HUGHES DRILLING LIMITED

ABN 12 124 279 750

ANNUAL REPORT

30 JUNE 2015

Contents

Corporate Directory

Directors	**Mr Robert (Bob) Hughes**	Executive Director / 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 $107.5m and a net profit after tax of $8.2m for the 12 months to 30 June 2015.

The Net Profit of $8.2m attributable to equity holders was after impairment charges of $2.6m associated with the inventory of EDMS acquired via the reverse acquisition by Hughes Drilling 2012.

Underlying profit after tax attributable to shareholders pre impairment is $10.8m.

The year ended 30 June 2015 was impacted by a number of external factors, the main contributors still being; slower decisions by clients to engage and mobilise 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.

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.

During the current financial year, due to the continued depressed nature of the exploration industry and identification of slow moving stock, the Group decided to impair its holding of inventory by $2.592m.

CONSOLIDATED FINANCIAL RESULTS	30 June 2015 * A$ '000	30 June 2014 * A$ '000	% Change
Financial Performance			
Revenue	107,538	90,566	18.7%
EBITDA	25,490	14,610	74.5%
EBITDA Margin	23.7%	16.1%	47.29%
Depreciation & amortisation	11,947	9,858	21.2%
Finance Costs	3,191	3,108	2.7%
EBT	10,352	1,645	529.3%
NPAT	**8,188**	**1,422**	**475.8%**
NPAT Margin %	*7.6%*	*1.6%*	375.0%
Cash Flow			
Net Cash from Operating Activities	20,206	5,628	178.3%
Net Cash used in Investing Activities	(27,128)	(10,385)	125.8%
Free Cash Flow	**(6,922)**	**(4,757)**	**45.6%**
Debt			
Cash	1,704	426	300.0%
Debt (including overdraft)	54,786	46,113	18.8%
Net Debt	**53,082**	**45,687**	**16.2%**
Debt / Debt + Equity	42.3%	41.8%	1.2%
Note - FY15 comprises the full year of JSW Australia results - FY14 comprises nine months of JSW Australia results			

Review of Revenue

Revenue for the 12 months ending 30 June 2015 was $107.5m, an increase of 18.7% from $90.6m for the corresponding 12 months to June 2014, the increase in revenue was driven by:

- **East Coast Drilling Operations (Production Blast Hole Drilling)** (37.7 % of Group revenue): Revenue for FY15 was $40.6m, a slight decrease of 4.9% from FY14. Rig numbers for East Coast Drilling remain at 39, compared to 41 for FY14 (two REICHdrill C700s, and one GD5000 were transferred to JSW Australia during FY15, the SKS drill rig was retired during FY15, and one new REICHdrill C700 was added to the fleet). Rig utilisation has remained relatively consistent for FY15; however, certain mines have scaled back monthly drill metres, which has led to some reduced revenue, this has been offset by some mines increasing their monthly drill metres, and with a number rigs being deployed to either existing mine sites to bolster the drilling or to new mine sites.

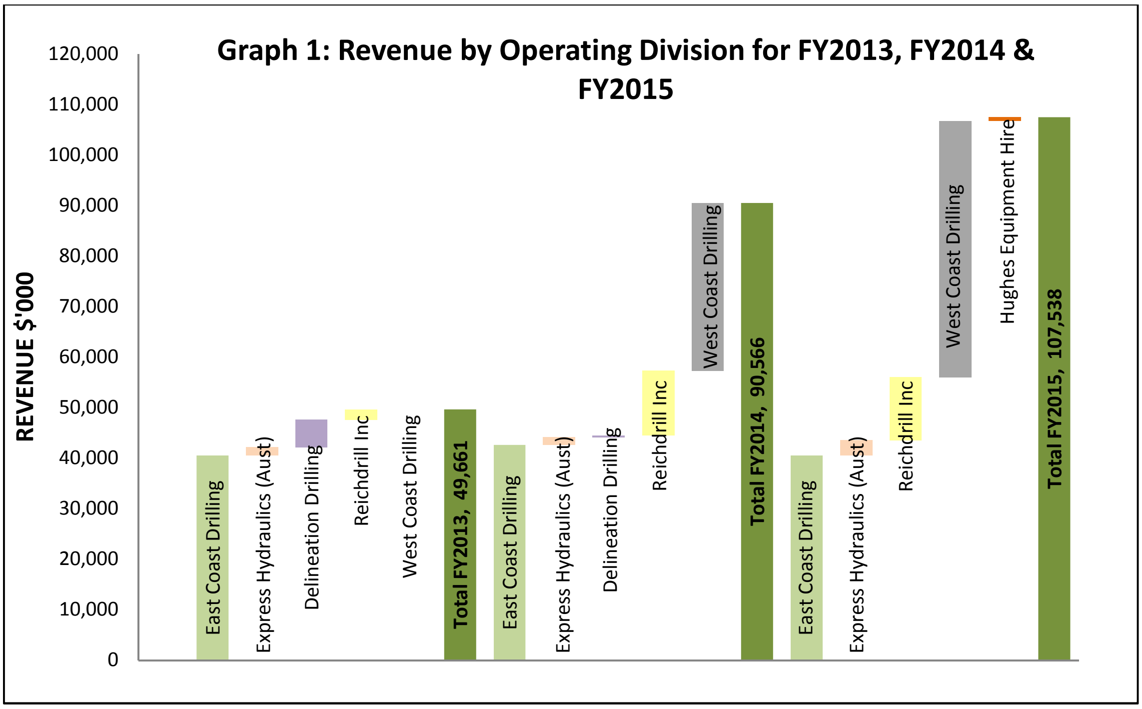
- **West Coast Drilling Operations (JSW Australia – Production Blast Hole, Water Well and Resource Definition Drilling**) (47.1% of Group revenue): FY15 is the first full year contribution to Hughes from JSW Aust. Current owned rigs are 24 (including two C700 REICHdrill and one GD500 production rigs and one Hydco 1200, transferred from QLD and NSW), this was bolstered by up to ten rigs on hire. JSW has been able to continue to win quality drilling contracts during FY15 due to its focus on safety, and professional and cost effective execution of drilling contracts. Revenue for FY15 is $50.7m, up from $33.2m. The growth of the WA revenue base has been from all 3 divisions, Production Drilling, Mineral Drilling (resource definition) and Water Well drilling.

- **REICHdrill** (11.6% of Group revenue): REICHdrill sold 11 rigs in FY15, one to Hughes (C700), and ten for external customers. The ten external sales, $12.5m, were a mix of rigs, T690W, T650D, C550D, C700D, & C750D's. REICHdrill enquiry rate remains high, however, converting to rig sales continues to be a long process. Spare part sales continue to remain strong.

- **Express Hydraulics** (2.8% of Group revenue): FY15 revenue of $3.0m was a 100% increase on FY14 of $1.5 m. The increase in FY15 was driven by the new Mackay facility (opened in November 2013) winning ongoing work with Peabody and Rio Tinto.

- **Delineation Drilling** (0.0% of Group revenue): This division did not operate in FY15 due to the depressed delineation / exploration drilling market. The rigs have been absorbed into the West Coast Drilling Operations where possible. Hughes does tender for work as and when available, but will only submit prices at an acceptable margin.

- **Hughes Equipment Hire** (0.7% of Group revenue): FY15 revenue of $0.8m. Hughes Equipment Hire was established in FY15; the equipment hire will initially focus on the hire of Sullivan Palatek compressors to the mining and construction industries. The establishment of the hire fleet has been driven by the customers holding off on the acquisition of new equipment, and requesting the option to hire the equipment.

