



HUGHES DRILLING LIMITED

ABN 12 124 279 750



ANNUAL REPORT

30 JUNE 2014

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Corporate Directory

| | | |
|-------------------------------|---|--------------------------------------|
| Directors | Mr Robert (Bob) Hughes | Executive Director / Acting Chairman |
| | Mr Andrew Drake | Chief Executive Officer |
| | Mr Barry O'Connor | Non - Executive Director |
| | Mr John Silverthorne | Non - Executive Director |
| | Mr Jeff Branson | Chief Operating Officer |
| | Mr Gary Belcher | Non-Executive Director |
| Company Secretary | Mr Paul Brenton | |
| Registered Office | 12 Byte Street Yatala, QLD, 4207 Telephone: 61 7 3807 8811 Facsimile: 61 7 3807 8899 Web site: www.hughesdrilling.com.au ABN: 12 124 279 750 | |
| Share Registry | Computershare Investor Services Pty Ltd Level 3, 60 Carrington Street Sydney, NSW, 2000 Telephone: 1300 131 749 Facsimile: 61 2 8235 8229 Web site: www.computershare.com | |
| Auditors | PricewaterhouseCoopers Level 3, 45 Watt Street Newcastle, NSW, 2300 | |
| Solicitors | HWL Ebsworth Level 23 123 Eagle Street Brisbane, QLD, 4000 | |
| Bankers | Westpac Bank Level 14 260 Queen Street Brisbane, QLD, 4000 | |
| Stock exchange listing | Hughes Drilling Ltd shares are listed on the Australian Securities Exchange (ASX), ASX code HDX | |

Chairman's Report

OPERATIONAL AND FINANCIAL REVIEW

On behalf of the Board I am pleased to inform shareholders that Hughes Drilling Limited ("Hughes", "HDX" or the "Company") generated revenue of \$90.6m and a Net Profit after tax of \$1.4m for the 12 months to 30 June 2014.

The Net Profit of \$1.4m attributable to equity holders was after impairment charges of \$5.6m associated with the EDMS reverse acquisition by Hughes Drilling.

Underlying profit after tax attributable to shareholders pre impairment is \$7.0m, down 32.5% compared to FY13.

The year ended 30 June 2014 was impacted by a number of external factors, the main contributors being, slower decisions by clients to engage mobilized rigs to start work, delayed decisions by clients to award new contracts and reduced budgets and cost saving measures taken by mining companies, particularly opting for repairs and maintenance on existing equipment, rather than the purchase of new equipment. These conditions present challenging times for all mining contractors and equipment manufacturers; however the Hughes Group, in this relatively tough market, is continuing to win new contracts and extend existing contracts by being a production drilling focused contractor that can supply any drill service, equipment or consumable that any client requires.

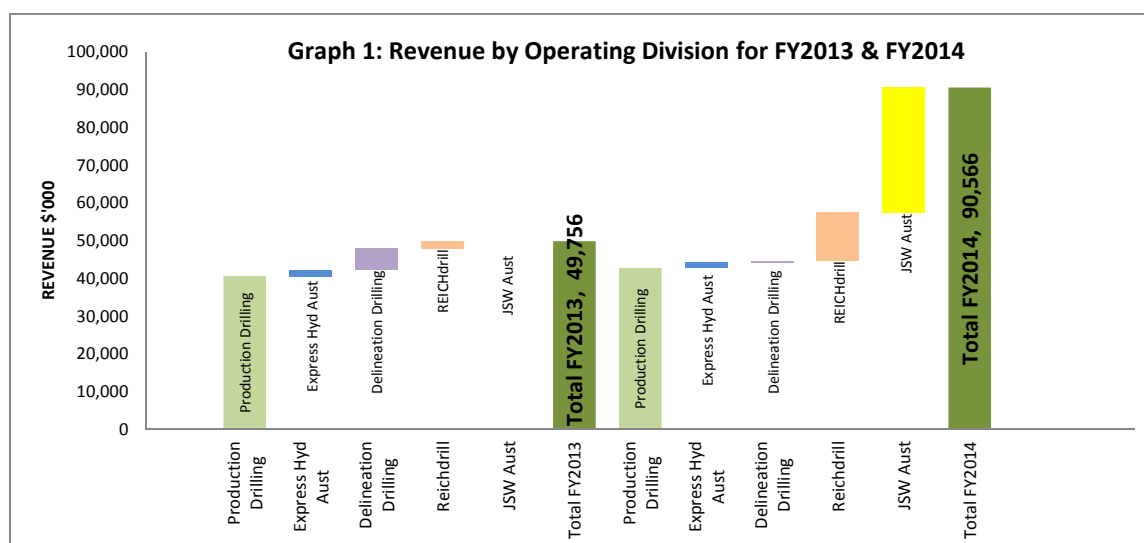
The impairment charges relate to the carrying values of Coal exploration delineation drill rigs and goodwill that were part of the original EDMS Coal exploration / delineation drilling business. The drill rigs are fully owned and have no finance payments or other financial outgoings. As the Hughes Drilling Group is focused on production drilling business the Directors have decided write down the value of the delineation drill rigs by \$1.6M and write off the good will in EDMS that resulted from the reverse acquisition by Hughes Drilling. The impairment charges are non-cash and allow Hughes to progressively exit the Coal delineation drilling market with usable inventory being transferred to JSW for use in their Western Australian production drilling operations.

| CONSOLIDATED FINANCIAL RESULTS | 30 June 2014 * | 30 June 2013 * | % Change |
|---|----------------|-----------------|----------------|
| | A\$ '000 | A\$ '000 | |
| Financial Performance | | | |
| Revenue | 90,566 | 49,756 | 82.0% |
| EBITDA | 14,610 | 18,057 | (19.1%) |
| EBITDA Margin | 16.1% | 36.3% | (55.6%) |
| Depreciation & amortization | 9,858 | 5,516 | 78.7% |
| Finance Costs | 3,108 | 2,147 | 44.8% |
| EBT | 1,645 | 10,392 | (84.2%) |
| NPAT | 1,422 | 10,367 | (86.3%) |
| NPAT Margin % | 1.6% | 20.8% | (92.3%) |
| Cash Flow | | | |
| Net Cash from Operating Activities | 5,628 | 7,905 | (28.8%) |
| Net Cash used in Investing Activities | (10,385) | (21,245) | 51.1% |
| Free Cash Flow | (4,757) | (13,340) | 64.3% |
| Debt | | | |
| Cash | 426 | 5,334 | (92.0%) |
| Debt (including overdraft) | 46,113 | 27,271 | 69.1% |
| Net Debt | 45,687 | 21,937 | 108.3% |
| Debt / Debt + Equity | 41.8% | 33.4% | (25.1%) |
| Note - FY13 comprises full year of Hughes Drilling and three months of REICHdrill Inc. results - FY14 comprises full year of Hughes Drilling, REICHdrill and nine months of JSW Australia results | | | |

Review of Revenue

Revenue for the 12 months ending 30 June 2014 was \$90.6m, an increase of 82.0% from \$49.8m for the corresponding 12 months to June 2013, the increase in revenue was driven by;

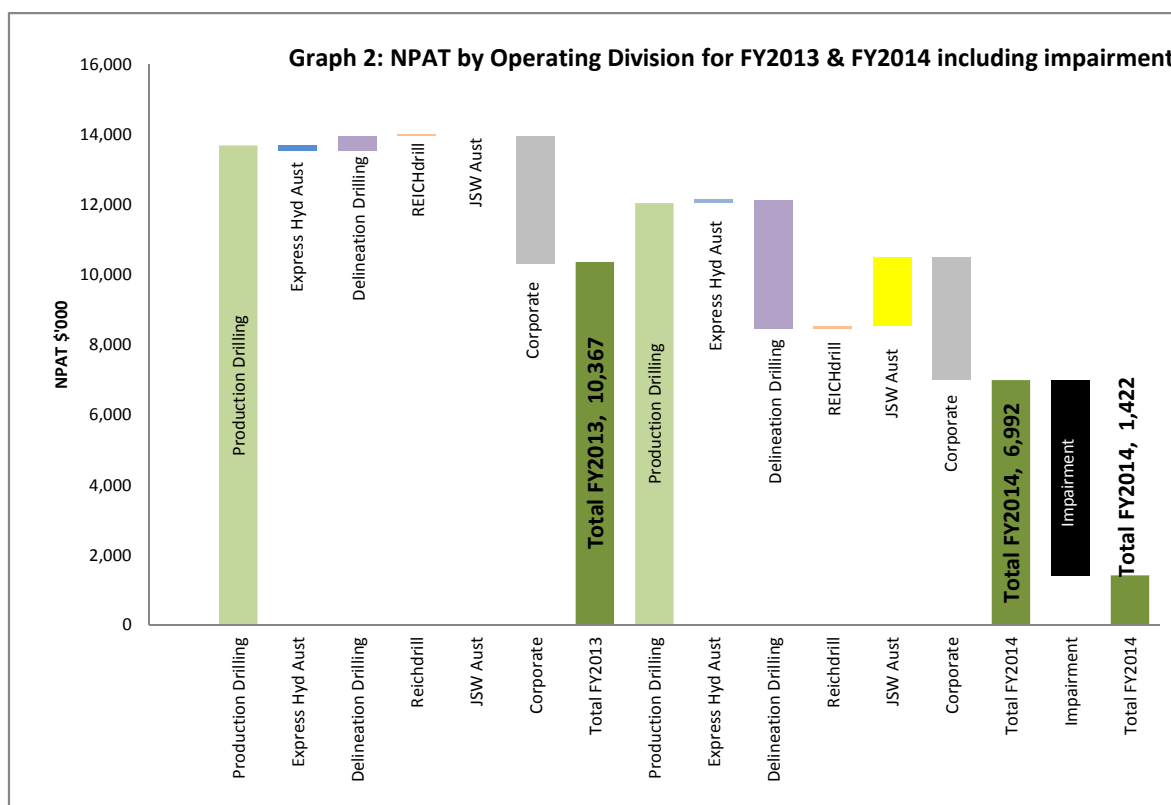
- **East Coast Drilling Operations (Production Blast Hole Drilling)** (47.1 % of Group revenue): Record revenue of \$42.7m for a 12 month period, an increase of \$2.1m (5% increase period to period). The revenue increase reflects rigs purchased progressively during FY14 working for the full period, however, the initial rig and revenue growth has been offset by the lower utilisations in the second half of FY14. Overall rig utilisation fluctuated between 70.7% and 94.1%, ending FY14 at 78%, a modestly lower level than historic norms reflecting some loss of efficiency arising from slower client decision making.
- **West Coast Drilling Operations (JSW Aust – Production Blast Hole, Water Well and Resource Definition Drilling)** 36.7% of Group revenue): JSW was acquired in October 2013, therefore had a nil contribution for FY13. After a slower than expected start up on a number of large awarded on mine site production contracts, the West Coast Drilling Operations have finished FY14 with 18 of 21 owned rigs contracted, plus an additional 6 specialist rigs on dry hire to service existing work commitments. JSW secured Hughes's first large diameter iron ore blast hole contract utilising two REICHdrill C700 rigs in WA in June 2014.
- **REICHdrill** (14.2% of Group revenue): First full year contribution. Revenue of \$12.8m for FY14 (\$2.0m contribution to 1H13). REICHdrill produced 18 rigs in FY14, 3 for Hughes, and 15 for external customers. The 15 external sales were a mix of rigs, 5x T-690/T650's, 6x C550's and 4x C450's, averaging US\$550k per rig. The size and quantity of rigs that were sold during FY14 varied to the original forecast, being 26 rigs at an average sale price of ~US\$850k. The larger C700 rigs, forecast to be built for completion in FY14 are yet to be sold (and yet to be manufactured) whilst ongoing discussions continue with those customers. REICHdrill expect those discussions to result in some sale deliveries in FY15. Orders for Drill supply of other smaller models are also being negotiated by REICHdrill and their expanding global distribution network.
- **Express Hydraulics** (1.7% of Group revenue): FY14 was a pleasing year for Express Hydraulics, the first half contributed \$0.5m of revenue, mainly spare parts sales, with the second half of FY14 contributing \$1.0m of revenue. The increase in 2H14 was driven by the new Mackay facility (opened in November 2013) winning work ongoing with Peabody and Rio Tinto. Other major mining houses and production drilling contractors are also in discussion with Express Hydraulics to take advantage of the cost and skill benefits Express Hydraulics are able to deliver.
- **Delineation Drilling** (0.4% of Group revenue): FY14 was a very poor year for Coal Delineation Drilling across all markets, where Hughes Drilling wasn't immune from the general market forces. FY14 revenue of \$0.3m is down \$5.2m from FY13 revenue of \$5.5m. There were few market opportunities in NSW and QLD in FY14, JSW marketed the rigs in WA, however, given the glut of available delineation / exploration rigs already in WA, bidding for the same work at extremely depressed prices, it was cost and margin prohibitive to tender competitively on price. JSW has identified Delineation Drilling inventory that can be consumed in its Western Australian production drilling operations.



Review of Profitability

Net Profit After Tax (NPAT) for the 12 months to June 2014 was \$1.4m, a decrease of 86.3% after impairment costs of \$5.5m on the corresponding 12 months to June 2013. The underlying changes in NPAT were driven by;

- **East Coast Drilling Operations (Production Blast Hole Drilling):** Underlying NPAT of \$12.1m (a period to period decrease of \$1.6m or -12.0%). This reduction was mainly driven by the lower rig utilisation in 2H14, although rig utilisation has remained high compared to peers, FY13 saw rig utilisation during the period in the range of 89.3% to 97.1%.
- **West Coast Drilling Operations (JSW Aust – Production Blast Hole, Water Well and Resource Definition Drilling):** Underlying NPAT contribution for FY14 of \$2.0m (nil contribution to FY13). The slower than expected start-up of the new contracts won, saw JSW having to carry longer start up periods without the revenue stream, all contracts are now fully deployed and FY15 will see an immediate improvement in the NPAT contribution. In addition to this, JSW is still in the process of benefiting from the Hughes Group increased purchasing power and corporate operating methodologies, which will see NPAT margin continue to improve.
- **REICHdrill:** Full 12 month underlying NPAT contribution of \$0.1m (FY13 contribution \$0.1m). The lower than budgeted rig revenue for FY14 was still adequate to cover the full operating and overhead costs for REICHdrill.
- **Express Hydraulics:** Underlying profit of \$0.1m for FY14, a \$0.3m increase on FY13. The profit was being driven by the improved part sales, and the commencement of ongoing works with significant clients from the new Mackay facility.
- **Delineation Drilling:** Underlying operating loss of \$3.7m, a \$4.1m decrease on FY13, the NPAT loss including impairment costs of \$5.6m (\$1.6m PP&E and \$4.0m Goodwill), is \$9.3m. The operating loss has been driven by the poor utilisation of the Delineation rigs in FY14. For FY15, all employees have been absorbed into the Production Drilling Division, and all debt has now been fully repaid on all Delineation assets, leaving very few cash costs associated with the Delineation / Exploration Drilling operation. Given the few profitable Delineation / Exploration Drilling opportunities that exist, Hughes has impaired the Delineation Rigs by \$1.6m and has written off the \$4.0m Goodwill generated by the EDMS / Hughes acquisition in FY12. This will allow Hughes to take advantage of any opportunities to generate a return on these idle assets.
- **Corporate:** Corporate overheads for the Group of \$3.5m, a decrease of \$0.2m on FY13. This is in line with budget.

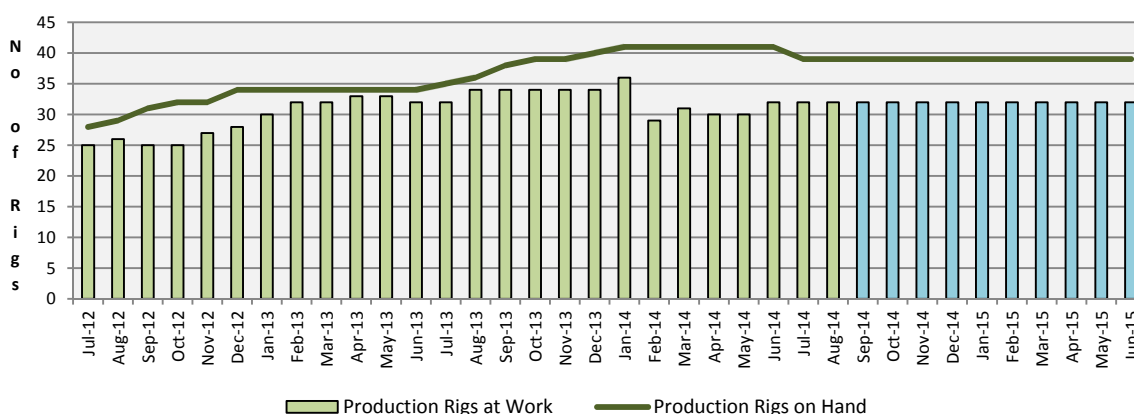


Review of Operations

East Coast Drilling Operations (Production Blast Hole Drilling):

- Record revenue of \$42.7m for FY14
- East Coast Production rig fleet has grown from 38 to 41 in FY14 (compared to 38 from 27 in FY13). In June 2014 two (2) REICHdrill C700-D production drill rigs were transferred to JSW for use on the new Mineral Resources Carina Iron Ore mine production drilling contract.
- The continued strong demand for Hughes service offerings can be attributed to Hughes being able to offer a “one stop shop” drilling service. Hughes can offer any combination of contract drilling and / or direct rig sale via REICHdrill, backed by a Rig Service Contract and Drill Consumables Contract via Express Hydraulics.

Graph 3: East Coast Contract Drilling - Rig Utilisation



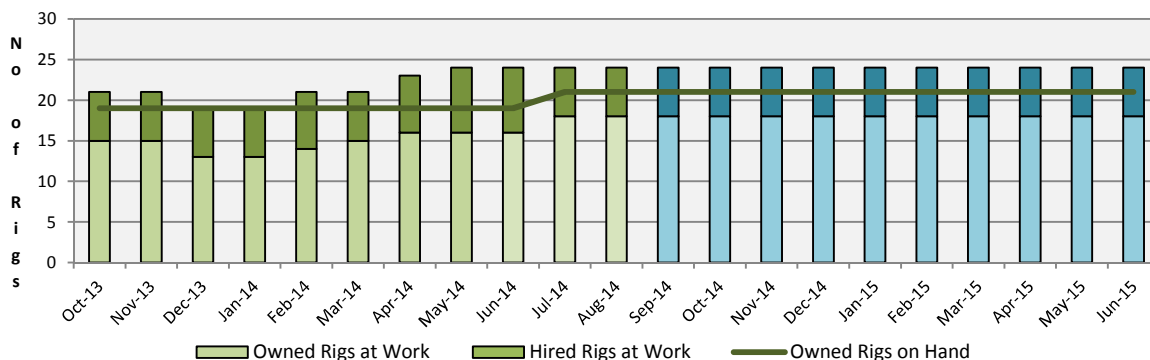
Note:

- In June 2014, 2 C700-D rigs were transferred to JSW Aust for the new Mineral Resources Carina Iron Ore Mine production drilling contract
- The 7 un-contracted rigs include 3 rigs in for routine maintenance.

West Coast Drilling Operations (JSW Aust – Production Blast Hole, Water Well and Resource Definition Drilling):

- The acquisition of JSW was effective from 1 October 2013. The primary strategic objective for the acquisition of JSW was to own a drilling business that provided Hughes with access to on-mine production blast hole drilling opportunities in Western Australia. Hughes won its first production blast hole drilling contract at Mineral Resources Carina Iron Ore Mine through JSW in June 2014, and commenced drilling in July 2014.
- JSW has made a number of introductions to WA Miners and Contractors for Hughes Drilling Groups unique “one stop shop” drilling service offerings including REICHdrill direct rig sales backed by a Rig Service Contract and Drill Consumables Contract via Express Hydraulics

Graph 4: West Coast Contract Drilling - Rig Utilisation



Note:

- In June 2014, 2 C700-D rigs were transferred to JSW Aust for the new Mineral Resources Carina Iron Ore Mine production drilling contract

Review of Operations (continued)

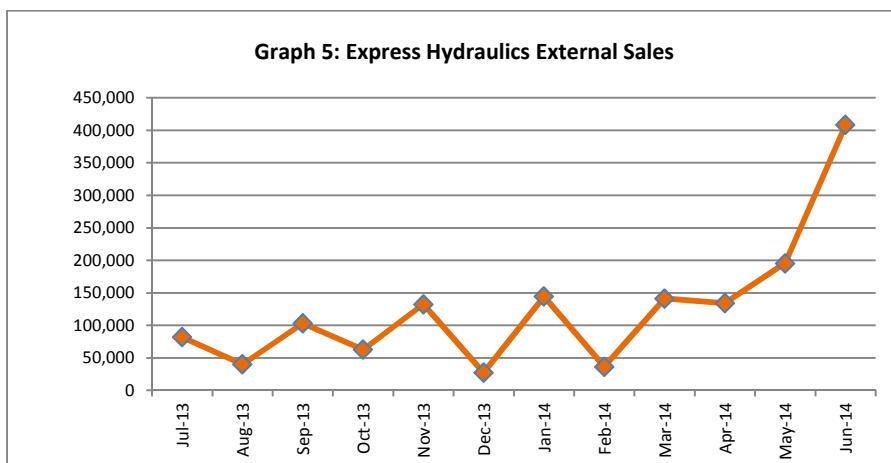
REICHdrill:

- REICHdrill has now been part of the Hughes Group for 15 months, and during this time, Hughes has been focusing on
 - re-engaging with previous and existing customers
 - attracting new customers from existing and new territories
 - appointing new distributors that will push and support the product,
 - Hughes has appointed
 - Mincon covering Sub Equatorial Africa
 - Wajax Equipment covering all Canadian Provinces
 - P.T. Powertrain Solutions covering Indonesia
 - Midlantic Machinery covering Central Pennsylvania, Maryland and Northern Virginia
- This focus is starting to see results, as REICHdrill sold 15 rigs to external customers and 3 to Hughes Drilling during FY14. The 15 external sales were a mix of rigs, 5x T-690/T650's, 6x C550's and 4x C450's, averaging US\$550k per rig. The current internal (sales to Hughes) to external mix is, 16.5% internal and 83.5% external, in previous years, the mix has been 75% internal to 25% external
- REICHdrill is responding to record levels of enquires for the sale of rigs, however, the current decision time for a contractor or mine owner on whether to commit or not, is lengthening, as they are tending to continue to run their existing drilling equipment until the equipment can no longer be economically repaired.

