 2014. It is however pleasing to note that revenue has increased from a low of \$0.305m in September 2013 to a high of \$2.015m in July 2014.

A contra-cyclical move in a depressed market is not an easy decision, but the rewards are multiplied on the return to normal market conditions. I would like to thank current shareholders for their on-going support and welcome new shareholders that participated in the recent capital raise.

On behalf of the Board, I would like to thank the Senior Executive team for their efforts in leading the business transformation. I would also like to recognise the broader team that enables Mitchell Services to be recognised for its operational excellence across a wide range of commodities and market sectors.



Nathan Andrew Mitchell  
Executive Chairman

THE CURRENT  
ACQUISITION OF TOM  
BROWNE DRILLING  
SERVICES' ASSETS  
WILL DOUBLE OUR  
RIG COUNT TO

58

SIGNIFICANTLY  
INCREASING  
MITCHELL SERVICES'  
CAPABILITY

## CHIEF EXECUTIVE OFFICER'S REPORT ON OPERATIONS FOR THE YEAR ENDED 30 JUNE 2014



**Andrew Michael Elf**  
Chief Executive Officer

It has been a transformational year and this has come at a cost. However, the business is now positioned to deliver on our vision of being Australia's leading provider of drilling services to the global exploration, mining and energy industries. The transformation has seen us create a drilling company that has all of the systems, structures, procedures and certifications that you would expect given Mitchell Group's forty-plus years' experience in the drilling industry.

I am pleased with the progress the company has made since the merger of Mitchell Services with Drill Torque. The key points below demonstrate the considerable work undertaken and achievements following the merger.

- The company has won approximately \$30m worth of contracts by revenue since the merger including contracts with three 'Tier 1' clients. Tier 1 clients being major mining and energy companies.
- Rig utilisation has increased from four to twelve rigs.
- Fourteen rigs are under tender at the current time with Tier 1 clients and enquiry levels continue to grow.
- A review and implementation of industrial relations strategy to increase flexibility across the business has been completed.
- The company has relocated its operational base to new Emerald premises and its corporate office to new Brisbane premises.
- The company has rented its Townsville facility to a major global defence contractor, creating a valuable stand-alone property investment that can potentially be divested in the medium term.
- An auction of surplus equipment has been undertaken.
- The company has negotiated access to \$3.4m worth of equipment with an attractive buyout option through a rental agreement.
- Importantly, the company has achieved ISO-14001, ISO-9001, OHSAS-18001 and AS/NZS 4801 safety, environment and quality certifications.

## THE FUTURE

The team's top priorities in the year ahead are listed below. I look forward to releasing quarterly reports to provide updates on our progress.

1. Continue to improve the standards in the health and safety of our people.
2. Meet and exceed the high standard of service that our clients expect from Mitchell Services.
3. Integrate the Tom Browne Drilling Services assets and inventory.
4. Increase rig utilisation with a view to increasing shareholder value in the medium to long term.

I would like to thank the Board for their on-going support and guidance, my senior executive and all of our teams that have worked so hard to achieve so much in such a short time. I look forward to a safe and productive year ahead.



Andrew Michael Elf  
Chief Executive Officer

APPROXIMATELY

**\$30M**

WORTH OF  
CONTRACTS

RIG UTILISATION HAS  
INCREASED FROM

**4** TO **12** RIG

## CURRENT BUSINESS SUMMARY

# VISION

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

REVENUE FOR  
2013/14  
FULL YEAR

**\$15.01M**

**29** RIGS IN CURRENT FLEET AND  
ACQUIRING ANOTHER **29** RIGS

RIG  
UTILISATION  
INCREASED  
FROM **4** RIGS  
TO **12** RIGS

**80+**  
EXPERIENCED  
EMPLOYEES

**50%**  
OF UTILISED RIGS ARE WORKING  
FOR TIER 1 CLIENTS

AS AT 30 JUNE  
NO LOST TIME  
INJURIES  
SINCE  
TRANSACTION  
COMPLETION







## DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2014

The directors of Mitchell Services Ltd submit herewith the annual report of the company for the financial year ended 30 June 2014. 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 has been involved in the drilling industry for virtually his entire life and has been with Mitchell since the company's earliest days. With a career spanning almost 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 Holdings Pty Ltd including Ports, Energy, and Equipment. Previously, as CEO for Mitchell Drilling Contractors the company doubled in size and Mr Mitchell directed an international expansion expanding into India, China, Indonesia, the United States and various countries in southern Africa. Other directorships include Tlou Energy Pty Ltd (ASX:TOU), VMW Engineering Pty Ltd and Tom Browne International Pty Ltd.

At the date of this report, Mr Mitchell has relevant interests in 86,650,890 shares and 94,607,500 options.

#### **David John Fairfull B.Com, ACIS, CPA, ASIA, MAICD (Non-Executive Chairman)**

Mr Fairfull was appointed as director on 8 February 2011 and ceased to be a director following his resignation on 20 March 2014. Mr Fairfull was also a member of the Audit and Risk Committee and Remuneration and Nomination Committee until his resignation on 20 March 2014.

As at 20 March 2014 Mr Fairfull had relevant interests in 5,400,000 shares and 270,000 options.

#### **Ralph Howard Craven BE PhD FIEAust FIPENZ FAICD CPEng (Non-Executive Director)**

Dr Craven was appointed as director on 27 May 2011 and continues in office at the date of this report.

Dr Craven has a professional background in the energy and resources sector having previously been CEO to the predecessor to Ergon Energy and CEO of Transpower New Zealand Ltd which owns and operates the National Grid. Dr Craven held senior executive positions with Shell Coal Pty Ltd and NRG Asia Pacific Limited. Dr Craven is currently Non-Executive Director of Senex Energy Limited, Invion Limited, AusNet Services Limited and Windlab Ltd. Dr Craven was previously Chairman of Ergon Energy Corporation Limited, Australian Electricity Systems Pty Ltd, Tully Sugar Limited and Deputy Chairman of Arrow Energy Limited. Dr Craven is Chair of the Audit and Risk Committee and the Remuneration and Nomination Committee.

At the date of this report, Dr Craven has relevant interests in 1,779,857 shares and 10,000 options.

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

Mr Miller was appointed as director on 8 February 2011 and continues in office at the date of this report. Mr Miller stepped down from his senior management position on 17 May 2013 but continued on as a non-executive director. Mr Miller founded Drill Torque in 1992 with 1 drill rig which grew to 29 rigs. Mr Miller has been involved in all aspects of the drilling industry for the past 29 years. 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 structure 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 42,433,619 shares and 4,208,362 options.

**Guy Hamish Drummond B.Econ, CA (Non-Executive Director)**

Mr Drummond was appointed as director on 8 February 2011 and ceased to be a director following his resignation on 29 November 2013.

As at 29 November 2013 Mr Drummond had relevant interests in 9,131,857 shares and 762,000 options

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

Mr Douglas was appointed a Non-Executive Director on 29 November 2013. Mr Douglas has over 15 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 time Mr Douglas has worked extensively with energy and resource companies. Mr Douglas has been a member of the Audit and Risk Committee and the Remuneration and Nomination Committee since 20 March 2014.

At the date of this report, Mr Douglas has relevant interests in 475,202 shares and 2,500 options.

**Grant Eric Moyle**

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

Mr Moyle is the Chief Executive Officer of Mitchell Group Holdings 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 556,000 shares.

**COMPANY SECRETARY**

Robert Ian Witty was appointed to the position of company

secretary on 8 February 2011. Mr Witty also holds the position of chief financial officer.

Mr Witty joined Drill Torque in August 2009 after 38 years' experience in retail and business banking and 2 years' experience as a senior manager with Pricewaterhouse Coopers.

Mr Witty has an Associate Diploma of Business (Accounting) and a Graduate Certificate in Management and is a Fellow of the Institute of Public Accountants and is currently Chairman of the Townsville Diocesan Development Fund (Catholic Diocese of Townsville).

**PRINCIPAL ACTIVITIES**

The consolidated entity's principal activities during the course of the financial year were the provision of exploration and mine site drilling services to the mining industry.

There were no significant changes in the nature of the activities of the consolidated entity during the year.

**REVIEW OF OPERATIONS**

The consolidated entity's operating result after income tax for the year ended 30 June 2014 was a loss of \$4,607,258 (2013: \$1,912,438 loss).

Further detailed comments on operations up to the date of this report are included separately in this annual report in the Chairman's Report.



## DIRECTORS' REPORT CONTINUED FOR THE YEAR ENDED 30 JUNE 2014

### CHANGES IN STATE OF AFFAIRS

#### Acquisition of Mitchell Operations Pty Ltd (formerly Mitchell Services Pty Ltd)

On 29 November 2013, the Group's parent entity, Mitchell Services Limited, acquired all of the issued shares in Mitchell Operations Pty Ltd (Mitchell Services Pty Ltd changed its name to Mitchell Operations Pty Ltd on 10 December 2013). The entity acquired includes drilling and wireline logging contracts and senior management team members to lead and drive the business forward. The directors believe that the acquisition will have a marked effect on the current operations of the Group and will provide a platform to accelerate the Group's long held strategic objective to become a national "tier one" drilling operation. This acquisition was approved by shareholders at the Annual General Meeting on 29 November 2013.

The consideration for the acquisition was:

\$2,000,000 satisfied by the issue of 40,000,000 shares (30,000,000 shares to Mitchell Family Investments (QLD) Pty Ltd and 10,000,000 shares to Mitchell Group Holdings Pty Ltd (as trustee for the Andala trust)) at 5 cents per share; and the grant of 198,660,000 options to Mitchell Group Holdings Pty Ltd (as trustee for the Andala trust) on the terms set out below.

#### Terms of options

The major terms of the options are as follows:

Each option entitles the holder to subscribe for one share upon payment of the exercise price prior to the expiry date. Each option will be either a Class A option, a Class B option, a Class C option or a Class D option.

The options may only be exercised if they have vested. The options will vest:

In the case of 45,000,000 Class A options if:

- the Group has an audited EBITDA for its financial year ending 30 June 2015 of at least \$4,000,000; and
- the company's shares have a 10 day VWAP of at least 5 cents per share at any time during the 12 month period commencing on the day of release to the ASX of the Group's final results for the financial year ending 30 June 2015.

In the case of 65,000,000 Class B options if:

- the Group has an audited EBITDA for its financial year ending 30 June 2015 of at least \$5,000,000; and
- the company's shares have a 10 day VWAP of at least 6 cents per share at any time during the 12 month period commencing on the day of release to the ASX of the Group's final results for the financial year ending 30 June 2015.

In the case of 50,000,000 Class C options if:

- the Group has an audited EBITDA for its financial year ending 30 June 2016 of at least \$7,000,000; and
- the company's shares have a 10 day VWAP of at least 7 cents per share at any time during the 12 month period commencing on the day of release to the ASX of the Group's final results for the financial year ending 30 June 2016.

In the case of 50,000,000 Class D options if:

- the Group has an audited EBITDA for its financial year ending 30 June 2016 of at least \$9,000,000; and
- the company's shares have a 10 day VWAP of at least 8 cents per share at any time during the 12 month period commencing on the day of release to the ASX of the Group's final results for the financial year ending 30 June 2016.

The options may be exercised at any time from when they vest until on or before 5pm (Sydney time) on the date that is 5 business days after the end of the relevant 12 month period during which the VWAP vesting condition applying to that class of options may be satisfied ("expiry date"). Options not exercised by the expiry date will lapse.

The exercise price of each option is \$0.000005.

The options will not be quoted on the ASX and are not transferrable.

There are no participation rights or entitlements inherent in the options and holders will not be entitled to participate in new issues of securities offered to shareholders during the currency of the options.

Prior to the acquisition, Mitchell Operations Pty Ltd (formerly Mitchell Services Pty Ltd) had granted 11,340,000 options to a number of its senior executives. In consideration for the senior executives agreeing to cancel these options and agreeing to become employees of Mitchell Services Limited on terms acceptable to both parties, Mitchell Services Limited granted 11,340,000 options (replacement awards) to those senior executives at the time of acquisition. The terms of these options were identical to those issued to Mitchell Group Holdings Pty Ltd.

#### **Mitchell Family Holdings Pty Ltd Loan**

Mitchell Family Holdings Pty Ltd is an entity controlled by Nathan Andrew Mitchell. On 27 June 2014, the Group obtained a \$2,000,000 loan facility from Mitchell Family Holdings. As at 30 June 2014 this facility was undrawn. The loan is unsecured and interest is charged at 14% per annum. The first draw took place on 15 July 2014.

## **SUBSEQUENT EVENTS**

#### **Acquisition of Tom Browne Drilling Services assets**

On 21 August 2014 Notch Holdings Pty Ltd (a wholly owned subsidiary of the Mitchell Services Ltd), entered into a conditional sale agreement to acquire 29 drill rigs and ancillary equipment from Tom Browne Drilling Services Pty Ltd (receivers and managers appointed: in liquidation). The purchase price per this sale agreement was \$9,500,000 plus GST.

The Group has planned to raise additional equity to fund the Tom Browne asset acquisition, provide working capital for further growth aspirations and repay the Mitchell Family Holdings loan. The equity raising is planned to be done in stages and it is anticipated to be completed shortly after the date of this report. The various stages of the capital raising are outlined below:

- The issue of 43,500,001 fully paid ordinary shares at a price of \$0.035 to raise approximately \$1,520,000 by way of a first tranche placement to institutional and sophisticated investors.
- The undertaking of a 1 for 1 non-renounceable rights issue at \$0.035 per share to raise approximately \$11,700,000.
- The issue of 200,000,000 fully paid ordinary shares at a price of \$0.035 to raise approximately \$7 million by way of a second tranche placement to institutional and sophisticated investors.