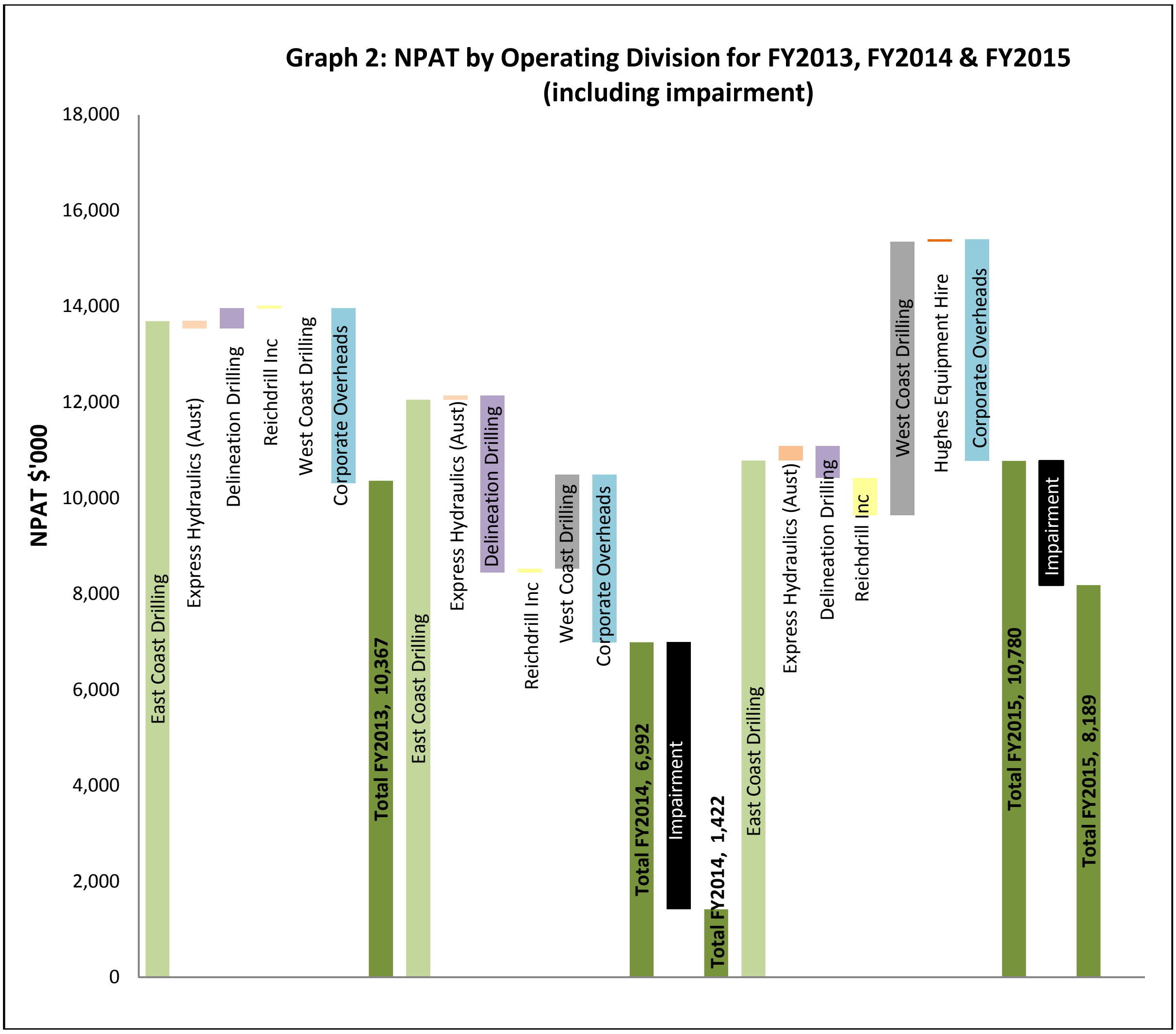


Graph 1: Revenue by Operating Division for FY2013, FY2014 & FY2015

Review of Profitability

Net Profit After Tax (NPAT) for the 12 months to 30 June 2015 was $8.2m, an increase of 476.1% on the corresponding 12 months to June 2014. The underlying changes in NPAT were driven by:

- **East Coast Drilling Operations (Production Blast Hole Drilling)**: Underlying NPAT of $11.4m (a period to period decrease of $0.7m or -6%). This reduction was mainly driven by the lower rig utilisation at mines sites in FY15.
- **West Coast Drilling Operations (JSW Aust – Production Blast Hole, Water Well and Resource Definition Drilling)**: Underlying NPAT contribution for FY15 of $6.0m, an increase of $4.0m from FY14. Increase due to benefitting from the Hughes Group buying power, and a focus on reducing costs.
- **REICHdrill**: NPAT contribution of -$0.8m for FY15, compared a slight profit in FY14 of $0.1m. This small loss was due to the lower than budgeted rig revenue for FY15. Employees were kept on due to the high enquiry rates and quoting for drill sales, however, the take up of rig sales was low.
- **Express Hydraulics:** Underlying profit of $0.3m for FY15, a $0.2m increase on FY14. The profit was driven by the improved part sales, and the ongoing works with significant clients from the new Mackay facility.
- **Hughes Equipment Hire:** First partial period contribution for this business with a $0.05m positive NPAT.
- **Delineation Drilling**: Loss of $0.8m. JSW will continue to ultilise the drill rigs and inventory in their operations.
- **Corporate**: Corporate overheads, interest and tax NPAT of -$4.8m, an increase of $1.3m on FY14, this has been driven by tax and treasury interest costs.



Review of Operations

- **East Coast Drilling Operations (Production Blast Hole Drilling):**

  - 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.
  - Contining to win quality contracts with blue chip customers

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

  - JSW's operations are focused on production drilling in a range of commodities including gold, bauxite, nickel, iron ore and water services at operating mine sites or for Government instrumentalities.
  - As a result of this focus JSW has been able to maintain high levels of utilization of its owned drilling fleet of 23 drills during FY2015 and has subcontracted or dry hired a further ten drills at times to meet Client requirements.
  - JSW's operations cover on-mine blasthole drilling, water services including dewatering and production bores, in-pit grade control and resource definition drilling. JSW's water services division also complete geothermal and hydrogeological drilling for Government instrumentalities and large private sector organisations.
  - This broad range of service offerings has assisted JSW to perform positively in an environment that has been difficult for less diverse competitors.
  - This range of services coupled with JSW's focus on safety has been successful in maintaining ongoing business with existing Clients and adding quality new customers.

- **REICHdrill**:

  - REICHdrill has been focusing on
    - re-engaging with previous and existing customers
    - attracting new customers from existing and new territories
  - REICHdrill delivered its first C700 to Harve De Grace quarry for Vulcon Materials. Vulcan Materials operate 342 sites in the United States
  - 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.
  - The establishment and success of the 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 in FY15

- **Hughes Equipment Hire:**

  - Driven by client demand, the Hughes Group is now offering Sullivan Palatek compressors for hire.
  - The hire fleet comprises of all new Sullivan Palatek compressoes, 40 in total (Various sizes and configurations)
  - The compressors have been funded via the Westpac Hire Purchase facility

Review of Borrowings

Repayment of debt has remained a focus of the Hughes Group, and during 2H15 the Hughes Group restructured some of the Westpac debt facilities to better service the expanding business, and some additional equipment was funded also:

- The 2 year AUD$2.5m commercial bill was restructured into a 2 year AUD$5.0m commercial bill.
- The USD$2.5m 90 day trade finance facility, was restructured to operate as a AUD$5.0m overdraft, hence the increase in the overdraft as at 30 June 2015.
- The acquisition of AUD$4.5m intellectual property by REICHdrill was funded by a 12 month commercial bill, which on maturity converts to a 2 year loan.
- REICHdrill will build 5 new rigs for JSW Aust financed by a AUD$6.0m trade finance facility. On delivery of rigs, the trade finance will convert to hire purchase. These new rigs will replace the various rigs JSW currently either hire or sub contract.
- Equipment funded by existing hire purchase facility, included REICHdrill C700 drill rig $2.5m and support trucks $0.2m.

Movement of Results from FY15 App4E

Through finalising the audit, the below adjustments have been made;

- Inventory – The audit identified an error of $282k, resulting in inventory decreasing and cost of good sold increasing
- Depreciation – the audit identified an $765k error in the calculation of depreciation for certain drill rigs late in FY15
- Tax – tax has been adjusted based on the above two transactions.

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

Robert (Bob) Hughes
Chairman
30 October 2015

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 2015.

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 unless otherwise stated:

Mr Robert (Bob) Hughes	Appointed 10 February 2012
Mr Andrew Drake	Appointed 10 February 2012
Mr Barry O'Connor	Appointed 5 November 2012
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, Hughes Equipment Hire Pty Ltd (formerly 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.

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 2015.

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 7.

Significant Changes in State of Affairs

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

During the financial year ended 30 June 2015 management performed impairment assessments on its business units and these assessments indicated that the recoverable amounts (fair value less costs to sell) of each business unit was greater than the carrying value (written down book value of the property, plant and equipment) of each individual unit.

During the previous financial year, ended 30 June 2014, 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.

During the current financial year, due to the continued depressed nature of the exploration industry and identification of slow moving stock, the Group decided to impair its holding of inventory by $2.592m.

Events After the Reporting Date

Subsequent to 30 June 2015, the Group was suspended from trading on the ASX for not lodging their full year accounts by 30 September 2015 in accordance with the ASX listing rules. Per the Facility Agreement with Westpac, any trading suspension from the ASX for more than three days qualifies as a default event. Westpac has, however, extended the number of allowable suspended days up to the date of the signed accounts therefore resulting in no event of default after the reporting period.

No other matter or circumstance has arisen since 30 june 2015 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

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 12.

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.

Information on Directors

The following persons were directors of the Group during the year ending 30 June 2015 and up to the date of this report:

Mr Robert (Bob) Hughes (appointed 10 February 2012)
Executive Director / Managing Director / Chairman, Aged 59

Mr Hughes is the founder of the Hughes Drilling business and major shareholder of Hughes Drilling Ltd.
Mr Hughes has over 39 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: 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 59

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 Limited

Mr Barry O'Connor (appointed 5 November 2012)
Non-executive Director, Aged 75

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 and Nomination 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

Mr Jeff Branson (appointed 3 October 2013)
Chief Operating Officer, Aged 57

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 35 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 59

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 and Nomination Committee

Interests in shares and options
Nil 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 53

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 and Nomination 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

Mr Paul Brenton B.Comm, CPA, MAICD (appointed 9 August 2010)
Company Secretary, Aged 38

Mr Brenton has over 19 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 Practicing 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

'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 excludes directorships in all other types of entities, unless otherwise stated.

Meetings of Directors

Name	Date of appointment / (resignation)	Full meetings of Directors		Audit and Risk Committee		Remuneration and Nomination Committee	
		A	B	A	B	A	B
Robert (Bob) Hughes	10 February 2012	10	10	-	-	-	-
Andrew Drake	10 February 2012	10	10	-	-	-	-
Barry O'Connor	5 November 2013	10	10	1	1	2	2
Jeff Branson	3 October 2013	10	10	-	-	-	-
John Silverthorne	3 October 2013	10	10	1	1	-	-
Gary Belcher	18 July 2014	10	10	1	1	2	2

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/Chariman (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 and Nomination Committee which has adopted a Remuneration and Nomination 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 2015

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 2015 of $400,000 plus superannuation (effective 4 March 2013), to be reviewed annually by the Remuneration and Nomination 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 2015 of $230,000 plus superannuation (effective 1 July 2012) to be reviewed annually by the Remuneration and Nomination 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
Term of agreement:	Ongoing
Details:	Base salary for the year ending 30 June 2015 of $395,000 to be reviewed annually by the Remuneration and Nomination Committee. 6 month termination notice from the company or 3 month resignation notice.

