

4 July, 2016

Hughes Drilling Limited (ASX:HDX) – Market Update

Hughes Drilling Limited (ASX:HDX or Company) provides the following market update:

Breach of Bank Covenant

The Company advises that it has breached certain banking covenants in place with its senior financier.

While there has been no request by the senior financier to repay any of its facilities other than in the normal course, the Company is working with its senior financier to restructure the Company's current lending facilities to ensure it is able to meet its ongoing payment obligations and the senior financier is supportive of those discussions.

The effect of the breach is that these banking facilities will now be treated, for accounting disclosure purposes, as current liabilities until the breach is rectified.

Review of accounting and business operations

A review of asset classifications under accounting standards and of the carrying values of assets is being undertaken as part of the annual audit process. This review could result in the impairment of the values of some of assets. At this point the quantum of impairment is not known.

A strategic review of the multiple accounting systems being used across the group is being undertaken. The review has revealed legacy issues which will necessitate the consolidation of a number of systems into a new single accounting system.

To assist with this transition, the Company has engaged external specialist advisors in corporate finance and strategic business improvement to assist with these processes to ensure the transition is undertaken in a manner which poses minimal impact on the day to day operations of the Company.

The Company is also undertaking negotiations with a number of its creditors and suppliers including the Australian Taxation Office with regard to ongoing payment obligations. These negotiations are not yet finalised.

Board changes

Mr Robert Hughes - resignation

As part of the business review, the Managing Director of the Company, Mr Robert Hughes has decided to step down from the Board of Hughes Drilling and as Director / President of all subsidiary companies, effective 1 July 2016. The Board thanks Mr Hughes for his immense commitment to Hughes Drilling as not only its founder, but also its Chairman for the past 2 years. Mr Hughes has made a substantial broader contribution to the mining services industry and the Board wishes him well with his future endeavours. The Company intends to enter into a consulting role with Mr Hughes as an advisor with a particular focus on the REICHdrill division of the Company's business as he transitions to retirement.

Mr Barry O'Connor - retirement

Due to ill health, Mr Barry O'Connor has informed the Board that he wished to retire from the Board effective from 30 June 2016. Mr O'Connor has been a non-executive director of the Company since 2012 and has made a valuable contribution to the Company. The Board thanks Mr O'Connor for his contribution to the Company and wishes him well as he deals with his health issues.

Mr Douglas Grewar – appointment

The retirement of Mr Hughes and Mr O'Connor leaves a casual vacancy on the Board for a director. Mr Douglas Grewar has been appointed as an executive director of the Company to fill this casual vacancy.

Doug began his early mining career in open cut mining on a blast crew and with an unbridled passion, a dedication to, and focus on, leadership Doug has developed a unique background in the resources sector built from the ground up to include a deep knowledge and interest in resources, civil and engineering construction, mining technologies, mineral processing and the efficient application of capital assets and human resources to achieve best in class outcomes.

Recent assignments undertaken have included senior executive roles to the resources and civil sectors in Australia and Asia as well as holding Registered Mine Manager, Project Director and MD roles for ASX listed companies and held board positions with private companies in the sector.

Doug has delivered operational performance improvements, construction project timelines and provided senior management experience for a number of clients. In addition he has been instrumental in company restructuring, company recapitalisation, business acquisitions and disposals, and provided strategic leadership as MD at board level.

Doug's qualifications include a Master of Science Mineral Economics, Bachelor of Business, Advanced Management Programmes, Australian Company Directors GAICD. Doug has also completed financial and management accounting units for an MBA.

Voluntary Suspension

Given continuing negotiations with the Company's senior financier, the Company has requested a continuation of its voluntary suspension from the ASX for a further period of 7 days to ensure that the market is able to trade on a fully informed basis.

A further update will be provided to shareholders before the commencement of trade on Monday 11 July, 2016.

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