#### **Cancellation of options**

As part of the acquisition of the assets of Tom Browne Drilling Services (Receivers and managers appointed: in liquidation) and associated equity raising, 44,415,000 class A and 64,155,000 class B options issued to Mitchell Group Holdings and to senior management were cancelled.

#### **Lease of 133-137 Crocodile Crescent**

On 21 July 2014 Mitchell Services Ltd entered into a five year lease agreement to lease its building situated at 133-137 Crocodile Crescent, Mount St John, Townsville. Under the lease agreement Mitchell Services Ltd will receive rental income of \$265,000 per annum.

## DIRECTORS' REPORT CONTINUED

### FOR THE YEAR ENDED 30 JUNE 2014

#### LIKELY DEVELOPMENTS

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

#### ENVIRONMENTAL REGULATIONS

The consolidated entity's operations are not subject to any particular and significant environmental regulation under a law of the Commonwealth or of a State or Territory. However, the consolidated entity 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 consolidated entity undertakes its compliance duties in accordance with the contractor regime implemented by the licensed or regulated entity.

#### DIVIDENDS

There were no dividends paid in respect of the year ended 30 June 2014.

#### SHARES UNDER OPTION

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

| Grant Date       | Date of Expiry | Exercise Price | Number under Option |
|------------------|----------------|----------------|---------------------|
| 27 July 2011     | 2 August 2016  | \$0.30         | 500,000             |
| 28 July 2011     | 2 August 2016  | \$0.30         | 12,500,000          |
| 29 November 2013 | 5 August 2017* | \$0.000005     | 49,350,000          |
| 29 November 2013 | 5 August 2017* | \$0.000005     | 49,350,000          |
|                  |                |                | <b>111,700,000</b>  |

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

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

During the year ended 30 June 2014, there were no shares in Mitchell Services Ltd issued on the exercise of options granted.

\*Options expire 5 days after the end of the relevant 12 month period during which the VWAP vesting condition applying to that class of options may be satisfied. These VWAP conditions are outlined on page 19 and 20 of the remuneration report.



## 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 \$35,643.

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 following table 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, 17 board meetings, 2 remuneration and nomination committee meetings and 5 audit and risk committee meetings were held.

| 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 | 10                 | 10       | -                                     | -        | -                        | -        |
| R.H. Craven   | 17                 | 17       | 2                                     | 2        | 5                        | 5        |
| P.R. Miller   | 17                 | 15       | -                                     | -        | -                        | -        |
| R.B. Douglas  | 10                 | 10       | -                                     | -        | -                        | -        |
| G.E. Moyle    | -                  | -        | -                                     | -        | -                        | -        |
| D.J. Fairfull | 13                 | 13       | 2                                     | 2        | 5                        | 5        |
| G.H Drummond  | 8                  | 6        | -                                     | -        | -                        | -        |

## 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 20 to the financial statements.

## AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 28 of the annual report.

## DIRECTORS' REPORT CONTINUED

### FOR THE YEAR ENDED 30 JUNE 2014

#### REMUNERATION REPORT

This remuneration report, which forms part of the directors' report, sets out information about the remuneration of Mitchell Services Ltd's key management personnel for the financial year ended 30 June 2014. The term "key management personnel" refers to those persons having authority and responsibility for planning, directing and controlling the activities of the consolidated entity, directly or indirectly, including any director (whether executive or otherwise) of the consolidated entity.

#### *Key management personnel*

The directors and other key management personnel of the consolidated entity during or since the end of the financial year were:

**Nathan Andrew Mitchell** (Executive Chairman – appointed Managing Director 29 November 2013 and Executive Chairman 20 March 2014 )

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

**Ralph Howard Craven** (Non-Executive Director)

**Robert Barry Douglas** (Non-Executive Director – appointed 29 November 2013)

**Grant Eric Moyle** (Non – Executive Alternate Director to Nathan Andrew Mitchell appointed 30 May 2014)

**Guy Hamish Drummond** (Former Non-Executive Director – resigned 29 November 2013)

**David John Fairfull** (Former Chairman, Non-Executive Director – resigned 20 March 2014)

**Andrew Michael Elf** (Chief Executive Officer – joined 29 November 2013 and appointed CEO 20 March 2014)

**Robert Ian Witty** (Chief Financial Officer and Company Secretary)

**Gary Raymond Salter** (Chief Commercial Officer – joined 29 November 2013)

**Martin James McIver** (Former Chief Financial Officer Mitchell Services Pty Ltd – joined 29 November 2013 – ceased employment 10 January 2014)

**Aaron Francis Short** (Operations Manager – joined 29 November 2013)

**William Arthur Fisher** (Former Operations Manager Coal and Energy – ceased employment 12 July 2013)

**Simon Morrell Morgan** (Former Operations Manager - ceased employment 15 Feb 2014)

#### *Remuneration Policy*

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

The board's policy for determining the nature and amount of remuneration for key management personnel of the consolidated entity is as follows:

- The remuneration policy is to be developed by the Remuneration and Nomination Committee and approved by the board. Professional advice may be sought from independent external consultants if required;
- All key management personnel receive a base salary (which is based on factors such as length of service and experience), superannuation, and may receive fringe benefits, options and performance incentives;
- Any performance incentives will generally only be paid once predetermined key performance indicators have been met;
- Incentives paid in the form of options or rights are intended to align the interests of the directors and company with those of the shareholders. In this regard, key management personnel are prohibited from limiting risk attached to those instruments by use of derivatives or other means;
- The Remuneration and Nomination Committee reviews key management personnel packages annually by reference to the consolidated entity's performance, executive performance and comparable information from industry sectors.

The performance of key management personnel is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the consolidated entity's profits and shareholders' value.

Any bonuses and incentives must be linked to predetermined performance criteria. The board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the Remuneration and Nomination Committee's recommendations. Any change must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance results leading to long-term growth in shareholder wealth.

Key management personnel receive a superannuation guarantee contribution required by the government, which is currently 9.25% (to a maximum of \$25,000 per annum) of the individual's average weekly ordinary times earnings, and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

Upon retirement, key management personnel are paid employee benefit entitlements accrued to the date of retirement. Key management personnel will receive redundancy benefits if applicable. Any options not exercised before or on the date of termination will lapse.

All remuneration paid to key management personnel is valued at the cost to the consolidated entity and expensed.

The board's policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The Remuneration and Nomination Committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting.

Key management personnel participate in the employee share and option arrangements to align directors' and management's interests with shareholders' interests.

Options granted under the arrangement do not carry dividend or voting rights. Each option is entitled to be converted into ordinary shares once the attaching conditions are satisfied.

Key management personnel or closely related parties are prohibited from entering into hedge arrangements that would have the effect of limiting the risk exposure relating to their remuneration.

#### ***Performance-based remuneration***

The board has not implemented performance based incentives.

#### ***Relationship between the remuneration policy and company performance***

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. To achieve this aim, options have been issued to specific executive directors and executives to encourage the alignment of personal and shareholder interests. The consolidated entity believes this policy will be effective in increasing shareholder wealth in forthcoming years.

#### ***Employment details of members of key management personnel***

The employment terms and conditions of key management personnel are formalised in contracts of employment. Terms of employment require that the relevant group entity provide an executive contracted person with a minimum of 3 months' notice prior to termination of contract. The group entity may make payment in lieu of part or all of the notice period calculated on the executive's base salary. A contracted person deemed employed on a permanent basis may terminate their employment by providing at least one month's notice. If the executive does not provide the required period of notice in writing or the executive leaves employment during the period of notice, the group entity is entitled to withhold (to the fullest extent permitted by law) from any monies owing to the executive an amount representing the base salary the executive would have earned for the number of months, weeks or days of the notice period that the executive did not work. Termination payments are not payable under the circumstances of unsatisfactory performance.



## DIRECTORS' REPORT CONTINUED

### FOR THE YEAR ENDED 30 JUNE 2014

#### Remuneration of key management personnel

The compensation of each member of the key management personnel of the consolidated entity is set out below:

| Fixed remuneration paid  | 2014   |   |                               | 2013   |   |                               |
|--|--|---|-------------------------------|--|---|-------------------------------|
|  | Short-term<br>employee<br>benefits<br>Salary<br>\$ | Post-<br>employment<br>benefits<br>Super<br>annuation<br>\$ | Termination<br>benefits<br>\$ | Short-term<br>employee<br>benefits<br>Salary<br>\$ | Post-<br>employment<br>benefits<br>Super<br>annuation<br>\$ | Termination<br>benefits<br>\$ |
| Nathan Andrew Mitchell - Executive Chairman                                    | 33,300   | 3,079   | -                             | -  | -   | -                             |
| Peter Richard Miller - Non-Executive Director                                  | 37,500   | 3,467   | -                             | 322,654  | 31,746  | 100,000                       |
| Ralph Howard Craven - Non - Executive Director                                 | 44,000   | 4,069   | -                             | 54,375   | 4,894   | -                             |
| Robert Barry Douglas - Non - Executive Director                                | 21,000   | 1,942   | -                             | -  | -   | -                             |
| Guy Hamish Drummond - Former Non - Executive Director                          | 15,000   | 1,387   | -                             | 171,775  | 20,350  | 55,000                        |
| David John Fairfull - Former Non - Executive Director                          | 57,634   | 5,331   | -                             | 87,500   | 7,875   | -                             |
| David Charles Williamson - Former Non - Executive Director                     | -  | -   | -                             | 2,500  | 225   | -                             |
| Andrew Michael Elf - Chief Executive Officer                                   | 151,667  | 14,028  | -                             | -  | -   | -                             |
| Robert Ian Witty - Chief Financial Officer and Company Secretary               | 201,176  | 18,608  | -                             | 159,923  | 14,393  | -                             |
| Gary Raymond Salter - Chief Commercial Officer                                 | 151,667  | 14,028  | -                             | -  | -   | -                             |
| Aaron Francis Short - Operations Manager                                       | 104,999  | 9,712   | -                             | -  | -   | -                             |
| Martin James McIver - Former Chief Financial Officer Mitchell Services Pty Ltd | 33,231   | 3,074   | 160,002                       | -  | -   | -                             |
| William Arthur Fisher - Former Operations Manager                              | 6,093  | 563   | 24,922                        | 178,427  | 16,058  | -                             |
| Simon Morrell Morgan - Former Operations Manager                               | 88,755   | 8,209   | 58,153                        | 135,173  | 12,165  | -                             |
|  | 946,022  | 87,497  | 243,077                       | 1,112,327  | 107,706   | 155,00                        |

On 29 November 2013 Robert Ian Witty stepped down as Interim General Manager and Nathan Andrew Mitchell was appointed Managing Director. On 29 November 2013 Andrew Michael Elf (Chief Operating Officer), Martin McIver (Chief Financial Officer), Gary Raymond Salter (Chief Commercial Officer) and Aaron Francis Short (Operations Manager) joined the Group as part of the Mitchell Services Pty Ltd acquisition. Robert Barry Douglas was appointed Non-Executive Director on 29 November 2013. Former Non-Executive Director, Guy Hamish Drummond resigned on 29 November 2013. On 10 January 2014 Martin James McIver ceased employment with the Group.

On 20 March 2014 David John Fairfull resigned as Chairman and Non-Executive Director. On 20 March 2014 Nathan Andrew Mitchell resigned as Managing Director and was appointed Executive Chairman. On 20 March 2014 Andrew Michael Elf was promoted from his role as Chief Operating Officer to Chief Executive Officer.

William Arthur Fisher, former Operations Manager Coal and Energy, ceased employment 12 July 2013 and Simon Morrell Morgan, former Operations Manager ceased employment 15 Feb 2014.

## Options

The following management options issued during the 2012 financial year to key management personnel still exist at the date of this report:

|   | Options Issued |
|---|----------------|
| Robert Ian Witty<br>Chief Financial Officer & Company Secretary | 500,000        |

Key terms that are associated with these management options are as follows:

- The option holder must be continuously employed to be able to exercise the management options.
- The management options will not be listed.
- The management options will not be encumbered or transferred.
- The exercise price for each management option is 30 cents.
- The management options may not be exercised before 2 August 2014, being the third anniversary of the listing date or after 2 August 2016, being the fifth anniversary of the listing date.
- Upon the valid exercise of a management option, the company will issue and allot one fully paid ordinary share for each management option to the option holder.

The issue of these options was not performance based.

## Options granted during the 2014 financial year to key management personnel

Prior to the acquisition on 29 November 2013, Mitchell Operations Pty Ltd (formerly Mitchell Services Pty Ltd) had granted 11,340,000 options to a number of its senior executives. In consideration for the senior executives agreeing to cancel these options and agreeing to become employees of Mitchell Services Limited on terms acceptable to both parties, Mitchell Services Limited granted 11,340,000 options (replacement awards) to those senior executives at the time of acquisition. The table below shows the number of options issued to key management personnel:

|                     | A Class          | B Class          | C Class          | D Class          | Total             |
|---------------------|------------------|------------------|------------------|------------------|-------------------|
| Andrew Michael Elf  | 585,000          | 845,000          | 650,000          | 650,000          | 2,730,000         |
| Gary Raymond Salter | 585,000          | 845,000          | 650,000          | 650,000          | 2,730,000         |
| Aaron Francis       | 495,000          | 715,000          | 550,000          | 550,000          | 2,310,000         |
| Martin James McIver | 585,000          | 845,000          | 650,000          | 650,000          | 2,730,000         |
| <b>Total</b>        | <b>2,250,000</b> | <b>3,250,000</b> | <b>2,500,000</b> | <b>2,500,000</b> | <b>10,500,000</b> |

These options were issued under the following major terms:

Each option entitles the holder to subscribe for one share upon payment of the exercise price prior to the expiry date. Each option will be either a Class A option, a Class B option, a Class C option or a Class D option.