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 2015 of US$220,000, to be reviewed annually by the Remuneration and Nomination 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 2015 of $300,000 plus superannuation (effective 1 December 2012) and annual car allowance of $15,000, to be reviewed annually by the Remuneration and Nomination 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 2015		Position	Tenure (If full year not served)	Salary, Fees & Commissions ($)	Post employment ($)	Other ($)	Options ($)	Total ($)
DIRECTORS								
Hughes	Robert (Bob)	Executive Director / Managing Director	Appointed 10 February 2012	469,231[1]	25,519	-	-	494,750
Drake	Andrew	Chief Executive Officer	Appointed 10 February 2012	225,577	21,275	-	-	246,852
O'Connor	Barry	Non-Executive Director	Appointed 5 November 2012	50,000	4,625	-	-	54,625
Branson	Jeff	Chief Operating Officer	Appointed 3 October 2013	391,962	37,206	-	-	429,168
Silverthorne	John	Non-Executive Director	Appointed 3 October 2013	50,000	4,625	-	-	54,625
Belcher	Gary	Non-Executive Director	Appointed 18 July 2014	50,000	4,625	-	-	54,625
TOTAL				**1,236,770**	**97,875**	**-**	**-**	**1,334,645**
KEY MANAGEMENT								
Brenton	Paul	Chief Financial Officer / Company Secretary	Appointed 9 August 2010	334,615[2]	25,000	15,000[4]	-	374,615
Garrity	Patrick	Vice President – REICHdrill Inc	Appointed 26 March 2013	262,445 [3]	-	-	-	262,445
TOTAL				**597,060**	**25,000**	**15,000**	**-**	**637,060**

Notes:

(1) Bob Hughes had $76,923 of accrued Annual Leave paid out during FY15
(2) Paul Brenton had $34,615 of accrued Annual Leave paid out during FY15
(3) Pat Garrity USD$220,000 Salary paid during FY15 converted at average AUD/USD exchange rate
(4) Paul Brenton $15,000 Motor Vehicle Allowance

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

JUNE 2015		Position	Salary, Fees & Commissions % (Fixed)	Super % (fixed)	Other % (Variable)	Options % (Fixed)	Total %
DIRECTORS							
Hughes	Robert (Bob)	Executive Director / Managing Director	95	5	-	-	100
Drake	Andrew	Chief Executive Officer	91	9	-	-	100
O'Connor	Barry	Non-Executive Director	92	8	-	-	100
Branson	Jeff	Chief Operating Officer	91	9	-	-	100
Silverthorne	John	Non-Executive Director	92	8	-	-	100
Belcher	Gary	Non-Executive Director	92	8	-	-	100
KEY MANAGEMENT							
Brenton	Paul	Chief Financial Officer / Company Secretary	89	7	4	-	100
Garrity	Patrick	Vice President – REICHdrill Inc.	100	-	-	-	100

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 / Chairman	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) Paul Brenton $15,000 Motor Vehicle Allowance

(3) Pat Garrity USD$177,541 Salary paid during FY14 converted at average AUD/USD exchange rate

Directors' Report (continued)

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 / Chairman	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

Directors' Report (continued)

The earnings of the consolidated entity for the five years to 30 June 2015 are summarised below:

	30/06/2011 $'000 (un-audited)	30/06/2012 $'000	30/06/2013 $'000	30/06/2014 $'000	30/06/2015 $'000
Sales Revenue	19,820	39,187	49,756	90,566	107,538
EBITDA	5,664	15,336	18,032	14,610	25,491
EBIT	1,849	13,307	12,539	4,753	13,543
Profit after income tax	478	8,417	10,367	1,422	8,188
The factors that are considered to affect total shareholders return ("TSR") are summarised below;					
Share price at financial year end ($A)	N/A	$0.40	$0.26	$0.19	$0.21
Total dividends declared (cents per share)	Nil	Nil	Nil	Nil	Nil
Basic earnings per share (cents per share)	0.00	0.009	0.078	0.007	3.92

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 01/07/13	Options Acquired	Options Cancelled	Balance 30/06/14	Balance 01/07/14	Options Acquired	Options Cancelled	Balance 30/06/15
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	3,200,000	-	-	3,200,000	3,200,000	-	(400,000)	2,800,000
	4,615,000	-	-	4,615,000	4,615,000	-	(1,815,000)	2,800,000

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.

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".

Shareholding of key management personnel

	Balance 01/07/13	Shares acquired	Shares disposed	Balance 30/06/14	Balance 1/07/14	Shares acquired	Shares disposed	Balance 30/06/15
DIRECTORS								
Robert (Bob) Hughes	71,388,074	-	-	71,388,074	71,388,074	-	-	71,388,074
Andrew Drake	90,269	-	-	90,269	90,269	-	-	90,269
Barry O'Connor	1,046,875	-	-	1,046,875	1,046,875	-	-	1,046,875
John Silverthorne	-	12,943,789	(4,535,763)	8,408,026	8,408,026	-	(8,408,026)	-
Jeff Branson	-	2,587,091	(300,004)	2,287,087	2,287,087	-	-	2,287,087
Gary Belcher	-	-	-	-	-	-	-	-
TOTAL	**72,525,218**	**15,530,880**	**(4,835,767)**	**83,220,331**	**83,220,331**	**-**	**(8,408,026)**	**74,812,305**
KEY MANAGEMENT								
Paul Brenton	-	-	-	-	-	-	-	-
Patrick Garrity	-	-	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-	-	-

Option holding of key management personnel

	Issue date	Exercise date	Options granted	Exercise price ($)	Fair value at 30/06/15 ($)
DIRECTORS					
Robert (Bob) Hughes	-	-	-	-	-
Andrew Drake	13/02/12	13/02/16	500,000	0.40	138,731
Barry O'Connor	-	-	-	-	-
Jeff Branson	-	-	-	-	-
John Silverthorne	-	-	-	-	-
Gary Belcher	-	-	-	-	-
TOTAL	**-**	**-**	**500,000**	0.40	**138,731**
KEY MANAGEMENT					
Paul Brenton	13/02/12	13/02/16	400,000	0.40	110,984
Patrick Garrity	-	-	-	-	-
TOTAL	**-**	**-**	**400,000**	0.40	**110,984**

No options were issued to key management personnel in the period 1 July 2014 to 30 June 2015. 1,300,000 options held by key management personnel vested during the previous 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 1/7/13 '000	Options Granted '000	Options Cancelled '000	Bal 30/06/14 '000	Bal 1/7/14 '000	Options Granted '000	Options Cancelled '000	Bal 30/06/15 '000
Directors & Key Management & Staff	7/07/09	6/07/14	0.531	515	-	-	515	515	-	(515)	-
Directors & Key Management & Staff	30/10/09	30/6/14	0.531	900	-	-	900	900	-	(900)	-
Directors & Key Management & Staff	13/02/12	13/2/16	0.40	3,200	-	-	3,200	3,200	-	(400)	2,800
				4,615	-	-	4,615	4,615	-	(1,815)	2,800

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 2015 $	Consolidated 30 June 2014 $
Audit and review of financial report (PwC)	**294,600**	329,378
Other services – tax and accounting (PwC)	**-**	87,827
Other services – tax and accounting (BDO)	**26,000**	-
	320,600	417,205

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 23 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,

R C Hughes

Robert (Bob) Hughes
Managing Director
Brisbane, 30 October 2015

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 2015.

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 three 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 2015, and the number of meetings attended by each director is disclosed on page 13.

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 2015.

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 2015. 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 Nomination 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 27 for details.

Remuneration and Nomination Committee

The Company also has an Remuneration and Nomination 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.

	2015	2014
Number of women employees in the whole organisation	**7%**	7%
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 and Nomination committee charter.

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)

Details of these directors' qualifications and attendance at audit and risk committee meetings are set out in the directors' report on pages 10 to 12.

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 23 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 and Nomination Committee

The Remuneration and Nomination 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)

Details of these directors' attendance at Remuneration and Nomination committee meetings are set out in the directors' report on page 13.

The Remuneration and Nomination committee operates in accordance with its charter. The Remuneration and Nomination 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 and Nomination 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 2015

	Note	Consolidated 2015 $ '000	Consolidated 2014 $ '000
Continuing Operations			
Revenue	5	**107,538**	90,566
Cost of goods sold	7	**(83,014)**	(71,126)
Costs of goods sold – write down of inventory	7	**(2,592)**	-
		21,932	19,440
Other income	6	**254**	311
General and administrative expenses	7	**(8,425)**	(8,963)
Selling and marketing expenses	7	**(218)**	(464)
Operating profit		**13,543**	10,324
Impairment costs	7	**-**	(5,571)
Finance costs	7	**(3,191)**	(3,108)
Profit for the year before Income tax		**10,352**	1,645
Income tax (expense)	8	**(2,164)**	(223)
Profit for the year		**8,188**	1,422
Profit for the year attributable to:			
- Owners of Hughes Drilling Limited		**8,019**	1,377
- Non controlling Interest		**169**	45
		8,188	1,422
Earning per share for the profit attributable to ordinary equity holders of the company – cents/share			
- Basic profit per share	28	**3.92c**	0.70c
- Diluted profit per share	28	**3.87c**	0.69c
Profit for the year		**8,188**	1,422
Other comprehensive income			
Items that may need to be reclassified to profit and Loss			
- Exchange differences on translation of foreign operations		**1,891**	70
Total comprehensive income for the year		**10,079**	1,492
Total comprehensive income for the year attributable to:			
- Owners of Hughes Drilling Limited		**9,834**	1,445
- Non controlling Interest		**245**	47
		10,079	1,492