Express Hydraulics:

- Express Hydraulics continues to expand through a focused business strategy to offer mine owners, not just the option of a contract driller, but the option to owner-operate REICHdrill rigs with the back-up of Express Hydraulics' full rig service support agreement.
- Express Hydraulics has a letter of intent to supply up to 7 C700 REICHdrill large diameter production drill rigs to a major open cut coal mine in the Hunter Valley NSW. The delivery of the 7 rigs will take place from 2014 to 2017. These REICHdrill rigs will be fully maintained by Express Hydraulics.
- Express Hydraulics has also expanded its footprint on the eastern seaboard to meet growing customer needs. In addition to its existing operations;
 - Yatala – main inventory store, CNC operations, heavy fit out, hydraulic and overhaul capabilities
 - Hunter Valley – NSW operational base which, holds fast moving inventory for Hughes and customer operations
- Express Hydraulics (Aust) has opened a new facility in Mackay. This facility will also hold fast moving inventory for Hughes Drilling and external customer operations. The facility offers customers;
 - Spare Parts and Consumables
 - Rig rebuilding and servicing capabilities
 - All mining ancillary equipment rebuilding and servicing capabilities
 - All Hydraulic rebuilding and servicing needs
 - Specialist Air Compressor rebuilds and exchange service.
- The establishment of the new Mackay facility further demonstrates Hughes' and Express Hydraulics (Aust)'s commitment to customers and the local mining communities.
- The new Mackay facility is responsible for the increased turnover through the fourth quarter of FY14

Graph 5: Express Hydraulics External Sales

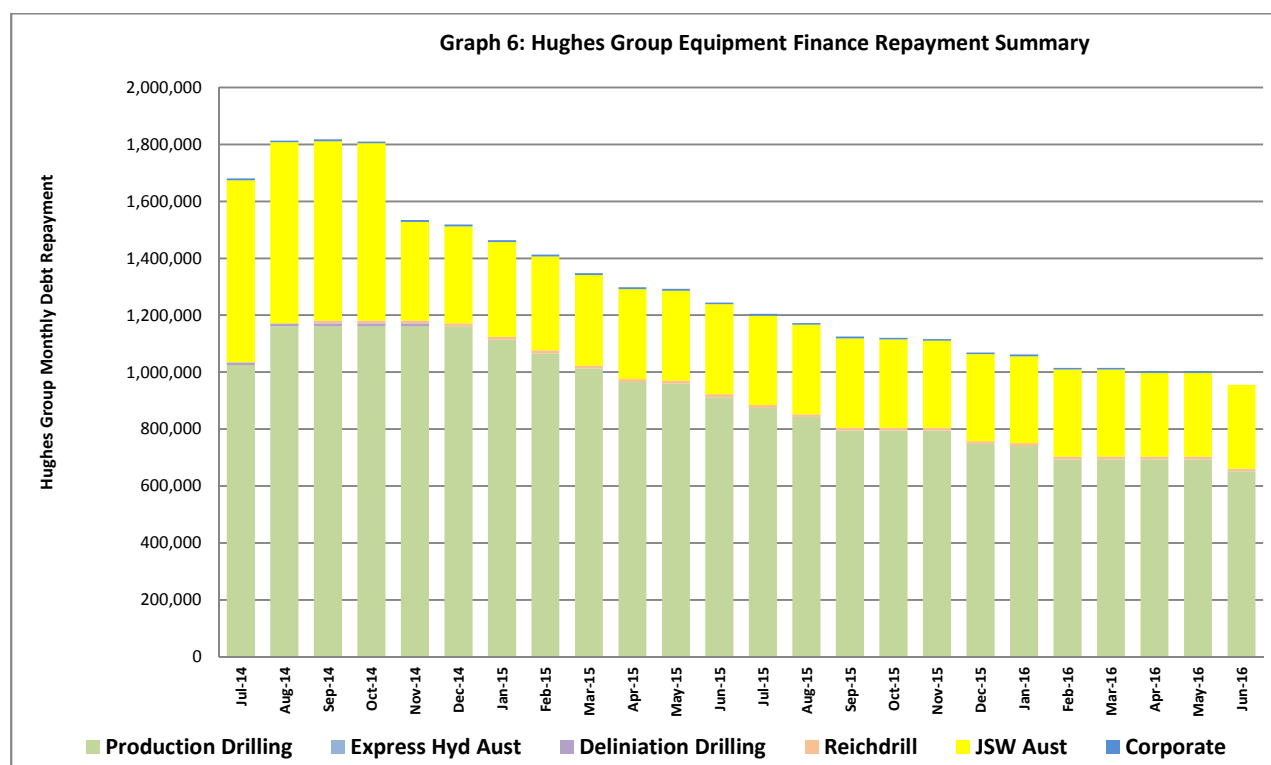


Review of Borrowings

The acquisition of JSW in October 2013 brought \$17.4m of debt to the balance sheet. The Hughes Group is committed to paying down debt. Current debt (principle and interest) repayments for the Group are approximately \$1.8m per month. FY15 will see the debt repayment profile and consequently the total debt profile for Hughes changing significantly;

- May 2014 – All debt associated with the assets of the Delineation Drilling business were fully repaid
- July 2014 to November 2014 – The debt repayments for JSW reduce from approximately \$600k per month to approximately \$300k per month

This planned dramatic reduction in debt payments will have immediate cash flow benefits and will result in increased cash surplus being generated through FY15

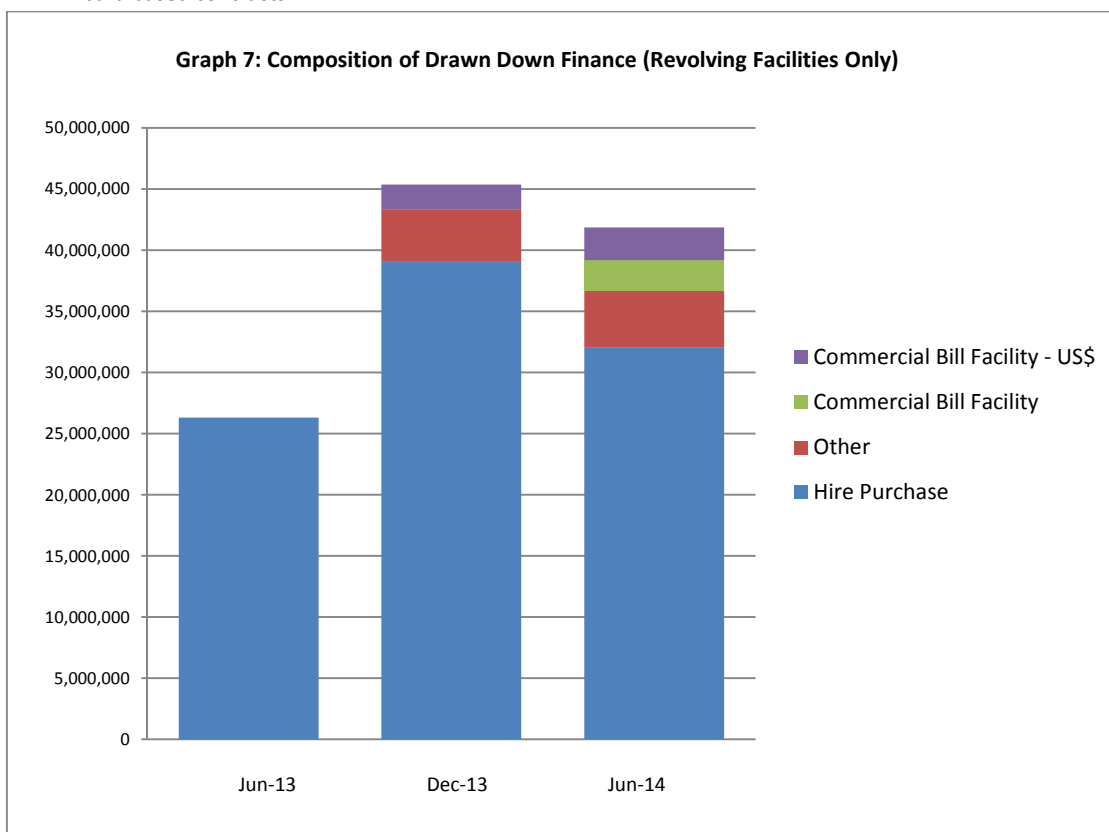


Note: The above graph represents equipment finance only, and assumes no new debt.

Review of Borrowings (continued)

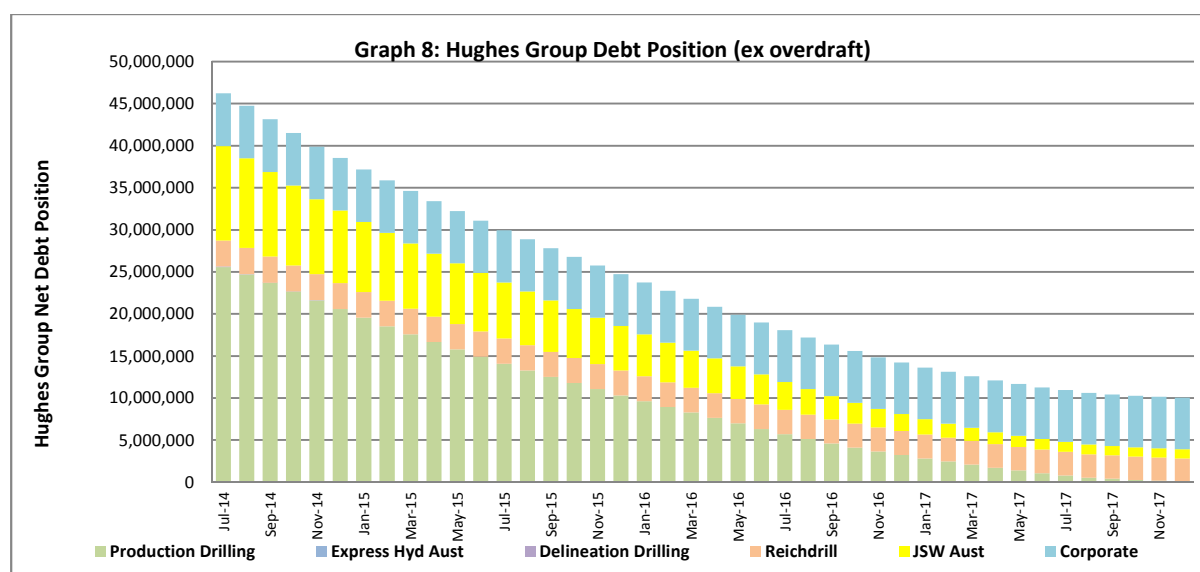
Hughes continued focus on debt reduction has seen a significant reduction in overall debt and restricting of some facilities to better suit Hughes ongoing requirements;

- Hire Purchase finance decrease from \$39.1m at December 2013 to \$32.1m at 30 June 2014, as reduction of \$7.0m, 18%, and will continue to reduce per the repayment schedule in Graph 6.
- A new Commercial Bill Facility – US\$, is the REICHdrill US\$2.5m facility used to fund the rig builds.
- A new Commercial Bill Facility was used to refinance the \$2.5m convertible note that was issued to JSW Australia pre-acquisition.
- Other – this is a combination of director related loans from John Silverthorne of \$3.6m to JSW which existed pre the acquisition of JSW Aust and JV loans from Eastern Guruma for working capital, our partner in number of Pilbara based contracts.



Note: The above graph excludes overdraft

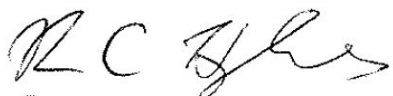
Graph 8 below shows the repayment profile of the debt above in Graph 7



Dividends

As advised in the half year report the Directors recognise the long term advantages to the Company of paying dividends. With a moderating fleet growth rate it is expected that net cash holdings should rise together with a progressive reduction in debt and, subject to profitability and other factors, this would normally enable Directors to consider the timing of the commencement of dividend payments.

For and on behalf of the Directors

A handwritten signature in black ink, appearing to read 'RC Hughes', is positioned above the printed name of the Acting Chairman.

Robert (Bob) Hughes
Acting Chairman
29 September 2014

Directors' Report

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Hughes Drilling Limited and the entities it controlled at the end of, or during, the year ended 30 June 2014.

Directors

The following persons were directors of Hughes Drilling Limited during the whole of the financial year and up to the date of this report:

| | |
|------------------------|---|
| Mr Robert (Bob) Hughes | Appointed 10 February 2012 |
| Mr Robert Hackett | Appointed 4 July 2011 (Retired 6 May 2014) |
| Mr Andrew Drake | Appointed 10 February 2012 |
| Mr Geoff Bruce | Appointed 29 June 2012, (Retired 18 July 2013) |
| Mr Barry O'Connor | Appointed 5 November 2012 |
| Mr Andrew Webb | Appointed 18 July 2013 (Retired 15 December 2013) |
| Mr Jeff Branson | Appointed 3 October 2013 |
| Mr John Silverthorne | Appointed 3 October 2013 |
| Mr Gary Belcher | Appointed 18 July 2014 |

Principal Activities

Hughes Drilling Ltd is the Ultimate holding company of the Group. The Group has fourteen operating Subsidiaries: Hughes Drilling 1 Pty Ltd, Express Hydraulics (Aust) Pty Ltd, EDMS Human Capital Pty Ltd, EDMS Assets & Logistics Pty Ltd, EDMS Energy Pty Ltd, EDMS Metals Pty Ltd, Resource 1 Pty Ltd, Every Day Mine Services Operations Pty Ltd (EDMSO), G.O.S. Drilling Pty Ltd (GOS), Australian Gas Drilling Pty Ltd (AGD), Reichdrill Australia Pty Ltd, Reichdrill Inc, JSW Australia Pty Ltd (JSW) and HD JSW Pty Ltd.

During the year the principal continuing activities of the Group consisted of providing drilling services to the mining industry with a focus on niche services for production, delineation, mining and contracting companies that do not have specialised equipment and the qualified employees to perform themselves, and the supply of manufactured drill rigs and spare parts. The Group predominantly operates throughout New South Wales, Queensland and Western Australia. There are specific synergies within the Group which enable the resources, expertise and market positioning of each operating company to be available to the other companies in the Group.

During the year ended 30 June 2014, the Group expanded its drilling services to Western Australia through the acquisition of 100% of the ordinary voting shares which is 96% of the issued shares in JSW Australia Pty Ltd (JSW). JSW operations are located in Western Australia.

Dividend Paid or Recommended

No dividend from current year operations has been paid or is proposed to be paid in relation to the year ended 30 June 2014.

Review of Operations

Information on the operations and financial position of the Group are set out in the Chairman's Report on pages 3 to 10.

Significant Changes in State of Affairs

Significant changes in the state of affairs of the Group during the financial year were as follows:

Hughes Drilling Limited (Hughes) through its 100% owned Australian registered subsidiary HD JSW Pty Ltd acquired 100% of the ordinary voting shares of JSW Australia Pty Ltd which is 96% of the issued shares. The balance of issued shares (4%) are retained by a JSW executive and do not have voting rights.

The total purchase consideration comprised of 26,918,080 fully paid Hughes Drilling Ltd ordinary shares at \$0.32c per share and retention of \$17,400,000 of debt.

Full details of the transaction are disclosed in note 33.

Directors' Report (continued)

The company has accounted for the business combination using provisional fair values as the initial accounting for the business combination including the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities and the cost of the combination can be determined only provisionally.

The company shall recognise any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the acquisition date.

During the financial year ended 30 June 2014, management performed impairment assessments on its business units. In our assessment for impairment of the EDMSL surface drilling (exploration / delineation) unit, in New South Wales Australia, it was noted that the recoverable amount (fair value less costs to sell) of the business unit was lower than the carrying value (written down book value of the property plant and equipment) due to lack of foreseeable revenue contracts attributable to the depressed nature of the exploration / delineation industry. As a result, \$1.565m of its drill rig assets were impaired during the financial year ended 30 June 2014 along with \$4.005m of goodwill associated with the business unit. Hughes Drilling Limited continues to market the business for any possible new contracts.

Events after the reporting date

There were no significant events after the balance sheet date.

Future Developments

Additional comments on expected results of certain operations of the Group are included in this annual report under the operating and financial review section on pages 3 to 10.

Environmental Regulations

The Group operations are subject to State, Commonwealth and Federal (as they relate to Reichdrill Inc, USA) environmental legislation and regulations. The Group monitors environmental issues, has appropriate environmental licenses for its operations and has environmental management procedures and is committed to reducing the impact of its operations on the environment. Our clients have obligations under environmental regulations and are reliant upon the Group to assist them to ensure its operations comply with those regulations.

As a mining services Group, Hughes Drilling undertakes to uphold environmental sustainability as a cornerstone of its operations. Our goal is to understand and respect the environment, land, cultural and social structures of the communities in which we operate. The Group continues to reduce its environmental footprint to protect and preserve the environment of the locations where we work.

Directors' Report (continued)

Information on Directors

The following persons were directors of the Group during the year ending 30 June 2014 and up to the date of this report:

Mr Robert (Bob) Hughes (appointed 10 February 2012)
Executive Director / Managing Director, Aged 58

Mr Hughes is the founder of the Hughes Drilling business and major shareholder of Hughes Drilling Ltd.
 Mr Hughes has over 38 years of providing drilling and blasting services for quarries and mining operations.

Other current directorships: Nil

Former directorships in last three years: Nil

Special responsibilities: Acting Chairman

Interests in shares and options

71,388,074 ordinary shares in Hughes Drilling

Nil options over ordinary shares in Hughes Drilling Limited

Mr Andrew Drake (appointed 10 February 2012)
Chief Executive Officer, Aged 58

Mr Drake was the General Manager of the pre merged Hughes Drilling Business, and then the Chief Executive Officer of the merged business. Mr Drake joined Hughes Drilling in 2006. Prior to joining Hughes Drilling, Mr Drake for the previous 16 years held managerial and business development roles with Dyno Nobel, the world's second largest explosives supplier.

Other current directorships: Nil

Former directorships in last three years: Nil

Special responsibilities: Nil

Interests in shares and options

90,269 ordinary shares in Hughes Drilling

500,000 options over ordinary shares in Hughes Drilling

Mr Barry O'Connor (appointed 5 November 2012)
Non-executive Director, Aged 74

Mr O'Connor has in excess of 40 years' experience in successfully promoting and marketing of premium mining, drilling and comparable products in the Australian market. He has a deep understanding of production planning and engineering. From the mid 1980's he headed the rotating equipment division of BTR Nylex. He subsequently was Australian Area Manager for and a director of Sullair Pty Ltd, the international manufacturer of industrial compressors and other equipment. He headed Sullair's construction and mining divisions until 2007.

Other current directorship: Nil

Former directorships in last three years: Nil

Special responsibilities: Chairman of the Remuneration Committee and Chairman of the Audit and Risk Committee

Interests in shares and options

1,046,875 ordinary shares in Hughes Drilling

Nil options over ordinary shares in Hughes Drilling Limited

Directors' Report (continued)

Mr Jeff Branson (appointed 3 October 2013)

Chief Operating Officer, Aged 56

Mr Branson has significant drilling and management experience leading Australian companies. Mr Branson is a Civil Engineer and Co Founder of Brandrill Limited, now part of Ausdrill, which was a 100 drill rig business with its primary focus being blast hole and resource definition drilling. Mr Branson has over 34 years drilling and contract management experience.

Other current directorship: Nil

Former directorships in last three years: Nil

Special responsibilities: Nil

Interests in shares and options

2,287,087 ordinary shares in Hughes Drilling

\$146,412 worth of put options over ordinary shares in Hughes Drilling Limited

Mr John Silverthorne (appointed 3 October 2013)

Non-executive Director, Aged 58

Mr Silverthorne has significant board experience and management expertise in large multi-function contracting companies. Mr Silverthorne was co-founder of NRW Holdings Ltd, a listed public company. Mr Silverthorne has vast experience throughout the mining and construction sector of Western Australia.