The options may only be exercised if they have vested. The options will vest:

In the case of 2,250,000 Class A options if:

- the Group has an audited EBITDA for its financial year ending 30 June 2015 of at least \$4,000,000; and
- the company's shares have a 10 day VWAP of at least 5 cents per share at any time during the 12 month period commencing on the day of release to the ASX of the Group's final results for the financial year ending 30 June 2015.

## DIRECTORS' REPORT CONTINUED

### FOR THE YEAR ENDED 30 JUNE 2014

In the case of 3,250,000 Class B options if:

- the Group has an audited EBITDA for its financial year ending 30 June 2015 of at least \$5,000,000; and
- the company's shares have a 10 day VWAP of at least 6 cents per share at any time during the 12 month period commencing on the day of release to the ASX of the Group's final results for the financial year ending 30 June 2015.

In the case of 2,500,000 Class C options if:

- the Group has an audited EBITDA for its financial year ending 30 June 2016 of at least \$7,000,000; and
- the company's shares have a 10 day VWAP of at least 7 cents per share at any time during the 12 month period commencing on the day of release to the ASX of the Group's final results for the financial year ending 30 June 2016.

In the case of 2,500,000 Class D options if:

- the Group has an audited EBITDA for its financial year ending 30 June 2016 of at least \$9,000,000; and
- the company's shares have a 10 day VWAP of at least 8 cents per share at any time during the 12 month period commencing on the day of release to the ASX of the Group's final results for the financial year ending 30 June 2016.

The options may be exercised at any time from when they vest until on or before 5pm (Sydney time) on the date that is 5 business days after the end of the relevant 12 month period

during which the VWAP vesting condition applying to that class of options may be satisfied ("expiry date"). Options not exercised by the expiry date will lapse.

The exercise price of each option is \$0.000005.

The options will not be quoted on the ASX and are not transferrable.

There are no participation rights or entitlements inherent in the options and holders will not be entitled to participate in new issues of securities offered to shareholders during the currency of the options

Subsequent to the acquisition, 2,730,000 options granted to Martin James McIver were cancelled on 20 May 2014 due to Mr McIver ceasing employment with the Group. The 2,730,000 options consisted of 585,000 Class A options, 845,000 class B options, 650,000 class C options and 650,000 Class D options.

As part of the acquisition of the assets of Tom Browne Drilling Services (Receivers and managers appointed: in liquidation) and associated equity raising after 30 June 2014, the remaining 1,845,000 class A and 2,665,000 class B options issued to senior management were cancelled.

The following management performance options (replacement options) issued during the 2014 financial year to key management personnel still exist at the date of this report.

|                     | A Class  | B Class  | C Class          | D Class          | Total            |
|---------------------|----------|----------|------------------|------------------|------------------|
| Andrew Michael Elf  | -        | -        | 650,000          | 650,000          | 1,300,000        |
| Gary Raymond Salter | -        | -        | 650,000          | 650,000          | 1,300,000        |
| Aaron Francis Short | -        | -        | 550,000          | 550,000          | 1,100,000        |
| <b>Total</b>        | <b>-</b> | <b>-</b> | <b>1,850,000</b> | <b>1,850,000</b> | <b>3,700,000</b> |

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.



Nathan Andrew Mitchell  
Executive Chairman

Dated at Brisbane this 17th day of September 2014.



## CORPORATE GOVERNANCE STATEMENT

### FOR THE YEAR ENDED 30 JUNE 2014

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 for the entire financial year ended 30 June 2014.

#### 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 Remuneration and Nomination 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 chairperson. Standing items include the managing directors' report, operational manager reports, financial reports and training and safety 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.

##### 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 director 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 director is made available to all other members of the board.

### 1.5 Composition of the board

The names of the directors of the company in office at the date of this report are set out in the Directors Report on page 10 and 11 of this report.

The Group believes it is in its best interests to maintain a small but efficient board. For the majority of the reporting period, the board consisted of 4 non-executive directors (being Peter Richard Miller, Ralph Howard Craven, Robert Barry Douglas and David John Fairfull) and an executive Chairman, Nathan Andrew Mitchell. Robert Barry Douglas was appointed on 29 November 2013 following the resignation of Guy Hamish Drummond on 29 November 2013. David John Fairfull resigned on 20 March 2014. Two of the four board members as at the date of this report are considered independent under the guidelines. The board believes the experience and skills of the current directors continue to be sufficient to discharge the board's duties effectively.

The Chairman is Mr Nathan Andrew 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 is also a substantial shareholder and does not meet the criteria for independence. 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 significant conflict exists, it may exercise its discretion to determine whether the director concerned may 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's policy is to seek a diverse range of directors who have a range of ages, genders and ethnicity that complements the environment in which the Group operates (refer section 8 on page 27 on diversity).

### 2. Remuneration and nomination committee

Under the principles and recommendations of the ASX Corporate Governance Council, the remuneration and nomination committee must consist of at least 3 members, each of whom must be non-executive directors. The directors are of the opinion that 2 members will be sufficient to properly discharge the duties of the committee for the present time. 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:

- Dr Ralph Howard Craven – Chairman and non-executive director;
- Mr David John Fairfull – non-executive director; and
- 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 twice during the year and committee members' attendance record is disclosed in the table of directors' meetings on page 15 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.

## CORPORATE GOVERNANCE STATEMENT CONTINUED

### FOR THE YEAR ENDED 30 JUNE 2014

Executive directors and senior executives are remunerated by way of salary, non-monetary benefits and statutory superannuation. 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 for non-executive directors.

#### ***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 director 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 must consist of at least 3 members, each of whom must be non-executive directors. The directors are of the opinion that 2 members will be sufficient to properly discharge the duties of the committee for the present time. At least one of the members must have significant expertise in financial reporting, accounting or auditing. The Chairman of the committee should be an independent director and must 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:

- Dr Ralph Howard Craven (BE PhD FIEAust FIPENZ FAICD CPEng) – Chairman and non-executive director;
- Mr David John Fairfull (B.Com, ACIS, CPA, ASIA, MAICD) – non-executive director; and
- Mr Robert Barry Douglas (B.Com, LLB) – non-executive director.

Mr Robert Ian Witty as company secretary/chief financial officer also sits on this committee.

The external auditors and the managing director are invited to audit and risk committee meetings at the discretion of the committee. The committee met 5 times during the year and committee members' attendance record is disclosed in the table of directors' meetings on page 15 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 2014 comply with accounting standards and present a true and fair view of the Group's financial condition and operational results. 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 our people and our contractors;
- Seasonal conditions and business interruptions;
- Dependence on key personnel and labour shortages;
- Customer demand and outlook for the resources industry;
- High regulation in relation to health, safety and the environment.

An assessment of the business's risk profile is undertaken and reviewed by the board 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 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. 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
- Environmental regulation compliance. The Group's health, safety, environment and sustainability committee consists of all members of the board and focuses on ensuring compliance with these various areas.



## CORPORATE GOVERNANCE STATEMENT CONTINUED

### FOR THE YEAR ENDED 30 JUNE 2014

#### 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 on-going 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 significant conflict exists for a director on a board matter, the director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered. Details of director related entity transactions with the Group are set out in notes 22 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 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 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 managing director 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 on the day 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. Diversity

The board does not currently have an established policy regarding the gender, age, ethnic and cultural diversity of its board members and senior executives. Given the size of the Group, the nature of the drilling industry and the limited number of board and senior executive positions available, the group does not expect to develop a policy in this regard for the near future. Notwithstanding this, and whenever the opportunity arises, the board will consider new board members and senior executives of any gender, age, ethnicity and culture.

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

|   | 2014 |      | 2013 |      |
|---|------|------|------|------|
|   | No.  | %    | No.  | %    |
| <b>Women on the board</b>               | -    | -    | -    | -    |
| <b>Women in senior management roles</b> | -    | -    | -    | -    |
| <b>Women employees in the Group</b>     | 5    | 7.05 | 3    | 3.75 |

## AUDITOR'S INDEPENDENCE DECLARATION

### FOR THE YEAR ENDED 30 JUNE 2014

**Auditor's independence declaration under Section 307C of the Corporations Act 2001 to the directors of Mitchell Services Ltd**

As lead engagement auditor for the audit of the financial statements of Mitchell Services Ltd for the financial year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Jessups



Ian Jessup  
Partner

Dated at Townsville this 12th day of September 2014

Level 1, 19 Stanley Street  
Townsville Qld 4810



## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2014

|  |      | 2014        | 2013         |
|--|------|-------------|--------------|
|  | Note | \$          | \$           |
| <b>Continuing operations</b>                                 |      |             |              |
| Revenue  | 2    | 15,015,003  | 26,321,843   |
| Changes in inventories of finished goods                     |      | 38          | (189,465)    |
| Advertising  |      | (8,752)     | (17,793)     |
| Depreciation and amortisation expenses                       |      | (2,598,051) | (3,313,118)  |
| Drilling consumables   |      | (2,086,171) | (2,082,997)  |
| Employee expenses  |      | (8,076,800) | (12,763,020) |
| Finance costs  |      | (617,095)   | (857,618)    |
| Fuel and oil   |      | (1,100,711) | (1,542,483)  |
| Hire of plant and equipment                                  |      | (1,165,773) | (561,104)    |
| Insurances   |      | (529,566)   | (1,448,279)  |
| Rent   |      | (307,074)   | (188,040)    |
| Service and repairs  |      | (1,054,542) | (1,096,517)  |
| Travel expenses  |      | (531,694)   | (1,389,096)  |
| Other expenses   |      | (3,224,457) | (1,421,352)  |
| Impairment of goodwill                                       | 8    | -           | (1,515,032)  |
| <b>Profit/(loss) before income tax</b>                       |      | (6,285,645) | (2,064,071)  |
| Income tax expense   | 13   | 1,678,387   | 151,633      |
| <b>Profit/(loss) for the year from continuing operations</b> |      | (4,607,258) | (1,912,438)  |
| <b>Discontinued operations</b>                               |      |             |              |
| Profit/(loss) for the year from discontinued operations      |      | -           | -            |
| <b>Profit/(loss) for the year</b>                            |      | (4,607,258) | (1,912,438)  |
| <b>Other comprehensive income, net of income tax</b>         |      |             |              |
| Other comprehensive income for the year, net of income tax   |      | -           | -            |
| <b>Total comprehensive income for the year</b>               |      | (4,607,258) | (1,912,438)  |
| <b>Profit/(loss) attributable to:</b>                        |      |             |              |
| Owners of the Company  |      | (4,607,258) | (1,912,438)  |
| <b>Total comprehensive income attributable to:</b>           |      |             |              |
| Owners of the Company  |      | (4,607,258) | (1,912,438)  |
| <b>Earnings per share</b>                                    |      |             |              |
| <b>From continuing and discontinued operations:</b>          |      |             |              |
| Basic (cents per share)                                      | 26   | (1.86)      | (1.09)       |
| Diluted (cents per share)                                    | 26   | (1.86)      | (1.09)       |
| <b>From continuing operations:</b>                           |      |             |              |
| Basic (cents per share)                                      | 26   | (1.86)      | (1.09)       |
| Diluted (cents per share)                                    | 26   | (1.86)      | (1.09)       |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 30 JUNE 2014

|                                      |      | 2014              | 2013              |
|--------------------------------------|------|-------------------|-------------------|
|                                      | Note | \$                | \$                |
| <b>ASSETS</b>                        |      |                   |                   |
| <b>Current assets</b>                |      |                   |                   |
| Cash and cash equivalents            | 3(a) | 125,004           | 528,167           |
| Trade and other receivables          | 4    | 2,348,514         | 1,924,550         |
| Other financial assets               | 5    | 7,708             | 9,800             |
| Other assets                         | 6    | 298,212           | 272,379           |
| Current tax asset                    | 14   | -                 | 6,671             |
| Inventories                          | 7    | 1,604,952         | 1,559,870         |
| <b>Total current assets</b>          |      | <b>4,384,390</b>  | <b>4,301,437</b>  |
| <b>Non – current assets</b>          |      |                   |                   |
| Other financial assets               | 5    | 5,572             | 12,131            |
| Property, plant and equipment        | 12   | 14,009,330        | 15,976,187        |
| Other assets                         | 6    | 20,000            | 63,250            |
| Deferred tax asset                   | 14   | 3,397,802         | 1,261,978         |
| Goodwill                             | 8    | 4,481,519         | -                 |
| <b>Total non-current assets</b>      |      | <b>21,914,223</b> | <b>17,313,546</b> |
| <b>Total assets</b>                  |      | <b>26,298,613</b> | <b>21,614,983</b> |
| <b>LIABILITIES</b>                   |      |                   |                   |
| <b>Current liabilities</b>           |      |                   |                   |
| Bank overdraft                       | 3(b) | 2,251,701         | 1,853,075         |
| Trade and other payables             | 9    | 3,689,775         | 1,510,396         |
| Other financial liabilities          | 10   | 2,449,305         | 2,582,779         |
| Current tax payable                  | 14   | -                 | 9,064             |
| Provisions                           | 11   | 352,163           | 404,904           |
| <b>Total current liabilities</b>     |      | <b>8,742,944</b>  | <b>6,360,218</b>  |
| <b>Non – current liabilities</b>     |      |                   |                   |
| Other financial liabilities          | 10   | 4,699,250         | 4,298,031         |
| Provisions                           | 11   | 45,107            | 76,804            |
| <b>Total non-current liabilities</b> |      | <b>4,744,357</b>  | <b>4,374,835</b>  |
| <b>Total liabilities</b>             |      | <b>13,487,301</b> | <b>10,735,053</b> |
| <b>Net assets</b>                    |      | <b>12,811,312</b> | <b>10,879,930</b> |
| <b>EQUITY</b>                        |      |                   |                   |
| Issued capital                       | 15   | 19,024,100        | 14,524,100        |
| Share issue costs                    | 16   | (1,199,944)       | (1,049,780)       |
| Contingent option reserve            | 28   | 2,122,402         | -                 |
| Retained earnings                    | 17   | (7,135,246)       | (2,594,390)       |
| <b>Total equity</b>                  |      | <b>12,811,312</b> | <b>10,879,930</b> |