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 2015

	Note	**Consolidated 2015 $ '000**	Consolidated 2014 $ '000
Current assets			
Cash and cash equivalents	9	**1,704**	426
Trade and other receivables	10	**23,672**	18,066
Inventories	11	**43,487**	37,830
Assets held for sale	12	**1,629**	130
TOTAL CURRENT ASSETS		**70,492**	56,452
Non-current assets			
Deferred tax asset	8	**2,559**	4,228
Property, plant and equipment	13	**73,110**	63,569
Intangible assets	14	**12,641**	8,016
TOTAL NON-CURRENT ASSETS		**88,310**	75,813
TOTAL ASSETS		**158,802**	132,265
Current liabilities			
Bank overdraft	9	**11,210**	4,288
Trade and other payables	16	**26,119**	19,237
Provisions	17	**2,792**	1,834
Borrowings	18	**20,376**	24,170
TOTAL CURRENT LIABILITIES		**60,497**	49,529
Non-current liabilities			
Provisions	17	**486**	542
Borrowings	18	**23,200**	17,655
TOTAL NON-CURRENT LIABILITIES		**23,686**	18,197
TOTAL LIABILITIES		**84,183**	67,726
NET ASSETS		**74,619**	64,539
EQUITY			
Contributed equity	19	**38,227**	38,227
Other reserves	20	**3,200**	1,385
Retained earnings		**32,530**	24,511
Capital and reserves attributable to Owners of Hughes Drilling Ltd		**73,957**	64,123
Non-controlling interest	33	**662**	416
		74,619	64,539

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 2015

	Contributed equity	Other reserves	Retained earnings	Total	Non-controlling Interest	Total
	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000
CONSOLIDATED						
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**
Balance 1 July 2014	**38,227**	**1,385**	**24,511**	**64,123**	**416**	**64,539**
Profit for the year attributable to Equity holders	-	-	8,019	8,019	169	8,188
Other Comprehensive Income	-	1,815	-	1,815	76	1,891
Total comprehensive income	**38,227**	**3,200**	**32,530**	**73,957**	**661**	**74,618**
Balance at 30 June 2015	**38,227**	**3,200**	**32,530**	**73,957**	**661**	**74,618**

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 2015

	Note	**Consolidated 2015 $ '000**	Consolidated 2014 $ '000
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts from customers		**112,947**	83,747
Payments to suppliers and employees		**(89,532)**	(73,380)
		23,415	10,367
Interest paid		**(3,209)**	(3,108)
Net cash generated by operating activities	22	**20,206**	7,259
CASH FLOW FROM INVESTING ACTIVITIES			
Payment for acquisition of intellectual property		**(4,237)**	-
Net cash acquired from subsidiary		**-**	(695)
Loans advanced to related parties		**-**	(2,500)
Proceeds from sale of plant and equipment		**305**	534
Purchase of plant and equipment		**(23,196)**	(9,354)
Net cash used in investing activities		**(27,128)**	(12,015)
CASH FLOW FROM FINANCING ACTIVITIES			
Transaction with non-controlling interest		**-**	146
Payment for capital raising costs		**-**	(170)
Proceeds from borrowings		**24,070**	14,093
Repayment of borrowings		**(22,921)**	(17,908)
Net cash generated by financing activities		**1,149**	(3,839)
Net (decrease)/increase in cash and cash equivalents		**(5,773)**	(8,595)
CASH AT THE BEGINNING OF THE YEAR		**(3,862)**	4,736
Effects of exchange rate changes on cash and cash equivalents		**129**	(3)
CASH AT THE END OF THE YEAR	9	**(9,506)**	(3,862)

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, eleven (11) wholly owned subsidiaries and three (3) 96% owned subsidiaries. The 4% in REICHdrill Inc and REICHdrill Australia Pty Ltd, 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 15.

The financial statements are presented in English and Australian dollars.

The financial report was authorised for issue by the directors of the Company on 30 October 2015.

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) Going Concern

The consolidated financial statements of the Group have been prepared on a going concern basis, which indicates continuity of business activities and the realisation of assets and settlement of liabilities in the normal course of business.

The Group has recorded a profit of \$8.2m and generated an operating cash inflow of \$20.2m for the year ended 30 June 2015, and as of that date, the Group has a net current asset position of \$10.0m and total asset position of \$158.8m.

The Groups debt facility requires certain leverage ratios to be maintained, including a Total debt borrowings to EBITDA, of 2.00 or less.

The recent acquisition of Intellectual Property business assets, the expansion of new contracts in Queensland coal mines and other capital expenditure have impacted the leverage ratio. At June 2015 the leverage ratio was 1.95 and the undrawn overdraft facility was \$1.3m.

The Directors remain confident of compliance with the Group's covenants required under the financing arrangements based on their assessment of forecast revenue. However the Directors acknowledge that there is a risk that the leverage ratio covenant may be breached. In the event of a breach, the Group's bankers have the contractual right to review the terms of the \$46.6m debt facility which may impact the ongoing viability of the Groups operations.

As a result of these matters, there is a material uncertainty related to events or conditions that may cast significant doubt on whether the Group will continue as a going concern and, therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of the business and at the amounts stated in the financial statements.

The Group enjoys a strong relationship with its banker, and in the event of a breach, Directors believe they would be able to undertake a combination of the following courses of action:

- Continue the close relationship with the bank to manage the resolution of any breach; and/or
- Renegotiate or negotiate alternate financing arrangements appropriate for the Australian drilling and USA manufacturing operations; and/or
- Continue the focus on profitable operations and efficient working capital management.

The Directors believe that the Group will be successful in managing the above matters and accordingly, they have prepared the financial report on a going concern basis.

2. BASIS OF PREPARATION (continued)

At this time, the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial statements at 30 June 2015. Accordingly, no adjustments have been made to the financial statements relating to the recoverability and classification of the asset carrying amounts of the amounts and classification of liabilities that might be necessary should the Company not continue as a going concern.

c) 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 2014 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, see page 44 for the details of the new accounting standards adopted.

d) 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.

e) 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.

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 2015.

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 2015 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.

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;

(iv) Compressor hire – Revenue from the hire of air compressors is recognised in the accounting period in which the services are rendered.

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 off 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 utilised. 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 13). 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 27). 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 14 for details of these assumptions and the potential impact of changes to the assumptions.

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 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 or weighted average 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 non-current 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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 14 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.

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 recognised 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 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.

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 Australian 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 2015 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 2018)
AASB 9 Financial Instruments addresses the classification and measurement of financial assets. The standard is not applicable until 1 January 2018 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.

AASB-15 Revenue from Contracts with Customers (effective from 1 January 2017)
The Australian Accounting Standards Board has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and service AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer, so the notion of control replaces the existing notion of risks and rewards. The Standard is applicable to the company from 1 July 2017. Management is currently assessing the impact of the new rules but does not expect it to have a material impact.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

z) New accounting standards adopted early

The Group early adopted accounting standard AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets in the financial year ended 30 June 2014, which had a small impact on the impairment disclosures. The standard is applicable in the current financial year. No other standards were early adopted.

aa) Parent entity financial information

The financial information for the parent entity, Hughes Drilling Limited, disclosed in Note 31 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 recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

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 13 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 14 for details of these assumptions and the potential impact of changes to the assumptions.

(iii) 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. Future taxable income is based on management's forecasts, which include estimates based on the best available information at this time. 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 losses of $1,684,275 would have to be written off to income tax expense.

(iv) Available for sale assets

The drill rigs classified as held for sale during the reporting period were measured at the lower of its carrying amount and fair value less costs to sell at the time of the reclassification. The fair value of the rigs was determined by a third party using a combination of market comparison and cost approach.

5. REVENUE

	Consolidated 2015 $ '000	Consolidated 2014 $ '000
Revenue from sale of goods and services	**107,538**	90,566
	107,538	90,566

6. OTHER INCOME

Sundry income	**254**	311
	254	311

7. EXPENSES

Profit before income tax includes the following specific expense:

Depreciation		
Land and buildings	**85**	68
Motor vehicles	**811**	828
Office equipment	**330**	216
Plant and equipment	**10,721**	8,776
	11,947	9,888
Cost of goods sold – Write down of inventory	**2,592**	-
	2,592	-
Finance costs		
Interest expense – bank and other loans	**627**	274
Other finance charges - lease liability	**2,564**	2,834
	3,191	3,108
Employee benefits expense		
Non-executive Directors' remuneration	**166**	206
Salaries and wages	**34,982**	34,923
Superannuation costs	**3,145**	2,866
	38,293	37,995
Rental – operating leases		
Motor Vehicles and Equipment	**607**	545
	607	545
Share based payment		
Share based payment expense	-	246
	-	246
Impairment costs		
Impairment EDMSL goodwill	**-**	4,005
Impairment EDMSL drill rigs	-	1,566
	-	5,571

8. TAX

	Consolidated 2015 $ '000	Consolidated 2014 $ '000
Income tax expense:		
a) The major components of income tax expense/(benefit):		
Current tax	**-**	-
Adjustment recognised from prior year [1]	**(845)**	(25)
Deferred tax	**3,009**	248
Aggregate income tax expense	**2,164**	223

[1] Adjustment is a result of the finalisation of prior tax returns in the current year

	Consolidated 2015 $ '000	Consolidated 2014 $ '000
b) Reconciliation between aggregate income tax expense to prima facie tax payable		
Accounting profit before tax from continuing operations	**10,352**	1,645
Tax at the Group's statutory income tax rate of 30%	**3,106**	493
Nondeductible expenses	**56**	1,338
Difference in deferred tax rates	**(153)**	(67)
Tax benefit of estimated tax losses from operating activities	**-**	(1,516)
Adjustment recognised from prior year	**(845)**	(25)
Aggregate income tax expense	**2,164**	223
c) Tax losses		
Unused tax loses for which no deferred tax asset has been recognised	**-**	-

Deferred income tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following temporary differences:	Balance at 1 July 2014	Movement during the year	Balance at 30 June 2015
Deferred tax assets movements recognised directly in Profit & Loss			
Leave entitlements	713	271	**984**
Other	173	278	**451**
Goodwill adjustment – REICHdrill Inc	1,432	149	**1,581**
Tax losses	5,332	(1,441)	**3,891**
Inventory	201	856	**1,057**
Share issue costs	48	114	**162**
Gross deferred tax assets	7,899	228	**8,127**

An additional $495,000 was recognised in the FX reserves on the translation of the deferred tax balances at balance date.