Other current directorship: Viento Group Ltd

Former directorships in last three years: Nil

Special responsibilities: Member of the Remuneration Committee

Interests in shares and options

8,408,026 ordinary shares in Hughes Drilling

Nil options over ordinary shares in Hughes Drilling Limited

Mr Gary Belcher (appointed 18 July 2014)

Non-executive Director, Aged 52

Since retiring from a highly successful professional rugby league career, Mr Belcher has forged a respectable reputation in sales and marketing. His background covers a broad spectrum of industries including telecommunication, media, corporate marketing, public relations and consulting. Mr Belcher was also operation manager for FOGS (Former Origins Greats).

Other current directorship: Nil

Former directorships in last three years: Nil

Special responsibilities: Member of the Remuneration Committee and Member of the Audit and Risk Committee

Interests in shares and options

Nil ordinary shares in Hughes Drilling

Nil options over ordinary shares in Hughes Drilling Limited

Directors' Report (continued)

Mr Paul Brenton B.Comm, CPA, MAICD (appointed 9 August 2010)
Company Secretary, Aged 37

Mr Brenton has over 18 years' experience in accounting, corporate finance and commerce. Mr Brenton was the former CFO of a large diversified property developer and construction business, prior to joining the Group in August 2010. Throughout that period he was responsible for internal and external reporting, management of finance, insurance, and IT whilst ensuring control and reporting systems were timely and accurate.

Mr Brenton has a Bachelor of Commerce from The University of Newcastle and is a Certified Practising Accountant, with over 10 years spent in public practice with PricewaterhouseCoopers (both in Australia and United Kingdom), working for a diverse range of clients, particularly in the mining, manufacturing, and construction industries, in the audit, business recovery and transaction services divisions.

Other current directorships: Nil

Former directorships in last three years: Nil

Special responsibilities: Chief Financial Officer

Interests in shares and options

Nil ordinary shares in Hughes Drilling Limited

400,000 options over ordinary shares in Hughes Drilling Limited

Mr Robert Hackett BE (Civil), MBA (IMEDE), MAICD (appointed 4 July 2011, retired 6 May 2014)
Chairman, Director, Aged 59

Mr Andrew Webb (appointed 18 July 2013, retired 15 December 2013)
Non-executive Director, Aged 45

Mr Geoff Bruce BA, ACA (appointed 29 June 2012, retired 18 July 2013)
Non-executive Director, Aged 55

'Other current directorships' stated above are current directorships for listed entities only and excludes directorships in all other types of entities, unless otherwise stated.

'Former directorships' stated above are directorships held in the last 3 years for listed entities only and exclude directorships in all other types of entities, unless otherwise stated.

Directors' Report (continued)

Meetings of directors

| Name | Date of appointment / (resignation) | Full meetings of Directors | | Audit and Risk Committee | | Remuneration Committee | |
|---------------------|--|-------------------------------|----|-----------------------------|---|---------------------------|---|
| | | A | B | A | B | A | B |
| Robert Hackett | 4 July 2011/(6 May 2014) | 9 | 9 | 3 | 3 | 2 | 2 |
| Robert (Bob) Hughes | 10 February 2012 | 10 | 10 | - | - | - | - |
| Andrew Drake | 10 February 2012 | 10 | 10 | - | - | - | - |
| Geoff Bruce | 29 June 2012 (18 July 2013) | - | - | - | - | - | - |
| Barry O'Connor | 5 November 2013 | 10 | 10 | 1 | 1 | 2 | 2 |
| Andrew Webb | 18 July 2013/(15 Dec 2013) | 3 | 3 | 2 | 2 | - | - |
| Jeff Branson | 3 October 2013 | 7 | 7 | - | - | - | - |
| John Silverthorne | 3 October 2013 | 7 | 7 | - | - | - | - |
| Gary Belcher | 18 July 2014 | - | - | - | - | - | - |

A= Number of meetings attended

B= Number of meetings held during the time the director held office or was a member of the committee during the year.

Indemnification of officers and auditors

During the financial year, the Group paid a premium in respect of a contract insuring the Directors of the Group (as named above), the Group secretary and all executive officers of the Group and of any related body corporate against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

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

Auditor's independence declaration

The auditor's independence declaration is included on page 77 of the annual report.

Rounding off of amounts

The Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

Remuneration Report (Audited)

Remuneration of Directors and Officers

This report outlines the remuneration arrangements in place for Directors and other key management personnel of Hughes Drilling.

Directors

| | |
|------------------------|---|
| Mr Robert (Bob) Hughes | Executive Director / Managing Director (Appointed 10 February 2012) |
| Mr Robert Hackett | Chairman (Non – Executive Director) (Appointed 4 July 2011, Retired 6 May 2014) |
| Mr Andrew Drake | Chief Executive Officer (Appointed 10 February 2012) |
| Mr Geoff Bruce | Non – Executive Director (Appointed 29 June 2012, Retired 18 July 2013) |
| Mr Barry O'Connor | Non – Executive Director (Appointed 5 November 2012) |
| Mr Andrew Webb | Non – Executive Director (Appointed 18 July 2013, Retired 15 December 2013) |
| Mr Jeff Branson | Chief Operating Officer (Appointed 3 October 2013) |
| Mr John Silverthorne | Non – Executive Director (Appointed 3 October 2013) |
| Mr Gary Belcher | Non – Executive Director (Appointed 18 July 2014) |

Key management

| | |
|--------------------|--|
| Mr Paul Brenton | Chief Financial Officer (Appointed 9 August 2010) |
| Mr Patrick Garrity | Vice President REICHdrill Inc (Appointed 1 May 2007) |

The Group has established a remuneration committee which has adopted a remuneration charter. The charter provides that the fees and emoluments paid to Directors shall be approved in advance by Shareholders. The salary and emoluments paid to officers shall be approved by the Board. Executive officers and the managing director shall enter into service agreements which shall not exceed three years in duration (but shall be renewable). Consultants shall be engaged as required pursuant to service agreements. The Group shall ensure that fees, salaries and emoluments shall be in line with general standards for public listed companies of the size and type of the Group and that they shall not be excessive. All salaries of Directors and statutory officers shall be disclosed in the Annual Report of the Group each year.

The Board believes that individual salary negotiation is more appropriate than formal remuneration policies, and external advice and market comparisons are sought where necessary. The Group discloses the fees and remuneration paid to all Directors as required by the Corporations Act. The Board recognises that the attraction and retention of high calibre executives is critical to generating shareholder value.

All remuneration paid to directors and executives is valued at the cost to the Group and expensed. Shares issued to Directors and executives are valued at the difference between the market price of those shares and the amount paid by the director or executive. Options are valued using the Black-Scholes methodology.

The board policy is to remunerate non-executive Directors at market rates for time, commitment and responsibilities. The Board determines payments to the non-executive Directors and reviews their remuneration annually, based on market price, 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. Fees for non-executive Directors are not linked to the performance of the Group. However, to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Group. Each member of the executive team has signed a formal contract at the time of their appointment covering a range of matters including their duties, rights, responsibilities and any entitlements on termination. The standard contract sets out the specific formal job description.

Under Hughes Drilling's Constitution, the Directors shall be paid remuneration for their ordinary services as Directors a fixed sum to be divided amongst them in such proportion and manner as the Directors agree and, in default of agreement, equally. Director's fees are currently set at the following amounts per annum:

Each non-executive Director receives fees of \$50,000 per annum (plus superannuation) and the Chairman of the Board of Directors will receive \$100,000 per annum (plus superannuation). Payments of Directors' fees will be in addition to any payments to Directors in any employment capacity. A Director may also be paid fees or other amounts as the Directors determine if a Director performs special duties or otherwise performs services outside the scope of the ordinary duties of a Director. A Director may also be reimbursed for out-of-pocket expenses incurred as a result of their directorship or any special duties.

Directors' Report (continued)

Details of remuneration for the period ended 30 June 2014

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms to market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good governance practices:

- Competitiveness and reasonableness
- Acceptability to shareholders
- Performance linkage / alignment of executive compensation

The names and positions held of the parent entity Directors are disclosed under Information on Directors above, with the dates of directorship disclosed for each Directors.

Details of the remuneration of each current Director and Key Management Personnel of Hughes Drilling and its Subsidiaries, including their personally related entities, are set out below:

Service agreements

| | |
|---------------------|---|
| Name: | Robert (Bob) Hughes |
| Title: | Executive Director / Managing Director |
| Agreement Commenced | 1 January 2013 |
| Term of agreement: | 3 years |
| Details: | Base salary for the year ending 30 June 2014 of \$400,000 plus superannuation (effective 4 March 2013), to be reviewed annually by the Remuneration Committee. 6 month termination notice from the company or 6 month resignation notice. |

Employment Agreements

| | |
|---------------------|---|
| Name: | Andrew Drake |
| Title: | Chief Executive Officer |
| Agreement Commenced | 1 January 2013 |
| Term of agreement: | Ongoing |
| Details: | Base salary for the year ending 30 June 2014 of \$230,000 plus superannuation (effective 1 July 2012) to be reviewed annually by the Remuneration Committee. 6 month termination notice from the company or 3 month resignation notice. Key performance indicator (KPI) cash bonus and share issue bonus at the completion of each financial year if certain KPI's are met. |

| | |
|---------------------|---|
| Name: | Jeff Branson |
| Title: | Chief Operating Officer – JSW Australia Pty Ltd |
| Agreement Commenced | 3 October 2013 Appointed as Chief Operating Officer (employed by JSW prior to that) |
| Term of agreement: | Ongoing |
| Details: | Base salary for the year ending 30 June 2014 of \$237,000 from 3 October 2013 to 31 December 2013 and \$395,000 PA plus superannuation from 1 January 2014 onwards, to be reviewed annually by the Remuneration Committee. 6 month termination notice from the company or 3 month resignation notice. |

Directors' Report (continued)

Name: Patrick Garrity

Title: Vice President - REICHdrill Inc

Agreement Commenced 26 March 2013 Appointed as Vice President (employed by REICHdrill since 1 May 2007)

Term of agreement: Ongoing

Details: Base salary for the year ending 30 June 2014 of US\$220,000, to be reviewed annually by the Remuneration Committee. 6 month termination notice from the company or 3 month resignation notice.

Name: Paul Brenton

Title: Chief Financial Officer & Company Secretary

Agreement Commenced: 9 August 2010

Term of agreement: Ongoing

Details: Base salary for the year ending 30 June 2014 of \$300,000 plus superannuation (effective 1 December 2012) and annual car allowance of \$15,000, to be reviewed annually by the Remuneration Committee. 6 month termination notice from the company or 3 month resignation notice. Key performance indicator (KPI) cash bonus and share issue bonus at the completion of each financial year if certain KPI's are met.

Directors' Report (continued)

| JUNE 2014 | | Position | Tenure (If full year not served) | Salary, Fees & Commissions (\$) | Post employment (\$) | Other (\$) | Options (\$) | Total (\$) |
|-----------------------|--------------|---|---|---------------------------------|----------------------|-----------------------|-----------------------|------------------|
| DIRECTORS | | | | | | | | |
| Hackett | Robert | Chairman | Appointed Chairman 8 July 2011 / Retired 6 May 2014 | 84,977 | 7,860 | - | 17,308 ⁽¹⁾ | 110,145 |
| Hughes | Robert (Bob) | Executive Director / Managing Director | Appointed 10 February 2012 | 400,000 | 25,000 | - | - | 425,000 |
| Drake | Andrew | Chief Executive Officer | Appointed 10 February 2012 | 230,000 | 21,275 | - | 43,270 ⁽¹⁾ | 294,545 |
| Bruce | Geoff | Non-Executive Director | Appointed 29 June 2012 / Retired 18 July 2013 | 2,652 | 245 | - | - | 2,897 |
| O'Connor | Barry | Non-Executive Director | Appointed 5 November 2012 | 50,000 | 4,625 | - | - | 54,625 |
| Webb | Andrew | Non-Executive Director | Appointed 18 July 2013 / Retired 15 December 2013 | 25,000 | 2,313 | - | - | 27,313 |
| Branson | Jeff | Chief Operating Officer | Appointed 3 October 2013 | 189,296 | 17,510 | - | - | 206,806 |
| Silverthorne | John | Non-Executive Director | Appointed 3 October 2013 | 37,500 | 3,469 | - | - | 40,969 |
| Belcher | Gary | Non-Executive Director | Appointed 18 July 2014 | - | - | - | - | - |
| TOTAL | | | | 1,019,425 | 82,297 | - | 60,578 | 1,162,300 |
| KEY MANAGEMENT | | | | | | | | |
| Brenton | Paul | Chief Financial Officer / Company Secretary | Appointed 9 August 2010 | 300,000 | 25,000 | 15,000 ⁽²⁾ | 34,616 ⁽¹⁾ | 374,616 |
| Garrity | Patrick | Vice President – REICHdrill Inc | Appointed 26 March 2013 | 193,244 ⁽³⁾ | - | - | - | 193,244 |
| TOTAL | | | | 493,244 | 25,000 | 15,000 | 34,616 | 567,860 |

Notes

- (1) Options granted as per the Merger Implementation Plan 29 November 2011.
- (2) Car allowance.
- (3) AU\$ equivalent of US\$177,541 converted at the average FY14 US\$/AU\$ rate.

Directors' Report (continued)

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

| JUNE 2014 | | Position | Salary, Fees & Commissions % (Fixed) | Super % (fixed) | Other % (Variable) | Options % (Fixed) | Total % |
|-----------------------|--------------|---|--------------------------------------|------------------|--------------------|-------------------|---------|
| DIRECTORS | | | | | | | |
| Hackett | Robert | Chairman | 77 | 7 | - | 16 | 100 |
| Hughes | Robert (Bob) | Executive Director / Managing Director | 94 | 6 | - | - | 100 |
| Drake | Andrew | Chief Executive Officer | 78 | 7 | - | 15 | 100 |
| Bruce | Geoff | Non-Executive Director | 92 | 8 | - | - | 100 |
| O'Connor | Barry | Non-Executive Director | 92 | 8 | - | - | 100 |
| Webb | Andrew | Non-Executive Director | 92 | 8 | - | - | 100 |
| Branson | Jeff | Chief Operating Officer | 92 | 8 | - | - | 100 |
| Silverthorne | John | Non-Executive Director | 92 | 8 | - | - | 100 |
| KEY MANAGEMENT | | | | | | | |
| Brenton | Paul | Chief Financial Officer / Company Secretary | 80 | 7 | 4 | 9 | 100 |
| Garrity | Patrick | Vice President – REICHdrill Inc. | 100 | - | - | - | 100 |

| JUNE 2013 | | Position | Tenure (If full year not served) | Salary, Fees & Commissions (\$) | Post employment (\$) | Other (\$) | Options (\$) | Total (\$) |
|-----------------------|--------------|---|---|---------------------------------|----------------------|------------------------|-----------------------|----------------|
| DIRECTORS | | | | | | | | |
| Hackett | Robert | Chairman | Appointed Chairman 8 July 2011 | 80,000 | 7,200 | - | 27,708 ⁽¹⁾ | 114,908 |
| Hughes | Robert (Bob) | Executive Director / Managing Director | Appointed 10 February 2012 | 256,507 | 23,086 | 105,000 ⁽²⁾ | - | 384,593 |
| Drake | Andrew | Chief Executive Officer | Appointed 10 February 2012 | 230,000 | 20,700 | 50,000 ⁽²⁾ | 69,270 ⁽¹⁾ | 369,970 |
| Bruce | Geoff | Non-Executive Director | Appointed 29 June 2012 / Retired 18 July 2013 | 45,000 | 4,050 | - | - | 49,050 |
| Burton | Craig | Non-Executive Director | Appointed 23 Sept 2009 / Retired 5 Nov 2012 | 13,889 | - | - | - | 13,889 |
| O'Connor | Barry | Non-Executive Director | Appointed 5 November 2012 | 31,667 | 2,850 | - | - | 34,517 |
| Webb | Andrew | Non-Executive Director | Appointed 18 July 2013 | - | - | - | - | - |
| TOTAL | | | | 657,063 | 57,886 | 155,000 | 96,978 | 966,927 |
| KEY MANAGEMENT | | | | | | | | |
| Brenton | Paul | Chief Financial Officer / Company Secretary | Appointed 9 August 2010 | 264,615 | 23,815 | 108,365 ⁽³⁾ | 55,416 ⁽¹⁾ | 452,211 |
| Garrity | Patrick | Vice President – REICHdrill Inc. | Appointed 26 March 2013 | 43,307 | - | - | - | 43,307 |
| TOTAL | | | | 307,922 | 23,815 | 108,365 | 55,416 | 495,518 |

Notes

- (1) Options granted as per the Merger Implementation Plan 29 November 2011
- (2) Bonus for FY12
- (3) Bonus for FY12 and Car allowance

Directors' Report (continued)

The earnings of the consolidated entity for the five years to 30 June 2014 are summarised below:

| | 30/06/2010 \$'000 (un-audited) | 30/06/2011 \$'000 (un-audited) | 30/06/2012 \$'000 | 30/06/2013 \$'000 | 30/06/2014 \$'000 |
|---|--------------------------------------|--------------------------------------|----------------------|----------------------|----------------------|
| Sales Revenue | 22,800 | 19,820 | 39,187 | 49,756 | 90,566 |
| EBITDA | 3,500 | 5,664 | 15,336 | 18,032 | 14,610 |
| EBIT | 800 | 1,849 | 13,307 | 12,539 | 4,753 |
| Profit after income tax | 400 | 478 | 8,417 | 10,367 | 1,422 |
| The factors that are considered to affect total shareholders return ("TSR") are summarized below; | | | | | |
| Share price at financial year end (\$A) | N/A | N/A | \$0.40 | \$0.26 | \$0.19 |
| Total dividends declared (cents per share) | N/A | Nil | Nil | Nil | Nil |
| Basic earnings per share (cents per share) | N/A | \$0.00 | \$0.009 | \$0.078 | \$0.007 |

This concludes the remuneration report which has been audited.

Options

During the last two financial years, the following share-based payment arrangements were in existence:

| | Balance 1 July 12 | Options Acquired | Options Cancelled | Balance 30 June 13 | Balance 1 July 13 | Options Acquired | Options Cancelled | Balance 30 June 14 |
|-------------------|----------------------|---------------------|----------------------|-----------------------|----------------------|---------------------|----------------------|-----------------------|
| Ashley Pattison | 300,000 | - | - | 300,000 | 300,000 | - | - | 300,000 |
| Craig Burton | 600,000 | - | - | 600,000 | 600,000 | - | - | 600,000 |
| Declan Franzmann | 50,000 | - | - | 50,000 | 50,000 | - | - | 50,000 |
| Joshua Rogers | 50,000 | - | - | 50,000 | 50,000 | - | - | 50,000 |
| Peter Bradfield | 65,000 | - | - | 65,000 | 65,000 | - | - | 65,000 |
| Roger Jackson | 50,000 | - | - | 50,000 | 50,000 | - | - | 50,000 |
| Tom Henderson | 300,000 | - | - | 300,000 | 300,000 | - | - | 300,000 |
| Staff & Directors | 3,400,000 | - | (200,000) | 3,200,000 | 3,200,000 | - | - | 3,200,000 |
| | 4,815,000 | - | (200,000) | 4,615,000 | 4,615,000 | - | - | 4,615,000 |

Details of the options method of valuation is disclosed in note 22. Executives and senior employees receiving options under the first round issued on 14 May 2007 are entitled to the beneficial interest under the option when the performance condition (length of service beyond 14 May 2009) is met only if they continue to be employed with the Group at that time.

The Directors approved the issue of a second round of options to key management of the Group and its subsidiaries pursuant to the Plan in July 2009. Details of the options issued are disclosed in note 22.

Executives and senior employees receiving options under the Employee Share Plan issued on 13 February 2012 are entitled to the beneficial interest under the option when the performance condition (length of service beyond 13 February 2014) is met only if they continue to be employed with the Group at that time, or has left employment and has been deemed by the board as a "good leaver".