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### FOR THE YEAR ENDED 30 JUNE 2014

|  | Note | Share<br>Capital  | Contingent<br>Option<br>Reserve | Retained<br>Earnings | Attributable<br>to Owners<br>of the<br>Parent | Total             |
|--|------|-------------------|---------------------------------|----------------------|---|-------------------|
|  |      | \$                | \$                              | \$                   | \$  | \$                |
| <b>Balance at 1 July 2012</b>                            |      | 13,474,320        | -                               | (681,952)            | 12,792,368                                    | 12,792,368        |
| <b>Comprehensive income</b>                              |      |                   |                                 |                      |   |                   |
| Profit/(loss) for the year                               | 17   | -                 | -                               | (1,912,438)          | (1,912,438)                                   | (1,912,438)       |
| Other comprehensive income for the year                  |      | -                 | -                               | -                    | -   | -                 |
| Total comprehensive income for the year                  |      | -                 | -                               | (1,912,438)          | (1,912,438)                                   | (1,912,438)       |
| <b>Balance at 30 June 2013</b>                           |      | 13,474,320        | -                               | (2,594,390)          | 10,879,930                                    | 10,879,930        |
| <b>Comprehensive income</b>                              |      |                   |                                 |                      |   |                   |
| Profit/(loss) for the year                               | 17   | -                 | -                               | (4,607,258)          | (4,607,258)                                   | (4,607,258)       |
| Other comprehensive income for the year                  |      | -                 | -                               | -                    | -   | -                 |
| Total comprehensive income for the year                  |      | -                 | -                               | (4,607,258)          | (4,607,258)                                   | (4,607,258)       |
| Issue of ordinary shares related to rights issue         | 15   | 2,500,000         | -                               | -                    | 2,500,000                                     | 2,500,000         |
| Issue of ordinary shares related to business combination | 15   | 2,000,000         | -                               | -                    | 2,000,000                                     | 2,000,000         |
| Share issue costs  | 16   | (150,164)         | -                               | -                    | (150,164)                                     | (150,164)         |
| Contingent options                                       | 20   | -                 | 2,122,402                       | -                    | 2,122,402                                     | 2,122,402         |
| Recognition of share based payment                       | 29   | -                 | -                               | 66,402               | 66,402  | 66,402            |
| <b>Balance at 30 June 2014</b>                           |      | <b>17,824,156</b> | <b>2,122,402</b>                | <b>(7,135,246)</b>   | <b>12,811,312</b>                             | <b>12,811,312</b> |

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

## CONSOLIDATED STATEMENT OF OF CASH FLOWS

### FOR THE YEAR ENDED 30 JUNE 2014

|   |      | 2014         | 2013         |
|---|------|--------------|--------------|
|   | Note | \$           | \$           |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                 |      |              |              |
| Cash receipts from customers                                |      | 14,471,061   | 29,617,148   |
| Cash paid to suppliers and employees                        |      | (15,917,753) | (26,591,790) |
| Interest received   |      | 691          | 38,537       |
| Interest paid   |      | (599,238)    | (752,277)    |
| Income tax paid   |      | (160,214)    | (4,481)      |
| Net cash generated by operating activities                  | 19   | (2,205,453)  | 2,307,137    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                 |      |              |              |
| Proceeds from sale of property, plant and equipment         |      | 1,010,895    | 280,528      |
| Acquisition of property, plant and equipment                |      | (922,355)    | (901,822)    |
| Net cash generated by/(used) in investing activities        |      | 88,540       | (621,294)    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                 |      |              |              |
| Proceeds from issue of shares                               |      | 2,500,000    | -            |
| Payment for share issue costs                               |      | (214,520)    | -            |
| Proceeds from borrowings                                    |      | 1,906,567    | 1,196,365    |
| Repayment of financial liabilities                          |      | (2,876,221)  | (3,749,139)  |
| Costs associated with borrowing                             |      | (702)        | (5,135)      |
| <b>Net cash generated by/(used in) financing activities</b> |      | 1,315,124    | (2,557,909)  |
| Net increase/(decrease) in cash and cash equivalents        |      | (801,789)    | (872,066)    |
| Cash and cash equivalents at the beginning of the year      |      | (1,324,908)  | (452,842)    |
| <b>Cash and cash equivalents at the end of the year</b>     | 3(c) | (2,126,697)  | (1,324,908)  |

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



## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2014

#### 1. SIGNIFICANT ACCOUNTING POLICIES

##### (a) General information

Mitchell Services Ltd (the 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 (the 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).

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### FOR THE YEAR ENDED 30 JUNE 2014

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.

Business combinations of the type whereby Mitchell Services Ltd has legally acquired all of the issued capital of Notch Holdings Pty Ltd are considered, for accounting purposes, to be a reverse acquisition of Mitchell Services Ltd by Notch Holdings Pty Ltd. These financial statements are issued under the name of Mitchell Services Ltd but effectively represent a continuation of the financial statements of Notch Holdings Pty Ltd.

The legal capital structure (shares and options) of the legal controlling entity, Mitchell Services Ltd is reflected in these financial statements, together with all amounts recognised as equity interests in Notch Holdings Pty Ltd prior to its entry into the business combination with Mitchell Services Ltd and the fair value of equity interests in Mitchell Services Ltd.

The financial statements reflect all amounts recognised as retained profits (losses) of Notch Holdings Pty Ltd prior to its

entry into the business combination with Mitchell Services Ltd together with the retained profits (losses) of the continuing Mitchell Services Ltd business combination.

#### (f) 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.

#### (g) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measureable until all contingencies relating to the sale have been resolved.

Revenue is recognised for the major business activities as follows:

**Drilling revenue**

Drilling revenue is derived from the depth and type of drilling and the hours worked on the specific site.

**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.

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.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### FOR THE YEAR ENDED 30 JUNE 2014

#### (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 the diminishing value basis (excluding buildings which are depreciated on a 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                         | 8.75% - 40% |
| Office Equipment, Furniture & Fittings | 10% - 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.

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.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### FOR THE YEAR ENDED 30 JUNE 2014

#### (l) 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

##### Financial assets

The only category of financial assets held by the Group relates to "loans and receivables".

##### Loans and receivables

Loans and receivables comprise cash and cash equivalents and, trade and other receivables. The Group initially recognises loans and receivables on the date that they are originated.

Loans and receivables are financial assets with fixed or

determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) over the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense item in profit or loss.

##### Impairment of financial assets

The Group's financial assets are 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.

For financial assets carried at amortised cost, objective evidence of impairment may include: indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### **De-recognition of financial assets**

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

On de-recognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of

the consideration received and receivable is recognised in profit or loss.

#### **Financial liabilities**

The only category of financial liabilities owed by the Group relates to "other financial liabilities".

#### **Other financial liabilities**

Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables. The Group initially recognises other financial liabilities on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

Other financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

#### **De-recognition of financial liabilities**

The Group de-recognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability de-recognised and the consideration paid and payable is recognised in profit or loss.

#### **(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.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### FOR THE YEAR ENDED 30 JUNE 2014

#### (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.

#### (r) 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.

#### (s) Application of new and revised Accounting Standards

##### Standards and Interpretations affecting amounts reported in the current period (and/or prior periods)

There are no new and revised Standards and Interpretations adopted in these financial statements affecting the reporting results or financial position. The following new and revised Standards and Interpretations affecting presentation and disclosure have been adopted in the current year.

##### Amendments to AASB124 "Related Party Disclosures"

AASB 2011-4 amends AASB 124 to remove all individual KMP disclosures with effect from annual reporting periods beginning on or after 1 July 2013. With effect for years beginning on or after 1 July 2013, Regulation 2M.3.03 was amended to require additional individual disclosures about equity transactions, loans and other transactions in the remuneration report. Therefore, from financial years ending on or after 30 June 2014, all individual KMP disclosures are only required in the remuneration report.



### Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

| Standard/Interpretation  | Effective for annual reporting periods beginning on or after | Expected to be initially applied in the financial year ending |
|--|--|---|
| Offsetting financial assets and liabilities – changes to IAS 32    | 1-Jan-14   | 30-Jun-15   |
| Investment entities (IFRS 10, 12 and IAS 27)                       | 1-Jan-14   | 30-Jun-15   |
| Recoverable amount disclosures for Non – Financial Assets (IAS 36) | 1-Jan-15   | 30-Jun-16   |
| IFRIC 21 Levies  | 1-Jan-15   | 30-Jun-16   |
| IFRS9 (2010)   | 1-Jan-15   | 30-Jun-16   |
| IFRS9 (2009)   | 1-Jan-15   | 30-Jun-16   |

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### FOR THE YEAR ENDED 30 JUNE 2014

| 2. REVENUE                              | 2014       | 2013       |
|---|------------|------------|
| <b>From continuing operations</b>       | <b>\$</b>  | <b>\$</b>  |
| Income from operations                  | 14,068,518 | 25,903,904 |
| Profit on sale of assets                | 126,454    | 114,398    |
| Interest received                       | 696        | 38,537     |
| Recoveries                              | 703,423    | 183,914    |
| Rental income                           | 5,854      | 5,845      |
| Government subsidy                      | 10,000     | 23,471     |
| Management fees                         | 89,436     | -          |
| Other                                   | 10,622     | 51,774     |
|   | 946,485    | 417,939    |
| Total income from continuing operations | 15,015,003 | 26,321,843 |

### 3. 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 as shown in the consolidated statement of cash flows can be reconciled to the related items in the consolidated statement of financial position as follows.

#### 3(a) In funds accounts

|               |         |         |
|---------------|---------|---------|
| Bank balances | 125,004 | 528,167 |
|---------------|---------|---------|

#### 3(b) Bank overdraft

|                |             |             |
|----------------|-------------|-------------|
| Bank overdraft | (2,251,701) | (1,853,075) |
|----------------|-------------|-------------|

#### 3(c) Net cash at bank

|  |             |             |
|--|-------------|-------------|
|  | (2,126,697) | (1,324,908) |
|--|-------------|-------------|

The Group's bank overdraft facility has a total limit of \$3,500,000. Refer to note 12(a) in relation to security pledged.

### 4. TRADE AND OTHER RECEIVABLES

|                                   |           |           |
|-----------------------------------|-----------|-----------|
| Trade debtors                     | 2,546,85  | 1,920,000 |
| Less provision for doubtful debts | (212,058) | -         |
| Bonds and deposits                | 13,721    | 4,550     |
|                                   | 2,348,514 | 1,924,550 |

#### 4(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. In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The Group has raised a provision for doubtful debts of \$212,058 at 30 June 2014. This amount represents a balance owing from a customer over which a sufficient level of uncertainty exists regarding its recoverability. The Group does not hold any collateral over these balances. A single counterparty made up 44.8% of the total trade receivables at 30 June 2014. All invoices to this counterparty included in the total trade and other receivables at 30 June 2014 have been received as at the date of this report. The ageing of trade debtors (financial assets) is as follows:

|               |           |           |
|---------------|-----------|-----------|
| < 1 month     | 2,038,053 | 857,768   |
| 1 to 3 months | 508,798   | 1,062,232 |
|               | 2,546,851 | 1,920,000 |

|  | 2014             | 2013             |
|--|------------------|------------------|
|  | \$               | \$               |
| <b>5. OTHER FINANCIAL ASSETS</b>                                   |                  |                  |
| <b>Current</b>   |                  |                  |
| Borrowing costs  | 7,708            | 9,800            |
|  | <u>7,708</u>     | <u>9,800</u>     |
| <b>Non-current</b>   |                  |                  |
| Borrowing costs  | 5,572            | 12,131           |
|  | <u>5,572</u>     | <u>12,131</u>    |
| <b>5(a). AGEING OF OTHER FINANCIAL ASSETS</b>                      |                  |                  |
| The ageing of other financial assets - current is as follows:      |                  |                  |
| < 1 year   | 7,708            | 9,800            |
|  | <u>7,708</u>     | <u>9,800</u>     |
| The ageing of other financial assets – non- current is as follows: |                  |                  |
| 1 to 5 years   | 5,572            | 12,131           |
|  | <u>5,572</u>     | <u>12,131</u>    |
| <b>6. OTHER ASSETS</b>   |                  |                  |
| <b>Current</b>   |                  |                  |
| Prepayments  | 298,212          | 272,379          |
|  | <u>298,212</u>   | <u>272,379</u>   |
| <b>Non-current</b>   |                  |                  |
| Property held for sale   | 18,000           | 61,250           |
| Shares in listed company   | 2,000            | 2,000            |
|  | <u>20,000</u>    | <u>63,250</u>    |
| <b>7. INVENTORIES</b>  |                  |                  |
| Finished goods   | 1,604,952        | 1,559,870        |
|  | <u>1,604,952</u> | <u>1,559,870</u> |

The cost of inventories recognised as an expense during the year in respect of continuing operations was \$2,086,171 (2013: \$2,082,997).

## 8. GOODWILL

|  |                  |             |
|--|------------------|-------------|
| Balance at the beginning of the year         | -                | 1,515,032   |
| Impairment loss during the year              | -                | (1,515,032) |
| Recognised as result of business combination | 4,481,519        | -           |
|  | <u>4,481,519</u> | <u>-</u>    |

The goodwill arose as a result of the Group's acquisition of Mitchell Operations Pty Ltd (previously Mitchell Services Pty Ltd) on 29 November 2013. Refer note 28 "Business Combination" for more details.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### FOR THE YEAR ENDED 30 JUNE 2014

#### *Impairment testing for goodwill*

The Groups' activities and geographical locations are not diverse enough to be split into separate Cash Generating Units. For this reason, for purposes of impairment testing, the goodwill has been allocated to the cash generating assets of the Group as a whole.