	Balance at 1 July 2014	Movement during the year	Balance at 30 June 2015
Deferred tax asset expected to be recovered within 12 months	824	3,996	**4,820**
Deferred tax asset expected to be recovered after 12 months	7,075	(3,768)	**3,307**
	7,899	228	**8,127**
Deferred tax liabilities			
Consumables	2,728	947	**3,675**
Property, plant & equipment	608	359	**967**
Other	335	590	**925**
Gross deferred tax liabilities	3,671	1,896	**5,567**
Deferred tax liability expected to be recovered within 12 months	3,047	(1,527)	**1,520**
Deferred tax liability expected to be recovered after 12 months	624	3,424	**4,048**
	3,671	1,896	**5,567**
Net deferred tax asset	4,228	(1,669)	**2,559**

8. TAX (continued)

Deferred tax assets and liabilities are attributable to the following temporary differences:	Balance at 1 July 2013	Movement during the year	Balance at 30 June 2014
Deferred tax assets			
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	1,670	6,229	**7,899**
Deferred tax liabilities			
Consumables	200	2,528	**2,728**
Property, plant and equipment	-	608	**608**
Other	166	169	**335**
Gross deferred tax liabilities	366	3,305	**3,671**
Net deferred tax asset	1,304	2,924	**4,228**

Income tax liability	**Consolidated 2015 $ '000**	Consolidated 2014 $ '000
Opening balance	**-**	25
Charge for the period	**-**	-
Refunds received/(payments made)	**-**	-
Adjustment recognised from prior year	**-**	(25)
Closing balance	**-**	-

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

Cash at bank and on hand	**1,704**	426
Bank overdraft	**(11,210)**	(4,288)
Balances as per the statement of cash-flows	**(9,506)**	(3,862)

Risk exposure
The Group's exposure to interest rate risk is discussed in Note 26. 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.

10. TRADE AND OTHER RECEIVABLES

	Consolidated 2015 $ '000	Consolidated 2014 $ '000
Trade receivables	**22,856**	17,480
Prepayments	**328**	258
Sundry debtors	**488**	328
	23,672	18,066

	2015	2014
Trade receivable reconciliation		
At 30 June 2015	**22,962**	18,305
Provision for impairment recognised during year	**(106)**	-
Receivables written off during the year	**-**	(825)
	22,856	17,480
Trade receivable ageing analysis		
0 – 30 days	**19,938**	15,210
30 – 60 days	**1,734**	586
60 – 90 days	**261**	1,097
> 90 days	**923**	587
	22,856	17,480

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 26 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 2015, trade receivables of $923,167 (2014 - $587,000) were past due but not impaired. These relate to 41 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

	2015	2014
Consumables and spares parts- at net realisable	**40,923**	34,954
REICHdrill Rig WIP - at cost	**2,564**	2,876
	43,487	37,830

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

As an adjunct to the Group's impairment review process (See Note 13), in particular the 2014 review of its EDMSL surface drilling (delineation) division, and due to the continued depressed nature of the exploration industry, during the current year, the Group decided to provide for $0.323m holding of inventories specifically used in that market. Additionally, a provision for inventory of $2.592m was taken due to its net realizable value being lower than its carrying value.

The write-down of inventories to net realisable value recognised as an expense during the year ended 30 June 2015 amounted to $2.592m (2014: – Nil).

12. ASSETS HELD FOR SALE

	Consolidated 2015 $ '000	Consolidated 2014 $ '000
Property, plant and equipment	**130**	1,083
Additions	**1,499**	-
Disposals	**-**	(338)
Depreciation expense	**-**	-
Impairment expense	**-**	(615)
	1,629	130

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.

13. PROPERTY, PLANT AND EQUIPMENT

Freehold Land and Buildings		
At cost	**1,562**	1,540
Accumulated depreciation	**(282)**	(194)
Net book amount	**1,280**	1,346
Motor Vehicles		
At cost	**5,848**	6,261
Accumulated depreciation	**(3,170)**	(2,825)
Net book amount	**2,678**	3,436
Office equipment		
At cost	**1,536**	1,375
Accumulated depreciation	**(847)**	(733)
Net book amount	**689**	642
Plant and equipment		
At cost	**115,650**	103,161
Accumulated depreciation	**(53,561)**	(46,915)
Accumulated impairment losses	**(295)**	(2,179)
Net book amount	**61,794**	54,067
Capital work in progress		
At cost	**6,668**	4,079
Total Property, plant and equipment		
Cost	**131,264**	116,416
Accumulated depreciation	**(57,860)**	(50,667)
Accumulated Impairment losses	**(295)**	(2,179)
Total Net book amount	**73,109**	63,570

13. 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 2015 $ '000	Consolidated 2014 $ '000
Property, plant and equipment		
Cost	**55,877**	47,385
Accumulated depreciation	**(14,270)**	(11,190)
Total net book amount	**41,607**	36,195

Reconciliation

Reconciliation of the carrying amount of fixed assets for the current financial year is set out below:

Freehold Land and Buildings		
Opening carrying value	**1,346**	857
Exchange differences	**13**	(1)
Acquired through net investment in subsidiary	**-**	527
Additions	**6**	31
Disposals	**-**	-
Depreciation expense	**(85)**	(68)
Written down value at 30 June	**1,280**	1,346
Motor Vehicles		
Opening carrying value	**3,436**	2,446
Exchange differences	**84**	(1)
Acquired through net investment in subsidiary	**-**	451
Additions	**235**	1,506
Transfers from other asset categories	**(120)**	-
Disposals	**(127)**	(138)
Depreciation expense	**(830)**	(828)
Written down value at 30 June	**2,678**	3,436
Office Equipment		
Opening carrying value	**642**	541
Exchange differences	**13**	(3)
Acquired through net investment in subsidiary	**-**	166
Additions	**354**	154
Transfers from other asset categories	**22**	-
Disposals	**-**	-
Depreciation expense	**(342)**	(216)
Written down value at 30 June	**689**	642

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Consolidated 2015 $ '000	Consolidated 2014 $ '000
Plant and Equipment		
Opening carrying value	**54,067**	34,754
Exchange differences	**174**	(15)
Acquired through net investment in subsidiary	**-**	22,437
Transfer from Capital Work in Progress	**5,494**	6,348
Additions	**14,330**	456
Transfers from other asset categories	**98**	-
Disposals	**(165)**	(187)
Depreciation expense	**(10,705)**	(8,776)
Impairment expense	**-**	(950)
Transfer to Assets held for Sale	**(1,499)**	-
Written down value at 30 June	**61,794**	54,067
Capital Work in Progress		
Opening carrying value	**4,079**	3,036
Acquired through net investment in subsidiary	**-**	52
Additions	**8,083**	7,339
Transfer to Property Plant and Equipment	**(5,494)**	(6,348)
Written down value at 30 June	**6,668**	4,079
Total Property, Plant and Equipment	**73,109**	63,570

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. Although there are no specific impairment indicators, property, plant and equipment has been assessed for impairment for the surface drilling division (JSW Australia Pty Ltd) and drill rigs and spare parts manufacturing division (REICHdrill Inc.) as part of our goodwill impairment assessment. See Note 14.

14. INTANGIBLE ASSETS AND GOODWILL

	Consolidated 2015 $'000	Consolidated 2014 $'000
Intellectual property		
At cost	**4,822**	197
Accumulated impairment	**(197)**	(197)
Total net book amount	**4,625**	-
Trademarks		
At cost	**3**	3
Accumulated impairment	**-**	-
Total net book amount	**3**	3
Goodwill		
At cost	**12,018**	12,018
Accumulated impairment	**(4,005)**	(4,005)
Total net book amount	**8,013**	8,013
Total Intangibles and Goodwill		
At cost	**16,843**	12,021
Accumulated impairment	**(4,202)**	(4,005)
Total net book amount	**12,641**	8,016

Reconciliation

Reconciliation of the carrying amount of intangible assets for the current financial year is set out below

Intellectual property		
Opening carrying value	**-**	-
Additions	**4,625**	-
Amortisation	**-**	-
Closing net book amount	**4,625**	-
Trade marks		
Opening carrying value	**3**	3
Additions	**-**	-
Amortisation	**-**	-
Closing net book amount	**3**	3

14. INTANGIBLE ASSETS AND GOODWILL (continued)

Reconciliation (continued)

Reconciliation of the carrying amount of intangible assets for the current financial year is set out below:	**Consolidated 2015 $'000**	Consolidated 2014 $'000
Goodwill		
Opening net book amount	**8,013**	7,575
Additions – JSW goodwill	**-**	5,892
Adjustment – REICHdrill Inc. goodwill	**-**	(1,449)
Impairment – EDMSL goodwill	**-**	(4,005)
Closing net book value	**8,013**	8,013
Total intangible assets and goodwill		
Opening net book amount	**8,016**	7,578
Additions (refer to Note 27)	**4,625**	5,892
Adjustment – REICHdrill Inc. goodwill	**-**	(1,449)
Impairment – EDMSL goodwill	**-**	(4,005)
Closing net book value	**12,641**	8,016

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.