Directors' Report (continued)

Shareholding of key management personnel

| | Balance 1 July 12 | Shares acquired | Shares disposed | Balance 30 June 13 | Balance 1 July 13 | Shares acquired | Shares disposed | Balance 30 June 14 |
|-----------------------|----------------------|--------------------|--------------------|-----------------------|----------------------|--------------------|--------------------|-----------------------|
| DIRECTORS | | | | | | | | |
| Robert Hackett | 480,004 | 1,593,750 | - | 2,073,754 | 2,073,754 | - | - | 2,073,754 |
| Robert (Bob) Hughes | 65,668,889 | 5,719,185 | - | 71,388,074 | 71,388,074 | - | - | 71,388,074 |
| Andrew Drake | 66,399 | 23,870 | - | 90,269 | 90,269 | - | - | 90,269 |
| Geoff Bruce | - | 234,375 | - | 234,375 | 234,375 | - | - | 234,375 |
| Craig Burton | 5,652,245 | 2,500,000 | - | 8,152,245 | 8,152,245 | - | - | 8,152,245 |
| Barry O'Connor | 100,000 | 946,875 | - | 1,046,875 | 1,046,875 | - | - | 1,046,875 |
| Andrew Webb | 365,000 | 1,027,486 | (167,486) | 1,225,000 | 1,225,000 | 100,000 | (1,325,000) | - |
| John Silverthorne | - | - | - | - | - | 12,943,789 | (4,535,763) | 8,408,026 |
| Jeff Branson | - | - | - | - | - | 2,587,091 | (300,004) | 2,287,087 |
| Gary Belcher | - | - | - | - | - | - | - | - |
| TOTAL | 72,332,537 | 12,045,541 | (167,486) | 84,210,592 | 84,210,592 | 15,630,880 | (6,160,767) | 93,680,705 |
| KEY MANAGEMENT | | | | | | | | |
| Paul Brenton | - | - | - | - | - | - | - | - |
| Patrick Garrity | - | - | - | - | - | - | - | - |
| TOTAL | - | - | - | - | - | - | - | - |

Option holding of key management personnel

| | Issue date | Exercise date | Options granted | Exercise price | Fair value at Jun 14 |
|-----------------------|------------|---------------|--------------------|----------------|----------------------|
| DIRECTORS | | | | | |
| Robert Hackett | 13 Feb 12 | 13 Feb 16 | 200,000 | \$0.40 | \$55,492 |
| Robert (Bob) Hughes | - | - | - | - | - |
| Andrew Drake | 13 Feb 12 | 13 Feb 16 | 500,000 | \$0.40 | \$138,731 |
| Geoff Bruce | - | - | - | - | - |
| Craig Burton | - | - | - | - | - |
| Barry O'Connor | - | - | - | - | - |
| Jeff Branson | - | - | - | - | - |
| John Silverthorne | - | - | - | - | - |
| Gary Belcher | - | - | - | - | - |
| TOTAL | - | - | 700,000 | - | \$194,223 |
| KEY MANAGEMENT | | | | | |
| Paul Brenton | 13 Feb 12 | 13 Feb 16 | 400,000 | \$0.40 | \$110,984 |
| Patrick Garrity | - | - | - | - | - |
| TOTAL | - | - | 400,000 | - | \$110,984 |

No options were issued to key management personnel in the period 1 July 2013 to 30 June 2014. 1,300,000 options held by key management personnel vested during the current financial year and nil options were forfeited.

Directors' Report (continued)

Options

At the date of this report, the options listed below are unexercised:

| | Issue Date | Exercise Date | Exercise Price | Bal 1 Jul 12 '000 | Options Granted '000 | Options Cancelled '000 | Bal 30 Jun 13 '000 | Bal 1 Jul 13 '000 | Options Granted '000 | Options Cancelled '000 | Bal 30 Jun 14 '000 |
|------------------------------|------------|---------------|----------------|----------------------|-------------------------|---------------------------|-----------------------|----------------------|-------------------------|---------------------------|-----------------------|
| Employee Share Option Plan | 20 Jul 08 | 29 Jun 12 | \$4.10 | - | - | - | - | - | - | - | - |
| Directors and Key Management | 7 Jul 09 | 6 Jul 14 | \$0.531 | 515 | - | - | 515 | 515 | - | - | 515 |
| Directors and Key Management | 30 Oct 09 | 30 Jun 14 | \$0.531 | 900 | - | - | 900 | 900 | - | - | 900 |
| Directors and Key Management | 13 Feb 12 | 13 Feb 16 | \$0.40 | 3,400 | - | (200) | 3,200 | 3,200 | - | - | 3,200 |
| | | | | 4,815 | - | (200) | 4,615 | 4,615 | - | - | 4,615 |

Non Audit Services

The Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group are important. Details of amounts paid to the auditors, PwC are set out below.

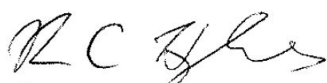
| | Consolidated 30 June 2014 \$ | Consolidated 30 June 2013 \$ |
|--------------------------------------|------------------------------------|------------------------------------|
| Audit and review of financial report | 329,378 | 220,546 |
| Other services – tax and accounting | 87,827 | 198,402 |
| | 417,205 | 418,948 |

The directors are satisfied that the provision of non-audit services during the financial year, by the auditors (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are of the opinion that the services as disclosed in note 24 to the financial statements do not compromise the external auditor's independence for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor, and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

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

On behalf of the Directors,



Robert (Bob) Hughes

Managing Director

Brisbane, 29 September 2014

Corporate Governance Statement

Hughes Drilling Limited (the Company) and the Board are committed to achieving and demonstrating the highest standards of corporate governance. The Board continues to review the framework and practices to ensure they meet the interests of shareholders. The Company and its controlled entities together are referred to as the Group in this statement.

A description of the Group's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the entire year. They comply with the ASX Corporate Governance Principles and Recommendations.

Principle 1: Lay solid foundations for management and oversight

The relationship between the Board and senior management is critical to the Group's long-term success. The directors are responsible to the shareholders for the performance of the Group in both the short and the longer term and seek to balance sometimes competing objectives in the best interests of the Group as a whole. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Group is properly managed.

The responsibilities of the Board include:

- providing strategic guidance to the Group including contributing to the development of and approving the corporate strategy
- reviewing and approving business plans, the annual budget and financial plans including available resources and major capital expenditure initiatives
- overseeing and monitoring:
 - organisational performance and the achievement of the Group's strategic goals and objectives
 - compliance with the Company's constitution
 - progress in relation to the Company's diversity objectives and compliance with its diversity policy
 - progress of major capital expenditures and other significant corporate projects including any acquisitions or divestments
- monitoring financial performance including approval of the annual and half-year financial reports and liaison with the Company's auditors
- appointment, performance assessment and, if necessary, removal of the Chief Executive Officer (CEO)
- ratifying the appointment and/or removal and contributing to the performance assessment for the members of the senior management team including the Chief Financial Officer (CFO) and the Company Secretary
- ensuring there are effective management processes in place and approving major corporate Initiatives
- enhancing and protecting the reputation of the organisation
- overseeing the operation of the Group's system for compliance and risk management reporting to shareholders
- ensuring appropriate resources are available to senior management.

Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the Board to the Managing Director, CEO and senior executives as set out in the Group's delegations policy. These delegations are reviewed on an annual basis.

A performance assessment for senior executives last took place in January 2014.

Principle 2: Structure the Board to add value

The Board operates in accordance with the broad principles set out in its constitution. The constitution details the Board's composition and responsibilities.

Board composition

The constitution states:

- the Board is to be comprised of both executive and non-executive directors with a majority of non-executive directors. Non-executive directors bring a fresh perspective to the Board's consideration of strategic, risk and performance matters
- in recognition of the importance of independent views and the Board's role in supervising the activities of management, the Chair is recommended to be an independent non-executive director, the majority of the Board must be independent of management and all directors are required to exercise independent judgment and review and constructively challenge the performance of management
- the Chair is elected by the full Board and is required to meet regularly with the Managing Director
- the Company is to maintain a mix of directors on the Board from varied professional backgrounds who have complementary skills and experience

Principle 2: Structure the Board to add value (continued)

- the Board is required to undertake an annual Board performance review and consider the appropriate mix of skills required by the Board to maximise its effectiveness and its contribution to the Group.

The Board seeks to ensure that:

- at any point in time, its membership represents an appropriate balance between directors with experience and knowledge of the Group and directors with an external or fresh perspective
- the size of the Board is conducive to effective discussion and efficient decision-making.

Directors' independence

The Board has adopted specific principles in relation to directors' independence. These state that when determining independence, a director must be a non-executive and the Board should consider whether the director:

- is a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company
- is or has been employed in an executive capacity by the Company or any other Group member within three years before commencing to serve on the Board
- within the last three years has been a principal of a material professional adviser or a material consultant to the Company or any other Group member, or an employee materially associated with the service provided
- is a material supplier or customer of the Company or any other Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer
- has a material contractual relationship with the Company or a controlled entity other than as a director of the Group
- is free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's independent exercise of their judgment. Materiality for these purposes is determined on both quantitative and qualitative bases. An amount of over 5% of annual turnover of the Company or Group or 5% of the individual directors' net worth is considered material for these purposes. In addition, a transaction of any amount or a relationship is deemed material if knowledge of it may impact the shareholders' understanding of the director's performance. Recent thinking on corporate governance has introduced the view that a director's independence may be perceived to be impacted by lengthy service on the Board. To avoid any potential concerns, the Board has determined that a director will not be deemed independent if he or she has served on the Board of the Company for more than ten years. The Board will continue to monitor developments on this issue. The Board assesses independence each year. To enable this process, the directors must provide all information that may be relevant to the assessment.

Board members

Details of the members of the Board, their experience, expertise, qualifications, term of office, relationships affecting their independence and their independent status are set out in the directors' report under the heading 'Information on directors'. At the date of signing the directors' report, there are two executive directors and three non-executive directors, all of whom have no relationships adversely affecting independence and so are deemed independent under the principles set out above:

Non-executive directors

The non-executive directors met on a number of occasions during the year, some occasions in scheduled sessions without the presence of management, to discuss the operation of the Board and a range of other matters. Relevant matters arising from these meetings were shared with the full Board.

Term of office

The Company's constitution specifies that all non-executive directors must retire from office no later than the third Annual General Meeting (AGM) following their last election. Where eligible, a director may stand for re-election.

Principle 2: Structure the Board to add value (continued)

Chair and Managing Director

The Chair is responsible for leading the Board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating Board discussions and managing the Board's relationship with the Company's senior executives. In accepting the position, the Chair has acknowledged that it will require a significant time commitment and has confirmed that other positions will not hinder his effective performance in the role of Chair.

The Managing Director is responsible for implementing Group strategies and policies.

Induction

The induction provided to new directors and senior managers enables them to actively participate in Board decision-making as soon as possible. It ensures that they have a full understanding of the Company's financial position, strategies, operations, culture, values and risk management policies. It also explains the respective rights, duties, responsibilities, interaction and roles of the Board and senior executives, the role of the Board committees and the Company's meeting arrangements.

Commitment

Non-executive directors are expected to spend at least 30 days a year preparing for and attending Board and committee meetings and associated activities.

The number of meetings of the Company's Board of directors and of each Board committee held during the year ended 30 June 2014, and the number of meetings attended by each director is disclosed on page 16.

It is the Company's practice to allow its executive directors to accept appointments outside the Company with prior written approval of the Board. No appointments of this nature were accepted during the year ended 30 June 2014.

The commitments of non-executive directors are considered by the Board prior to the directors' appointment to the Board of the Company and are reviewed each year as part of the annual performance assessment.

Prior to appointment or being submitted for re-election, each non-executive director is required to specifically acknowledge that they have and will continue to have the time available to discharge their responsibilities to the Company.

Conflict of interests

In accordance with the Constitution, the directors concerned declared any conflict of interest, there were no conflicts of interest advised during the reporting period.

Independent professional advice

Directors and Board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Company's expense. Prior written approval of the Chair is required, but this will not be unreasonably withheld.

Performance assessment

The Board undertakes an annual self-assessment of its collective performance, the performance of the Chair and of its committees. The assessment also considers the adequacy of induction and continuing education, access to information and the support provided by the Company Secretary. Management are invited to contribute to this appraisal process which is facilitated by an independent third party. The results and any action plans are documented together with specific performance goals which are agreed for the coming year. An assessment carried out in accordance with this process was undertaken during January 2014. The Chair undertakes an annual assessment of the performance of individual directors and meets privately with each director to discuss this assessment.

Principle 2: Structure the Board to add value (continued)

Board committees

The Board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the Board are the, Remuneration and Audit and Risk Committees. Each is comprised entirely of non-executive directors. The committee structure and membership is reviewed on an annual basis. A policy of rotation of committee members applies. Each committee has its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. All of these charters are reviewed on an annual basis and are available on the Company website. All matters determined by committees are submitted to the full Board as recommendations for Board decisions.

Minutes of committee meetings are tabled at the subsequent Board meeting. Additional requirements for specific reporting by the committees to the Board are addressed in the charter of the individual committees.

Audit and Risk Committee

The Company also has an Audit and Risk Committee, see page 29 for details.

Principle 3: Promote ethical and responsible decision making

Code of conduct

The Company has developed a statement of values and a Code of conduct (the Code) which has been fully endorsed by the Board and applies to all directors and employees. The Code is regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Group's integrity and to take into account legal obligations and reasonable expectations of the Company's stakeholders.

In summary, the Code requires that at all times all Company personnel act with the utmost integrity, objectivity and in compliance with the letter and the spirit of the law and Company policies. The Company has a Securities Trading Policy which outlines the restrictions, closed periods and processes required when directors, CEO and key management personnel trade Company securities. Broadly, it states that the purchase and sale of Company securities by directors and employees is only permitted outside of the closed periods as defined in the Securities Trading Policy. Any transactions undertaken must be notified to the Company Secretary in advance. The Code and the Company's Securities Trading Policy is discussed with each new employee as part of their induction training.

The internal audit division reviews and reports directly to the Board on the compliance with the Code and the trading policy. Internal audit also has responsibility for the initial investigations of significant issues raised under the whistle-blower program. These matters are reported to the Audit and Risk Committee. The directors are satisfied that the Group has complied with its policies on ethical standards, including trading in securities. A copy of the Code and the Securities Trading Policy are available on the Company's website.

Diversity policy

The Company values diversity and recognises the benefits it can bring to the organisation's ability to achieve its goals. This policy outlines the Company's diversity objectives in relation to gender, age, cultural background and ethnicity.

In accordance with this policy and ASX Corporate Governance Principles, the Board is committed to fostering the objectives in relation to gender diversity.

| | 2014 | 2013 |
|---|------|------|
| Number of women employees in the whole organisation | 7% | 5% |
| Number of women in senior executive positions | 0% | 0% |
| Number of women on the Board | 0% | 0% |

Responsibility for diversity has been included in the Board charter and the remuneration committee charter (diversity at all levels of the Company below Board level).

Principle 4: Safeguard integrity in financial reporting

Audit and Risk Committee

The audit and risk committee consists of the following non-executive directors:

| | |
|----------------|---|
| Barry O'Connor | (Chair) (appointed 15 December 2013) |
| Gary Belcher | (appointed 18 July 2014) |
| Robert Hackett | (appointed 4 July 2011 / retired 6 May 2014) |
| Andrew Webb | (appointed 18 July 2013 / retired 15 December 2013) |
| Geoff Bruce | (appointed 29 June 2012 / retired 18 July 2013) |

Details of these directors' qualifications and attendance at audit and risk committee meetings are set out in the directors' report on pages 13-16.

All members of the audit and risk committee are financially literate and have an appropriate understanding of the industries in which the Group operates.

The main responsibilities of the committee are to:

- review, assess and approve the annual full and concise reports, the half-year financial report and all other financial information published by the Company or released to the market
- assist the Board in reviewing the effectiveness of the organisation's internal control environment covering:
 - effectiveness and efficiency of operations
 - reliability of financial reporting
 - compliance with applicable laws and regulations
- determine the scope of the internal audit function and ensure that its resources are adequate and used effectively, and assess its performance, including independence
- ratify the appointment and/or removal and contribute to the performance assessment of the chief internal auditor
- oversee the effective operation of the risk management framework
- recommend to the Board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, the scope and quality of the audit and assess performance
- consider the independence and competence of the external auditor on an ongoing basis
- review and approve the level of non-audit services provided by the external auditors and ensure it does not adversely impact on auditor independence
- review and monitor related party transactions and assess their propriety
- report to the Board on matters relevant to the committee's role and responsibilities.

In fulfilling its responsibilities, the audit and risk committee:

- receives regular reports from management and the internal and the external auditors
- meets with the internal and external auditors at least twice a year, or more frequently if necessary
- reviews the processes the Managing Director, CEO and CFO have in place to support their certifications to the Board
- reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved
- meets separately with the external auditors and the chief internal auditor at least twice a year without the presence of Management
- provides the internal and external auditors with a clear line of direct communication at any time to either the Chair of the audit committee or the Chair of the Board. The audit committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

External auditors

The Company and audit and risk committee policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. PwC was appointed as the external auditor in 2013. It is PwC's policy to rotate audit engagement partners on listed companies at least every five years, and in accordance with that policy a new audit engagement partner was introduced for the year ended 30 June 2013. An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in the directors' report and in note 24 to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the audit and risk committee.

The external auditor will attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

Principles 5 and 6: Make timely and balanced disclosures and respect the rights of Shareholders

The Company has written policies and procedures on information disclosure that focus on continuous disclosure of any information concerning the Group that a reasonable person would expect to have a material effect on the price of the Company's securities. These policies and procedures also include the arrangements the Company has in place to promote communication with shareholders and encourage effective participation at general meetings. The Company Secretary has been nominated as the person responsible for communications with the Australian Securities Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and coordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

All information disclosed to the ASX is posted on the Company's website as soon as it is disclosed to the ASX. When analysts are briefed on aspects of the Group's operations, the material used in the presentation is released to the ASX and posted on the Company's web site. Procedures have also been established for reviewing whether any price sensitive information has been inadvertently disclosed and, if so, this information is also immediately released to the market. The website also enables users to provide feedback and has an option for shareholders to register their email address for direct email updates on Company matters. All shareholders receive a copy of the Company's annual (full or concise) and half-yearly reports. In addition, the Company seeks to provide opportunities for shareholders to participate through electronic means. Recent initiatives to facilitate this include making all Company announcements, media briefings, and details of Company meetings, press releases for the last three years and financial reports for the last five years available on the Company's website. Where possible, the Company arranges for advance notification of significant Group briefings (including, but not limited to, results announcements) and makes them widely accessible, including through the use of webcasting or any other mass communication mechanisms as may be practical.

Principle 7: Recognise and manage risk

The Board is responsible for satisfying itself annually, or more frequently as required, that management has developed and implemented a sound system of risk management and internal control. Detailed work on this task is delegated to the audit committee and reviewed by the full Board. The audit committee is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. They monitor the Company's risk management by overseeing management's actions in the evaluation, management, monitoring and reporting of material operational, financial, compliance and strategic risks. In providing this oversight, the committee:

- reviews the framework and methodology for risk identification, the degree of risk the Company is willing to accept, the management of risk and the processes for auditing and evaluating the Company's risk management system
- reviews Group-wide objectives in the context of the abovementioned categories of corporate risk
- reviews and, where necessary, approves guidelines and policies governing the identification, assessment and management of the Company's exposure to risk
- reviews and approves the delegations of financial authorities and addresses any need to update these authorities on an annual basis, and
- reviews compliance with agreed policies.

The committee recommends any actions it deems appropriate to the Board for its consideration. Management is responsible for designing, implementing and reporting on the adequacy of the Company's risk management and internal control system and has to report to the audit committee on the effectiveness of:

- the risk management and internal control system during the year, and
- the Company's management of its material business risks.

Risk management Group

The Company's risk management policy and the operation of the risk management and compliance system are managed by the Company's risk management Group which consists of the Board and the CFO. The Board receives reports from the CFO as to the effectiveness of the Company's management of material risks that may impede meeting business objectives. The internal audit division carries out regular systematic monitoring of control activities and reports to both relevant business unit management and the audit committee. In addition each business unit reports on the key business risks in their area to the risk management Group. The basis for this report is a half yearly review of the past performance of their area of responsibility, and the current and future risks they face.

The review is undertaken by business unit management. Results of internal audit work are incorporated into this review if applicable.

The risk management Group consolidates the business unit reports and recommends any actions to the Board for its consideration.

Principle 7: Recognise and manage risk (continued)

Corporate reporting

In complying with recommendation 7.3, the Managing Director and CFO have made the following certifications to the Board:

- that the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and Group and are in accordance with relevant accounting standards
- that the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that the Company's risk management and internal compliance and control is operating efficiently and effectively in all material respects in relation to financial reporting risks.

Principle 8: Remunerate fairly and responsibly

Remuneration committee

The remuneration committee consists of the following non-executive directors (all of whom are independent, including the Chair):

| | |
|-------------------|---|
| Barry O'Connor | (Chair) (appointed 5 November 2012) |
| John Silverthorne | (appointed 3 October 2013) |
| Gary Belcher | (appointed 18 July 2014) |
| Robert Hackett | (appointed 4 July 2011 / retired 6 May 2014) |
| Andrew Webb | (appointed 18 July 2013 / retired 15 December 2013) |
| Geoff Bruce | (appointed 29 June 2012 / retired 18 July 2013) |

Details of these directors' attendance at remuneration committee meetings are set out in the directors' report on page 16.

The remuneration committee operates in accordance with its charter. The remuneration committee advises the Board on remuneration and incentive policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors. Committee members receive regular briefings from an external remuneration expert on recent developments on remuneration and related matters.

Each member of the senior executive team signs a formal employment contract at the time of their appointment covering a range of matters including their duties, rights, responsibilities and any entitlements on termination. The standard contract refers to a specific formal job description. This job description is reviewed by the remuneration committee on an annual basis and, where necessary, is revised in consultation with the relevant employee.

Further information on directors' and executives' remuneration, including principles used to determine remuneration, is set out in the directors' report under the heading 'Remuneration report'. In accordance with Group policy, participants in equity-based remuneration plans are not permitted to enter into any transactions that would limit the economic risk of options or other unvested entitlements.