The recoverable amount of the Group's cash generating assets was based on their value in use, determined by discounting the future cash flows to be generated from the continuing use of the assets. The value in use was determined to be higher than its carrying value and no impairment deemed necessary.

The key assumptions used in the estimation of the recoverable amount are set out below. The values assigned to the key assumptions represented management's assessment of future trends and are based on data from both external and internal sources.

Discount rate – 17.42%

Growth rate – 2.8%

The discount rate was a pre-tax measure based on the 5 year government bond rate adjusted for a risk premium to reflect both the increased risk of investing in equities generally and the systemic risk associated with the drilling services industry.

The cash flow projections included specific estimates for 12 months and a long term growth rate thereafter. The long term growth rate was determined based on management's estimate of the long term compound annual EBITDA growth rate, consistent with the assumption that a market participant would make.

In determining gross margin and direct expenses management have used historical performance trends, excluding costs not directly attributable to the cash generating assets .

Working capital assumptions are assumed to be in line with historic trends given the level of utilisation and operating activity.

Sensitivity analyses were performed to determine whether carrying values are supported by different assumptions. Key variables of the sensitivity analysis include

- Long term growth rates
- Discount rates

Each of these variables in the analysis has been examined at levels above and below expectations. In the downside sensitivity analysis, the value in use would be lower than the carrying value at the following levels:

- If growth rates drop from 2.8% to 0.75%
- If the discount rate changes from 17.42% to 19.15%

|                                    | 2014             | 2013             |
|------------------------------------|------------------|------------------|
| <b>9. TRADE AND OTHER PAYABLES</b> | \$               | \$               |
| <b>Current</b>                     |                  |                  |
| Trade creditors                    | 2,627,043        | 595,363          |
| Other creditors                    | 23,900           | 250,435          |
| Accrued expenses                   | 1,038,832        | 664,598          |
|                                    | <u>3,689,775</u> | <u>1,510,396</u> |



|  | 2014             | 2013             |
|--|------------------|------------------|
|  | \$               | \$               |
| <b>9(a). AGEING OF TRADE AND OTHER PAYABLES</b>                      |                  |                  |
| The ageing of trade creditors (financial liabilities) is as follows: |                  |                  |
| < 1 month  | 2,184,300        | 262,493          |
| 1 to 3 months  | 38,179           | 296,501          |
| > 3 months   | 404,564          | 36,369           |
|  | <u>2,627,043</u> | <u>595,363</u>   |
| <br><b>10. OTHER FINANCIAL LIABILITIES</b>                           |                  |                  |
| <b>Current</b>   |                  |                  |
| Equipment finance leases   | 1,716,344        | 2,105,234        |
| Equipment line loan  | 207,966          | 190,585          |
| Working capital loan 1   | 20,091           | 2,881            |
| Working capital loan 2   | 185,480          | -                |
| Insurance Premium Funding  | 319,424          | 284,079          |
|  | <u>2,449,305</u> | <u>2,582,779</u> |
| <br><b>Non - current</b>   |                  |                  |
| Equipment finance leases   | 2,939,474        | 2,946,551        |
| Equipment line loan  | 443,514          | 651,480          |
| Working capital loan 1   | 679,909          | 700,000          |
| Working capital loan 2   | 636,353          | -                |
|  | <u>4,699,250</u> | <u>4,298,031</u> |
| <br><b>10(a) FINANCE LEASES</b>                                      |                  |                  |
| Current  | 1,716,344        | 2,105,234        |
| Non-current  | 2,939,474        | 2,946,551        |
|  | <u>4,655,818</u> | <u>5,051,785</u> |
| <br><b>Minimum future lease payments</b>                             |                  |                  |
| Not later than 1 year  | 1,967,742        | 2,401,746        |
| Later than 1 year and not later than 5 years                         | 3,205,499        | 3,206,357        |
| Minimum future lease payments  | 5,173,241        | 5,608,103        |
| Less future finance charges  | (517,423)        | (556,318)        |
|  | <u>4,655,818</u> | <u>5,051,785</u> |
| <br><b>Present value of minimum future lease payments</b>            |                  |                  |
| Not later than 1 year  | 1,716,344        | 2,105,234        |
| Later than 1 year and not later than 5 years                         | 2,939,474        | 2,946,551        |
|  | <u>4,655,818</u> | <u>5,051,785</u> |

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### FOR THE YEAR ENDED 30 JUNE 2014

The Group leases certain items of equipment under finance leases. The average term is 3.6 years (2013: 4 years). The Group has options to purchase the equipment at the end of the lease terms for nominal amounts. 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 5.25% and 10.52% (2013: 5.68% to 11.98%).

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

#### 10(b) LOANS

A summary of borrowing arrangements applicable to all loans is included in Note 20(a). Security pledged in respect of the equipment line loan and working capital loan 1 is detailed in Note 12(a).

|   | 2014      | 2013      |
|---|-----------|-----------|
|   | \$        | \$        |
| <b>11. PROVISIONS</b>                         |           |           |
| <b>Annual leave provision - current</b>       |           |           |
| Opening balance                               | 361,576   | 689,068   |
| Movement                                      | (148,185) | (327,492) |
| Closing balance                               | 213,391   | 361,576   |
| <b>Long service leave provision - current</b> |           |           |
| Opening balance                               | 43,328    | 51,196    |
| Movement                                      | (19,671)  | (7,868)   |
| Closing balance                               | 23,657    | 43,328    |
| <b>Provision for contract costs</b>           |           |           |
| Opening balance                               | -         | -         |
| Movement                                      | 115,115   | -         |
| Closing balance                               | 115,115   | -         |
| <b>Total current provisions</b>               | 352,163   | 404,904   |

A provision has been made for anticipated demobilisation costs relating to a particular contract that, as at 30 June 2014, had come to an end and no longer generated revenues.

#### Long service leave provision – non - current

|                                       |          |          |
|---------------------------------------|----------|----------|
| Opening balance                       | 76,804   | 95,361   |
| Movement                              | (31,697) | (18,557) |
| Closing balance                       | 45,107   | 76,804   |
| <b>Total non - current provisions</b> | 45,107   | 76,804   |

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

## 12. PROPERTY, PLANT AND EQUIPMENT

|                                  | Land and<br>buildings | Plant and<br>equipment | Motor<br>vehicles | Furniture<br>and fittings | Total        |
|----------------------------------|-----------------------|------------------------|-------------------|---------------------------|--------------|
|                                  | \$                    | \$                     | \$                | \$                        | \$           |
| <b>At 1 July 2013</b>            |                       |                        |                   |                           |              |
| Cost or fair value               | 3,591,170             | 12,702,440             | 14,459,339        | 93,061                    | 30,846,010   |
| Accumulated depreciation         | (111,412)             | (4,559,108)            | (10,145,393)      | (53,910)                  | (14,869,823) |
| Net book amount                  | 3,479,758             | 8,143,332              | 4,313,946         | 39,151                    | 15,976,187   |
| <b>Year ended 30 June 2014</b>   |                       |                        |                   |                           |              |
| Opening net book amount          | 3,479,758             | 8,143,332              | 4,313,946         | 39,151                    | 15,976,187   |
| Acquired in business combination | 33,791                | 832,711                | -                 | 50,446                    | 916,948      |
| Additions                        | -                     | 862,969                | 59,386            | -                         | 922,355      |
| Disposals                        | -                     | (852,690)              | (355,419)         | -                         | (1,208,109)  |
| Depreciation                     | (71,163)              | (1,607,503)            | (895,852)         | (23,533)                  | (2,598,051)  |
| Closing net book amount          | 3,442,386             | 7,378,819              | 3,122,061         | 66,064                    | 14,009,330   |
| <b>At 30 June 2014</b>           |                       |                        |                   |                           |              |
| Cost or fair value               | 3,625,070             | 12,600,751             | 12,868,490        | 146,047                   | 29,240,358   |
| Accumulated depreciation         | (182,684)             | (5,221,932)            | (9,746,429)       | (79,983)                  | (15,231,028) |
| Net book amount                  | 3,442,386             | 7,378,819              | 3,122,061         | 66,064                    | 14,009,330   |
| <b>At 1 July 2012</b>            |                       |                        |                   |                           |              |
| Cost or fair value               | 3,591,170             | 12,626,348             | 16,379,160        | 225,576                   | 32,822,254   |
| Accumulated depreciation         | (41,046)              | (3,503,115)            | (10,563,760)      | (141,378)                 | (14,249,299) |
| Net book amount                  | 3,550,124             | 9,123,233              | 5,815,400         | 84,198                    | 18,572,955   |
| <b>Year ended 30 June 2013</b>   |                       |                        |                   |                           |              |
| Opening net book amount          | 3,550,124             | 9,123,233              | 5,815,400         | 84,198                    | 18,572,955   |
| Additions                        | -                     | 832,617                | 54,675            | 14,530                    | 901,822      |
| Disposals                        | -                     | -                      | (185,472)         | -                         | (185,472)    |
| Depreciation                     | (70,366)              | (1,812,518)            | (1,370,657)       | (59,577)                  | (3,313,118)  |
| Closing net book amount          | 3,479,758             | 8,143,332              | 4,313,946         | 39,151                    | 15,976,187   |
| <b>At 30 June 2013</b>           |                       |                        |                   |                           |              |
| Cost or fair value               | 3,591,170             | 12,702,440             | 14,459,339        | 93,061                    | 30,846,010   |
| Accumulated depreciation         | (111,412)             | (4,559,108)            | (10,145,393)      | (53,910)                  | (14,869,823) |
| Net book amount                  | 3,479,758             | 8,143,332              | 4,313,946         | 39,151                    | 15,976,187   |

The property, plant and equipment classifications of plant and equipment and motor vehicles are comprised mainly of drilling rigs and associated 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 amount of the Group's property, plant and equipment is conservative. Remaining mindful of the volatility of the mining industry, Directors and management do not intend to change the current depreciation and amortisation rates.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### FOR THE YEAR ENDED 30 JUNE 2014

#### 12(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 and working capital loan 1**

The following securities will secure the repayment of the above facilities.

- An existing registered mortgage given by Mitchell Services Ltd over the property situated at 133-137 Crocodile Crescent, Mount St John, Qld (carrying amount of \$3,409,394).
- New registered general security agreement given by Notch Holdings Pty Ltd as grantor, over all of its present and after acquired personal and real property including, the goodwill of its business, uncalled and unpaid capital and proceeds.
- New registered general security agreement given by Well Drilled Pty Ltd as grantor, over all of its present and after acquired personal and real property including, the goodwill of its business, uncalled and unpaid capital and proceeds.
- Existing registered company charge given by Mitchell Services Ltd over all the assets and undertakings of the company including uncalled and unpaid capital.
- Guarantee and indemnity given by Well Drilled Pty Ltd and Notch Holdings Pty Ltd.

##### **Equipment line loan**

The following rigs have been pledged as security.

- 2006 Schramm T130XD drill rig (carrying amount of \$340,701)
- 2005 Schramm T130XD drill rig (carrying amount of \$391,217)

##### **Working capital loan 2**

The following rigs have been pledged as security.

- 2008 UDR1200 Rotadrill drill rig (carrying amount of \$451,520)
- 2007 Schramm T685WS Rotadrill drill rig (carrying amount of \$232,635)

|  | 2014               | 2013             |
|--|--------------------|------------------|
|  | \$                 | \$               |
| <b>13. INCOME TAX EXPENSE</b>  |                    |                  |
| <b>Income tax recognised in profit or loss</b>   |                    |                  |
| Income tax expense comprises   |                    |                  |
| Current tax  | 157,821            | 9,064            |
| Deferred tax   | (1,836,208)        | (160,697)        |
|  | <u>(1,678,387)</u> | <u>(151,633)</u> |
| <br>The income tax expense for the year can be reconciled to the accounting profit as follows:   |                    |                  |
| <br>Profit/(loss) before tax from continuing operations  | (6,285,645)        | (2,064,071)      |
| <br>Income tax expense calculated at 30% (2013: 30%)   | (1,885,693)        | (619,221)        |
| Effect of expenses that are not deductible in determining taxable profit   | 49,485             | 458,524          |
| Effect of tax rates in foreign jurisdictions (PNG)   | 157,821            | 9,064            |
| Adjustments recognised in current year in relation to current tax of prior years   | -                  | -                |
|  | <u>(1,678,387)</u> | <u>(151,633)</u> |
| <br>The tax rate used for 2014 and 2013 reconciliations above is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. |                    |                  |
| <b>14. TAX ASSETS AND LIABILITIES</b>  |                    |                  |
| <b>Tax assets – current</b>  |                    |                  |
| Income tax receivable  | -                  | 6,671            |
| <b>Tax assets – non - current</b>  |                    |                  |
| Deferred tax asset (refer note 14(a))  | 3,397,802          | 1,261,978        |
| <b>Tax liabilities – current</b>   |                    |                  |
| Provision for foreign contractor withholding tax PNG   | -                  | 9,064            |



# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## FOR THE YEAR ENDED 30 JUNE 2014

| 2014                                  | Opening<br>balance<br>01/07/13 | Recognised<br>in profit/<br>(loss) | Acquired in<br>business<br>combination | Recognised<br>in Equity | 30%         | Closing<br>balance<br>30/06/14 |
|---------------------------------------|--------------------------------|------------------------------------|--|-------------------------|-------------|--------------------------------|
| <b>Temporary differences</b>          |                                |                                    |  |                         |             |                                |
| Annual & long service leave provision | (144,512)                      | 315,800                            | (116,247)                              |                         | 59,866      | (84,646)                       |
| Super provision                       | (53,733)                       | 45,734                             | (27,262)                               |                         | 5,542       | (48,191)                       |
| Provision for contract costs          | 0                              | (115,115)                          | -                                      | -                       | (34,534)    | (34,534)                       |
| Provision for doubtful debts          | -                              | (212,058)                          | -                                      | -                       | (63,617)    | (63,617)                       |
| Other accrued expenses                | (16,349)                       | (106,355)                          |  |                         | (31,907)    | (48,256)                       |
| Building depreciation                 | (240)                          | (3,439)                            |  |                         | (1,032)     | (1,272)                        |
| Accrued income                        | 12,541                         | 298,924                            |  |                         | 89,677      | 102,218                        |
| Foreign exchange losses               | (2,162)                        | 5,661                              | 1,849                                  |                         | 2,253       | 91                             |
| Rights issue costs                    | (8,407)                        | 48,451                             |  | (207,223)               | (47,632)    | (56,039)                       |
| Share issue costs                     | (310,155)                      | 352,801                            |  | (7,297)                 | 103,651     | (206,504)                      |
|                                       | (523,017)                      | 630,404                            | (141,660)                              | (214,520)               | 82,267      | (440,750)                      |
| <b>Unused tax losses</b>              |                                |                                    |  |                         |             |                                |
| Losses carried forward                | (738,961)                      | (6,751,096)                        | (642,541)                              |                         | (2,218,091) | (2,957,052)                    |
|                                       | (1,261,978)                    | (6,120,692)                        | (784,201)                              | (214,520)               | (2,135,824) | (3,397,802)                    |
| 2013                                  | Opening<br>balance<br>01/07/12 | Recognised<br>in profit/<br>(loss) | Acquired in<br>business<br>combination | Recognised<br>in Equity | 30%         | Closing<br>balance<br>30/06/13 |
| Annual & long service leave provision | (250,687)                      | 353,917                            | -                                      | -                       | 106,175     | (144,512)                      |
| Super provision                       | (117,245)                      | 211,707                            | -                                      | -                       | 63,512      | (53,733)                       |
| Other accrued expenses                | (14,887)                       | (4,875)                            | -                                      | -                       | (1,462)     | (16,349)                       |
| Finance leases                        | (669)                          | 2,229                              | -                                      | -                       | 669         | -                              |
| Building depreciation                 | 174                            | (1,381)                            | -                                      | -                       | (414)       | (240)                          |
| Accrued income                        | 23,207                         | (35,553)                           | -                                      | -                       | (10,666)    | 12,541                         |
| Foreign exchange losses               | -                              | (7,206)                            | -                                      | -                       | (2,162)     | (2,162)                        |
| Rights issue costs                    | -                              | (28,024)                           | -                                      | -                       | (8,407)     | (8,407)                        |
| IPO costs                             | (415,558)                      | 351,342                            | -                                      | -                       | 105,403     | (310,155)                      |
|                                       | (775,665)                      | 842,156                            | -                                      | -                       | 252,648     | (523,017)                      |
| <b>Unused tax losses</b>              |                                |                                    |  |                         |             |                                |
| Losses carried forward                | (325,616)                      | (1,377,814)                        | -                                      | -                       | (413,345)   | (738,961)                      |
|                                       | (1,101,281)                    | (535,658)                          | -                                      | -                       | (160,697)   | (1,261,978)                    |

Based on four year forecasts and the Group's assessment of the industry outlook, the Group believes that it will produce sufficient future taxable profit against which the unused tax losses can be utilised.

### 14(b). UNRECOGNISED AMOUNTS

|                          |         |         |
|--------------------------|---------|---------|
| Franking account balance | 870,635 | 879,970 |
|--------------------------|---------|---------|

|  | 2014              | 2013              |
|--|-------------------|-------------------|
|  | \$                | \$                |
| <b>15. ISSUED CAPITAL</b>  |                   |                   |
| <b>Fully paid ordinary shares</b>  |                   |                   |
| Balance at the beginning of the year   | 14,524,100        | 14,524,100        |
| Issue of shares – rights issue   | 2,500,000         | -                 |
| Issue of shares – acquisition of Mitchell Operations Pty Ltd (refer note 28) | 2,000,000         | -                 |
|  | <u>19,024,100</u> | <u>14,524,100</u> |

#### Rights Issue

During November 2013, The Group completed a fully underwritten one for on non-renounceable rights issue at two cents per share which raised \$2,500,000.

|  | Consolidated<br>2014<br>Number | Consolidated<br>2013<br>Number |
|--|--------------------------------|--------------------------------|
| <b>Fully paid ordinary shares</b>  |                                |                                |
| Balance at the beginning of the year   | 125,000,005                    | 125,000,005                    |
| Issue of shares – rights issue   | 125,000,000                    | -                              |
| Issue of shares – acquisition of Mitchell Operations Pty Ltd (refer note 28) | 40,000,000                     | -                              |
|  | <u>290,000,005</u>             | <u>125,000,005</u>             |

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

|   | \$                 | \$                 |
|---|--------------------|--------------------|
| <b>16. SHARE ISSUE COSTS</b>  |                    |                    |
| Balance at the beginning of the year                                | (1,049,780)        | (1,049,780)        |
| Share issue costs relating to rights issue and business combination | (214,520)          | -                  |
| Tax benefit   | 64,356             | -                  |
|   | <u>(1,199,944)</u> | <u>(1,049,780)</u> |

Costs incurred in relation to the rights issue and business combination that are available as an offset against equity amounted to \$214,520. The income tax benefit associated with these costs is \$64,356

|   |                    |                    |
|---|--------------------|--------------------|
| <b>17. RETAINED EARNINGS</b>                        |                    |                    |
| Balance at the beginning of the year                | (2,594,390)        | (681,952)          |
| Profit/(loss) attributable to owners of the Company | (4,607,258)        | (1,912,438)        |
| Share based payment transaction (refer note 29)     | 66,402             | -                  |
|   | <u>(7,135,246)</u> | <u>(2,594,390)</u> |

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### FOR THE YEAR ENDED 30 JUNE 2014

|   | 2014               | 2013             |
|---|--------------------|------------------|
|   | \$                 | \$               |
| <b>19. RECONCILIATION OF PROFIT/(LOSS) FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b> |                    |                  |
| Profit/(loss) for the year  | (4,607,258)        | (1,912,438)      |
| <b>Adjustments for:</b>   |                    |                  |
| Depreciation and amortisation   | 2,598,051          | 3,322,722        |
| Goodwill impairment   | -                  | 1,515,032        |
| Profit on sale of assets  | (126,454)          | (114,398)        |
| Loss on sale of assets  | 366,919            | 19,342           |
| Income tax expense  | (1,678,387)        | (151,633)        |
| Change in trade and other receivables   | (423,964)          | 1,755,854        |
| Change in other assets  | (17,182)           | (38,920)         |
| Change in inventories   | (45,082)           | 189,465          |
| Change in trade payables and accruals   | 2,179,379          | (1,919,491)      |
| Change in insurance premium funding balance   | 35,345             | -                |
| Change in provisions  | (84,438)           | (353,917)        |
| Working capital acquired in business combination  | (308,570)          | -                |
| Recognition of share based payment  | 66,402             | -                |
| Income tax paid   | (160,214)          | (4,481)          |
| <b>Net cash generated by operating activities</b>   | <b>(2,205,453)</b> | <b>2,307,137</b> |

## 20. 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.

#### (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.

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

| 2014                     |     | Expected duration until repayment |              |              |                   | Total     |
|--------------------------|-----|-----------------------------------|--------------|--------------|-------------------|-----------|
|                          |     | Within 1 year                     | 1 to 2 years | 2 to 3 years | More than 3 years |           |
|                          |     | \$                                | \$           | \$           | \$                | \$        |
| Bank Overdraft           | (a) | 2,251,701                         | -            | -            | -                 | 2,251,701 |
| Equipment finance leases | (b) | 1,716,344                         | 1,171,192    | 967,999      | 800,283           | 4,655,818 |
| Premium Insurance        | (c) | 319,424                           | -            | -            | -                 | 319,424   |
| Equipment line loan      | (d) | 207,966                           | 225,664      | 217,850      | -                 | 651,480   |
| Working capital loan 1   | (e) | 20,091                            | 124,882      | 132,649      | 422,378           | 700,000   |
| Working capital loan 2   | (f) | 185,480                           | 198,005      | 211,581      | 226,767           | 821,833   |
|                          |     | 4,701,006                         | 1,719,743    | 1,530,079    | 1,449,428         | 9,400,256 |

- Interest rates have varied between 6.01% and 6.28% per annum.
- Interest rates are commercial lease finance rates and are fixed for the duration of the loan period.
- Interest rate is fixed at a flat rate of 3.81% of the amount initially financed.
- Interest is variable with rates varying between 8.195% and 8.5817% per annum.
- Interest is variable with rates varying between 6.01% and 6.03% per annum.
- Interest is fixed at a commercial lease finance rate of 6.6546% for the duration of the loan period

| 2013                     |     | Expected duration until repayment |              |              |                   | Total     |
|--------------------------|-----|-----------------------------------|--------------|--------------|-------------------|-----------|
|                          |     | Within 1 year                     | 1 to 2 years | 2 to 3 years | More than 3 years |           |
|                          |     | \$                                | \$           | \$           | \$                | \$        |
| Bank Overdraft           | (a) | 1,853,075                         | -            | -            | -                 | 1,853,075 |
| Equipment finance leases | (b) | 2,105,234                         | 1,386,179    | 905,686      | 654,686           | 5,051,785 |
| Premium Insurance        | (c) | 284,079                           | -            | -            | -                 | 284,079   |
| Equipment line loan      | (d) | 190,585                           | 210,329      | 232,117      | 209,034           | 842,065   |
| Working capital loan 1   | (e) | 2,881                             | -            | 113,090      | 586,910           | 702,881   |
|                          |     | 4,435,854                         | 1,596,508    | 1,250,893    | 1,450,630         | 8,733,885 |

- Interest rates have varied between 6.28% and 7.03% per annum.
- Interest rates are commercial lease finance rates and are fixed for the duration of the loan period.
- Interest rate is fixed at a flat rate of 3.92% of the amount initially financed.
- Interest is variable with rates varying between 8.5817% and 8.985% per annum.
- Interest is variable with rates varying between 6.01% and 6.03% per annum.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### FOR THE YEAR ENDED 30 JUNE 2014

#### 20. FINANCIAL RISK MANAGEMENT

##### (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      |             |
|--|---------------|-------------|--------------|-------------|------------|-------------|
|  | 2014          | 2013        | 2014         | 2013        | 2014       | 2013        |
|  | \$            | \$          | \$           | \$          | \$         | \$          |
| <b>Financial liabilities due for payment</b>                         |               |             |              |             |            |             |
| Trade and other payables (excluding estimated employee entitlements) | 3,689,775     | 1,510,396   | -            | -           | 3,689,775  | 1,510,396   |
| Financial liabilities  | 2,449,305     | 2,582,779   | 4,699,250    | 4,298,031   | 7,148,555  | 6,880,810   |
| Total contractual outflows   | 6,139,080     | 4,093,175   | 4,699,250    | 4,298,031   | 10,838,330 | 8,391,206   |
| Total expected outflows  | 6,139,080     | 4,093,175   | 4,699,250    | 4,298,031   | 10,838,330 | 8,391,206   |
| <b>Financial assets – cash flows realisable</b>                      |               |             |              |             |            |             |
| Cash and cash equivalents  | 125,004       | 528,167     | -            | -           | 125,004    | 528,167     |
| Trade and other receivables  | 2,348,514     | 1,924,550   | -            | -           | 2,348,514  | 1,924,550   |
| Total anticipated inflows  | 2,473,518     | 2,452,717   | -            | -           | 2,473,518  | 2,452,717   |
| <b>Net (outflow)/inflow on financial instruments</b>                 | (3,665,562)   | (1,640,458) | (4,699,250)  | (4,298,031) | 8,364,812  | (5,938,489) |



**(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.

The Group has no significant concentration of credit risk with any single counterparty or group of counterparties. Details with respect to credit risk of trade and other receivables is provided in note 4.

Trade and other receivables that are neither past due or impaired are considered to be of high credit quality. Aggregates of such amounts are detailed at note 4.

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

**21. 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.

**22. RELATED PARTY TRANSACTIONS**

**22(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 Notch Holdings Pty Ltd ACN 009 271 461, Well Drilled Pty Ltd ACN 123 980 343 and Mitchell Operations Pty Ltd ACN 165 456 066.

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 key management personnel.

Disclosures relating to key management personnel are set out in the remuneration report.

***(iii) Other related parties***

Other related parties include entities over which key management personnel have control or joint control.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### FOR THE YEAR ENDED 30 JUNE 2014

#### 22(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.

##### **Lot 4 Sterritt Road Townsville**

The property located at Lot 4 Sterritt Road Townsville is owned by Peter Richard Miller. A portion of this property (that is, the office, workshop and part of the land) has been leased to the Group during the 2014 financial year at a gross rental of \$40,000 per annum plus GST. This lease expired on 30 June 2014.

##### **Sale to Manutech Engineering and Maintenance**

The Group entered into a contract with Manutech Engineering and Maintenance for the sale of various items of plant and equipment which were surplus to the Group's requirements. Manutech Engineering and Maintenance is an entity controlled by Peter Richard Miller. The amount payable under the contract of \$233,705 including GST has been independently assessed by two appropriately qualified valuers as being fair value. The directors believe that this was an arms-length transaction. Settlement of this transaction occurred on 10 September 2013.

##### **Transactions with Manutech Engineering and Maintenance**

The Group engages Manutech Engineering and Maintenance to perform repair and maintenance type services. The amount incurred during the reporting period in relation to these services was \$352,769. Amounts were billed on normal market rates for such services and were due and payable under normal payment terms. An amount of \$4,023 remains owing to this related entity at the end of the reporting period.