During the financial year further intellectual property was acquired from a third party for products of a nature used by the Group in the conduct of its activities.

Impairment test for goodwill

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

Surface Drilling Division – EDMSL	**-**	-
Surface Drilling Division – JSW Australia	**5,892**	5,892
Drill rigs and spare parts manufacturing – REICHdrill Inc	**2,121**	2,121
	8,013	8,013

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.

14. 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:

	JSW (Surface drilling)	REICHdrill (Drill rig & spare parts manufacturing)
Post-tax discount rate	11.7% (2014: 12.8%)	11.7% (2014: 12.8%)
Year 1 projected revenue growth rate	5.0% (2014: 5.0%)	51.0% (2014: 5.0%)
Subsequent years projected annual revenue growth rate	5.0% (2014: 5.0%)	0.0% (2014: 5.0%)
Year 1 increase in operating costs and overheads	5.0% (2014: 5.0%)	23.0% (2014: 5.0%)
Subsequent years projected increase in operating cost and overheads	5.0% (2014: 5.0%)	0.0% (2014: 5.0%)
Terminal growth rate	0.0% (2014: 2.0%)	0.0% (2014: 0.0%)

The post-tax discount rate of 11.7% 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 for JSW Australia is prudent and justified, based on the general market conditions, and the 51.0% growth in FY16 is based on secured contracts and a strong pipeline.

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.

During the previous financial year when management 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 and it was fully written off.

Sensitivity
As disclosed in Note 2, the directors have made judgments and estimates the assumptions applied in the 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 14% and 6% 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. Engagement margin would need to decrease by 44% for the surface drilling division and 24% for the drill rig and spare parts manufacturing divisions before goodwill and net assets would need to be impaired, with all other assumptions remaining constant.

c. The discount rate would be required to increase to 44% and 27% 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.

15. INVESTMENTS IN CONTROLLED ENTITIES

	Country of incorporation	Percentage of equity interest held by the parent 2015	Percentage of equity interest held by the parent 2014
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%
Hughes Equipment Hire Pty Ltd (formerly 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%**	100%
JSW Australia Pty	Australia	**96%**	96%

16. TRADE AND OTHER PAYABLES

	Consolidated 2015 $ '000	Consolidated 2014 $ '000
Trade payables	**12,483**	12,085
Other payables	**13,636**	7,152
	26,119	19,237

Information about the Group's exposure to foreign exchange risk is provided in Note 26.

17. PROVISIONS

Employee benefits		
Current Employee entitlements	**2,792**	1,834
Non-Current Employee entitlements	**486**	542
	3,278	2,376

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	**384**	215
Movement in employee provisions		
Balance 1 July 2014	**2,376**	955
Acquired through net investment in subsidiary	**-**	810
Payments during the year	**(1,194)**	(3,289)
Charge to statement of comprehensive income	**2,096**	3,900
Balance 30 June 2015	**3,278**	2,376

18. BORROWINGS

	Consolidated 2015 $ '000	Consolidated 2014 $ '000
Current		
Secured		
- Hire purchase	**13,659**	15,104
- Commercial bill facility	**2,750**	2,500
- Commercial bill facility – US$	**-**	2,654
- Other	**3,967**	3,912
	20,376	24,170
Non-Current		
Secured		
- Hire purchase	**12,996**	16,971
- Commercial bill facility	**9,500**	-
Unsecured		
- Other	**704**	684
	23,200	17,655

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 are comprised of unsecured loans from John Silverthorne Trust with a carrying value of $3.763m (2014: $3.368m) which at fair value would be $3.763m (2014: $3.368m), and loans from Eastern Guruma with a carrying value of $0.712m (2014: $0.959m) which at fair value would be $0.712m (2014: $0.959m).

ii) Terms and conditions

Hire purchase liabilities are repayable in monthly instalments (including finance charges) ranging from $995 to $58,392 over periods ranging from 24 to 60 months. Applicable interest rates range from 3.6% to 8.9%. Hire purchase liabilities are secured by a fixed and floating charge over all the unencumbered assets of the Group as discussed in Note 13.

iii) Risk exposures

Information about the Group's exposure to interest rate risk is provided in Note 26.

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.

19. CONTRIBUTED EQUITY

	Number of Shares 000's	Value $'000s	Attributable Costs $'000s	Costs $'000s
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**
On issue at 30 June 2015	**208,670**	**39,549**	**(1,322)**	**38,227**

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 21.

	Issue Date	Exercise Date	Exercise Price ($)	Bal 1/7/13 '000	Options Granted '000	Options Cancelled '000	Bal 30/06/14 '000	Bal 1/7/14 '000	Options Granted '000	Options Cancelled '000	Bal 30/06/15 '000
Employee Share Option Plan											
Directors & Key Management & Staff	7/07/09	6/07/14	0.531	515	-	-	515	515	-	(515)	-
Directors & Key Management & Staff	30/10/09	30/6/14	0.531	900	-	-	900	900	-	(900)	-
Directors & Key Management & Staff	13/02/12	13/2/16	0.40	3,200	-	-	3,200	3,200	-	(400)	2,800
				4,615	**-**	**-**	**4,615**	**4,615**	**-**	**(1,815)**	**2,800**

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.

19. 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.

20. OTHER RESERVES

	Consolidated 2015 $ '000	Consolidated 2014 $ '000
Options reserve (see Note 21)	**882**	882
Foreign currency gain on translation of foreign operations	**2,464**	649
Put options issued	**(146)**	(146)
	3,200	1,385

21. RESERVES – OPTION RESERVE

	Number of options 000's	**Value $'000s**	**Attributable Costs $'000s**	**Net $'000s**
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**
Balance 1 July 2014	4,615	882	-	882
Cancelled during year – directors and key management	(1,815)	-	-	-
Value of employee services for the year	-	-	-	-
On issue at 30 June 2015	**2,800**	**882**	-	**882**

The option reserve is used to recognise:

a) the grant date fair value of options issued to employees but not exercised;
b) the grant date fair value of shares issued to employees

22. NOTES TO THE STATEMENT OF CASH FLOWS

	Consolidated 2015 $ '000	Consolidated 2014 $ '000
Operating profit after taxation	**8,188**	1,422
Movement in reserves	**-**	104
Inventory write down	**2,592**	-
Impairment expense	**-**	5,571
Depreciation	**11,947**	9,888
(Profit)/loss on disposal of assets	**(52)**	(24)
Movement in assets / liabilities:		
(Increase)/decrease in trade and other receivables	**(4,482)**	(7,129)
(Increase)/decrease in stock	**(6,783)**	(9,906)
(Increase)/decrease in deferred tax assets	**2,164**	239
Increase /(decrease)in trade and other payables	**5,729**	6,483
Increase/(decrease) in provisions	**903**	611
Net cash (used in)/provided by operating activities	**20,206**	7,259

23. AUDITORS REMUNERATION

Audit Services		
Audit and review of financial report (PwC)	**295**	329
Other Services		
Accounting and tax services (PwC)	**-**	88
Accounting and tax services (BDO)	**26**	-
	321	417

24. RELATED PARTIES

a) Subsidiaries

The consolidated financial statements include the financial statements of Hughes Drilling Limited and its subsidiaries as listed in Note 15.

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 25.

24. RELATED PARTIES (continued)

d) Transactions with related parties

	Consolidated 2015	Consolidated 2014
Purchases of goods and services		
Purchase of consumables from entities controlled by key management personnel	**39**	122
Sale of goods and services		
Sale of goods and services to entities controlled by key management personnel	**271**	264
Other transactions		
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 The Silverthorne Trust (John Silverthorne)	**-**	640
Payment of interest on loan funds to The Silverthorne Trust (John Silverthorne)	**217**	-

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.

	Consolidated 2015	Consolidated 2014
Current trade payable (sale of goods and services)		
Entities controlled by key management personnel	**6**	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

	Consolidated 2015	Consolidated 2014
Beginning of the year	**(3,673)**	-
Acquired through net investment in subsidiary	**-**	(2,964)
Loans advanced	**-**	(640)
Interest charged	**(306)**	(212)
Interest paid	**216**	143
End of the year	**(3,763)**	(3,673)

NOTES TO THE FINANCIAL STATEMENTS

25. 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)
Hughes	Robert (Bob)	Executive Director – Managing Director & Chairman	Appointed 10 February 2012
Drake	Andrew	Chief Executive Officer	Appointed 10 February 2012
O'Connor	Barry	Non-Executive Director	Appointed 5 November 2012
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
Garrity	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 17 to 19 of the Directors Report.