The committee also assumes responsibility for overseeing management succession planning, including the implementation of appropriate executive development program's and ensuring adequate arrangements are in place, so that appropriate candidates are recruited for later promotion to senior positions. This includes overseeing processes in relation to meeting diversity objectives for executives and staff below Board level.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2014**

| | Note | Consolidated 2014 \$ '000 | Consolidated 2013 \$ '000 |
|--|-------------|--|--|
| Continuing Operations | | | |
| Revenue | 5 | 90,566 | 49,756 |
| Cost of Goods Sold | 7 | (71,126) | (32,766) |
| | | <u>19,440</u> | <u>16,990</u> |
| Other income | 6 | 311 | 123 |
| General and Administrative Administration Expenses | 7 | (8,963) | (4,528) |
| Selling and Marketing Expense | 7 | (464) | (46) |
| Operating profit | | <u>10,324</u> | <u>12,539</u> |
| Impairment costs | 7 | (5,571) | - |
| Finance costs | 7 | (3,108) | (2,147) |
| Profit for the year before Income tax | | <u>1,645</u> | <u>10,392</u> |
| Income tax (expense) | 8 | (223) | (25) |
| Profit for the year | | <u><u>1,422</u></u> | <u><u>10,367</u></u> |
| Profit for the year attributable to: | | | |
| - Owners of Hughes Drilling Limited | | 1,377 | 10,370 |
| - Non controlling Interest | | 45 | (3) |
| | | <u><u>1,422</u></u> | <u><u>10,367</u></u> |
| Earning per share for the profit attributable to ordinary equity holders of the company – cents/share | | | |
| -Basic profit per share | 29 | 0.70c | 7.80c |
| -Diluted profit per share | 29 | 0.69c | 7.80c |
| Profit for the year | | <u>1,422</u> | <u>10,367</u> |
| Other comprehensive income | | | |
| Items that may need to be reclassified to profit and Loss | | | |
| - Exchange differences on translation of foreign operations | | 70 | 605 |
| Total comprehensive income for the year | | <u><u>1,492</u></u> | <u><u>10,972</u></u> |
| Total comprehensive income for the year attributable to: | | | |
| - Owners of Hughes Drilling Limited | | 1,445 | 10,975 |
| - Non controlling Interest | | 47 | (3) |
| | | <u><u>1,492</u></u> | <u><u>10,972</u></u> |

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014**

| | Note | Consolidated 2014 \$ '000 | Consolidated 2013 \$ '000 |
|--|-------------|--|--|
| Current assets | | | |
| Cash and cash equivalents | 9 | 426 | 5,334 |
| Trade and other receivables | 10 | 18,066 | 9,073 |
| Inventories | 11 | 37,830 | 24,694 |
| Available-for-sale financial assets | 12 | - | 2 |
| Assets held for sale | 13 | 130 | 1,083 |
| TOTAL CURRENT ASSETS | | 56,452 | 40,186 |
| Non-current assets | | | |
| Deferred tax asset | 8 | 4,228 | 1,304 |
| Property, plant and equipment | 14 | 63,569 | 41,637 |
| Intangible assets | 15 | 8,016 | 7,578 |
| TOTAL NON-CURRENT ASSETS | | 75,813 | 50,519 |
| TOTAL ASSETS | | 132,265 | 90,705 |
| Current liabilities | | | |
| Bank overdraft | 9 | 4,288 | 598 |
| Trade and other payables | 17 | 19,237 | 8,098 |
| Provisions | 18 | 1,834 | 608 |
| Tax payable | 8 | - | 25 |
| Borrowings | 19 | 24,170 | 11,186 |
| TOTAL CURRENT LIABILITIES | | 49,529 | 20,515 |
| Non-current liabilities | | | |
| Provisions | 18 | 542 | 346 |
| Borrowings | 19 | 17,655 | 15,487 |
| TOTAL NON-CURRENT LIABILITIES | | 18,197 | 15,833 |
| TOTAL LIABILITIES | | 67,726 | 36,348 |
| NET ASSETS | | 64,539 | 54,357 |
| EQUITY | | | |
| Contributed equity | 20 | 38,227 | 29,783 |
| Other reserves | 21 | 1,385 | 1,217 |
| Retained earnings | | 24,511 | 23,134 |
| Capital and reserves attributable to Owners of Hughes Drilling Ltd | | 64,123 | 54,134 |
| Non-Controlling interest | 34 | 416 | 223 |
| | | 64,539 | 54,357 |

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2014**

| | Contributed equity | Other reserves | Retained earnings | Total | Non- controlling Interest | Total |
|--|-----------------------|-------------------|----------------------|---------------|---------------------------------|---------------|
| | \$ '000 | \$ '000 | \$ '000 | \$'000 | \$,000 | \$ '000 |
| CONSOLIDATED | | | | | | |
| Balance 1 July 2012 | 9,579 | 240 | 12,764 | 22,583 | - | 22,583 |
| Profit for the year attributable to Equity holders | - | - | 10,370 | 10,370 | (3) | 10,367 |
| Other Comprehensive Income | - | 581 | - | 581 | 24 | 605 |
| Total comprehensive income | - | 581 | 10,370 | 10,951 | 21 | 10,972 |
| Transactions with owners in their capacity as owners: | | | | | | |
| Performance share issue | 2,273 | - | - | 2,273 | - | 2,273 |
| Employee share schemes – Value of employee services | - | 396 | - | 396 | - | 396 |
| Net proceeds from capital raising | 17,931 | - | - | 17,931 | - | 17,931 |
| Transaction – Non controlling interest | - | - | - | - | 202 | 202 |
| Balance at 30 June 2013 | 29,783 | 1,217 | 23,134 | 54,134 | 223 | 54,357 |
| Balance 1 July 2013 | 29,783 | 1,217 | 23,134 | 54,134 | 223 | 54,357 |
| Profit for the year attributable to Equity holders | - | - | 1,377 | 1,377 | 45 | 1,422 |
| Other Comprehensive Income | - | 68 | - | 68 | 2 | 70 |
| Total comprehensive income | - | 68 | 1,377 | 1,445 | 47 | 1,492 |
| Transactions with owners in their capacity as owners: | | | | | | |
| Employee share schemes – Value of employee services | - | 246 | - | 246 | - | 246 |
| Shares issues as purchase consideration for JSW Australia Pty Ltd. | 8,444 | - | - | 8,444 | - | 8,444 |
| Transaction – Non controlling interest | - | - | - | - | 146 | 146 |
| Put options issued non- controlling interest | - | (146) | - | (146) | - | (146) |
| Balance at 30 June 2014 | 38,227 | 1,385 | 24,511 | 64,123 | 416 | 64,539 |

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2014

| | Note | Consolidated 2014 \$ '000 | Consolidated 2013 \$ '000 |
|---|------|---------------------------------|---------------------------------|
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | | 83,747 | 50,914 |
| Payments to suppliers and employees | | (73,380) | (40,862) |
| | | 10,367 | 10,052 |
| Interest paid | | (3,108) | (2,147) |
| Net cash (used in)/generated by operating activities | 23 | 7,259 | 7,905 |
| CASH FLOW FROM INVESTING ACTIVITIES | | | |
| Payment for acquisition of subsidiary | | - | (5,052) |
| Net movement of investments | | - | 9 |
| Net cash acquired from subsidiary | | (695) | 961 |
| Loans advanced to related parties | | (2,500) | - |
| Proceeds from sale of plant and equipment | | 534 | 21 |
| Purchase of plant and equipment | | (9,354) | (17,184) |
| Net cash used in investing activities | | (12,015) | (21,245) |
| CASH FLOW FROM FINANCING ACTIVITIES | | | |
| Net proceeds from issue of shares | | - | 18,918 |
| Transaction with non-controlling interest | | 146 | 202 |
| Payment for capital raising costs | | (170) | (987) |
| Proceeds from borrowings | | 14,093 | 11,626 |
| Repayment of borrowings | | (17,908) | (13,378) |
| Net cash generated by financing activities | | (3,839) | 16,381 |
| Net (decrease)/increase in cash and cash equivalents | | (8,595) | 3,041 |
| CASH AT THE BEGINNING OF THE YEAR | | 4,736 | 1,620 |
| Effects of exchange rate changes on cash and cash equivalents | | (3) | 75 |
| CASH AT THE END OF THE YEAR | 9 | (3,862) | 4,736 |

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

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Hughes Drilling Limited (Formerly Every Day Mine Services Limited) ("the Company", or the "Group") is a public company listed on the Australian Securities Exchange, incorporated and operating in Australia.

Hughes Drilling Limited's registered office and its principal place of business is 12 Byte Street, Yatala, QLD 4207.

Hughes Drilling Ltd is the holding company of the Group. The Group comprises the head entity Hughes Drilling Limited, twelve (12) wholly owned subsidiaries and two (2) 96% owned subsidiaries. The 4% in REICHdrill Inc and 4% JSW Australia Pty Ltd (JSW) is held by Patrick Garrity Vice President and Jeff Branson Chief Operating Officer respectively.

All Hughes Group entities provide contracting services and mining equipment to the mining industry. For detailed listing of investments in controlled entities see note 16.

The financial statements are presented in English and Australian dollars.

The financial report was authorised for issue by the directors of the Company on 26 September 2014.

2. BASIS OF PREPARATION

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, including Australian Interpretations, adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for-profit oriented entities.

a) Compliance with IFRS

The consolidated financial statements of the Hughes Drilling Group complies with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ('IASB')

b) New and amended standard adopted by the Group

No new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2013 materially affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods. The only impact of these standards were to disclosures in the notes to the financial statements.

c) Historical cost convention

The financial report has been prepared on the historical cost basis except for available-for-sale financial assets and assets held for sale which are carried at fair value.

d) Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment on the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES

a) Principles of consolidation

The consolidated financial statements comprise the financial statements of the Group as at and for the year ended 30 June 2014.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. The effects of all transactions between the entities within the Group have been eliminated.

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Hughes Drilling Limited ('company' or 'parent entity') as at 30 June 2014 and the results of all subsidiaries for the year then ended. Hughes Drilling Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The acquisition method of accounting is used to account for business combinations by the Group.

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

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

b) Segment reporting

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

c) Foreign currency transactions

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the Statement of Financial Position date.

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Hughes Drilling Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss except when they are differed in equity as part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement, within finance costs. All other foreign exchange gains and losses are presented in the income statement on a net basis within other income or other expenses.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyper inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed are net of returns and trade allowances. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities described below. Revenue is recognised for the major business activities as follows:

- (i) Drilling Services - Revenue from drilling services is recognised in the accounting period in which the services are rendered;
- (ii) Sale of goods - Revenue from the sale of goods is recognised when the significant risks and rewards have been passed to the buyer;
- (iii) Sale of drill rigs - Revenue from sale of drill rigs on order from customers is recognised on a percentage of completion basis. The percentage of completion is measured by an assessment of costs incurred to date as a percentage of total costs.

Interest revenue is recognised as it accrues, taking into effect the effective yield on the financial asset. All revenue is stated net of the amount of GST.

e) Income Tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the Statement of Financial Position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is recognised for all deductible temporary timing differences except for those arising:

- (i) on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit; and
- (ii) in relation to differences associated with investments in subsidiaries and jointly controlled entities to the extent that they will probably not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset only if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to the same taxable entity, and the same taxation authority, the Australian Taxation Office.

f) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases (note 19). Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 28). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

g) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

h) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are Grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or Groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period. Refer to note 15 for details of these assumptions and the potential impact of changes to the assumptions.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

j) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 to 90 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

k) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is determined with reference to replacement cost of inventory held for use in the supply of services.

l) Assets held for sale

Assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal Group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the noncurrent asset is recognised at the date of derecognition.

Held for sale assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal Group classified as held for sale continue to be recognised. Non-current assets classified as held for sale and the assets of a disposal Group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal Group classified as held for sale are presented separately from other liabilities in the balance sheet.

m) Investments and other financial assets

Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting date.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets if they are expected to be settled within 12 months; otherwise they are classified as non-current.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. Loans and receivables are included in trade and other receivables (note 10) in the statement of financial position.

(iii) Held-to-maturity investment

Held-to-maturity investments are non-derivative financial assets quoted in an active market with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which would be classified as current assets.

(iv) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months of the end of the reporting period. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

Financial assets – reclassification

The Group may choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in profit or loss within other income or other expenses in the period in which they arise.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss as part of revenue from continuing operations when the Group's right to receive payments is established. Interest income from these financial assets is included in the net gains/(losses).

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or Group of financial assets is impaired. A financial asset or a Group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or Group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

(i) Assets carried at amortised cost

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price

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 (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss. Impairment testing of trade receivables is described in note (3h).

(ii) Assets classified as available-for-sale

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period. If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

n) Property, plant and equipment

(i) Initial recognition

Land

Land is stated at historical cost. The initial cost includes expenditure that is directly attributable to the acquisition of the item. Land is not depreciated.

Drilling Plant and equipment

The initial cost of drilling equipment includes expenditure that is directly attributable to the acquisition of the item together with costs associated with the refurbishment or adaptation necessary to operate the asset to a specific requirement or design.

Motor vehicles

Motor vehicles are stated at cost less accumulated depreciation and impairment.

Buildings

Buildings are stated at cost less accumulated depreciation and impairment.

Office equipment

Office equipment is stated at cost less accumulated depreciation and impairment.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation

Depreciation is provided for on drilling plant and equipment and motor vehicles. Depreciation is calculated on a straight line basis so as to write off the cost of each asset over its expected useful life to its estimated residual value. The depreciable amount of all fixed assets is depreciated over their useful lives to the Group commencing from the time the asset is held ready for use.

(ii) Depreciation

Depreciation is provided on all property, plant and equipment so as to write off assets progressively over their useful economic lives and is calculated on the straight line method. The expected useful lives are as follows:

| | |
|---------------------|--------------|
| Plant and equipment | 2 - 10 years |
| Motor vehicles | 5 - 7 years |
| Buildings | 5 - 40 years |
| Office equipment | 1 - 10 years |

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

(iii) Disposal and derecognition

An item of property, plant or equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss for the period.

o) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of businesses acquired. Following initial recognition, goodwill is not amortised but is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Impairment losses are taken to profit or loss and are not subsequently reversed.

Goodwill is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash generating units or Groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segments. See note 15 for further details.

(ii) Trademarks

Trademarks have been deemed to have an infinite useful life and are carried at cost less accumulated impairment losses. Trademarks are tested for impairment on an annual basis. Where an indicator of impairment exists, the asset is written down to its estimated value.

(iii) Intellectual property

The initial cost of intellectual property includes expenditure that is directly attributable to the acquisition of the item together with costs associated with further developing the asset.

Intellectual property is carried at cost less accumulated amortisation and impairment losses. The assets are amortised on a straight line basis over its useful life of 3 to 5 years. Intellectual property is tested annually for impairment

p) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30-40 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

r) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed

s) Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

t) Employee benefits

(i) Short term benefits

Liabilities for employees' entitlements to wages and salaries, annual leave and other employee entitlements expected to be settled within 12 months of the reporting date are recognised in current provisions in respect of employees' services up to reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Long-term benefits

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employee rendered services is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method.

Consideration is given to expected future wage and salary levels experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period or government bonds with terms and currencies that match as closely as possible the estimated future cash outflows. The obligations are presented as current if the entity does not have an unconditional right to defer settlement for at least 12 months after the reporting date.

(iii) Share-based payments

The value of options granted under the employee option plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and risk free interest rate for the term of the option

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in the assumptions about the number of options that are expected to be exercisable. At each Statement of Financial Position date, the Group revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the profit or loss with a corresponding adjustment to equity.

u) Contributed equity

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

v) Earnings per share

(i) Basic earnings per share

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the parent, excluding any costs of servicing equity, other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional shares that would be outstanding assuming the conversion of all dilutive potential ordinary shares

w) Goods and Services Tax (GST)

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

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the Statement of Financial Position. Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

x) Level of Rounding used

Amounts in the financial report and Directors' Report have been rounded to the nearest thousand dollars in accordance with Australia Securities and Investments Commission Class Order 98/100.

y) New standards and interpretations not yet adopted

Certain amended accounting standards and interpretations have been published that are not mandatory for 30 June 2014 reporting periods. The Group's and the parent entity's assessment of the impact of these amended standards and interpretations is set out below.

AASB-9 Financial Instruments (effective from 1 January 2017)

AASB 9 Financial Instruments addresses the classification and measurement of financial assets. The standard is not applicable until 1 January 2017 but is available for early adoption. The Group does not expect the standard to have any impact as they do not hold financial instruments that would be impacted.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

z) New accounting standards adopted early

The Group has elected to early adopt accounting standard AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets, which had a small impact on the impairment disclosures. No other standards were early adopted.

aa) Parent entity financial information

The financial information for the parent entity, Hughes Drilling Limited, disclosed in note 32 has been prepared on the same basis as the consolidated financial statements, except as set out below:

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries are accounted for at cost in the financial statements of Hughes Drilling Limited.

(ii) Tax consolidation legislation

Hughes Drilling Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Hughes Drilling Limited, and the controlled entities in the tax consolidated Group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated Group continues to be a standalone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Hughes Drilling Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated Group.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Hughes Drilling Limited for any current tax payable assumed and are compensated by Hughes Drilling Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Hughes Drilling Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax

(iii) Financial guarantees

Where the parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

(iv) Share-based payments

The grant by the company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution to that subsidiary undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognized over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

NOTES TO THE FINANCIAL STATEMENTS

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Impairment of property plant and equipment

The Group tests at each reporting date annually whether there are indicators of impairment in relation to property, plant and equipment, where an indicator is identified the recoverable amount of the cash generating unit is determined. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to note 14 for details of these assumptions and the potential impact of changes to the assumptions.

(ii) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 3(h). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to note 15 for details of these assumptions and the potential

(iii) Share based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity. Refer to note 22 for details of input assumptions.

(iv) Income tax

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

In addition, the Group has recognised deferred tax assets relating to carried forward tax losses to the extent they are sufficient taxable future profits anticipated. Utilisation of the tax losses also depends on the ability of the entity to satisfy certain tests at the time the losses are recouped. If the entity fails to satisfy the test, carried forward deferred tax assets of \$7,899,000 would have to be written off to income tax expense.

NOTES TO THE FINANCIAL STATEMENTS

5. REVENUE

| | Consolidated 2014 \$ '000 | Consolidated 2013 \$ '000 |
|---|---------------------------------|---------------------------------|
| Revenue from sale of goods and services | 90,566 | 49,756 |
| | <u>90,566</u> | <u>49,756</u> |

6. OTHER INCOME

| | | |
|---------------|------------|------------|
| Sundry income | 311 | 123 |
| | <u>311</u> | <u>123</u> |

7. EXPENSES

Profit before income tax includes the following specific expense:

| | Consolidated 2014 | Consolidated 2013 |
|---|----------------------|----------------------|
| Depreciation | | |
| Land and buildings | 68 | 15 |
| Motor vehicles | 828 | 526 |
| Office Equipment | 216 | 34 |
| Plant and equipment | 8,776 | 4,944 |
| | <u>9,888</u> | <u>5,519</u> |
| Finance costs | | |
| Interest expense – bank and other loans | 274 | 107 |
| Other finance charges - lease liability | 2,834 | 2,041 |
| | <u>3,108</u> | <u>2,148</u> |
| Employee benefits expense | | |
| Non-executive Directors' remuneration | 206 | 197 |
| Salaries and wages | 34,923 | 22,860 |
| Superannuation costs | 2,866 | 1,966 |
| | <u>37,995</u> | <u>25,023</u> |
| Rental – operating leases | | |
| Motor Vehicles and Equipment | 545 | 290 |
| | <u>545</u> | <u>290</u> |
| Share based payment | | |
| Share based payment expense | 246 | 396 |
| | <u>246</u> | <u>396</u> |
| Impairment costs | | |
| Impairment EDMSL goodwill | 4,005 | - |
| Impairment EDMSL drill rigs | 1,566 | - |
| | <u>5,571</u> | <u>-</u> |

NOTES TO THE FINANCIAL STATEMENTS

8. TAX

| | Consolidated 2014 \$ '000 | Consolidated 2013 \$ '000 |
|--|---------------------------------|---------------------------------|
| Income tax expense: | | |
| a) The major components of income tax expense/(benefit): | | |
| Current tax | - | 4,395 |
| Adjustment recognised from prior year | (25) | (1,157) |
| Deferred tax | 248 | (3,213) |
| Aggregate income tax expense | <u>223</u> | <u>25</u> |
| b) Reconciliation between aggregate income tax expense to prima facie tax payable | | |
| Accounting profit before tax from continuing operations | 1,645 | 10,392 |
| Tax at the Group's statutory income tax rate of 30% | 493 | 3,117 |
| Nondeductible expenses | 1,338 | 195 |
| Difference in deferred tax rates | (67) | - |
| Tax benefit of estimated tax losses from operating activities | (1,516) | (3,287) |
| Adjustment recognised from prior year | (25) | - |
| Aggregate income tax expense | <u>223</u> | <u>25</u> |
| c) Tax losses | | |
| Unused tax losses for which no deferred tax asset has been recognised | - | 4,500 |
| Potential tax benefit at 30% | - | 1,350 |

Deferred income tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following temporary differences:

Deferred tax assets

| | Balance at 1 July 2013 | Movement during the year | Balance at 30 June 2014 |
|--------------------------------------|---------------------------|-----------------------------|----------------------------|
| Leave entitlements | 286 | 427 | 713 |
| Other | 56 | 117 | 173 |
| Goodwill adjustment – REICHdrill Inc | - | 1,432 | 1,432 |
| Tax losses | 1,244 | 4,088 | 5,332 |
| Inventory | - | 201 | 201 |
| Share issue costs | 84 | (36) | 48 |
| Gross deferred tax assets | <u>1,670</u> | <u>6,229</u> | <u>7,899</u> |

Deferred tax asset expected to be recovered within 12 months

| | | | |
|---|--------------|--------------|--------------|
| | 1,567 | (743) | 824 |
| Deferred tax asset expected to be recovered after 12 months | 103 | 6,972 | 7,075 |
| | <u>1,670</u> | <u>6,229</u> | <u>7,899</u> |

Deferred tax liabilities

| | | | |
|--------------------------------|------------|--------------|--------------|
| Consumables | 200 | 2,528 | 2,728 |
| Property, plant & equipment | 149 | 459 | 608 |
| Other | 17 | 318 | 335 |
| Gross deferred tax liabilities | <u>366</u> | <u>3,305</u> | <u>3,671</u> |

Deferred tax asset expected to be recovered within 12 months

| | | | |
|---|------------|--------------|--------------|
| | 366 | 2,681 | 3,047 |
| Deferred tax asset expected to be recovered after 12 months | - | 624 | 624 |
| | <u>366</u> | <u>3,305</u> | <u>3,671</u> |

Net deferred tax asset

| | | | |
|--|--------------|--------------|--------------|
| | <u>1,304</u> | <u>2,924</u> | <u>4,228</u> |
|--|--------------|--------------|--------------|

NOTES TO THE FINANCIAL STATEMENTS

8. TAX (continued)

Deferred tax assets and liabilities are attributable to the following temporary differences:

Deferred tax assets

| | Balance at 1 July 2012 | Movement during the year | Balance at 30 June 2013 |
|---------------------------|---------------------------|-----------------------------|----------------------------|
| Leave entitlements | 275 | 11 | 286 |
| Other | 78 | (22) | 56 |
| Tax losses | 2,326 | (1,082) | 1,244 |
| Share issue costs | 136 | (52) | 84 |
| Gross deferred tax assets | 2,815 | (1,145) | 1,670 |

Deferred tax liabilities

| | | | |
|--------------------------------|--------------|----------------|------------|
| Consumables | 1,298 | (1,098) | 200 |
| Prepaid insurance | 197 | (48) | 149 |
| Property, plant and equipment | - | - | - |
| Other | 16 | 1 | 17 |
| Gross deferred tax liabilities | 1,511 | (1,145) | 366 |

| | | | |
|------------------------|--------------|---|--------------|
| Net deferred tax asset | 1,304 | - | 1,304 |
|------------------------|--------------|---|--------------|

| | Consolidated 2014 \$ '000 | Consolidated 2013 \$ '000 |
|---------------------------------------|---------------------------------|---------------------------------|
| Income tax liability | | |
| Opening balance | 25 | - |
| Charge for the period | - | 25 |
| Refunds received/(payments made) | - | - |
| Adjustment recognised from prior year | (25) | - |
| Closing balance | - | 25 |

Hughes Drilling Limited and its wholly-owned Australian subsidiaries have formed a tax consolidation Group. On formation of the tax consolidation Group, the entities entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly-owned subsidiaries in the case of a default by the head entity, Hughes Drilling Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Hughes Drilling Limited for any current tax payable assumed and are compensated by Hughes Drilling Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Hughes Drilling Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year.