#### **Transactions with Mitchell Group private entities**

##### ***Maxial Technologies Pty Ltd***

Maxial Technologies Pty Ltd is an entity controlled by Nathan Andrew Mitchell. Prior to the acquisition of Mitchell Operations Pty Ltd (previously Mitchell Services Pty Ltd), Maxial Technologies Pty Ltd provided a short-term loan to Mitchell Operations Pty Ltd to assist with working capital requirements. The loan inclusive of interest of \$293,189 was repaid to Maxial Technologies Pty Ltd during December 2013.

##### ***Mitchell Group Holdings Pty Ltd and Mitchell Energy Services Pty Ltd***

Mitchell Group Holdings Pty Ltd and Mitchell Energy Services Pty Ltd are entities controlled by Nathan Andrew Mitchell. During the period from 1 September 2013 to 30 November 2013, the payroll cost associated with all employees of Mitchell Services Pty Ltd was funded by both Mitchell Group Holdings Pty Ltd and Mitchell Energy Services Pty Ltd to assist with the working capital requirements of Mitchell Services Pty Ltd. This arrangement ceased after the Group acquired Mitchell Operations Pty Ltd (previously Mitchell Services Pty Ltd). An amount of \$369,413 remains owing to these related entities at the end of the reporting period.

##### ***Mitchell Equipment Hire Pty Ltd***

Mitchell Equipment Hire Pty Ltd is an entity controlled by Nathan Andrew Mitchell. The Group hired plant and equipment from Mitchell Equipment Hire Pty Ltd. Hire of plant and equipment from this related entity from December 2013 to June 2014 amounted to \$144,943 and was based on normal market rates and under normal payment terms. An amount of \$85,634 remains owing to this related entity at the end of the reporting period.

##### ***VMW Engineering Pty Ltd***

VMW Engineering Pty Ltd is an entity controlled by Nathan Andrew Mitchell. VMW Engineering supplies the Group with equipment and rig components to be used in the day to day operations of the business. Amounts were billed on normal market rates for such goods and were due and payable under normal payment terms. Total purchases amounted to \$61,429. \$767 remains owing to this related party at the end of the reporting period.

#### ***Mitchell Family Investments (QLD) Pty Ltd***

Mitchell Family Investments (QLD) Pty Ltd is an entity controlled by Nathan Andrew Mitchell. The Group leases part of the office building located at 112 Bluestone Circuit, Seventeen Mile Rocks Brisbane, which is owned by Mitchell Family Investments (QLD) Pty Ltd. The rental associated with this lease is \$9,489 plus GST per month and an amount of \$64,643 remains owing to this related entity at the end of the reporting period. The rent payable under the lease has been independently assessed as being fair market rental.

#### ***Mitchell African Holdings Pty Ltd***

Mitchell African Holdings Pty Ltd is an entity controlled by Nathan Andrew Mitchell. Under an existing general services agreement, the Group provides management and administrative support services, and other service activities conducted from time to time. Under this general services arrangement the Group charges Mitchell African Holdings a management fee of approximately \$10,000 per month. Management fee income for the year amounted to \$89,436. \$61,552 remains owing to the Group at the end of the reporting period.

#### ***Mitchell Family Holdings Pty Ltd***

Mitchell Family Holdings Pty Ltd is an entity controlled by Nathan Andrew Mitchell. On 27 June 2014, the Group obtained a \$2,000,000 loan facility from Mitchell Family Holdings. As at 30 June 2014 this facility was undrawn. The loan is unsecured and interest is charged at 14% per annum..

### **23. 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 key management personnel for the year ended 30 June 2014.

|   | 2014          | 2013          |
|---|---------------|---------------|
| <b>24. AUDITORS' REMUNERATION</b>   | \$            | \$            |
| During the year, the following fees were paid or payable for services provided by the auditor or its related practices: |               |               |
| Audit and review of the financial statements  | 57,971        | 52,500        |
| Other   | -             | -             |
|   | <u>57,971</u> | <u>52,500</u> |

### **25. OPERATING LEASE COMMITMENTS**

Operating leases relate to leases of land and buildings with varying lease terms not exceeding five (2013: two) years. Some lease contracts contain provision for market rental reviews within the remaining lease term.

Non-cancellable operating lease commitments:

|                       |                |               |
|-----------------------|----------------|---------------|
| Not later than 1 year | 230,195        | 20,000        |
| Between 1 and 3 years | 227,736        | -             |
| Later than 3 years    | 132,846        | -             |
|                       | <u>590,777</u> | <u>20,000</u> |

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### FOR THE YEAR ENDED 30 JUNE 2014

|  | Year ended<br>30-Jun-14<br>Cents per share | Year ended<br>30-Jun-13<br>Cents per share |
|--|--|--|
| <b>26. EARNINGS PER SHARE</b>  |  |  |
| <b>Basic earnings per share</b>  |  |  |
| From continuing operations   | (1.86)                                     | (1.09)                                     |
| <b>Diluted earnings per share</b>  |  |  |
| From continuing operations   | (1.86)                                     | (1.09)                                     |
| Basic earnings per share and diluted earnings per share are calculated using earnings and weighted average number of ordinary shares as follows: |  |  |
| Profit/(loss) for the year attributable to owners  | (4,607,258)                                | (1,912,438)                                |
| Weighted average number of ordinary shares   | 247,184,940                                | 176,250,007                                |

The weighted number of ordinary shares for the period ended 30 June 2013 has been restated for the rights issue on 8 November 2013. An adjustment factor of 1.41 has been used. This adjustment factor is calculated as the fair value per share before exercise of rights divided by the theoretical ex-rights value per share.

### 27. DEFINED CONTRIBUTION RETIREMENT BENEFIT OBLIGATIONS

The Group contributes superannuation on behalf of qualifying employees to defined contribution retirement benefit plans. The assets of the funds are held separately from those of the Group in funds under the control of trustees. The only obligation of the Group is 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 \$448,538 (2013: \$1,012,788) represents the contributions payable by the Group to these plans in accordance with contractual employment and statutory obligations. As at 30 June 2014, contributions of \$160,640 due in respect of the 2014 reporting period (2013: \$179,112) had not been paid over to the plans. These amounts were paid subsequent to the end of the 2014 reporting period.

### 28. BUSINESS COMBINATION

On 29 November 2013, the Group's parent entity, Mitchell Services Limited, acquired all of the issued shares in Mitchell Operations Pty Ltd (Mitchell Services Pty Ltd changed its name to Mitchell Operations Pty Ltd on 10 December 2013). The entity acquired includes drilling and wireline logging contracts and senior management team members to lead and drive the business forward. The directors believe that the acquisition will have a marked effect on the current operations of the Group and will provide a platform to accelerate the Group's long held strategic objective to become a national "tier one" drilling operation.

The consideration for the acquisition was:

\$2,000,000 satisfied by the issue of 40,000,000 shares (30,000,000 shares to Mitchell Family Investments (QLD) Pty Ltd and 10,000,000 shares to Mitchell Group Holdings Pty Ltd (as trustee for the Andala trust) at 5 cents per share; and the grant of 198,660,000 options to Mitchell Group Holdings Pty Ltd (as trustee for the Andala trust) on the terms set out below.

#### **Terms of options**

The major terms of the options are as follows:

Each option entitles the holder to subscribe for one share upon payment of the exercise price prior to the expiry date. Each option will be either a Class A option, a Class B option, a Class C option or a Class D option.

The options may only be exercised if they have vested. The options will vest:

In the case of 45,000,000 Class A options if:

- the Group has an audited EBITDA for its financial year ending 30 June 2015 of at least \$4,000,000; and
- the company's shares have a 10 day VWAP of at least 5 cents per share at any time during the 12 month period commencing on the day of release to the ASX of the Group's final results for the financial year ending 30 June 2015.

In the case of 65,000,000 Class B options if:

- the Group has an audited EBITDA for its financial year ending 30 June 2015 of at least \$5,000,000; and
- the company's shares have a 10 day VWAP of at least 6 cents per share at any time during the 12 month period commencing on the day of release to the ASX of the Group's final results for the financial year ending 30 June 2015.

In the case of 50,000,000 Class C options if:

- the Group has an audited EBITDA for its financial year ending 30 June 2016 of at least \$7,000,000; and
- the company's shares have a 10 day VWAP of at least 7 cents per share at any time during the 12 month period commencing on the day of release to the ASX of the Group's final results for the financial year ending 30 June 2016.

In the case of 50,000,000 Class D options if:

- the Group has an audited EBITDA for its financial year ending 30 June 2016 of at least \$9,000,000; and
- the company's shares have a 10 day VWAP of at least 8 cents per share at any time during the 12 month period commencing on the day of release to the ASX of the Group's final results for the financial year ending 30 June 2016.

The options may be exercised at any time from when they vest until on or before 5pm (Sydney time) on the date that is 5 business days after the end of the relevant 12 month period during which the VWAP vesting condition applying to that class of options may be satisfied ("expiry date"). Options not exercised by the expiry date will lapse.

The exercise price of each option is \$0.000005.

The options will not be quoted on the ASX and are not transferrable.

There are no participation rights or entitlements inherent in the options and holders will not be entitled to participate in new issues of securities offered to shareholders during the currency of the options.

The following summarises the major classes of consideration transferred.

|   | \$               |
|---|------------------|
| Equity instruments issued (40,000,000 ordinary shares)  | 2,000,000        |
| Contingent consideration (grant of 198,660,000 options) | 2,122,402        |
|   | <u>4,122,402</u> |

#### **Equity instruments issued**

The fair value of the ordinary shares issued was based on 5 cents per share which approximated the listed share price of the company at 29 November 2013.

#### **Contingent consideration**

The Group has agreed to pay the selling shareholders additional consideration including the grant of 198,660,000 options subject to the EBITDA and share price hurdles mentioned above. The fair value of these options of \$2,122,402 has been determined by an option valuation expert using the Black-Scholes option pricing model.



## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### FOR THE YEAR ENDED 30 JUNE 2014

#### Identifiable assets acquired and liabilities assumed

The following summarises the recognised amounts of assets acquired and liabilities assumed at the acquisition date.

|                           | \$               |
|---------------------------|------------------|
| Cash and cash equivalents | 1,438            |
| Trade receivables         | 443,765          |
| Accrued income            | 189,975          |
| Other assets              | 583              |
| Inventories               | 46,046           |
| Plant and equipment       | 916,948          |
| Deferred tax assets       | 235,260          |
| Trade and other payables  | (874,130)        |
| Loans and borrowings      | (1,202,755)      |
| Provisions                | (116,247)        |
|                           | <u>(359,117)</u> |

The fair value of the deferred tax asset has been determined on a provisional basis pending assessment of the Mitchell Operations Pty Ltd income tax return for the period up to acquisition date and determination of the resulting income tax losses available to the Group. If new information obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date identifies adjustments to the above amounts, then the acquisition accounting will be revised.

#### Goodwill

Goodwill was recognised as a result of the acquisition as follows.

|  | \$               |
|--|------------------|
| Total consideration transferred                    | 4,122,402        |
| Fair value of identifiable net assets (deficiency) | 359,117          |
|  | <u>4,481,519</u> |

The goodwill is mainly attributable to the skills and technical talent of the Mitchell Operations Pty Ltd work force, customer relationships and the synergies expected to be achieved from integrating Mitchell Operations Pty Ltd into the Group's existing drilling contracting business. These assets could not be separately recognised from goodwill because they are not capable of being separated from the Group and sold, transferred, licensed, rented or exchanged, either individually or together with any related contracts. None of the goodwill recognised is expected to be deductible for tax purposes.

#### Acquisition-related costs

The Group incurred acquisition-related costs of \$119,702 related to external legal fees, expert reports and due diligence costs. These costs have been excluded from the consideration transferred and included in "Legal and consultant fees" in the Group's statement of profit or loss and other comprehensive income.

## 29 SHARE-BASED PAYMENT ARRANGEMENTS

#### Replacement awards (equity-settled)

Prior to the acquisition, Mitchell Operations Pty Ltd (formerly Mitchell Services Pty Ltd) had granted 11,340,000 options to a number of its senior executives. In consideration for the senior executives agreeing to cancel these options and agreeing to become employees of Mitchell Services Limited on terms acceptable to both parties, Mitchell Services Limited granted 11,340,000 options (replacement awards) to those senior executives on the same terms set out in note 28.

The 11,340,000 options do not form part of the consideration transferred in relation to the acquisition of Mitchell Operations Pty Ltd but represent remuneration for continued service in the post-combination period.

Subsequent to the acquisition 2,730,000 options granted to a senior executive were cancelled due to that senior executive ceasing employment with the Group.

As at 30 June 2014 8,610,000 management options were on issue.

#### Measurement of fair values

The fair value of the 8,610,000 options was \$256,443 as at 30 June 2014 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 used in the measurement of the fair value at grant date of the equity-settled share-based payment plans were as follows.

|   | Tranche<br>A | Tranche<br>B | Tranche<br>C | Tranche<br>D | Total     |
|---|--------------|--------------|--------------|--------------|-----------|
| Share price at grant date                           | \$0.05       | \$0.05       | \$0.05       | \$0.05       |           |
| Exercise price                                      | \$0.00       | \$0.00       | \$0.00       | \$0.00       |           |
| Expected volatility                                 | 50%          | 50%          | 50%          | 50%          |           |
| Time to maturity                                    | 2.6 years    | 2.6 years    | 3.6 years    | 3.6 years    |           |
| Risk-free interest rate (based on government bonds) | 2.89%        | 2.89%        | 3.13%        | 3.13%        |           |
| Dividend yield (assumed no dividends paid)          | 0%           | 0%           | 0%           | 0%           |           |
| Fair value at grant date per option                 | \$0.03       | \$0.03       | \$0.03       | \$0.03       |           |
| Number of options                                   | 1,845,000    | 2,665,000    | 2,050,000    | 2,050,000    | 8,610,000 |
| Total Fair value of options                         | \$62,674     | \$79,470     | \$59,958     | \$54,341     | \$256,443 |

2014  
\$

2013  
\$

#### Expense recognised in profit or loss

##### Equity-settled share-based payment transactions

Replacement awards granted on 29 November 2013 (refer note 17)

Total expense recognised for equity-settled share-based payment

|        |   |
|--------|---|
| 66,402 | - |
| 66,402 | - |

## 29. SEGMENT REPORTING

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.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### FOR THE YEAR ENDED 30 JUNE 2014

#### 30. EVENTS AFTER THE REPORTING PERIOD

The following events have occurred since the end of the reporting period.