	2015	2014
	$'000s	$'000s
Short-term employee benefits	**1,849**	1,528
Post-employment benefits	**123**	107
Share-based payments	**-**	95
	1,972	1,730

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 13	Options Acquired	Options Cancelled	Balance 30 June 14	Balance 1 July 14	Options Acquired	Options Cancelled	Balance 30 June 15
DIRECTORS								
Andrew Drake	500,000	-	-	500,000	500,000	-	-	500,000
KEY MANAGEMENT								
Paul Brenton	400,000	-	-	400,000	400,000	-	-	400,000

25. KEY MANAGEMENT PERSONNEL (continued)

d) Shareholding of key management personnel

	Balance 1/07/13	Shares acquired	Shares disposed	Balance 30/06/14	Balance 1/07/14	Shares acquired	Shares disposed	Balance 30/06/15
DIRECTORS								
Robert (Bob) Hughes	71,388,074	-	-	71,388,074	71,388,074	-	-	71,388,074
Andrew Drake	90,269	-	-	90,269	90,269	-	-	90,269
Barry O'Connor	1,046,875	-	-	1,046,875	1,046,875	-	-	1,046,875
John Silverthorne	-	12,943,789	(4,535,763)	8,408,026	8,408,026	-	(8,408,026)	-
Jeff Branson	-	2,587,091	(300,004)	2,287,087	2,287,087	-	-	2,287,087
Gary Belcher	-	-	-	-	-	-	-	-
TOTAL	**72,525,218**	**15,530,880**	**(4,835,767)**	**83,220,331**	**83,220,331**	**-**	**(8,408,026)**	**74,812,305**

26. 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:

		Carrying amount		Fair value	
	Note	**Consolidated 2015 $'000s**	Consolidated 2014 $'000s	**Consolidated 2015 $'000s**	Consolidated 2014 $'000s
Financial assets					
Cash	9	**1,704**	426	**1,704**	426
Receivables	10	**23,672**	18,066	**23,672**	18,066
		25,376	18,492	**25,376**	18,492
Financial liabilities					
Bank overdraft	9	**11,210**	4,288	**11,210**	4,288
Payables	16	**26,119**	19,237	**26,119**	19,237
Borrowings	18	**43,576**	41,825	**43,576**	41,825
		80,905	65,350	**80,905**	65,350

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 2015 USD$'000s	Consolidated 2014 USD$'000s
Trade payables*	**4,823**	3,532
	4,823	3,532

26. FINANCIAL RISK MANAGEMENT (continued)

*Includes US$1.6m (2014: 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 2015 , 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 $698,000 lower/$571,000 higher (2014 – $417,000 lower/$341,000 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 2015 ($nil) and 30 June 2014 ($nil), 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 2015 $'000s**	Weighted average interest rate	Consolidated 2014 $'000s
Bank overdraft	**4.1%**	**11,210**	7.5%	4,288
		11,210		4,288

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 2015, 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 $77,492 lower/$77,492 higher (2014 – $43,000 lower/$43,000 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.

Consolidated 2015	**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**
Cash and cash equivalents	1,704	1,704	1,704					-
Receivables	22,856	22,856	22,856	19,938	1,734	261	923	-
Total	**24,560**	**24,560**	**24,560**	**19,938**	**1,734**	**261**	**923**	**-**

26. FINANCIAL RISK MANAGEMENT (continued)

Consolidated	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
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**	**-**

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 2015 and 30 June 2014 based on contractual undiscounted payments.

CONSOLIDATED	Note	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
AS AT 30 JUNE 2015		$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	
Financial Liabilities								
Bank overdraft	9	-	11,210	-	-	-	11,210	4.1%
Payables	16	26,119	26,119		-	-	26,119	-
HP obligations	18	-	13,659	12,996	-	-	26,655	6.1%
Commercial bill facility	18	-	2,750	9,500	-	-	12,250	3.8%
Other	18	-	3,967	704	-	-	4,671	8.2%
		26,119	**57,705**	**23,200**	**-**	**-**	**80,905**	
AS AT 30 JUNE 2014								
Financial Liabilities								
Bank overdraft	9	-	4,288	-	-	-	4,288	7.5%
Payables	16	19,237	19,237		-	-	19,237	-
HP obligations	18	-	16,836	17,847	-	-	34,683	7.3%
Commercial bill facility	18	-	2,500	-	-	-	2,500	4.3%
Commercial bill facility -$US		-	2,654		-	-	2,654	2.4%
Other	18	-	3,912	684	-	-	4,596	8.2%
		19,237	**49,427**	**18,531**	**-**	**-**	**67,958**	

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

	Consolidated 2015	Consolidated 2014
	$'000s	$'000s
Expiring within 1 year	**3,750**	-
Expiring beyond 1 year (Bank overdraft and HP facilities)	**5,945**	7,491
	9,695	7,491

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

26. FINANCIAL RISK MANAGEMENT (continued)

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 13 Fair Value: 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).

The following table presents the Group's assets and liabilities measured and recognised at fair value at 30 June 2015 and 30 June 2014:

CONSOLIDATED	**Level 1**	**Level 2**	**Level 3**	**Total**
AS AT 30 JUNE 2015	**$'000s**	**$'000s**	**$'000s**	
Non – Financial assets				
Assets held for sale				
- Drill rigs	-	-	1,629	1,629
Financial assets				
Available for sale financial assets				
- Equity securities	-	-	-	-
Total assets	**-**	**-**	**1,629**	**1,629**
AS AT 30 JUNE 2014				
Non – Financial assets				
Assets held for sale				
- Drill rigs	-	-	130	130
Financial assets	-	-	-	-
Available for sale financial assets	-	-	-	-
- Equity securities	-	-	-	-
Total Assets	**-**	**-**	**130**	**130**

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 ecomonic obsolescence).

If the market value or Cost approach moved by 10% the impact on the values would be plus or minue $0.163m.

27. COMMITMENT AND CONTINGENCIES

a) Finance lease and hire purchase commitments

	Consolidated	
	Minimum lease payments $ '000	Present value of lease payments $ '000
AS AT 30 JUNE 2015		
Within one year	15,040	13,660
> 1 year < 5 years	13,762	12,996
> 5 years	-	-
Total minimum lease payments	**28,802**	**26,656**
Lease amounts representing finance charges	(2,146)	-
Present value of minimum lease payments	**26,656**	**26,656**
AS AT 30 JUNE 2014		
Within one year	16,836	15,104
> 1 year < 5 years	17,847	16,971
> 5 years	-	-
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**

b) Operating lease commitments

	Minimum lease payments $ '000	Present value of lease payments $ '000
AS AT 30 JUNE 2015		
Within one year	448	448
> 1 year < 5 years	299	299
> 5 years	-	-
Total minimum lease payments	**747**	**747**
AS AT 30 JUNE 2014		
Within one year	592	592
> 1 year < 5 years	747	747
> 5 years	-	-
Total minimum lease payments	**1,339**	**1,339**

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.

27. COMMITMENT AND CONTINGENCIES (continued)

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 2015		
Acquisition of plant and equipment	-	-
AS AT 30 JUNE 2014		
Acquisition of plant and equipment	-	-

The Group has given bank guarantees as at 30 June 2015 of $155,000 (2014: $67,500) to a landlord. The are no commitments and contingencies over 5 years.

During the financial year a subsidiary purchased from a third party certain Intellectual Property rights ("IP") for products of a nature used by the Group in the conduct of its activites, this purchase has been supported by the Group parent and funded through a financing facility.

28. EARNINGS PER SHARE

	Consolidated 2015 $ '000	Consolidated 2014 $ '000
Basic earnings per share		
a) Net profit from continuing operations	**8,188**	1,422
b) Net profit attributable to members of Hughes Drilling Limited	**8,019**	1,377
	No's: '000	No's: '000
c) Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	**208,670**	201,664
Diluted earnings per share		
a) Net profit from continuing operations	**8,188**	1,422
b) Net profit attributable to members of Hughes Drilling Limited	**8,019**	1,377
	No's: '000	No's: '000
c) Weighted average number of ordinary shares on issue used in the calculation of diluted earnings per share	**211,470**	206,279

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.

29. 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.

Sales between segments are carried out at arm's length and are eliminated on consolidation.

AS AT JUNE 2015 - in $'000	**Drilling**	**Non Drilling**	**Total**
Sales to external customers	91,235	16,303	107,538
Other income	200	54	254
Inter-segment revenue	-	3,657	3,657
Total revenue	**91,435**	**20,014**	**111,449**
Cost of sales	62,752	15,476	78,228
Overhead	3,852	1,339	5,191
Depreciation	11,351	596	11,947
Interest Expense	2,350	841	3,191
Profit/(Loss) on asset sales	(34)	(18)	(52)
Inventory Write Down	2,592	-	2,592
Total expense	**82,863**	**18,234**	**101,097**
Segment profit/(loss) before tax	**8,572**	**1,780**	**10,352**
Tax Expense	2,769	(605)	2,164
Profit from operations	**5,803**	**2,385**	**8,188**
Assets			
Total assets	**120,886**	**37,915**	**158,802**
Liabilities			
Total liabilities	**(60,067)**	**(24,116)**	**(84,183)**

29. 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)
Depreciation	(9,580)	(278)	(9,858)
Interest expense	(3,087)	(21)	(3,108)
Overhead	(7,775)	(2,875)	(10,650)
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)**

30. EVENTS AFTER THE REPORTING DATE

Subsequent to 30 June 2015, the Group was suspended from trading on the ASX for not lodging their full year accounts by 30 September 2015 in accordance with ASX listing rules. Per the Facility Agreement with Westpac, any trading suspension from the ASX for more than three days qualifies as a default event. Westpac has, however, extended the number of allowable suspended days up to the date of the signed accounts, therefore resulting in no event of default after the reporting period.