9. CASH AND CASH EQUIVALENTS

| | Consolidated 2014 \$ '000 | Consolidated 2013 \$ '000 |
|---|---------------------------------|---------------------------------|
| Bank overdraft | (4,288) | (598) |
| Cash at bank and on hand | 426 | 5,334 |
| Balances as per the statement of cash-flows | (3,862) | 4,736 |

Risk exposure

The Group's exposure to interest rate risk is discussed in note 27. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents mentioned above.

Fair Value of Bank overdraft

The carrying amount of the bank overdraft approximates its fair value

NOTES TO THE FINANCIAL STATEMENTS

10. TRADE AND OTHER RECEIVABLES

| | Consolidated 2014 \$ '000 | Consolidated 2013 \$ '000 |
|-------------------|---------------------------------|---------------------------------|
| Trade receivables | 17,480 | 7,587 |
| Prepayments | 258 | 84 |
| Accrued Income* | - | 825 |
| Sundry debtors | 328 | 577 |
| | 18,066 | 9,073 |

*30 June 2013 accrued income relates to funds receivable for the sale of a drill rig to a business placed into receivership in April 2014. The outstanding balance of \$0.825m (including GST) or \$0.750m (excluding GST) has been written off as a bad debt in the current financial year, however the matter is still to be finalised by the liquidator.

Trade receivable reconciliation

| | | |
|---|---------------|--------------|
| At 30 June 2014 | 18,305 | 7,587 |
| Provision for impairment recognised during year | - | - |
| Receivables written off during the year | (825) | - |
| | 17,480 | 7,587 |

Trade receivable ageing analysis

| | | |
|--------------|---------------|--------------|
| 0 – 30 days | 15,210 | 6,897 |
| 30 – 60 days | 586 | 247 |
| 60 – 90 days | 1,097 | 7 |
| > 90 days | 587 | 436 |
| | 17,480 | 7,587 |

(i) Fair value and credit risk

Due to the short-term nature of these trade and other receivables, their carrying amounts are assumed to approximate their fair value. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. Refer to note 27 for more information on the risk management policy of the Group and the credit quality of the entity's trade receivables.

ii) Past due but not impaired

As at 30 June 2014, trade receivables of \$587,000 (2013 - \$436,000) were past due but not impaired. These relate to 20 customers for whom there is no recent history of default or expectation for default therefore the amounts have not been impaired.

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due.

iii) Sundry Debtors

These amounts generally arise from transactions outside the usual operating activities of the Group.

11. INVENTORIES

| | | |
|---|---------------|---------------|
| Consumables and spares parts- at net realisable value | 34,954 | 23,016 |
| REICHdrill Rig WIP - at cost | 2,876 | 1,678 |
| | 37,830 | 24,694 |

REICHdrill Inc Rig Work in progress is classified as inventory as the rig is still under manufacture for onward selling to customers.

Write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2014 amounted to Nil, (2013 – Nil).

NOTES TO THE FINANCIAL STATEMENTS

12. AVAILABLE FOR SALE FINANCIAL ASSETS

| | Consolidated 2014 \$ '000 | Consolidated 2013 \$ '000 |
|------------------------------------|---------------------------------|---------------------------------|
| Shares in Australian listed entity | - | 2 |

Available-for-sale financial instruments consist of investments in ordinary shares and therefore have no fixed maturity date or coupon rate. The fair value of listed available for sale investments has been determined directly by reference to published price quotations in an active market.

Risk exposure

Information about the Group's exposure to price risk is provided in note 27.

13. ASSETS HELD FOR SALE

| | | |
|-------------------------------|------------|--------------|
| Property, plant and equipment | 1,083 | 1,083 |
| Disposal | (338) | - |
| Impairment expense | (615) | - |
| | 130 | 1,083 |

The assets identified above represent the surplus assets of the businesses requirements. These assets are currently being sold via listing with brokers and meet the recognition criteria of AASB5 to qualify as assets held for sale.

14. PROPERTY, PLANT AND EQUIPMENT

Freehold Land and Buildings

| | | |
|--------------------------|--------------|------------|
| At cost | 1,540 | 924 |
| Accumulated depreciation | (194) | (67) |
| Net book amount | 1,346 | 857 |

Motor Vehicles

| | | |
|--------------------------|--------------|--------------|
| At cost | 6,261 | 4,223 |
| Accumulated depreciation | (2,825) | (1,777) |
| Net book amount | 3,436 | 2,446 |

Office equipment

| | | |
|--------------------------|------------|------------|
| At cost | 1,375 | 844 |
| Accumulated depreciation | (733) | (303) |
| Net book amount | 642 | 541 |

Plant and equipment

| | | |
|-------------------------------|---------------|---------------|
| At cost | 103,161 | 68,323 |
| Accumulated depreciation | (46,915) | (30,457) |
| Accumulated impairment losses | (2,179) | (3,110) |
| Net book amount | 54,067 | 34,757 |

Capital work in progress

| | | |
|---------|--------------|--------------|
| At cost | 4,079 | 3,036 |
|---------|--------------|--------------|

Total Property, plant and equipment

| | | |
|-------------------------------|-----------------|-----------------|
| Cost | 116,416 | 77,351 |
| Accumulated depreciation | (50,667) | (32,604) |
| Accumulated Impairment losses | (2,179) | (3,110) |
| Total Net book amount | 63,569 | 41,637 |

NOTES TO THE FINANCIAL STATEMENTS

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Leased assets

Property plant and equipment includes the following amounts where the Group is a lessee under a finance lease:

| | Consolidated 2014 \$ '000 | Consolidated 2013 \$ '000 |
|--|---------------------------------|---------------------------------|
| Property plant and Equipment | | |
| Cost | 47,385 | 32,226 |
| Accumulated depreciation | (11,190) | (5,921) |
| Total net book amount | <u>36,195</u> | <u>26,305</u> |
| Reconciliation | | |
| Reconciliation of the carrying amount of fixed assets for the current financial year is set out below: | | |
| <i>Freehold Land and Buildings</i> | | |
| Opening carrying value | 857 | 817 |
| Exchange differences | (1) | - |
| Acquired through net investment in subsidiary | 527 | 51 |
| Additions | 31 | 4 |
| Disposals | - | - |
| Depreciation expense | (68) | (15) |
| Written down value at 30 June | <u>1,346</u> | <u>857</u> |
| <i>Motor Vehicles</i> | | |
| Opening carrying value | 2,446 | 2,644 |
| Exchange differences | (1) | - |
| Acquired through net investment in subsidiary | 451 | 53 |
| Additions | 1,506 | 274 |
| Disposals | (138) | 1 |
| Depreciation expense | (828) | (526) |
| Written down value at 30 June | <u>3,436</u> | <u>2,446</u> |
| <i>Office Equipment</i> | | |
| Opening carrying value | 541 | 183 |
| Exchange differences | (3) | - |
| Acquired through net investment in subsidiary | 166 | 27 |
| Additions | 154 | 365 |
| Disposals | - | - |
| Depreciation expense | (216) | (34) |
| Written down value at 30 June | <u>642</u> | <u>541</u> |

NOTES TO THE FINANCIAL STATEMENTS

14. PROPERTY, PLANT AND EQUIPMENT (continued)

| | Consolidated 2014 \$ '000 | Consolidated 2013 \$ '000 |
|---|---------------------------------|---------------------------------|
| <i>Plant and Equipment</i> | | |
| Opening carrying value | 34,754 | 23,615 |
| Exchange differences | (15) | - |
| Acquired through net investment in subsidiary | 22,437 | 636 |
| Transfer from Capital Work in Progress | 6,348 | 15,539 |
| Additions | 456 | - |
| Disposals | (187) | (89) |
| Depreciation expense | (8,776) | (4,944) |
| Impairment expense | (950) | - |
| Written down value at 30 June | 54,067 | 34,757 |
| <i>Capital Work in Progress</i> | | |
| Opening carrying value | 3,036 | 1,995 |
| Acquired through net investment in subsidiary | 52 | - |
| Additions | 7,339 | 16,551 |
| Transfer to Property Plant and Equipment | (6,348) | (15,510) |
| Written down value at 30 June | 4,079 | 3,036 |
| Total Property, Plant and Equipment | 63,569 | 41,637 |

The bank has a fixed and floating charge over all unencumbered assets of the Group.

Impairment

In accordance with AASB 136 property plant and equipment should be assessed for impairment only when impairment indicators exist. To assess impairment for the surface drilling division (JSW Australia Pty Ltd) and drill rig and spare parts manufacturing division (REICHdrill Inc), the Group has calculated the recoverable amount of property plant and equipment associated with the divisions and where the recoverable amounts of the cash generating unit is lower than its carrying value the cash generating unit has been written down to its recoverable amount. With regards to the EDMSL surface drilling (exploration / delineation) division, the impairment was assessed by comparing the fair value less costs to sell to the written down book value due to the lack of foreseeable revenue to use in the calculation of recoverable amounts and where the fair value less costs to sell is lower than the written down book value, the cash generating unit has been written down to its fair value less costs balance.

The recoverable amount of the cash generating unit for JSW Australia Pty Ltd and REICHdrill Inc has been based on value in use calculations using discounted cash flow forecasts based on a five (5) year projection together with a terminal value. A post-tax discount rate of 12.8% has been used to determine the present value of the future cash flows. Value in use calculations were adjusted to a post-tax basis, therefore a post-tax discount rate is appropriate.

In our assessment for impairment of the EDMSL surface drilling (exploration / delineation) unit, in New South Wales Australia, it was noted that the recoverable amount (fair value less costs to sell) of the business unit was lower than the carrying value (written down book value of the property plant and equipment) due to lack of foreseeable revenue contracts attributable to the depressed nature of the exploration / delineation industry. As a result, \$1.565m of its drill rig assets were impaired during the financial year ended 30 June 2014 along with \$4.005m of goodwill associated with the business unit. Hughes Drilling Limited continues to market the business for any possible new contracts.

Sensitivity Analysis on value in use calculation

See sensitivity analysis performed in Note 15.

NOTES TO THE FINANCIAL STATEMENTS

| 15. INTANGIBLE ASSETS AND GOODWILL | Consolidated | Consolidated |
|--|--------------|--------------|
| | 2014 | 2013 |
| | \$'000 | \$'000 |
| Intellectual Property | | |
| At cost | 197 | 197 |
| Accumulated impairment | (197) | (197) |
| Total net book amount | - | - |
| Trademarks | | |
| At cost | 3 | 3 |
| Accumulated impairment | - | - |
| Total net book amount | 3 | 3 |
| Goodwill | | |
| At cost | 12,018 | 7,575 |
| Accumulated impairment | (4,005) | - |
| Total net book amount | 8,013 | 7,575 |
| Total Intangibles and Goodwill | | |
| At cost | 12,021 | 7,775 |
| Accumulated impairment | (4,005) | (197) |
| Total net book amount | 8,016 | 7,578 |
| Reconciliation | | |
| Reconciliation of the carrying amount of intangible assets for the current financial year is set out below | | |
| Trade marks | | |
| Opening carrying value | 3 | 3 |
| Additions | - | - |
| Amortisation | - | - |
| Closing net book amount | 3 | 3 |

NOTES TO THE FINANCIAL STATEMENTS

15. INTANGIBLE ASSETS AND GOODWILL

Reconciliation (continued)

| | Consolidated 2014 \$'000 | Consolidated 2013 \$'000 |
|---|--------------------------------|--------------------------------|
| Reconciliation of the carrying amount of intangible assets for the current financial year is set out below: | | |
| Goodwill | | |
| Opening net book amount | 7,575 | 4,005 |
| Additions – JSW goodwill | 5,892 | 3,570 |
| Adjustment – REICHdrill Inc. goodwill | (1,449) | - |
| Impairment – EDMSL goodwill | (4,005) | - |
| Closing net book value | 8,013 | 7,575 |

Total intangible assets and Goodwill

| | | |
|---------------------------------------|---------|-------|
| Opening net book amount | 7,578 | 4,008 |
| Additions (refer to note 33) | 5,892 | 3,570 |
| Adjustment – REICHdrill Inc. goodwill | (1,449) | - |
| Impairment – EDMSL goodwill | (4,005) | - |
| Closing net book value | 8,016 | 7,578 |

Impairment test for intellectual property

Intellectual property ("IP") relates to the Mine Mixers process which was acquired from RTL Corporation Limited. The IP was considered fully impaired by Management as the focus was on developing the Group's core operations and for the foreseeable future resources will not be invested in developing the Mine Mixers business.

Impairment test for goodwill

Goodwill acquired through business combinations have been allocated to the following cash-generating units:

| | | |
|--|-------|-------|
| Surface Drilling Division – EDMSL | - | 4,005 |
| Surface Drilling Division – JSW Australia | 5,892 | |
| Dill rigs and spare parts manufacturing – REICHdrill Inc | 2,121 | 3,570 |
| | 8,013 | 7,575 |

The Group tests whether goodwill has suffered impairment on an annual basis. The recoverable amount of a cash generating unit (CGU) has been determined by a value-in-use calculation using a discounted cash flow model, based on a 5 year projection period approved by management together with a terminal value.

Adjustment – REICHdrill Inc goodwill

During the year, a measurement period adjustment of \$1.449m was made to the goodwill on acquisition of REICHdrill Inc. due to a revision to the provisional net assets position as a result of recognizing a deferred tax asset.

NOTES TO THE FINANCIAL STATEMENTS

15. INTANGIBLE ASSETS AND GOODWILL (continued)

Key assumptions are those to which the recoverable amount of an asset or cash-generating units is most sensitive. The following key assumptions were used in the discounted cash flow model for the surface drilling and drill rigs and spare parts manufacturing divisions:

- a. 12.8% (2013: 21.7%) post-tax discount rate;
- b. 5.0% (2013: 5.0%) per annum projected revenue growth rate;
- c. 5.0% (2013: 5.0%) per annum increase in operating costs and overheads;
- d. 2.0% (2013: 0%) terminal growth rate.

The post-tax discount rate of 12.8% post-tax reflects management's estimate of the time value of money and the consolidated entity's weighted average cost of capital adjusted for the surface drilling and drill rig and manufacturing divisions, the risk free rate and the volatility of the share price relative to market movements. Value in use calculations were adjusted to a post-tax basis, therefore post-tax discount rate is considered appropriate.

Management believes the projected 5.0% revenue growth rate is prudent and justified, based on the general market conditions

There were no other key assumptions for the surface drilling and drill rigs and spare parts manufacturing divisions.

Based on the above assumptions, a nil impairment has been applied to the surface drilling (JSW) and drill rigs and spare parts manufacturing (REICHdrill Inc) divisions as the carrying amount of goodwill does not exceed its recoverable amount.

However, when the same assumptions were applied to the EDMSL surface drilling (delineation) division, it was determined by management that there is no foreseeable revenue in the future from the division due to the depressed nature of the exploration industry. The goodwill carrying amount of the division therefore exceeded its recoverable amount.

As a result of the above, goodwill valued at \$4.005m and drill rig assets valued at \$1.565m associated with the division were impaired during the financial year ended 30 June 2014. Hughes continues to market the business for any possible new contracts.

Sensitivity

As disclosed in note 2, the directors have made judgments and estimates in respect of impairment testing of goodwill.

Should these judgments and estimates not occur the resulting goodwill may vary in carrying amount. The sensitivities are as follows:

- a. Revenue would need to decrease by more than 78.9% and 27.0% for the surface drilling and drill rig and spare parts manufacturing divisions respectively before goodwill and net assets would need to be impaired, with all other assumptions remaining constant.
- b. The discount rate would be required to increase by 68.6% and 10.0% for the surface drilling and drill rig and spare parts manufacturing divisions respectively before goodwill and net assets would need to be impaired, with all other assumptions remaining constant.

Management believes that other reasonable changes in the key assumptions on which the recoverable amount of the surface drilling division and drill rig and spare parts manufacturing goodwill is based, would not cause the cash generating units carrying amount to exceed its recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS

16. INVESTMENTS IN CONTROLLED ENTITIES

| | Country of incorporation | Percentage of equity interest held by the parent 2014 | Percentage of equity interest held by the parent 2013 |
|--|-----------------------------|--|---|
| Hughes Drilling 1 Pty Ltd | Australia | 100% | 100% |
| Express Hydraulics (Aust) Pty Ltd | Australia | 100% | 100% |
| Every Day Mine Services Operations Pty Ltd | Australia | 100% | 100% |
| G.O.S. Drilling Pty Ltd | Australia | 100% | 100% |
| Australian Gas Drilling Pty Ltd | Australia | 100% | 100% |
| EDMS Human Capital Pty Ltd | Australia | 100% | 100% |
| Resource 1 Pty Ltd | Australia | 100% | 100% |
| EDMS Assets & Logistics Pty Ltd | Australia | 100% | 100% |
| EDMS Energy Pty Ltd | Australia | 100% | 100% |
| EDMS Metals Pty Ltd | Australia | 100% | 100% |
| REICHdrill Inc | USA | 96% | 96% |
| REICHdrill Australia Pty Ltd | Australia | 96% | 96% |
| HD JSW Pty Ltd | Australia | 100% | - |
| JSW Australia Pty | Australia | 96% | - |

17. TRADE AND OTHER PAYABLES

| | Consolidated 2014 \$ '000 | Consolidated 2013 \$ '000 |
|----------------|---------------------------------|---------------------------------|
| Trade payables | 12,085 | 4,723 |
| Other payables | 7,152 | 3,375 |
| | <u>19,237</u> | <u>8,098</u> |

Information about the Group's exposure to foreign exchange risk is provided in note 27.