##### **Acquisition of Tom Browne Drilling Services assets**

On 21 August 2014 Notch Holdings Pty Ltd (a wholly owned subsidiary of the Mitchell Services Ltd), entered into a conditional sale agreement to acquire 29 drill rigs and ancillary equipment from Tom Browne Drilling Services Pty Ltd (Receivers and managers appointed) (In liquidation). The purchase price per this sale agreement was \$9,500,000 plus GST.

The Group has planned to raise additional equity to fund the Tom Browne asset acquisition, provide working capital for further growth aspirations and repay the Mitchell Family Holdings loan. The equity raising is planned to be done in stages and it is anticipated to be completed shortly after the date of this report. The various stages of the capital raising are outlined below:

- The issue of 43,500,001 fully paid ordinary shares at a price of \$0.035 to raise approximately \$1,520,000 by way of a first tranche placement to institutional and sophisticated investors.
- The undertaking of a 1 for 1 non-renounceable rights issue at \$0.035 per share to raise approximately \$11,700,000.
- The issue of 200,000,000 fully paid ordinary shares at a price of \$0.035 to raise approximately \$7 million by way of a second tranche placement to institutional and sophisticated investors.

##### **Cancellation of options**

As part of the acquisition of the assets of Tom Browne Drilling Services (Receivers and managers appointed: in liquidation) and associated equity raising, 44,415,000 class A and 64,155,000 class B options issued to Mitchell Group Holdings and to senior management were cancelled.

##### **Lease of 133-137 Crocodile Crescent.**

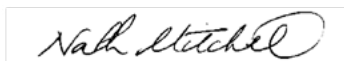
On 21 July 2014 Mitchell Services Ltd entered into a five year lease agreement to lease its building situated at 133-137 Crocodile Crescent, Mount St John. Under the lease agreement Mitchell Services will receive rental income of \$265,000 per annum.

## DIRECTORS' DECLARATION

The directors declare that:

- a. in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
- b. in the directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 1(b) to the financial statements;
- c. in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity; and
- d. the directors have been given the declarations required by section 295A of the Corporations Act 2001.

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



Nathan Andrew Mitchell  
Executive Chairman

Dated at Brisbane this 17th day of September 2014.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MITCHELL SERVICES LTD ACN 149 206 333 FOR THE YEAR ENDED 30 JUNE 2014**

### **Report on the Financial Report**

I have audited the accompanying financial report of Mitchell Services Ltd, which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

### **Directors' Responsibility for the Financial Report**

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB101: Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards (IFRS).

### **Auditor's Responsibility**

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

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Independence**

In conducting my audit, I have complied with the independence requirements of the Corporations Act 2001. I confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of Mitchell Services Ltd, would be in the same terms if provided to the directors as at the date of this auditor's report.

### **Auditor's Opinion**

In my opinion:

- (a) the financial report of Mitchell Services Ltd is in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001;
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

### Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### Auditor's Opinion

In my opinion, the Remuneration Report of Mitchell Services Ltd for the year ended 30 June 2014, complies with section 300A of the Corporations Act 2001.



I.D. Jessup  
(Registered Company Auditor)

19 Stanley Street  
TOWNSVILLE QLD 4810

Dated this 17th day of September 2014



## ADDITIONAL AUSTRALIAN STOCK EXCHANGE INFORMATION

The following information is current as at 27 August 2014

### MSV Quoted Ordinary Shares

| Spread of holdings                    | Number of holders | Shares             | % of total issued capital |
|---------------------------------------|-------------------|--------------------|---------------------------|
| 1 – 1,000                             | 10                | 2,322              | 0.00%                     |
| 1,001 – 5,000                         | 26                | 84,767             | 0.03%                     |
| 5,001 – 10,000                        | 47                | 426,663            | 0.15%                     |
| 10,001 – 100,000                      | 265               | 13,282,452         | 4.58%                     |
| Greater than 100,000                  | 169               | 276,203,806        | 95.24%                    |
| <b>Total</b>                          | <b>517</b>        | <b>290,000,010</b> | <b>100%</b>               |
| Holding less than a marketable parcel | 54                | n/a                | n/a                       |

### MSVO Quoted Options

| Spread of holdings   | Number of holders | Shares            | % of total quoted options |
|----------------------|-------------------|-------------------|---------------------------|
| 1 – 1,000            | 46                | 46,000            | 0.37%                     |
| 1,001 – 5,000        | 199               | 612,200           | 4.90%                     |
| 5,001 – 10,000       | 46                | 383,250           | 3.06%                     |
| 10,001 – 100,000     | 46                | 1,674,480         | 13.40%                    |
| Greater than 100,000 | 19                | 9,784,070         | 78.27%                    |
| <b>Total</b>         | <b>356</b>        | <b>12,500,000</b> | <b>100%</b>               |

## MSV Quoted Ordinary Shares

The twenty largest listed security holders comprise:

| Rank | Shareholder   | Ordinary Shares    | % of total issued capital |
|------|---|--------------------|---------------------------|
| 1    | Mitchell Group Holdings Pty Ltd                           | 56,250,000         | 19.40%                    |
| 2    | Mitchell Family Investments Pty Ltd                       | 30,000,000         | 10.34%                    |
| 3    | Washington H Soul Pattinson and Company Ltd               | 25,492,772         | 8.79%                     |
| 4    | Sonya Miller  | 19,816,810         | 6.83%                     |
| 5    | Peter Miller  | 19,816,810         | 6.83%                     |
| 6    | Jumani Pty Ltd  | 8,365,057          | 2.88%                     |
| 7    | Farjoy Pty Ltd  | 6,000,000          | 2.08%                     |
| 8    | Australian Executor Trustees Ltd (No 1 Account)           | 5,874,390          | 2.03%                     |
| 9    | Pybar Holdings Pty Ltd                                    | 4,716,784          | 1.63%                     |
| 10   | Mr Pairatch Paotrakul                                     | 4,500,000          | 1.55%                     |
| 11   | Clapsy Pty Ltd (Baron Super Fund)                         | 3,436,000          | 1.18%                     |
| 12   | Mr Michael Hunter Mansfield                               | 3,316,000          | 1.15%                     |
| 13   | Perryville Investments Pty Ltd                            | 3,000,000          | 1.03%                     |
| 14   | Netherfield Nominees Pty Ltd (Louise Christie Super Fund) | 3,000,000          | 1.03%                     |
| 15   | Mr Benjamin Eric Westaway                                 | 2,819,427          | 0.98%                     |
| 16   | Mr Peter Miller & Mrs Sonya Miller (P&S Retirement Fund)  | 2,800,000          | 0.97%                     |
| 17   | Richvale Pty Ltd  | 2,700,000          | 0.93%                     |
| 18   | D J Fairfull Pty Ltd (Fairfull Superannuation Fund)       | 2,700,000          | 0.93%                     |
| 19   | Mr Scott Michael Nicholas                                 | 2,615,000          | 0.90%                     |
| 20   | Banjo Superannuation Fund Pty Ltd                         | 2,590,000          | 0.89%                     |
|      | <b>Total</b>  | <b>209,809,049</b> | <b>72.35%</b>             |

## ADDITIONAL AUSTRALIAN STOCK EXCHANGE INFORMATION CONTINUED

### MSVO Quoted Options

The twenty largest listed security option holders comprise:

| Rank         | Option holder  | Options          | % of total<br>quoted<br>options |
|--------------|--|------------------|---------------------------------|
| 1            | Mrs Sonya Miller   | 1,981,681        | 15.85%                          |
| 2            | Mr Peter Miller  | 1,981,681        | 15.85%                          |
| 3            | Washington H Soul Pattinson and Company Ltd  | 1,274,638        | 10.20%                          |
| 4            | Mr Alfredo Varela  | 1,126,250        | 9.01%                           |
| 5            | Jumani Pty Ltd   | 698,520          | 5.59%                           |
| 6            | Farjoy Pty Ltd   | 445,617          | 3.57%                           |
| 7            | Oztech Pty Ltd   | 270,500          | 2.16%                           |
| 8            | Hamergin Pty Ltd (Super Fund)  | 250,000          | 2.00%                           |
| 9            | Mr Peter Miller & Mrs Sonya Miller (P&S Retirement Fund)                             | 245,000          | 1.96%                           |
| 10           | Oztech Pty Ltd   | 215,000          | 1.72%                           |
| 11           | Hancroft Pty Ltd   | 200,000          | 1.60%                           |
| 12           | Mr William May   | 183,600          | 1.47%                           |
| 13           | Mr Simon Hammer  | 163,000          | 1.30%                           |
| 14           | Richvale Pty Ltd   | 135,000          | 1.08%                           |
| 15           | D J Fairfull Pty Ltd (Fairfull Superannuation Fund)                                  | 135,000          | 1.08%                           |
| 16           | Mr Anthony Hewett  | 122,500          | 0.98%                           |
| 17           | Mr Diarmuid Joseph Galway  | 120,000          | 0.96%                           |
| 18           | Mr Vincent Gordon Reibelt and Mrs Cecily Reibelt (Auto-Way Pty Ltd Staff Super Fund) | 120,000          | 0.96%                           |
| 19           | Glenprice Pty Ltd  | 116,083          | 0.93%                           |
| 20           | Flash Gordon Investments Pty Ltd (Matthew Gordon Super Fund)                         | 100,000          | 0.80%                           |
| <b>Total</b> |  | <b>9,884,070</b> | <b>79.07%</b>                   |

### Unquoted Securities

| Class                       | Number of options | Substantial holder              | Units held by substantial holder |
|-----------------------------|-------------------|---------------------------------|----------------------------------|
| Management options          | 500,000           | Bob Witty                       | 500,000                          |
| Class C performance options | 49,350,000        | Mitchell Group Holdings Pty Ltd | 47,300,000                       |
| Class D performance options | 49,350,000        | Mitchell Group Holdings Pty Ltd | 47,300,000                       |

### Substantial Shareholders

| Rank | Shareholder                                 | Ordinary Shares | % of total issued capital |
|------|---|-----------------|---------------------------|
| 1    | Mitchell Group Holdings Pty Ltd             | 56,250,000      | 19.40%                    |
| 2    | Mitchell Family Investments Pty Ltd         | 30,000,000      | 10.34%                    |
| 3    | Washington H Soul Pattinson and Company Ltd | 25,492,772      | 8.79%                     |
| 4    | Mrs Sonya Miller                            | 19,816,810      | 6.83%                     |
| 5    | Mr Peter Miller                             | 19,816,810      | 6.83%                     |

### 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.

### Restricted Securities

Unquoted Management Options that may not be exercised before 2 August 2014 comprise:

| Number under Restriction | Percentage | Restricted Date | Release Date |
|--------------------------|------------|-----------------|--------------|
| 500,000                  | 100%       | 7/27/2011       | 8/2/2014     |

The following performance options are on issue. These options may only be exercised upon the Group achieving certain EBITDA targets.

49,350,000 C class options subject to EBITDA targets for the year ending 30 June 2016

49,350,000 D class options subject to EBITDA targets for the year ending 30 June 2017

### Recently listed entities

For the period from 1 July 2013 to 30 June 2014, the Group has used the cash and assets in a form readily convertible to cash that it had at the time of admission in a way that is consistent with its business objectives.

## CORPORATE DIRECTORY

### Board of Directors

#### **Executive Chairman**

Nathan Andrew Mitchell

#### **Directors**

Ralph Howard Craven

Peter Richard Miller

Robert Barry Douglas

Grant Eric Moyle

#### **Chief Executive Officer**

Andrew Michael Elf

#### **Chief Financial Officer and Company Secretary**

Robert Ian Witty

#### **Registered Office**

Mitchell Services Ltd

ABN 31 149 206 333

112 Bluestone Circuit

Seventeen Mile Rocks

Qld 40763

#### **Principal Place of Business**

112 Bluestone Circuit

Seventeen Mile Rocks

Qld 4073

PO Box 3199

Darra Qld 4076

Ph: 07 3722 7222

Fax: 07 3722 7256

Website: [www.mitchellservices.com.au](http://www.mitchellservices.com.au)

#### **Share Registry**

Advanced Share Registry

110 Stirling Highway

Nedlands Western Australia 6909

Ph: 08 9389 8033

Fax: 08 9262 3723

Website: [www.advancedshare.com.au](http://www.advancedshare.com.au)

### Auditors

Jessups

Level 1, 19 Stanley Street

Townsville Qld 4810

Ph: 07 4755 3330

Fax: 07 4721 4513

Website: [www.jessupsnq.com.au](http://www.jessupsnq.com.au)

### Taxation Advisors

PricewaterhouseCoopers

51 Sturt Street

Townsville Qld 4810

Ph: 07 4721 8500

Fax: 07 4721 8599

Website: [www.pwc.com.au](http://www.pwc.com.au)

### Bankers

Suncorp Metway Ltd

61-73 Sturt St

Townsville Qld 4810

Ph: 07 4760 8229

Fax: 07 4771 6348

Website: [www.suncorpbank.com.au](http://www.suncorpbank.com.au)







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