No other matter or circumstance has arisen since 30 June 2015 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

31. PARENT ENTITY INFORMATION

Information relating to Hughes Drilling Ltd:	2015 $ '000	2014 $ '000
Current Assets	**59**	2,917
Total Assets	**83,231**	78,813
Current Liabilities	**5,865**	1,078
Total Liabilities	**29,887**	23,847
Issued Capital	**64,166**	64,166
Retained earnings	**(13,547)**	(11,925)
Reserves	**2,725**	2,725
Total Shareholder's Equity	**53,344**	54,966
(Loss)/profit of the parent entity	**(1,622)**	(743)
Total comprehensive income of the parent entity	**(1,622)**	(743)

32. DEED OF CROSS GUARANTEE

Hughes Drilling Ltd, Hughes Drilling Pty Ltd, Express Hydraulics (Aust) Pty Ltd, Hughes Drilling 1 Pty Ltd, EDMS Human Capital Pty Ltd, Hughes Equipment Hire Pty Ltd (formerly 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 and HD JSW Pty Ltd are parties to a deed of cross guarantee under which each company guarantees the debts of the others. BY entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

The above companies represent a 'closed group' for the purposes of the Class Order. Set out below is a consolidated income statement, a consolidated statement of comprehensive income and a summary of movements in consolidated retained earnings for the year ended 30 June 2015 of the closed group consisting of Hughes Drilling Ltd, Hughes Drilling Pty Ltd, Express Hydraulics (Aust) Pty Ltd, Hughes Drilling 1 Pty Ltd, EDMS Human Capital Pty Ltd, Hughes Equipment Hire Pty Ltd (formerly 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 and HD JSW Pty Ltd.

	2015 $ '000	2014 $ '000
Consolidated income statement		
Revenue from continuing operations	**41,356**	44,496
Other income	**71**	121
Cost of sales	**(31,516)**	(32,915)
Other expenses from ordinary activities	**(4,577)**	(10,313)
Finance costs	**(877)**	(1,250)
Profit before income tax	**4,457**	139
Income tax expense	**(503)**	169
Profit for the period	**3,954**	308

32. DEED OF CROSS GUARANTEE (continued)

	2015	2014
	$ '000	$ '000
Summary of movements in consolidated retained earnings		
Retained earnings at the beginning of the financial year	**23,860**	23,552
Profit for the period	**3,954**	308
Transfer from share capital on buy-back of preference shares	**-**	-
Actuarial (losses)/gains on retirement benefit obligation, net of tax	**-**	-
Depreciation transfer, net of tax	**-**	-
Dividends provided for or paid	**-**	-
Retained earnings at the end of the financial year	**27,814**	23,860

	2015	2014
	$ '000	$ '000
Consolidated balance sheet		
Current assets		
Cash and cash equivalents	**197**	90
Trade and other receivables	**7,206**	3,495
Inventories	**27,553**	25,063
Available for sale financial assets	**-**	-
Non-current assets classified as held for sale	**1,629**	130
Total current assets	**36,585**	28,778
Non-current assets		
Deferred tax asset	**973**	1,475
Property, plant and equipment	**44,780**	40,033
Investment	**-**	-
Intangible assets and goodwill	**8,016**	8,016
Total non-current assets	**53,769**	**49,524**
Total assets	**90,354**	78,302
Current liabilities		
Bank overdraft	**3,397**	890
Trade and other payables	**7,387**	3,664
Intercompany loans and transactions	**(16,159)**	(6,310)
Provisions	**1,685**	993
Borrowings	**13,520**	9,964
Total current liabilities	**9,831**	9,201
Non-current liabilities		
Provisions	**243**	193
Borrowings	**19,917**	11,896
Total non-current liabilities	**20,160**	12,087
Total liabilities	**29,991**	21,290
Net assets	**60,363**	57,012
Equity		
Contributed Equity	**32,440**	32,440
Reserves	**635**	712
Retained earnings	**27,288**	23,860
Total equity	**60,363**	57,012

33. NON-CONTROLLING INTEREST

Interest in :	2015 $ '000	2014 $ '000
Share capital	**348**	348
Other reserves	**103**	26
Retained earnings	**211**	42
Total Liabilities	**662**	416

Set out below is summarised financial information for each subsidiary that has non-controlling interests that are material to the group. The amounts disclosed for each subsidiary are before inter-company eliminations.

	Reichdrill Inc		JSW Australia	
Summarised balance sheet	**2015**	2014	**2015**	2014
	$ '000	$ '000	**$ '000**	$ '000
Current assets	**16,551**	12,509	**17,355**	13,844
Current liabilities	**21,041**	12,298	**29,626**	26,245
Current net assets	**(4,490)**	211	**(12,269)**	(12,401)
Non-current assets	**14,280**	8,235	**25,313**	23,106
Non-current liabilities	**320**	464	**3,205**	6,107
Non-current net assets	**13,960**	7,771	**22,108**	16,999
Net Assets	**9,470**	7,982	**9,837**	4,598
Accumulated NCI	**236**	200	**425**	216

	Reichdrill Inc		JSW Australia	
Summarised statement of comprehensive income	**2015**	2014	**2015**	2014
	$ '000	$ '000	**$ '000**	$ '000
Revenue	**15,500**	12,858	**50,683**	33,213
Profit for the period	**(1,006)**	(617)	**5,240**	1,730
Other comprehensive income	**1,891**	70	**-**	-
Total comprehensive income	**885**	(547)	**5,240**	1,730
Profit/(loss) allocated to NCI	**35**	(22)	**210**	69
Dividends paid to NCI	**-**	-	**-**	-

33. NON-CONTROLLING INTEREST (continued)

Summarised cash flows	Reichdrill Inc 2015 $ '000	Reichdrill Inc 2014 $ '000	JSW Australia 2015 $ '000	JSW Australia 2014 $ '000
Cash flows from operating activities	**166**	(3,757)	**10,272**	2,706
Cash flows from investing activities	**(4,427)**	(564)	**(9,356)**	(5,121)
Cash flows from financing activities	**5,806**	4,115	**(2,028)**	932
Net increase/(decrease) in cash and cash equivalents	**1,545**	(206)	**(1,112)**	(1,483)

34. DIVIDENDS

No dividend was paid or proposed to be paid for the year ended 30 June 2015.

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 14, 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 2015 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 15 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 2015.

Signed in accordance with a resolution of the directors.

R C Hughes

Robert (Bob) Hughes
Managing Director
Brisbane, 30 October 2015

Auditor's Independence Declaration

As lead auditor for the audit of Hughes Drilling Limited for the year ended 30 June 2015, 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.

D A Turner

Darren Turner
Partner
PricewaterhouseCoopers

Newcastle
30 October 2015

PricewaterhouseCoopers, ABN 52 780 433 757
Level 3 Watt Street Commercial, 45 Watt Street, PO Box 798, NEWCASTLE NSW 2300
T: +61 2 4925 1100, F: +61 2 4925 1199, www.pwc.com.au

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 consolidated statement of financial position as at 30 June 2015, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated 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 Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 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
Level 3 Watt Street Commercial, 45 Watt Street, PO Box 798, NEWCASTLE NSW 2300
T: +61 2 4925 1100, F: +61 2 4925 1199, www.pwc.com.au

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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 2015 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).

Material uncertainty regarding continuation as a going concern

Without qualifying our opinion, we draw attention to Note 2(b) in the financial report which indicates a risk of the company breaching one of the debt covenants (leverage ratio) on its borrowing facility within 12 months from the date of signing the financial report. These conditions, along with the matters set forth in Note 2(b), indicate the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern, and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the remuneration report included in pages 14 to 20 of the directors' report for the year ended 30 June 2015. 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 2015 complies with section 300A of the *Corporations Act 2001*.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers

D A Turner

Darren Turner
Partner

Newcastle
30 October 2015

Shareholder Information

The shareholder information set out below was applicable as at 30 September 2015.

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	55,628	160
1,001 – 5,000	0.24	503,573	180
5,001 – 10,000	0.37	762,898	94
10,001 – 100,000	5.27	10,998,758	287
100,001 and over	94.10	196,349,392	102
Total	100.00	208,670,249	823

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	National Nominees Limited	21,749,694	10.42
3	HSBC Custody Nominees (Australia) Limited	18,778,314	9.00
4	HSBC Custody Nominees (Australia) Limited – GSCO ECA	6,307,732	3.02
5	SKYE ALBA Pty Ltd <The Skye Alba Fund A/C>	5,700,000	2.73
6	J P Morgan Nominees Australia Limited	4,920,601	2.36
7	Bond Street Custodians Limited <Forager Wholesale Value PD>	4,671,660	2.24
8	Citicorp Nominees Pty Limited	4,099,611	1.96
9	Mellett Super Pty Ltd < Mellet A Fund A/C >	3,717,000	1.78
10	Vanward Investments Limited	3,000,000	1.44
11	ABN AMRO Clearing Sydney Nominees Pty Ltd <Custodian A/C>	2,699,457	1.29
12	SAABM Pty Ltd <A&M Jacklin Family A/C>	2,434,017	1.17
13	UBS Wealth Management Australia Nominees Pty Ltd	2,319,351	1.11
14	MELROS Pty Ltd (ACN 061 900 918) <The JWB Family A/C>	2,287,087	1.10
15	HSBC Custody Nominees (Australia) Limited <NT-Comnwlth Super Corp A/C>	2,034,352	0.97
16	TISIA Nominees Pty Ltd <Henderson Family A/C>	2,000,000	0.96
17	Mr Craig Ian Burton <CI Burton Family A/C>	1,923,174	0.92
18	Databridge Pty Ltd	1,700,000	0.81
19	Dixson Trust Pty Ltd	1,512,000	0.72
20	RPM Super Pty Ltd <RPM Super Fund A/C>	1,394,941	0.67
	Total of top 20 shareholders	164,637,065	78.88
	Other Shareholders	44,033,184	21.12
	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
Forager Funds Pty Limited Management (Part of National Nominees Limited)	22,855,371	10.95
K2 Asset Management Limited (Part of HSBC Custodian Nominees (Australia) Limited)	17,558,464	8.41
Matchpoint Asia Fund Limited & Associates (Part of HSBC Custodians Nominees (Australia) Limited)	11,082,954	5.31

End of Report