18. PROVISIONS

Employee benefits

| | | |
|-----------------------------------|--------------|------------|
| Current Employee entitlements | 1,834 | 608 |
| Non-Current Employee entitlements | 542 | 346 |
| | <u>2,376</u> | <u>955</u> |

Amounts not expected to be settled within the next 12 months

Employee entitlements include accruals for annual leave. The entire obligation is presented as current, since the Group does not have an unconditional right to defer settlement. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave within the next 12 months.

| | | |
|---|--------------|------------|
| Current leave obligation expected to be settled after 12 months | 215 | 36 |
| | <u>215</u> | <u>36</u> |
| Movement in employee provisions | | |
| Balance 1 July 2013 | 955 | 901 |
| Acquired through net investment in subsidiary | 810 | - |
| Payments during the year | (3,289) | (228) |
| Charge to statement of comprehensive income | 3,900 | 282 |
| Balance 30 June 2014 | <u>2,376</u> | <u>955</u> |

NOTES TO THE FINANCIAL STATEMENTS

19. BORROWINGS

| | Consolidated 2014 \$ '000 | Consolidated 2013 \$ '000 |
|-----------------------------------|---------------------------------|---------------------------------|
| Current | | |
| Secured | | |
| - Hire purchase | 15,104 | 10,728 |
| - Commercial bill facility | 2,500 | 458 |
| - Commercial bill facility – US\$ | 2,654 | - |
| - Other | 3,912 | - |
| | <u>24,170</u> | <u>11,186</u> |
| Non-Current | | |
| Secured | | |
| - Hire purchase | 16,971 | 15,487 |
| - Commercial bill facility | - | - |
| - Commercial bill facility – US\$ | - | - |
| - Other | 684 | - |
| | <u>17,655</u> | <u>15,487</u> |

i) Fair Values

The carrying amount of the Group's current and non-current hire purchases and commercial bill facilities (which have a variable interest rate) approximates their fair value. Where appropriate, fair values have been calculated by discounting the expected future cash flows at prevailing market interest rates.

Other borrowings comprise loans from John Silverthorne Trust with a carrying value of \$3.368m which at fair value would be \$3.368m, and Eastern Guruma with a carrying value of \$0.959m which at fair value would be \$0.959m.

ii) Terms and conditions

Hire purchase liabilities are repayable in monthly instalments (including finance charges) ranging from \$422 to \$46,132 over periods ranging from 24 to 60 months. Applicable interest rates range from 3.8% to 9.7%. Hire purchase liabilities are secured by a fixed and floating charge over all the unencumbered assets of the Group as discussed in note 14.

iii) Risk exposures

Information about the Group's exposure to interest rate risk is provided in note 27.

iv) Classification

Borrowings have been classified as either current or non-current depending on when repayments fall due as stipulated by the agreed repayment schedules.

NOTES TO THE FINANCIAL STATEMENTS

20. CONTRIBUTED EQUITY

| | Number of shares | Value | Attributable Costs | Net |
|--|---------------------|---------------|-----------------------|---------------|
| | 000's | \$'000s | \$'000s | \$'000s |
| Balance 1 July 2012 | 1,136,726 | 9,744 | (165) | 9,579 |
| Share consolidation | (1,103,700) | - | - | - |
| Shares issued to settle contingent consideration from prior year reverse acquisition | 89,607 | 2,273 | - | 2,273 |
| Share placement (Issued 20/03/13 to 09/05/13 at \$0.32 per share) | 59,119 | 18,918 | (987) | 17,931 |
| On issue at 30 June 2013 | 181,752 | 30,935 | (1,152) | 29,783 |
| Balance 1 July 2013 | 181,752 | 30,935 | (1,152) | 29,783 |
| Shares issued as consideration for purchase of JSW Australia at \$0.32/share (refer to business combination note 33) | 26,918 | 8,614 | (170) | 8,444 |
| On issue at 30 June 2014 | 208,670 | 39,549 | (1,322) | 38,227 |

Share consolidation

Shareholders of Hughes Drilling Limited approved the consolidation of shares at the annual general meeting held on 30 November 2012. The consolidation of the Company's issued capital was approved on the basis that every ten (10) shares be consolidated into one (1). The number of shares on issue reduced from 1,226,333,348 to 122,633,350. Trading in consolidated shares commenced on 4 December 2012.

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote. Ordinary shares have no par value and the company does not have a limited amount of authorised capital.

Options

Information relating to the Hughes Drilling Limited issued Options, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out below and in note 22.

| | Issue Date | Exercise Date | Exercise Price | Bal 1 Jul 12 '000 | Options Granted '000 | Options Cancelled '000 | Bal 30 Jun 13 '000 | Bal 1 Jul 13 '000 | Options Granted '000 | Options Cancelled '000 | Bal 30 Jun 14 '000 |
|------------------------------|------------|---------------|----------------|----------------------|-------------------------|---------------------------|-----------------------|----------------------|-------------------------|---------------------------|-----------------------|
| Employee Share Option Plan | 20 Jul 08 | 29 Jun 12 | \$4.10 | - | - | - | - | - | - | - | - |
| Directors and Key Management | 7 Jul 09 | 6 Jul 14 | \$0.531 | 515 | - | - | 515 | 515 | - | - | 515 |
| Directors and Key Management | 30 Oct 09 | 30 Jun 14 | \$0.531 | 900 | - | - | 900 | 900 | - | - | 900 |
| Directors and Key Management | 13 Feb 12 | 13 Feb 16 | \$0.40 | 3,400 | - | (200) | 3,200 | 3,200 | - | - | 3,200 |
| | | | | 4,815 | - | (200) | 4,615 | 4,615 | - | - | 4,615 |

Capital risk management

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

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

NOTES TO THE FINANCIAL STATEMENTS

20. CONTRIBUTED EQUITY (continued)

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'borrowings' and 'trade and other payables' as shown in the Statement of Financial Position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the Statement of Financial Position plus debt.

The consolidated entity is subject to certain financing agreements and covenants, and meeting these are given priority in all capital risk management decisions.

21. OTHER RESERVES

| | Consolidated 2014 \$ '000 | Consolidated 2013 \$ '000 |
|--|---------------------------------|---------------------------------|
| Options reserve (see note 22) | 882 | 636 |
| Foreign currency gain on translation of foreign operations | 649 | 581 |
| Put options issued | (146) | - |
| | 1,385 | 1,217 |

22. RESERVES – OPTION RESERVE

| | Number of options 000's | Value \$'000s | Attributable Costs \$'000s | Net \$'000s |
|---|-------------------------------|------------------|----------------------------------|----------------|
| Balance 1 July 2012 | 4,815 | 240 | - | 240 |
| Cancelled during year – directors and key management | (200) | - | - | - |
| Issued during the year – directors and key management | - | 396 | - | 396 |
| On issue at 30 June 2013 | 4,615 | 636 | - | 636 |
| Balance 1 July 2013 | 4,615 | 636 | - | 636 |
| Cancelled during year – directors and key management | - | - | - | - |
| Value of employee services for the year | - | 246 | - | 246 |
| On issue at 30 June 2014 | 4,615 | 882 | - | 882 |

The option reserve is used to recognise:

- the grant date fair value of options issued to employees but not exercised;
- the grant date fair value of shares issued to employees

Fair value of options granted

Fair values at grant date are independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2012 included:

- Options are granted for no consideration;
- Exercise price of \$0.402;
- Grant date of 13 February 2012
- Expiry date of 13 February 2016;
- Vesting period of 2 years;
- Share price at grant date of \$0.3;
- Expected volatility of the company's shares 180%;
- Expected dividend yield 0.0%; and
- Risk free rate 4.75%.
- Weighted average exercise price \$0.402

NOTES TO THE FINANCIAL STATEMENTS

22. RESERVES – OPTION RESERVE (continued)

Expected volatility is based on the Group's share price and has been based on two years' historic volatility data. The valuation per option has been determined at \$0.277 per option. The dividend rate is based on the past Group practice and the Risk free rate is determined with reference to medium term government bonds.

The weighted average share price during the financial year was \$0.28 (2013: \$0.34).

The weighted average remaining contractual life of options outstanding at the end of the financial year was 1.15 years (2013: 2.15).

23. NOTES TO THE STATEMENT OF CASH FLOWS

| | Consolidated 2014 \$ '000 | Consolidated 2013 \$ '000 |
|--|---------------------------------|---------------------------------|
| Operating profit after taxation | 1,422 | 10,367 |
| Movement in reserves | 104 | 397 |
| Impairment expense | 5,571 | - |
| Depreciation | 9,888 | 5,519 |
| (Profit)/loss on disposal of assets | (24) | 70 |
| Movement in assets / liabilities: | | |
| (Increase)/decrease in trade and other receivables | (7,129) | 1,034 |
| (Increase)/decrease in stock | (9,906) | (6,696) |
| (Increase)/decrease in deferred tax assets | 239 | - |
| Increase /(decrease) in trade and other payables | 6,483 | (2,840) |
| Increase/(decrease) in provisions | 611 | 54 |
| Net cash (used in)/provided by operating activities | 7,259 | 7,905 |

24. AUDITORS REMUNERATION

Audit Services

| | | |
|--------------------------------------|-----|-----|
| Audit and review of financial report | 329 | 221 |
|--------------------------------------|-----|-----|

Other Services

| | | |
|-----------------------------|------------|------------|
| Accounting and tax services | 88 | 198 |
| | 417 | 419 |

25. RELATED PARTIES

a) Subsidiaries

The consolidated financial statements include the financial statements of Hughes Drilling Limited and its subsidiaries as listed in Note 16.

b) Ultimate parent

Hughes Drilling Limited is the ultimate parent of the Group.

c) Key management personnel

Details relating to key management personnel, including remuneration paid, are included in the Directors Report and Note 26.

NOTES TO THE FINANCIAL STATEMENTS

25. RELATED PARTIES (continued)

d) Transactions with related parties

| | Consolidated 2014 | Consolidated 2013 |
|--|----------------------|----------------------|
| <i>Purchases of goods and services</i> | | |
| Purchase of consumables from entities controlled by key management personnel | 122 | - |
| <i>Sale of goods and services</i> | | |
| Sale of goods and services to entities controlled by key management personnel | 264 | - |
| <i>Other transactions</i> | | |
| Purchase of 4% non-controlling interest by Patrick Garrity in REICHdrill Australia Pty Ltd | - | 202 |
| Purchase of 4% non-controlling interest by Jeff Branson in JSW Australia Pty Ltd | 146 | - |
| Issue of put option in Hughes Drilling Limited to Jeff Branson | 146 | - |
| Loan of funds to Hughes Drilling Ltd from John Silverthorne Trust (John Silverthorne) | 640 | - |

e) Outstanding balances arising from sales/purchases of goods and services

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties.

Current trade payable (sale of goods and services)

| | | |
|---|----|---|
| Entities controlled by key management personnel | 51 | - |
|---|----|---|

Current trade debtor (sale of goods and services)

| | | |
|---|-----|---|
| Entities controlled by key management personnel | 185 | - |
|---|-----|---|

f) Loans and borrowing to and (from) related parties

| | | |
|---|--------------|----------|
| Beginning of the year | - | - |
| Acquired through net investment in subsidiary | 2,964 | - |
| Loans advanced | 640 | - |
| Interest charged | 212 | - |
| Interest paid | (143) | - |
| End of the year | <u>3,673</u> | <u>-</u> |

g) Guarantees

The parent entity and each of its wholly owned subsidiaries has provided guarantees in respect of the finance facilities.

NOTES TO THE FINANCIAL STATEMENTS

26. KEY MANAGEMENT PERSONNEL

a) Details of key management personnel

The following were key management personnel of the Group at any time during the reporting period and at the time of this report, unless otherwise indicated individuals were employed for the entire period.

Directors

| Surname | First Name | Position | Tenure (If not full year served) |
|--------------|--------------|--|---|
| Hackett | Robert | Non-executive Director - Chairman | Appointed Non -Executive Director 4 Jul 2011 Appointed Chairman 8 July 2011, Acting CEO, appointed 1 September 2011, Retired as acting CEO 29 February 2012, Retired as Chairman 6 May 2014 |
| Hughes | Robert (Bob) | Executive Director – Managing Director | Appointed 10 February 2012 |
| Drake | Andrew | Chief Executive Officer | Appointed 10 February 2012 |
| Bruce | Geoff | Non-Executive Director | Appointed 29 June 2012 Retired 18 July 2013 |
| O'Connor | Barry | Non-Executive Director | Appointed 5 November 2012 |
| Webb | Andrew | Non-Executive Director | Appointed 18 July 2013, Retired 15 December 2013 |
| Silverthorne | John | Non-Executive Director | Appointed 3 October 2013 |
| Branson | Jeff | Chief Operating Officer | Appointed 3 October 2013 |
| Belcher | Gary | Non-Executive Director | Appointed 18 July 2014 |

Key Executives

| Surname | First Name | Position | Tenure (If not full year served) |
|----------|------------|-----------------------------|----------------------------------|
| Brenton | Paul | Chief Financial Officer | Appointed 9 August 2010 |
| Garritty | Patrick | Vice President - REICHdrill | Appointed 1 May 2007 |

b) Compensation of key management personnel

Full details of key management personnel compensation is disclosed in the remuneration report on page 18 to 20 of the Directors Report.

| | 2014 \$'000s | 2013 \$'000s |
|------------------------------|-----------------|-----------------|
| Short-term employee benefits | 1,528 | 1,228 |
| Post-employment benefits | 107 | 82 |
| Share-based payments | 95 | 152 |
| | 1,730 | 1,462 |

NOTES TO THE FINANCIAL STATEMENTS

26. KEY MANAGEMENT PERSONNEL (continued)

c) Option holdings of key management personnel

The movement in the reporting period in the number of options over ordinary shares in Hughes Drilling Limited held directly, indirectly or beneficially by each key management person, including their related parties is as follows:

| | Balance 1 July 12 | Options Acquired | Options Cancelled | Balance 30 June 13 | Balance 1 July 13 | Options Acquired | Options Cancelled | Balance 30 June 14 |
|---------------------|----------------------|---------------------|----------------------|-----------------------|----------------------|---------------------|----------------------|-----------------------|
| Ashley Pattison | 300,000 | - | - | 300,000 | 300,000 | - | - | 300,000 |
| Craig Burton | 600,000 | - | - | 600,000 | 600,000 | - | - | 600,000 |
| Declan Franzmann | 50,000 | - | - | 50,000 | 50,000 | - | - | 50,000 |
| Joshua Rogers | 50,000 | - | - | 50,000 | 50,000 | - | - | 50,000 |
| Peter Bradfield | 65,000 | - | - | 65,000 | 65,000 | - | - | 65,000 |
| Roger Jackson | 50,000 | - | - | 50,000 | 50,000 | - | - | 50,000 |
| Tom Henderson | 300,000 | - | - | 300,000 | 300,000 | - | - | 300,000 |
| Staff and Directors | 3,400,000 | - | (200,000) | 3,200,000 | 3,200,000 | - | - | 3,200,000 |
| | 4,815,000 | - | (200,000) | 4,615,000 | 4,615,000 | - | - | 4,615,000 |

d) Shareholding of key management personnel

| | Balance 1 July 12 | Shares acquired | Shares disposed | Balance 30 June 13 | Balance 1 July 13 | Shares acquired | Shares disposed | Balance 30 June 14 |
|-----------------------|----------------------|--------------------|--------------------|-----------------------|----------------------|--------------------|--------------------|-----------------------|
| DIRECTORS | | | | | | | | |
| Robert Hackett | 480,004 | 1,593,750 | - | 2,073,754 | 2,073,754 | - | - | 2,073,754 |
| Robert (Bob) Hughes | 65,668,889 | 5,719,185 | - | 71,388,074 | 71,388,074 | - | - | 71,388,074 |
| Andrew Drake | 66,399 | 23,870 | - | 90,269 | 90,269 | - | - | 90,269 |
| Geoff Bruce | - | 234,375 | - | 234,375 | 234,375 | - | - | 234,375 |
| Craig Burton | 5,652,245 | 2,500,000 | - | 8,152,245 | 8,152,245 | - | - | 8,152,245 |
| Barry O'Connor | 100,000 | 946,875 | - | 1,046,875 | 1,046,875 | - | - | 1,046,875 |
| Andrew Webb | 365,000 | 1,027,486 | (167,486) | 1,225,000 | 1,225,000 | 100,000 | (1,325,000) | - |
| John Silverthorne | - | - | - | - | - | 12,943,789 | (4,535,763) | 8,408,026 |
| Jeff Branson | - | - | - | - | - | 2,587,091 | (300,004) | 2,287,087 |
| Gary Belcher | - | - | - | - | - | - | - | - |
| TOTAL | 72,332,537 | 12,045,541 | (167,486) | 84,210,592 | 84,210,592 | 15,630,880 | (6,160,767) | 93,680,705 |
| KEY MANAGEMENT | | | | | | | | |
| Paul Brenton | - | - | - | - | - | - | - | - |
| Patrick Garrity | - | - | - | - | - | - | - | - |
| TOTAL | - | - | - | - | - | - | - | - |

27. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of Resource Sector and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. Methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and aging analysis for credit risk. The Group's financial instruments are as follows:

| | Note | Carrying amount | | Fair value | |
|------------------------------|------|-----------------|---------------|---------------|---------------|
| | | Consolidated | Consolidated | Consolidated | Consolidated |
| | | 2014 | 2013 | 2014 | 2013 |
| | | \$'000s | \$'000s | \$'000s | \$'000s |
| Financial assets | | | | | |
| Cash | 9 | 426 | 5,334 | 426 | 5,334 |
| Receivables | 10 | 18,066 | 9,073 | 18,066 | 9,073 |
| Shares in listed companies | 12 | - | 2 | - | 2 |
| | | 18,492 | 14,409 | 18,492 | 14,409 |
| Financial liabilities | | | | | |
| Bank overdraft | 9 | 4,288 | 598 | 4,288 | 598 |
| Payables | 17 | 19,237 | 8,098 | 19,237 | 8,098 |
| Borrowings | 19 | 41,825 | 26,673 | 41,825 | 26,673 |
| | | 65,350 | 35,369 | 65,350 | 35,369 |

NOTES TO THE FINANCIAL STATEMENTS

27. FINANCIAL RISK MANAGEMENT (continued)

a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

Management maintains US dollar bank balances from which all US dollar transactions can be settled including using its US based subsidiary REICHdrill Inc to pay on its US based suppliers.

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in Australian dollar, was as follows:

| | Consolidated 2014 USD\$'000s | Consolidated 2013 USD'000 |
|-----------------|------------------------------------|---------------------------------|
| Trade payables* | 3,532 | 416 |
| | 3,532 | 416 |

*Includes US\$3.2m of trade accounts payable in REICHdrill Inc, Hughes Drilling Limited USA based subsidiary.

Sensitivity

Based on the financial instruments held at 30 June 2013, had the Australian dollar weakened/strengthened by 10% against the US dollar with all other variables held constant, the Group's post-tax profit for the period would have been \$417,000 lower/\$341,000 higher (2013 – \$50,000 lower/\$41,000 higher).

(ii) Price risk

The Group is exposed to equity securities price risk. This arises from investments held by the Group and classified in the balance sheet as available-for-sale financial assets. The equity investments are publicly traded and have a quoted price on the Australian Stock exchange.

Sensitivity

Based on the financial instruments held at 30 June 2014 (\$nil) and 30 June 2013 (\$2,000), had the quoted share market price for the equity securities held weakened/strengthened by 10%, the effect on the Group's post tax profit would be immaterial.

(iii) Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from short-term bank funding and hire purchase borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk if the borrowings are carried at fair value. Group policy is to maintain approximately 90% of its borrowings at agreed fixed rates.

As at the end of the reporting period, the Group had the following variable rate borrowings outstanding:

| | Weighted average interest rate | Consolidated 2014 \$'000s | Weighted average interest rate | Consolidated 2013 \$'000s |
|----------------|--------------------------------------|---------------------------------|--------------------------------------|---------------------------------|
| Bank overdraft | 7.5% | 4,288 | 6.2% | 598 |
| | | 4,288 | | 598 |

NOTES TO THE FINANCIAL STATEMENTS

27. FINANCIAL RISK MANAGEMENT (continued)

a) Market risk (continued)

The Group's fixed rate borrowings and receivables are carried at amortised cost. They are therefore not subject to interest rate risk as defined in AASB 7, since neither the carrying amount nor the future cash flows will fluctuate because of a change in market interest rates

Sensitivity

Based on the financial instruments held at 30 June 2014, had the interest rate weakened/strengthened by 100 basis points all other variables held constant, the Group's post-tax profit for the period would have been \$43,000 lower/\$43,000 higher (2013 – \$6,000 lower/\$6,000 higher).

b) Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions, as well as credit exposures, including outstanding receivables and committed transactions. Management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Its policy for the company to deposit its cash and cash equivalents in reputable banking institution. The following table summarises the aging profile of the Group's financial assets.

| | Total Gross amount \$'000 | Total carrying value \$'000s | Neither past due or impaired \$'000s | <30 days \$'000s | 30 – 60 days \$' 000s | 60 – 90 days \$'000s | >90 days \$'000s | Individually Impaired \$'000s |
|---------------------------|------------------------------------|---------------------------------------|--|---------------------|-----------------------------|----------------------------|---------------------|-------------------------------------|
| Consolidated | | | | | | | | |
| 2014 | | | | | | | | |
| Cash and cash equivalents | 426 | 426 | 426 | - | - | - | - | - |
| Receivables | 17,480 | 17,480 | 17,480 | 15,210 | 586 | 1,097 | 587 | - |
| Total | 17,906 | 17,906 | 17,906 | 15,210 | 586 | 1,097 | 587 | - |
| 2013 | | | | | | | | |
| Cash and cash equivalents | 5,334 | 5,334 | 5,334 | - | - | - | - | - |
| Receivables | 7,587 | 7,587 | 7,151 | 6,897 | 247 | 7 | 436 | - |
| Total | 12,921 | 12,921 | 12,485 | 6,897 | 247 | 7 | 436 | - |

An item is considered past due when it is in excess of 90 days. The credit quality of items that are past due but not impaired are determined with reference to the past history of the customer.

c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of credit facilities. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Surplus funds are generally only invested in instruments that are tradable in highly liquid markets.

The following table summarises the maturity profile of the Group's financial liabilities at 30 June 2014 and 30 June 2013 based on contractual undiscounted payments.

NOTES TO THE FINANCIAL STATEMENTS

27. FINANCIAL RISK MANAGEMENT (continued)

c) Liquidity risk (continued)

| | Note s | Non Interest Bearing | 1 Year or Less | Over 1 to 5 Years | More than 5 Years | Floating Interest Rate | Total contractual cash flows | Weighted Average Interest rate |
|------------------------------------|-----------|----------------------------|-------------------|----------------------|-------------------------|------------------------------|------------------------------------|---|
| CONSOLIDATED | | | | | | | | |
| AS AT 30 JUNE 2014 | | \$'000s | \$'000s | \$'000s | \$'000s | \$'000s | \$'000s | |
| Financial Liabilities | | | | | | | | |
| Bank overdraft | 9 | | 4,288 | - | - | - | 4,288 | 7.5% |
| Payables | 17 | 19,237 | 19,237 | | | | 19,237 | - |
| HP obligations | 28 | | 16,836 | 17,847 | | | 34,683 | 7.3% |
| Commercial bill facility | 19 | | 2,500 | - | | | 2,500 | 4.3% |
| Commercial bill facility - \$US | | | 2,654 | | | | 2,654 | 2.4% |
| Other | 19 | | 3,912 | 684 | | | 4,596 | 8.2% |
| | | 19,237 | 49,428 | 18,531 | | | 67,959 | |
| AS AT 30 JUNE 2013 | | | | | | | | |
| Financial Liabilities | | | | | | | | |
| Bank overdraft | 9 | - | 598 | - | - | - | 598 | 6.2% |
| Payables | 17 | 8,098 | 8,098 | - | - | - | 8,098 | - |
| HP obligations | 28 | - | 12,739 | 16,095 | - | - | 28,834 | 7.6% |
| Cash advance facility | 19 | - | 458 | - | - | - | 458 | 6.7% |
| Other | 19 | - | - | - | - | - | - | - |
| | | 8,098 | 21,893 | 16,095 | - | - | 37,988 | |

Financing arrangements

The Group had access to the following undrawn borrowing facilities at the end of the reporting period:

| | Consolidated 2014 \$'000s | Consolidated 2013 \$'000s |
|---|---------------------------------|---------------------------------|
| Expiring within 1 year | - | - |
| Expiring beyond 1 year (Bank overdraft and HP facilities) | 7,491 | 4,088 |
| | 7,491 | 4,088 |

The bank overdraft facilities may be drawn at any time and is secured by a fixed and floating charge over the Group's assets.

d) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

AASB 7 *Financial Instruments*: Disclosures requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

NOTES TO THE FINANCIAL STATEMENTS

27. FINANCIAL RISK MANAGEMENT (continued)

d) Fair value measurements (continued)

The following table presents the Group's assets and liabilities measured and recognised at fair value at 30 June 2014 and 30 June 2013:

| CONSOLIDATED | Level 1 | Level 2 | Level 3 | Total |
|-------------------------------------|----------|----------|--------------|--------------|
| AS AT 30 JUNE 2014 | \$'000s | \$'000s | \$'000s | |
| Non – Financial assets | | | | |
| Assets held for sale | | | | |
| - Drill rigs | - | - | 130 | 130 |
| Financial assets | | | | |
| Available for sale financial assets | | | | |
| - Equity securities | - | - | - | - |
| Total assets | - | - | 130 | 130 |
| AS AT 30 JUNE 2013 | | | | |
| Non – Financial assets | | | | |
| Assets held for sale | | | | |
| - Drill rigs | - | - | 1,083 | 1,083 |
| Financial assets | | | | |
| Available for sale financial assets | | | | |
| - Equity securities | 2 | - | - | 2 |
| Total Assets | 2 | - | 1,083 | 1,085 |

The fair value of financial assets traded in active markets (available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. The fair value of non-financial assets drill rigs held for sales is based on independent professional expert valuers. The valuation methodology adopted by the valuers was a combination of Market Comparison (ie researching the marketplace for assets that are similar) and Cost Approach (ie Cost of a new asset then depreciated for, fair wear and tear, functional obsolescence and economic obsolescence).

28. COMMITMENT AND CONTINGENCIES

a) Finance lease and hire purchase commitments

| | Consolidated | |
|--|------------------------|---------------------------------|
| | Minimum lease payments | Present value of lease payments |
| | \$ '000 | \$ '000 |
| AS AT 30 JUNE 2014 | | |
| Within one year | 16,836 | 15,104 |
| >1 year < 5 years | 17,847 | 16,971 |
| Total minimum lease payments | 34,683 | 32,075 |
| Lease amounts representing finance charges | (2,608) | - |
| Present value of minimum lease payments | 32,075 | 32,075 |
| AS AT 30 JUNE 2013 | | |
| Within one year | 12,739 | 10,728 |
| >1 year < 5 years | 16,095 | 15,487 |
| Total minimum lease payments | 28,834 | 26,215 |
| Lease amounts representing finance charges | (2,619) | - |
| Present value of minimum lease payments | 26,215 | 26,215 |

NOTES TO THE FINANCIAL STATEMENTS

28. COMMITMENT AND CONTINGENCIES (continued)

b) Operating lease commitments

| | Minimum lease payments \$ '000 | Present value of lease \$ '000 |
|------------------------------|--------------------------------------|--------------------------------------|
| AS AT 30 JUNE 2014 | | |
| Within one year | 592 | 592 |
| >1 year < 5 years | 747 | 747 |
| Total minimum lease payments | <u>1,339</u> | <u>1,339</u> |
| AS AT 30 JUNE 2013 | | |
| Within one year | 199 | 199 |
| >1 year < 5 years | 172 | 172 |
| Total minimum lease payments | <u>371</u> | <u>371</u> |

Operating lease commitments include contracted amounts for plant and equipment under non-cancellable operating leases expiring within one to three years. Under the terms of the leases, the consolidated entity has the option to acquire the leased assets at market value on the expiry of the leases.

b) Capital commitments

The following represents the capital commitments of the Group:

| | Approved and contracted for \$ '000 | Approved but not yet contracted for \$ '000 |
|------------------------------------|---|--|
| AS AT 30 JUNE 2014 | | |
| Acquisition of plant and equipment | - | - |
| AS AT 30 JUNE 2013 | | |
| Acquisition of plant and equipment | - | - |

The Group has given bank guarantees as at 30 June 2014 of \$67,500 (2013: \$8,800) to a landlord. There are no commitments and contingencies over 5 years.

NOTES TO THE FINANCIAL STATEMENTS

29. EARNINGS PER SHARE

| | Consolidated 2014 \$ '000 | Consolidated 2013 \$ '000 |
|--|---------------------------------|---------------------------------|
| Basic earnings per share | | |
| a) Net profit from continuing operations | 1,422 | 10,367 |
| b) Net profit attributable to members of Hughes Drilling Limited | 1,377 | 10,370 |
| | No's: '000 | No's: '000 |
| c) Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share | 201,664 | 132,693 |
| Diluted earnings per share | | |
| c) Net profit from continuing operations | 1,422 | 10,367 |
| d) Net profit attributable to members of Hughes Drilling Limited | 1,377 | 10,370 |
| | No's: '000 | No's: '000 |
| e) Weighted average number of ordinary shares on issue used in the calculation of diluted earnings per share | 206,279 | 132,916 |

No shares have been excluded from the calculation of diluted earnings per share that could potentially dilute the earnings per share in the future because they are anti-dilutive.

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

30. SEGMENT REPORTING

AASB 8 requires operating segments to be identified on the basis of internal reports about the components of the Group that are regularly reviewed by the chief operating decision maker (The Board of Directors) in order to allocate resources to the segment and to assess its performance.

Information reported to the Board for the purposes of resource allocation and assessment of performance is more specifically focused on Drilling Services and Non Drilling Services. REICHdrill Inc a drill manufacturing company has been included under non drilling services. Management has determined the operating segments based on the reports reviewed by the Board of Directors to make strategic decisions. The Board considers Drilling from a nature of service provided. As the segments have changed in the current year, prior year segment information has been restated. The results from continuing operations are reflected in the following table.

NOTES TO THE FINANCIAL STATEMENTS

30. SEGMENT REPORTING (continued)

AS AT JUNE 2014 - in \$'000

| | Drilling | Non Drilling | Total |
|---|-----------------|-----------------|-----------------|
| Sales to external customers | 76,225 | 14,341 | 90,566 |
| Other income | 213 | 98 | 311 |
| Inter-segment revenue | - | 2,776 | 2,776 |
| Total revenue | 76,438 | 17,215 | 93,653 |
| Cost of sales | (51,094) | (11,751) | (62,845) |
| Overhead | (7,775) | (2,875) | (10,650) |
| Depreciation | (9,580) | (278) | (9,858) |
| Interest Expense | (3,087) | (21) | (3,108) |
| Profit/(Loss) on asset sales | 24 | - | 24 |
| Impairment Write Down | (5,571) | - | (5,571) |
| Total expense | (77,083) | (14,925) | (92,008) |
| Segment profit/(loss) before tax | (645) | 2,290 | 1,645 |
| Tax Expense | (536) | 313 | (223) |
| Profit from operations | (1,181) | 2,603 | 1,422 |
| Assets | | | |
| Total assets | 111,457 | 20,809 | 132,266 |
| Liabilities | | | |
| Total liabilities | (50,047) | (17,679) | (67,726) |

AS AT JUNE 2013 - in \$'000

| | Drilling | Non Drilling | Total |
|---|-----------------|----------------|-----------------|
| Sales to external customers | 46,115 | 10,695 | 56,810 |
| Other income | 95 | 28 | 123 |
| Inter-segment revenue | - | (7,054) | (7,054) |
| Total revenue | 46,210 | 3,669 | 49,879 |
| Cost of sales | (23,715) | (3,407) | (27,122) |
| Depreciation | (5,419) | (100) | (5,519) |
| Interest expense | (2,141) | (6) | (2,147) |
| Overhead | (4,127) | (502) | (4,629) |
| Profit/(Loss) on asset sales | (70) | - | (70) |
| Total expense | (35,472) | (4,015) | (39,487) |
| Segment profit/(loss) before tax | 10,738 | (346) | 10,392 |
| Tax expense | - | (25) | (25) |
| Profit from operations | 10,738 | (371) | 10,367 |
| Assets | | | |
| Total assets | 82,887 | 7,818 | 90,705 |
| Liabilities | | | |
| Total liabilities | 30,667 | 5,681 | 36,348 |

NOTES TO THE FINANCIAL STATEMENTS

31. EVENTS AFTER THE REPORTING DATE

There were no significant events after balance sheet date.

32. PARENT ENTITY INFORMATION

| | 2014 | 2013 |
|---|----------|---------|
| | \$ '000 | \$ '000 |
| Information relating to Hughes Drilling Ltd: | | |
| Current Assets | 2,917 | 3,668 |
| Total Assets | 78,813 | 62,336 |
| Current Liabilities | 1,078 | 578 |
| Total Liabilities | 23,847 | 15,275 |
| Issued Capital | 64,166 | 55,722 |
| Retained earnings | (11,925) | (9,476) |
| Reserves | 2,725 | 2,621 |
| Total Shareholder's Equity | 54,966 | 48,867 |
| (Loss)/profit of the parent entity | (743) | (1,806) |
| Total comprehensive income of the parent entity | (743) | (1,806) |

Hughes Drilling Ltd has a cross guarantee framework to and from each of the following subsidiaries' – Hughes Drilling Pty Ltd, Express Hydraulics (Aust) Pty Ltd, Hughes Drilling 1 Pty Ltd, EDMS Human Capital Pty Ltd, EDMS Assets & Logistics Pty Ltd, EDMS Energy Pty Ltd, EDMS Metals Pty Ltd, Resource 1 Pty Ltd, Every Day Mine Services Operations Pty Ltd, GOS Drilling Pty Ltd, Australian Gas Drilling Pty Ltd, REICHdrill Australia Pty Ltd, REICHdrill Inc, HD JSW Pty Ltd and JSW Australia Pty Ltd to support the Group's financing facilities, the same guarantee structure was in place as at 30 June 2013. The parent entity had no contingent liabilities or capital commitments at 30 June 2014 and 30 June 2013.

NOTES TO THE FINANCIAL STATEMENTS

33. BUSINESS COMBINATIONS

On 3rd October 2013 Hughes Drilling Limited, through its wholly owned Australian registered subsidiary HD JSW Pty Limited, acquired 96% of the issued share capital in JSW Australia Pty Limited via issue of 26,918,080 Hughes Drilling Limited quoted shares at \$0.32/share. As per the heads of agreement signed on 16th August 2013, the shares in Hughes Drilling Limited were issued to the JSW Australia Pty Limited shareholder's at \$0.26/share, at a premium to the share price as at 16th August 2013. The preliminary fair value of the assets and liabilities are detailed below

The provisional fair value of the assets and liabilities are detailed below:

| | Carrying amount \$ '000 | Fair value amount \$ '000 |
|-----------------------------|-------------------------------|---------------------------------|
| Cash | 600 | 600 |
| Trade and other receivables | 3,309 | 3,309 |
| Inventories | 3,370 | 3,370 |
| Deferred tax assets | 1,579 | 1,579 |
| Property, plant & equipment | 23,579 | 23,579 |
| Trade and other payables | (6,043) | (6,043) |
| Provisions | (810) | (810) |
| Borrowings | (22,862) | (22,862) |
| Net assets | 2,722 | 2,722 |
| Goodwill | | 5,892 |

Acquisition date fair value of total consideration transferred

8,614

Representing:

Hughes Drilling Ltd shares issued

8,614

Acquisition costs expensed to profit or loss

170

Details of purchase consideration and the assets and liabilities acquired are as follows:

| | JSW Australia Pty Ltd \$'000 |
|--|------------------------------------|
| (a) Purchase consideration: | |
| Hughes Drilling Limited shares issued to vendor | 8,614 |
| Total Purchase consideration | 8,614 |
| Less: carrying value of net identifiable assets acquired | (2,722) |
| Goodwill | 5,892 |

NOTES TO THE FINANCIAL STATEMENTS

33. BUSINESS COMBINATIONS (continued)

JSW Australia Pty
Ltd
\$'000

(b) Assets and liabilities acquired

The assets and liabilities arising from the acquisition are as follows:

| | |
|---|---------------|
| Current assets | 7,278 |
| Non-current assets | 25,159 |
| Total assets | 32,437 |
| Current liabilities | 20,964 |
| Non-current liabilities | 8,751 |
| Total liabilities | 29,715 |
| Carrying value of net identifiable assets acquired | 2,722 |

At the reporting date at 30 June 2014, the fair value of JSW Australia Pty Ltd assets and liabilities are still being determined and therefore the business combination was accounted for on a provisional basis and may be adjusted in the next 12 months.

i. Contingent consideration

There was no contingent consideration recognised as part of the business combination.

ii. Revenue and profit contribution

The acquired business contributed revenues of \$33,212,976 and net profit of \$1,966,888 to the Group for the period 03 October 2013 to 30 June 2014.

If the acquisition had occurred on 1 July 2013, consolidated revenue and profit/(loss) for the year ended 30 June 2014 would have been \$95,029,438 and (\$482,846) respectively. These amounts have been calculated using the Groups accounting policies.

34. Non-controlling interest

| | 2014 | 2013 |
|-------------------|---------|---------|
| | \$ '000 | \$ '000 |
| Interest in : | | |
| Share capital | 348 | 202 |
| Other reserves | 26 | 24 |
| Retained earnings | 42 | (3) |
| Total Liabilities | 416 | 223 |

35. DIVIDENDS

No dividend was paid or proposed to be paid for the year ended 30 June 2014.

Directors' Declaration

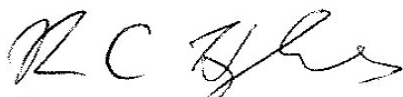
The Directors of Hughes Drilling Limited declare that:

- (a) in the Directors' opinion the financial statements and notes and the Remuneration report in the Directors Report set out on page 11, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2014 and of their performance, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a); and
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

At the date of this declaration there are reasonable grounds to believe that the company and the Group entities identified in note 16 will be able to meet any obligations or liabilities to which they are or may have become subject to by virtue of the Deed of Cross Guarantee between the company and those Group entities pursuant to ASIC Class Order 98/1418.

The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 by the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2014.

Signed in accordance with a resolution of the directors.



Robert (Bob) Hughes

Managing Director

Brisbane, 29 September 2014



Auditor's Independence Declaration

As lead auditor for the audit of Hughes Drilling Limited for the year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Hughes Drilling Limited and the entities it controlled during the period.

A handwritten signature in black ink that reads "D A Turner".

Darren Turner
Partner
PricewaterhouseCoopers

Newcastle
29 September 2014

Independent auditor's report to the members of Hughes Drilling Limited

Report on the financial report

We have audited the accompanying financial report of Hughes Drilling Limited (the company), which comprises the statement of financial position as at 30 June 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Hughes Drilling Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year 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 2(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation 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.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

PricewaterhouseCoopers, ABN 52 780 433 757
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T: +61 2 4925 1100, F: +61 2 4925 1199, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.



Auditor's opinion

In our opinion:

- (a) the financial report of Hughes Drilling Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 2(a).

Report on the Remuneration Report

We have audited the remuneration report included in pages 17 to 24 of 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 our opinion, the remuneration report of Hughes Drilling Limited for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers

D A Turner

Darren Turner
Partner

Newcastle
29 September 2014

Shareholder Information

The shareholder information set out below was applicable as at 24 September 2014

Distribution of equitable securities

Analysis of numbers of equity security holders by size of holding

| Size of Shareholding | % | Number of Shares | Number of Shareholders |
|----------------------|---------------|--------------------|------------------------|
| 1 - 1,000 | 0.03 | 58,852 | 165 |
| 1,001 – 5,000 | 0.26 | 540,722 | 195 |
| 5,001 – 10,000 | 0.38 | 800,764 | 98 |
| 10,001 – 100,000 | 5.92 | 12,354,814 | 313 |
| 100,001 and over | 93.41 | 194,915,097 | 111 |
| Total | 100.00 | 208,670,249 | 882 |

EQUITY SECURITY HOLDERS

Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities are listed below.

| Name | Holding | % |
|---|--------------------|---------------|
| 1 Learob Pty Ltd <R & L Hughes Family A/C> | 71,388,074 | 34.21 |
| 2 HSBC Custody Nominees (Australia) Limited | 19,998,959 | 9.58 |
| 3 National Nominees Limited | 16,531,530 | 7.92 |
| 4 UBS Wealth Management Australia Nominees Pty Ltd | 6,471,895 | 3.10 |
| 5 SKYE ALBA Pty Ltd <The Skye Alba Fund A/C> | 5,700,000 | 2.73 |
| 6 HSBC Custody Nominees (Australia) Limited – GSCO ECA | 5,475,013 | 2.62 |
| 7 Bond Street Custodians Limited <Intelligent INV Wholesale> | 4,601,298 | 2.21 |
| 8 SAABM Pty Ltd <A&M Jacklin Family A/C> | 2,434,017 | 1.17 |
| 9 Mellett Super Pty Ltd <Mellet A Fund A/C> | 2,417,000 | 1.16 |
| 10 MELROS Pty Ltd (ACN 061 900 918) <The JWB Family A/C> | 2,287,087 | 1.10 |
| 11 ABN AMRO Clearing Sydney Nominees Pty Ltd <Custodian A/C> | 2,274,619 | 1.09 |
| 12 HSBC Custody Nominees (Australia) Limited <NT-Commonwealth Super Corp A/C> | 2,034,352 | 0.97 |
| 13 UBS Wealth Management Australia Nominees Pty Ltd | 2,003,950 | 0.96 |
| 14 TISIA Nominees Pty Ltd <Henderson Family A/C> | 2,000,000 | 0.96 |
| 15 Vanward Investments Limited | 1,950,000 | 0.93 |
| 16 Citicorp Nominees Pty Limited | 1,925,017 | 0.92 |
| 17 Mr Craig Ian Burton <CI Burton Family A/C> | 1,923,174 | 0.92 |
| 18 Kathryn Knuckey + Stephen J Payne <Kashire Investment A/C> | 1,853,546 | 0.89 |
| 19 J P Morgan Nominees Australia Limited | 1,811,259 | 0.87 |
| 20 Databridge Pty Ltd | 1,700,000 | 0.81 |
| Total of top 20 shareholders | 156,780,790 | 75.13 |
| Other Shareholders | 51,889,459 | 24.87 |
| Total shares on issue | 208,670,249 | 100.00 |

Substantial shareholders

| | Holding | % |
|---|------------|-------|
| Learob Pty Ltd <R & L Hughes Family A/C> | 71,388,074 | 34.21 |
| K2 Asset Management Limited (Part of HSBC Custodian Nominees (Australia) Limited) | 17,558,464 | 8.41 |
| Forager Funds Pty Limited Management (Part of National Nominees Limited) | 15,634,416 | 7.49 |

End of Report